



Town of Rhinebeck

Internal Controls Over Cash Management and Information Technology

Report of Examination

Period Covered:

January 1, 2011 — June 22, 2012

2013M- 36



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	4
CASH MANAGEMENT	5
Segregation of Duties	5
Timeliness of Deposits	6
Cash Receipts	7
Recommendations	8
INFORMATION TECHNOLOGY	10
Administrative Rights	10
Data Backup Media	11
Recommendations	11
APPENDIX A Response From Local Officials	13
APPENDIX B Audit Methodology and Standards	15
APPENDIX C How to Obtain Additional Copies of the Report	16
APPENDIX D Local Regional Office Listing	17

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 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 Rhinebeck, entitled Internal Controls Over Cash Management 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*

Introduction

Background

The Town of Rhinebeck (Town) is located in Dutchess County and has a population of approximately 7,500. The Town is governed by an elected Town Board (Board) which comprises a Town Supervisor (Supervisor) and four Board members. The Board is the legislative body responsible for overall Town management, including oversight of the Town's operations and finances. The Supervisor is the Town's chief executive and chief fiscal officer.

The Board provides guidance through the enactment of policies and procedures and adoption of the annual budget. As chief fiscal officer, the Supervisor is responsible for overseeing or performing most of the Town's financial duties including implementing policies established by the Board. The Town's appointed Town Clerk (Clerk) is responsible for collecting revenues for sporting, dog, and marriage licenses; copies of death certificates and birth certificates; and games of chance. In addition, the Clerk receives moneys from other Town departments. The Clerk reported collections of \$298,818 for the period January 1, 2011 to June 22, 2012.

The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, public improvements, recreation and cultural activities, and general governmental support. Budgeted general fund appropriations for fiscal years 2011 and 2012 were approximately \$1.6 million and \$1.7 million, respectively.

Objective

The objective of our audit was to examine internal controls over selected financial and operational areas. Our audit addressed the following related questions:

- Has the Board implemented effective controls over cash management to adequately safeguard Town assets?
- Are internal controls over the Town's information technology (IT) system appropriately designed to safeguard assets and protect electronic data?

Scope and Methodology

We examined internal controls over cash management and IT for the period January 1, 2011 to June 22, 2012. Our audit found areas in need of improvement related to IT controls. Because of the sensitivity of some of this information, certain vulnerabilities are not discussed in this report, but have been communicated confidentially to Town officials so they could take corrective action.

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 findings and recommendations and indicated they plan 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 Clerk's office.

Cash Management

The Board is responsible for establishing written policies and procedures for cash receipts that address the duties, records, procedures, and oversight required to safeguard Town funds. It is important for the Board to ensure employees' duties are segregated so that no single individual controls most or all phases of a transaction. Where duties cannot be segregated, the Board must establish supervisory review or other compensating controls to mitigate risk.

Town Law requires moneys collected to be deposited within certain timeframes, and good internal controls require moneys to be deposited as soon as possible after collection to reduce the risk that moneys could be lost or stolen. Duplicate press-numbered receipts should be issued to all customers that indicate when payment was received and from whom, and the form (i.e., cash or check) that it was received. In addition, accountability records such as reconciliations of receipts to daily collection sheets should be prepared and retained on file.

Town officials need to improve internal controls over cash management. Although the Board implemented a policy to segregate cash functions, the policy was inadequate and did not effectively segregate the Town Clerk's (Clerk's) duties. Deposits in the Clerk's office were not timely or intact (i.e., in the same form as received). Cash collected totaling \$1,288 was not deposited and cannot be located by Town officials. Further, there were several instances where supporting documentation was missing and duplicate receipts were not properly maintained.

Segregation of Duties

An effective internal control system over cash receipts includes procedures to ensure that cash transactions are properly documented, and recorded, and that cash is safeguarded to prevent loss or theft. It includes effective management oversight of those charged with handling public moneys, and the segregation of financial duties so no one individual can control all aspects of financial transactions. For example, the same employee should not collect and deposit cash and record transactions in the accounting records.

