



Village of Montgomery

Purchasing and Information Technology

Report of Examination

Period Covered:

June 1, 2011 — January 9, 2013

2013M-210



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2013

Dear Village 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 Village 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 Village of Montgomery, entitled Purchasing 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 Village of Montgomery (Village) is located in the Town of Montgomery in Orange County and has a population of about 3,800. The Village provides various services to its residents, including water and sewer, public safety, garbage collection, street maintenance, and general government support. The Village's total general fund appropriations for the 2012-13 fiscal year were approximately \$4 million.

The Village is governed by a five-member elected Board of Trustees (Board) comprising the Mayor and four Trustees. The Board is the legislative body responsible for managing Village operations. The Mayor serves as the Village's chief executive officer.

Scope and Objective

The objective of our audit was to review internal controls over the Village's purchasing and information technology (IT) operations for the period June 1, 2011, through January 9, 2013. Our audit addressed the following related questions:

- Did Village officials procure the desired quality and quantity of goods and services at the most favorable cost?
- Did the Board ensure that the Village's IT system was adequately secured and protected against unauthorized access and loss?

Audit Results

Village officials generally complied with General Municipal Law and sought competition for purchases and public works contracts subject to its competitive bidding requirements. However, the Board-adopted procurement policy did not specify the number of quotes to be obtained or that requests for proposals (RFPs) should be used for purchases that were not subject to competitive bidding. As a result, Village personnel did not always seek competition for such purchases and paid approximately \$84,000 to 13 vendors without obtaining the required quotes or using RFPs. Because Village personnel did not seek competition for these purchases, taxpayers cannot be assured that these goods and services were obtained at the desired quality, at the most favorable cost, and in the most prudent and economical manner, and that procurement was not influenced by favoritism, extravagance, fraud, or corruption.

The Board adopted a comprehensive policy covering various aspects of the Village's IT system security, but it did not implement procedures ensuring that controls were instituted. For example, Village officials did not ensure that copies of back-up data were stored in a secure off-site location, and the Board has not developed a disaster recovery plan. Additionally, the Village received various

IT services from consultants without service level agreements (SLA).¹ As a result, the Village's IT system and data are subject to an increased risk of corruption, loss, or misuse.

Comments of Local Officials

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

¹ An SLA is a written service contract between the Village and its IT service provider that captures the Village's needs and expectations and avoids potential misunderstandings about the services to be performed.

Introduction

Background

The Village of Montgomery (Village) is located in the Town of Montgomery in Orange County and has a population of about 3,800. The Village provides various services to its residents, including water and sewer, public safety, garbage collection, street maintenance, and general government support. The Village's total general fund budget appropriations for the 2012-13 fiscal year were approximately \$4 million.

The Village is governed by a five-member elected Board of Trustees (Board) comprising the Mayor and four Trustees. The Board is the legislative body responsible for managing Village operations. The Mayor serves as the Village's chief executive officer.

The Village's purchasing process is decentralized and department heads are responsible for obtaining necessary competition and authorizing purchases. The Village's information technology (IT) system includes 20 computers, most of which are networked. Village employees use various computer software applications to perform their regular duties, such as processing transactions, maintaining financial records, and performing other Village business. The Village receives various services from outside IT consultants.

Objective

The objective of our audit was to review internal controls over the Village's purchasing and IT operations. Our audit addressed the following related questions:

- Did Village officials procure the desired quality and quantity of goods and services at the most favorable cost?
- Did the Board ensure that the Village's IT system was adequately secured and protected against unauthorized access and loss?

Scope and Methodology

We examined internal controls over the Village's purchasing and IT operations for the period June 1, 2011, through January 9, 2013.

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 Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our recommendations and indicated they planned to take 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.

Purchasing

An important part of the Board's responsibility is to establish, implement, monitor, and enforce compliance with its procurement policy. This helps ensure that the Village obtains goods and services of the required quantity and quality at competitive prices, and protects against favoritism, extravagance, fraud, and corruption. These goals are achieved by purchasing goods and services in compliance with General Municipal Law (GML) requirements and the Village's procurement policy. GML requires bidding when an item or commodity group exceeds established dollar limits. GML also requires that Village officials adopt policies and procedures governing procurement for all goods and services not subject to the competitive bidding requirements.

Village officials generally complied with GML and sought competition for purchases and public works contracts subject to its bidding requirements. However, the Board-adopted procurement policy did not specify the number of quotes to be obtained or that requests for proposals (RFPs) should be used for purchases that were not subject to competitive bidding. As a result, Village personnel did not always seek competition for such purchases and Village officials could pay more than necessary for goods and services.

