



Town of Olive

Claims Auditing and Information Technology

Report of Examination

Period Covered:

January 1, 2011 — August 28, 2012

2012M-223



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2013

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Olive, entitled Claims Auditing and Information Technology. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Olive is located in Ulster County and has a population of 4,419. In the 2011 fiscal year, the Town's operating expenditures were \$2,025,921 for the general fund and \$1,694,561 for the highway fund. The Town is governed by a Town Board (Board), which comprises four elected members and an elected Town Supervisor (Supervisor). The Board is responsible for the general management and control of Town finances.

Scope and Objective

The objective of our audit was to review the Town's processes for claims auditing and internal control over information technology (IT) for the period January 1, 2011, to August 28, 2012. Our audit addressed the following related questions:

- Is the Board adequately auditing claims presented for payment?
- Do internal controls over IT adequately protect electronic data?

Audit Results

The Board does not adequately audit claims presented for payment. The Board does not require documents such as receiving reports, quotes, or bid or State and County contract information be submitted for claims review. In addition, we reviewed 73 payments and found that 27 payments totaling \$24,823 did not have signed receiving documentation, and that four payments that required quotes totaling \$102,801 did not have the required quotes or alternate documentation. As a result, there is an increased risk that the goods and services approved for payment will not actually be received and that the best value for purchases will not be obtained.

Internal controls over IT do not adequately protect electronic data. The Board has not adopted an acceptable computer use policy, a breach notification policy or a disaster recovery plan. As a result, the Town's computer systems and data are at risk of damage and loss, and employees may not be prepared to fulfill their legal obligation to notify affected individuals in the event that their private information is compromised. Furthermore, in the event of a disaster, there is an increased risk of loss or destruction of data and a serious interruption to Town operations, such as not being able to process payroll or vendor claims.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Introduction

Background

The Town of Olive (Town) is located in Ulster County and has a population of 4,419. The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, parks, recreation and youth programs, police and fire protection, and general government support. The majority of the funding for these services comes from real property and sales taxes and State aid. In the 2011 fiscal year, the Town's operating expenditures were \$2,025,921 for the general fund and \$1,694,561 for the highway fund. The Ashokan reservoir, a main water supply for the City of New York, is the Town's largest landowner.

The Town is governed by a Town Board (Board), which comprises four elected members and an elected Town Supervisor (Supervisor). The Board is responsible for the general management and control of Town finances. The Supervisor serves as the Town's chief executive officer, budget officer, and chief fiscal officer.

Objective

The objective of our audit was to review the Town's processes for claims auditing and internal controls over information technology (IT). Our audit addressed the following related questions:

- Is the Board adequately auditing claims presented for payment?
- Do internal controls over IT adequately protect electronic data?

Scope and Methodology

We examined claims auditing process and internal controls over IT for the period January 1, 2011, to August 28, 2012.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town Officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Audit of Claims

Town Law requires the Board to audit and approve all claims before the Supervisor can disburse payments. The audit of claims should not be a casual review. Instead, it should be a deliberate and thorough process to determine whether proposed payments are proper, and whether the Town's purchasing procedures and pertinent laws have been followed. Each claim must be written, itemized and accurate, include evidence of the approval of the Town official whose action gave rise to the claim, and include receiving reports, and quotes, bids or State and County contract information when required.¹

The Board's claims auditing process does not ensure that taxpayer funds are properly safeguarded. The Board does not have written procedures or guidelines to ensure claims are properly reviewed. As a result, Board members do not perform a deliberate audit of claims or require that claims include relevant documents such as receiving reports, quotes, bids or State and County contract information.

We randomly sampled 73 payments totaling \$174,320 to determine if they were properly authorized, itemized, had evidence of receipt of the goods or services, included proper supporting documentation, and were for proper municipal purposes. Although 14 of the payments had receiving reports, they did not have signatures to indicate receipt of the goods. There were 27 payments totaling \$24,823 that did not have signed receiving documentation. In addition, four payments totaling \$102,801 that required quotes did not have documentation to support that quotes were obtained or that the purchases were alternatively made from State or County contracts.

Board members were not aware that they should perform a deliberate and thorough review of claims. The Board's failure to adequately audit claims increases the risk that the goods and services that are approved for payment will not actually be received and that the best value for purchases will not be obtained.

Recommendation

1. The Board should establish written procedures to ensure claims are properly reviewed prior to authorizing payment. Each claim should include relevant documentation such as receiving reports, quotes, bids or State and County contract information.

¹ The Town's purchasing procedures establish requirements to demonstrate that the best value was sought for purchases in excess of \$1000 and for public works contracts in excess of \$3000. This evidence can include quotes or bids, or evidence that the purchases were made from State or County contracts.

Information Technology

The Town relies on its IT system for accessing the Internet, communicating by email, storing data, maintaining financial records, and reporting to State and Federal agencies. Therefore, the Town's IT system and the data it holds are valuable resources. If the IT system fails, the results could range from inconvenient to catastrophic. Even small disruptions in IT systems can require extensive effort to evaluate and repair.

Board members are responsible for creating an appropriate internal control environment over IT security. The Board should establish IT policies that take into account people, processes and technology, and communicate these policies throughout the organization. IT policies define appropriate user behavior and describe the tools and procedures to protect data and information systems. The policies should address issues such as acceptable computer, email and Internet use, and the notification of residents whose personal, private and sensitive information was, or is believed to have been, compromised. In addition, a disaster recovery plan describes how the Town plans to prevent loss of computer equipment and data and the procedures for recovery in the event of a disaster.

The Board did not adopt an acceptable computer use policy, breach notification policy or formal disaster recovery plan. As a result, the Town's computer systems and data are at risk of damage and loss, and employees may not be adequately prepared to notify affected individuals in the event that their private information is compromised. Furthermore, in the event of a disaster, there is an increased risk of loss or destruction of data and interruption to Town operations.