Several departments, including the Building, Zoning, Planning, Transfer Station, and Highway departments, collect moneys for various fees and certificates. These departments remit collections to the Clerk's office for deposit into the Clerk's bank account. The Clerk records the funds in the Clerk's accounting software. Monthly, the Clerk reconciles the bank statements and prepares a report to the Board. This report outlines the amount of revenues collected by the

individual departments and is used by the bookkeeper to record the revenues in the general ledger.

The Board established a policy¹ to segregate financial functions in January 2011. While the policy segregates the bookkeeper's duties to ensure that the bookkeeper does not handle cash, it does not segregate the Clerk's cash handling, depositing, and reconciling duties. The Clerk collects moneys, prepares deposits, reconciles the bank statement, and prepares the monthly report used by the bookkeeper to record revenues. By performing these incompatible duties, the Clerk could potentially misappropriate funds and conceal transactions from Town officials without detection. Further, the bookkeeper records the revenues without independent verification of the amounts reported; as a result, there is a risk of errors and irregularities occurring and going undetected.

Timeliness of Deposits

Certain local government officers are required by law to deposit moneys within certain timeframes. While the statutory deadline is the latest point in time at which a deposit may be made, from an internal control perspective, the best approach is to deposit moneys as soon as possible after collection. The longer moneys remain undeposited the greater the risk that loss or theft can occur.

Town Law requires the Clerk to deposit moneys received no later than the third business day after total collections exceed \$250. The Clerk should document the composition of the receipt: cash, check, or money order. This information should follow the receipted moneys through to the deposit in the bank, which should be documented by a detailed deposit slip. It is important that collections are deposited intact – in the same amount and form (cash, check, or money order) as received – and that detailed records and deposit tickets are maintained for verification purposes.

Clerk's Office — To test the deposit of moneys, we judgmentally selected three months² and compared daily receipts from the Clerk's accounting software to deposits. Of 20 deposits tested, eight were not made in a timely manner. Moneys generally accumulated over \$1,000 before deposit and in one case totaled \$5,100. In addition, daily deposits were not made intact: none of the 20 deposits correlated with the recorded daily cash intake. The Deputy Town Clerk told us that she was not previously allowed to make deposits and, therefore, during the Clerk's absence the moneys were allowed to accumulate until her return. As a result of these deficiencies, the Town's moneys are at an increased risk of being lost or stolen.

¹ Segregation of Financial Function Policy

² April and August 2011 and April 2012. We selected two months during the full calendar year of the audit period and one month during the second calendar year.

Justice Court — Town Justices are required to deposit intact all moneys collected by the Court into their official bank accounts as soon as possible, but no later than 72 hours from the date of receipt, excluding Sundays and holidays. We tested each Justice's cash receipts for January, April, July and October 2011, totaling \$31,074, and 81 related deposits. Deposits were generally timely; on just two occasions, deposits were made between five and seven business days after receipt.

Recreation Department — Town Law requires the Supervisor to deposit all moneys, including those received in the Recreation Department (Recreation), within 10 days of receipt. Recreation receives moneys for seasonal and daily pool passes, swimming instruction, and summer day camp. During the 2011 summer season, Recreation collected \$90,889. Deposits of these moneys were made within one to five days of receipt, in the required timeframe.

Cash Receipts

Town officials are responsible for establishing internal controls to properly safeguard cash receipts from loss or theft. An effective internal control system over cash receipts includes procedures, such as issuing duplicate receipts, to ensure that cash transactions are properly documented and recorded. Receipts should indicate when payment was received and from whom, and the form of payment received (i.e., cash or check). In addition, receipt records should be retained on file. This ensures that if there is a problem, the person responsible can be identified.

Clerk's Office — In addition to fees for sporting, dog, and marriage licenses, copies of death certificates and birth certificates, and games of chance, the Clerk's office collects moneys for FOIL³ (document) requests, maps, and other miscellaneous copies. The Clerk records each transaction using the Clerk's software program, which categorizes the transaction based on the type of cash receipt collected and generates a receipt for the customer at the same time. However, the computer-generated receipts are not pre-numbered and copies (duplicates) are not generated for retention in the Clerk's office. As a result, there can be no proper reconciliation of the cash receipt records with cash counts.