Procurement Policy

An adequate procurement policy ensures the taxpayers that goods and services are obtained at the desired quality, at the most favorable cost, and in the most prudent and economical manner. Additionally, it provides guidance to Village personnel initiating purchases. GML requires that the Village's procurement policy specify each procurement method used (e.g., verbal or written quotes or RFPs), state when such method will be used, explain the procedures followed to determine the method used, and provide that the actions taken are documented. The Village's policy should also specify the number of quotes to be obtained or that RFPs should be used.

The Village's procurement policy requires that Village personnel obtain verbal quotes for purchases ranging from \$250 to \$2,999 and written/fax quotes or proposals for purchases between \$3,000 and \$20,000. For public works contracts, the policy requires verbal quotes for amounts from \$250 to \$2,999, written/fax quotes for amounts from \$3,000 to \$4,999, and written/fax quotes or proposals for amounts from \$5,000 to \$34,999. Although the procurement policy contained guidelines for the methods to use in procuring goods and services, it did not specify the required number of quotes that Village personnel should obtain or that of RFPs should be used when making such purchases.

Without an adequate procurement policy, guidance was not provided to Village personnel when seeking competition for purchases. As a result, the Village officials could pay more than necessary for goods and services.

We reviewed all 34 purchases totaling approximately \$201,700 that required quotes or RFPs in accordance with Village policy.² We also reviewed all five vendors of aggregate-like commodities or services who received payments aggregating between \$10,000 and \$20,000 to determine whether Village personnel sought competition for these purchases by using quotes or RFPs. Village personnel did not obtain quotes or use RFPs for purchases from 13 vendors totaling approximately \$84,000. For example, the following purchases were made without obtaining quotes or using RFPs:

- Water treatment plant chemicals – \$17,539
- Door installation – \$4,700
- Youth basketball program t-shirts, shorts, and basketballs – \$4,094
- Material and labor to replace an air conditioning unit – \$3,725
- Summer recreation program tents – \$3,623.

Because Village personnel did not seek competition for these purchases, the taxpayers cannot be assured that these goods and services were obtained at the desired quality, at the most favorable cost, and in the most prudent and economical manner, and that procurement was not influenced by favoritism, extravagance, fraud, or corruption.

Competitive Bidding

GML and the Village's procurement policy require Village officials to competitively bid purchases and public works contracts that annually aggregate to \$20,000 and \$35,000, respectively. GML also allows exceptions to competitive bidding for items purchased under State or county contracts, or for purchases available from only one source.

We reviewed all seven purchases that were subject to the competitive bidding requirements and the Village's procurement policy totaling approximately \$619,000. These contracts included purchases for sewer plant operations, window installation, street pavement and sidewalk repair materials, gasoline, and transfer station fees. Village officials generally complied with GML either by competitively bidding, purchasing from State or county contracts, or having a valid

² We reviewed all purchases totaling \$3,000 or more to identify those subject to the RFP requirements of the Village's policy.

reason to invoke the procurement policy's sole source provisions, except for a few minor discrepancies that were discussed and resolved during our fieldwork.

Recommendations

1. The Board should amend its procurement policy to include the specific number of quotes Village personnel should obtain or that RFPs should be used when purchasing items not subject to competitive bidding.
2. Village officials should ensure that the Village's procurement policy provisions relating to obtaining quotes or using RFPs are complied with.

Information Technology

Computerized data is a valuable resource that Village officials rely on to make financial decisions and to report to Federal and State agencies. If the IT system fails, the results could range from inconvenient to severe. Even small disruptions in IT systems can require extensive effort to evaluate and repair. The Board is responsible for adopting policies and procedures and for developing controls to safeguard computerized data and assets. Such policies and procedures should address the use and monitoring of the Village's IT system, data backups, and a formal disaster recovery plan to reduce the risk of data loss and provide guidance on its recovery in the event of disaster.

The Board adopted a comprehensive policy covering various aspects of IT system security, but it did not implement procedures ensuring that controls over its IT system and data were instituted. For example, Village officials did not ensure that copies of back-up data were stored in a secure off-site location, and the Board has not developed a disaster recovery plan. Additionally, the Village received various IT services from consultants without Service Level agreements (SLAs).³ As a result the Village's IT system and data are subject to an increased risk of corruption, loss, or misuse.

Backups

Village computers contain a considerable amount of private and valuable data related to employees, vendors, and taxpayers. Accordingly, good controls and sound business practices require that Village officials back up the data stored on its computers and servers on a daily basis so that it can be restored in the event of loss. Back-up data should be kept at a secure, alternate location to protect it from loss in the event of a disaster. Periodically, Village personnel should verify the integrity of the backed-up data and test the effectiveness of the restoration process by restoring data from the backups.