Acceptable Use Policy

A good system of IT controls starts with policies to define appropriate user behavior and the tools and procedures necessary to protect information systems. Such policies should include, among other things, procedures governing the acceptable use of computers, Internet access, electronic mail and portable devices, and procedures to protect the Town's resources and confidential information. Town officials should distribute acceptable computer use policies to all employees. It is important that such policies include provisions for enforcement and that system users acknowledge that they are aware of and will abide by the policies.

The Board has not adopted an acceptable use policy to ensure the security of the IT system. Without a comprehensive policy that explicitly conveys the appropriate use of the Town's electronic

equipment, Town officials cannot be assured that users are aware of their responsibilities and there are no consistent standards for which users are held accountable. The lack of a computer use policy increases the risk of inappropriate computer use (either intentional or accidental) which could potentially expose the Town to virus attacks or compromise systems and data, including key financial and confidential information.

Breach Notification Policy

An individual's private and/or financial information, along with confidential business information, could be severely affected if security is breached or data is improperly disclosed. New York State Technology Law requires counties, cities, towns, villages, and other local agencies to establish an information breach notification policy. Such a policy should detail how the agency would notify residents whose personal, private and sensitive information was, or is reasonably believed to have been, acquired by a person without a valid authorization. It is important for the disclosure to be made expediently and without unreasonable delay, consistent with the legitimate needs of law enforcement or any measures necessary to determine the scope of the breach and restore the reasonable integrity of the data system.

The Board has not adopted an information breach notification policy. Without such a policy, Town officials and employees may not be prepared to notify affected individuals in the event that private information is compromised.

Disaster Recovery Plan

A system of strong IT controls includes a disaster recovery plan that describes how an organization will deal with potential disasters. A disaster could be any sudden, unplanned catastrophic event, such as a fire, flood, computer virus, vandalism, or inadvertent employee action that compromises the integrity of the data and the IT systems. Contingency planning to prevent loss of computer equipment and data and the procedures for recovery in the event of an actual loss are crucial to an organization. The plan needs to address the roles of key individuals and include precautions to be taken to minimize the effects of a disaster so officials will be able to maintain or quickly resume day-to-day operations. In addition, disaster recovery planning involves an analysis of continuity needs and threats to business processes and may include a significant focus on disaster prevention. It is important for Town officials to distribute the plan to all responsible parties and to periodically test and update the plan to address changes in the Town's IT security requirements.

Although the Town does perform nightly backups of data, the Board has not established a formal disaster recovery plan. Therefore, in the event of a disaster, Town personnel have no guidelines or plan to

follow to prevent the loss of equipment and data or to appropriately recover data. The lack of a disaster recovery plan could lead to the loss or destruction of private and essential data and a serious interruption to Town operations, such as not being able to process payroll or vendor claims.

Recommendations

2. The Board should adopt an acceptable use policy and require system users to provide acknowledgement that they are aware of and will abide by the policy.
3. The Board should adopt an information breach notification policy.
4. The Board should adopt a comprehensive disaster recovery plan that details specific guidelines for the protection of private and essential data against damage, loss, or destruction and the recovery of Town systems and data in the event of loss. The plan should be distributed to all responsible parties, and periodically tested and updated to address changes in IT security requirements.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following page.

TOWN OF OLIVE
West Shokan, N.Y. 12494

OFFICE OF THE SUPERVISOR
Berndt J. Leifeld, Supervisor
(845) 657-8118



January 24, 2013

Chief Examiner's Office
Attn: Tenneh Blamah
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear Tenneh Blamah:

The following is in response to your letter dated December 27, 2012 and the preliminary draft findings of the recent audit examination of the Town of Olive. I have had the opportunity to discuss its contents with the Town Board, certain staff members and issues that need to be resolved.

First, I would like to thank you for the guidance and education you provided to our Town Board members. Several of the issues were a refresher and an eye-opener.

I would like to address our auditing system that was picked up in the review. I have sent out a memo to all department heads that vouchers will not be received by this office that do not contain the necessary information prior to going to the audit meeting. Any voucher that is incorrect will be returned to its originating department. Going forward, if a voucher must contain a required quote or bid contract number, this also must be listed or attached to the packet as well.

With regard to the issues of our Information Technology (IT), my office is ever increasing its knowledge in this field and works with a local company that specializes in our computer maintenance and security. Since you brought it to our attention, we have passed an acceptable computer use and breach notification policy. The Town is currently working on a disaster recovery plan. This seems to be a much larger undertaking than the other two policies. Perhaps if there is a way that the State could make these mandated policies better known to budget strapped Towns, we wouldn't have to scramble at the last moment to get these policies in place. (Just a small observation on our end I would like to add.)

Again, I wish to thank you for the professionalism your auditors showed to my staff. I appreciate the length they went through to make this a clear and concise process, so in the future we ultimately have all of our safeguards in place.

Sincerely,

Berndt J. Leifeld
Supervisor
Town of Olive

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if the Board provided adequate oversight of the Town's fiscal operations. To accomplish this, we performed an initial assessment of the internal operations so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, information technology (IT), and the internal operations of the individual Town departments.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents, such as Town policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the Town's financial transactions as recorded in its databases. Further, we reviewed the Town's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected claims auditing and internal controls over information technology.

For claims auditing, we obtained all cash disbursements records from the Town's accounting software for the period January 1, 2011 to August 28, 2012 and used data extraction software for further analysis. We used a random number generator to select a sample of 73 payments to test for evidence of Board audit of claims.

We made inquiries and observations to determine if the Town had adequate controls over IT including policies and procedures related to acceptable use, breach notification and disaster recovery.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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