We traced available supporting documentation for all 3,245 birth/death certificates and marriage licenses during the audit period to the transaction detail recorded in the Clerk's accounting software. The Clerk collected a total of \$32,472 for the requests. We were unable to trace 69 requests totaling \$691 to the cash records, which could indicate a potential misappropriation. Additionally, the Clerk's office

³ Freedom of Information Law

could not locate supporting documentation for birth/death certificate or marriage license requests for 983 cash entries totaling \$9,831 in the accounting software, and another 89 requests totaling \$890 were entered into an incorrect receipt category.

Building and Zoning Departments — The Building and Zoning departments (Building and Zoning) issue receipts for collections including building permits, certificates of occupancy, fines, and escrow amounts. A permit/certificate should not be assigned a number, recorded and issued until such time as the appropriate fees have been paid. Building and Zoning staff maintain a computerized spreadsheet of issued building permits and certificates of occupancy including the date and the amount of fees received. In addition, the Building and Zoning clerks are required to prepare a duplicate press-numbered receipt, one copy for the customer and the other copy retained in the receipt book, to establish and maintain accountability for moneys collected. The moneys received are remitted to the Clerk's office for deposit and the Clerk provides Building and Zoning with a receipt. The Building Department clerk told us that she does not reconcile the receipts she receives to the Clerk's monthly report to the Board, which details the amounts collected, deposited, and reported as revenue. Without this reconciliation or an independent review of the Building and Zoning and Clerk's records, Town officials cannot ensure that all moneys remitted to the Clerk were deposited and properly reported.

We traced the receipts in the Building and Zoning duplicate receipt book to the detail cash records in the Clerk's software. Of the 452 receipts totaling \$86,649 issued by Building and Zoning during the audit period, six receipts totaling \$347 could not be traced to the Clerk's detail cash records and appear to be missing. Further, after tracing all the receipts to the Clerk's cash records, we identified 68 cash entries, totaling \$7,774, where a duplicate receipt did not exist. Therefore, Building and Zoning did not give receipts to all customers as required and is not recording all cash received.

Recommendations

1. The Board should segregate the duties in the Clerk's office or develop compensating controls and revise the Segregation of Financial Function policy to address the Clerk's duties.
2. Town officials should ensure that deposits are timely and intact in accordance with applicable laws.
3. Town officials should develop written procedures to ensure appropriate documentation is maintained to support moneys received.

4. Town officials should ensure that duplicate receipts are properly issued and retained if voided, and perform periodic verifications to ensure that all moneys collected were deposited.
5. Town officials should reconcile the Clerk's and departments' records and investigate discrepancies.

Information Technology

The Town uses IT to initiate, process, record, and report transactions. It also relies on its IT system for maintaining financial records, processing and storing employee information, Internet access, electronic mail (email), and conducting bank transactions. The pervasive use and complexity of these computerized applications produces internal control risks such as unauthorized access to data, unauthorized changes to master files, and the potential loss of data and Town financial assets.

The Town can mitigate these risks through a combination of automated and manual controls, established in Board-adopted policies and procedures that ensure user access is properly limited to protect data from loss or manipulation. Additionally, good governance and accountability requires that local governments protect personal, private, and sensitive information (PPSI) from unauthorized access or loss regardless of the format in which it is collected, transmitted, and stored. Accordingly, all backup media must be properly secured with appropriate logical and physical controls.

Administrative Rights

When creating user accounts on individual computers, Town officials should limit access to only those functions necessary to accomplish assigned tasks. If a user is placed in the administrators' group on their individual computer, that user has powerful administrative rights that allow full access to install programs, download or destroy data, and change log files (automated trails of user activity). Unauthorized users could, therefore, perform inappropriate transactions and potentially cover their tracks with access to administrative rights.

We performed an audit of each of the Town's 15 computers using an audit software application. Users on each of these computers were in the local administrators' group and could therefore install unauthorized software or alter the computer configuration, increasing the risk that Town assets and data may be lost or compromised. Additionally, unauthorized users often use legitimate user accounts to gain access to a system and manipulate the user's account with their administrative rights.

Town officials told us that the Town's IT consultant had set up the computers initially and that they expected the Clerk to communicate the Board's wishes to the IT consultant but were unsure of whether this actually occurs. Without proper controls over Town computers, there is a risk that security could be compromised.