The Village Treasurer backs up financial records and data daily to an external storage device and has successfully restored data from a backup. However, these backups are not stored at an off-site location. Instead, they are kept in a safe located in the Village business office. Storing the back-up media on site subjects it to the same risks (disasters) as the original data and defeats the purpose of the back-up control procedure. As a result, the Village's financial information and other critical data are at an increased risk of loss in the event of a disaster.

³ An SLA is a written service contract between the Village and its IT service provider that captures the Village's needs and expectations and avoids potential misunderstandings about the services to be performed.

Disaster Recovery Plan

A disaster recovery plan is intended to identify how Village officials plan to deal with potential disasters. Such disasters may include any sudden, catastrophic event (e.g., fire, computer virus, power outage, or inadvertent employee action) that compromises the integrity of the IT system and data. A disaster recovery plan describes procedures that will permit recovery in the event of equipment or data loss. An effective plan includes precautions, including the routine backup of critical data, to minimize the effects of disaster and enable the Village to either maintain or quickly resume critical functions. Typically, disaster recovery planning involves an analysis of business process and stability needs; it also may include a significant focus on disaster prevention and major disruption prevention. The plan should be distributed to all responsible parties, periodically tested, and updated as needed.

The Board did not establish a formal disaster recovery plan. Consequently, in the event of disaster, Village personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data, or guidance on how to implement data recovery and resume operations as efficiently as possible. The failure to establish a disaster recovery plan could result in the loss or damage of essential information which may not be recoverable.

Service Level Agreement

Local governments often rely on third parties for a variety of IT services. An SLA is a written contract between a local government and its IT service provider which details the local government's needs and expectations and helps avoid potential misunderstandings about the services to be performed. Such contracts should establish measureable performance targets so there is a mutual understanding of the nature and required level of service to be provided.

Village officials paid approximately \$25,880 to four IT consultants for various IT services during our audit period. However, officials did not have SLAs with any of these service providers. Village officials' failure to enter into SLAs with IT consultants contributed to a lack of accountability over who was responsible for various aspects of the Village's IT environment. As a result, the Village's data and computer resources are at greater risk for unauthorized access, misuse, or abuse.

Recommendations

3. Village officials should ensure that all of the Village's data is backed up to a secure off-site location, and that an officer or employee periodically restores/tests the backups.
4. The Board should implement a formal disaster recovery plan that addresses the range of potential threats to the Village's IT system and provides guidance for employees if the Village's computer operations are interrupted or its IT system or data incurs loss or

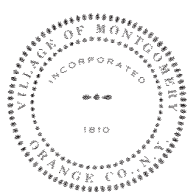
damage. This plan should be distributed to all responsible parties and periodically tested and updated as needed.

5. The Board should enter into SLAs with the Village's IT consultants that clearly describe the scope of the work, service level objectives, and performance indicators.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



Village of Montgomery

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October 7, 2013

Office of the State Comptroller

██████████
33 Airport Center Drive – Suite 103
New Windsor, NY 12553

Via fax – 845-567-0080

Dear ██████████

We have received the audit report and understand the points the auditors made. We are working on improving our procurement policy and enforcing it better, as well as addressing the other issues. We appreciate the fairness and patience of the auditors.

Sincerely,

L. Stephen Brescia
Mayor

TTY 1-800-662-1220 Voice 1-800-421-1220

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

During the initial assessment, we interviewed Village officials, performed limited tests of transactions, and reviewed pertinent documents such as Village policies, Board minutes, and financial records and reports. After reviewing the information gathered during our initial assessment, we decided upon the audit's objective and scope by selecting for audit those areas most at risk. We selected purchasing and information technology (IT) for further audit testing. Our examination included the following:

- We interviewed Village personnel to gain an understanding of the procedures and corresponding controls related to purchasing and IT.
- We obtained and reviewed the Board-adopted procurement policy.
- We obtained and reviewed documents related to all purchases and public works contracts subject to competitive bidding to determine whether these purchases complied with GML's competitive bidding provisions and Village policy.
- We reviewed, when available, written quotes and RFPs for purchases below the monetary threshold for competitive bidding to determine whether purchases were made in accordance with the Village's procurement policy and legal requirements.
- We reviewed payment vouchers and invoices for all the individual purchases of \$3,000 or more paid in a single payment and all aggregate purchases of like commodities/services priced between \$10,000 and \$20,000 from a single vendor that were paid during our audit period.
- We interviewed Village officials and reviewed documentation to determine existing policies related to the use of IT and cyber-security awareness.
- We reviewed the Board-adopted IT policy and made inquiry of Village officials about the recovery protocols and procedures (i.e., disaster recovery and backups) and contracts between the Village and IT consultants.

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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