Data Backup Media

To protect its information, an organization should always store backups in a physically secure facility far enough from its office so as to not be affected by the same fire, flood, or storm that might destroy records in the office. Additionally, backups and archives should be protected from access with the same level of protection as working data.

As most PPSI is handled in the Finance Department by the Town's bookkeeper and payroll clerk, we reviewed the backup procedures and media used by these individuals. The Finance Department backs up the financial data to CD-ROM and individual computer data to flash drives. This data includes payroll data which contains personal, private, and sensitive information. The CD-ROMs are stored on top of the server to which they belong and the flash drives are left in the individual computers. Department personnel told us that the CD-ROMs are occasionally taken offsite, but the flash drives are not removed from the computer. To determine if the media were secure, we put the CD-ROM and flash drives into our computer and were able to access and view the list of files on the CD-ROM without a password. The CD-ROM contained three files: one text document, one .7Z file, and one .md5 file. We searched the Internet and identified a free tool online that would allow access to a .7Z file. Further, neither the flash drives nor individual files were secured, allowing us to open and view the file that contains a payroll schedule, including social security numbers. Without adequate logical or physical controls over the media, there is a risk that personal, private, or sensitive information could be obtained and compromised.

The Town Clerk tracks moneys received in her office and in several Town departments using the Town Clerk's software. This data is backed up to the external file server located on the Town Clerk's desk, which is not taken offsite and is not locked in a secure location when unattended. To determine if the data is secure, we reviewed the specifications for this device and found that it contains a reset button which allows the device to be restored to default settings. If the device was stolen, a user could reset the default settings and potentially access or delete the data. Although data is backed up in the Clerk's office and Finance Department, the backups are not taken offsite to a secure location because Town officials have not established backup procedures that would require users to take them offsite.

Without adequate backup procedures, there is a risk that electronic data could be permanently lost, manipulated, or that personal, private, or sensitive information could be compromised.

Recommendations

6. Town officials should restrict local administrator privileges by employing the concept of least privilege, limiting access to only those functions necessary to accomplish assigned tasks.

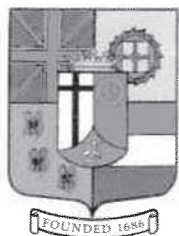
7. Town officials should establish written backup procedures and require the media used for backups to be encrypted and stored in a secure location.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

May 6, 2013



Town of
Rhinebeck

Town Supervisor Thomas J. Traudt

Tenneh Blamah - Chief Examiner
33 Airport Center Drive, Suite 103
New Windsor, N.Y. 12553

Dear Tenneh,

The Town of Rhinebeck has received the draft preliminary findings from the audit related to the Internal Controls Over Cash Management and Information Technology conducted by the Office of the State Comptroller. The members of the Town Board have reviewed the documents and are in general agreement with the findings.

As your team knows, since 2008 we have been actively working to mitigate potential exposures. The audit provides us with useful insight into what is still left to do as well as confirmation that our prior efforts have been to the benefit of the Town of Rhinebeck.

We are preparing our plan of corrective action and have already corrected many of the issues identified in the audit.

Sincerely, 

Thomas Traudt
Supervisor - Town of Rhinebeck

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets and monitor financial activities. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk.

During the initial assessment, we interviewed Town officials and employees, performed limited tests of transactions, and reviewed pertinent documents such as Town policies and procedures, Board minutes, and financial records and reports. After reviewing the information gathered during our initial risk assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected cash management and information technology.

To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We reviewed Town policies and procedures.
- We reviewed Board minutes.
- We interviewed the Town employees in each department to gain an understanding of the cash receipts process.
- We prepared and sent bank confirmations.
- We summarized the cash received in the Clerk's office and other Town departments, and compared the Clerk's cash records and bank statements to ensure that moneys remitted to the Clerk's office from residents and other departments were deposited.
- We compared source documentation of cash receipt transactions to deposit slips and bank statements to determine if cash was deposited in a timely manner.
- We traced source documentation to cash receipts and deposits.
- We obtained Justice Court data from the Court's system and used computer-based analysis to compare it to reports submitted to the Department of Motor Vehicles and the Justice Court Fund.
- We obtained reports from an outside vendor and compared to deposits to determine if moneys received for recycled metal were remitted to the Town for deposit.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313