



Village of Westbury

Purchasing, Claims Audit and Information Technology

Report of Examination

Period Covered:

June 1, 2011 — November 30, 2012

2013M-301



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of Local Officials and Corrective Action	6
PURCHASING	7
Purchase Order Process	7
Price Quotes	9
Recommendations	10
CLAIMS AUDIT	11
Recommendations	13
INFORMATION TECHNOLOGY	14
User Permissions	14
Disaster Recovery Plan	16
Data Backup	16
Remote Access	17
Server Room Access	18
Recommendations	18
APPENDIX A Response From Village Officials	19
APPENDIX B OSC Comments on the Village's Response	29
APPENDIX C Audit Methodology and Standards	30
APPENDIX D How to Obtain Additional Copies of the Report	32
APPENDIX E Local Regional Office Listing	33

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2014

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 Westbury, entitled Purchasing, Claims Audit 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 Westbury (Village) is located in the Town of North Hempstead, Nassau County. The Village has a population of approximately 15,150 and is governed by an elected Board of Trustees (Board) comprising a Mayor and four Trustees.

The Village provides residents with various services including highway maintenance, a Building Department, a justice court, recreational services and sanitation services. These services are funded primarily through real property taxes, State aid and user charges. The Village's general fund expenditures totaled about \$6.8 million and \$7.4 million for the 2011-12 and 2012-13 fiscal years, respectively.

Scope and Objective

The objective of our audit was to review the Village's internal controls over selected financial operations for the period June 1, 2011 through November 30, 2012. Our audit addressed the following related questions:

- Are internal controls over purchasing adequately designed and operating appropriately to safeguard Village assets?
- Does the Board properly audit claims to ensure Village assets are safeguarded?
- Are policies and procedures over information technology (IT) adequately designed and operating appropriately to safeguard Village assets?

Audit Results

Village officials do not consistently require the use of purchase orders when approving purchases, and purchase orders were used which were reviewed and approved after invoices were received. We reviewed 60 claims totaling \$194,937 and found that 42 claims totaling \$168,141 were made without the use of purchase orders and the other 18 claims included confirming purchase orders prepared after the goods or services had already been purchased or received. Allowing Village employees to procure goods and services without prior purchase orders can lead to the over-expenditure of appropriations or the purchase of goods and services that are not authorized, necessary or for legitimate purposes.

Additionally, Village personnel did not always obtain and document verbal or written quotes before purchasing goods and services as required by the Village's procurement policy. We reviewed 23 claims and found that, of the 16 claims that required verbal or written quotes, 14 claims totaling

\$22,588 did not have any documentation to indicate the required quotes were solicited. Without the consistent use of purchase orders, the appropriate use of competition and the documentation necessary for an effective audit of claims, Village officials cannot be assured that employees are procuring goods and services in the most prudent and economical manner.

Further, the Board does not review claims for payment; instead, one Trustee is appointed as Commissioner of Claims.¹ Our review of 60 claims totaling \$194,937 found that none of the claims contained all the necessary documentation or authorizations, such as purchase order requisitions, itemized invoices and receiving reports, to facilitate an effective audit. While all 60 claims appeared to be for proper and necessary Village purposes, the Board's failure to audit claims increases the risk of payments to vendors that are not for proper Village purposes, for goods or services not of the quality or price agreed upon and/or for goods and services not actually received.

Finally, Village officials have not established sufficient internal controls over key components of the Village's IT system, including the safeguarding of computerized financial data against unauthorized access or potential loss, data backup, monitoring of remote-access users and server room security. As a result, the Board cannot be assured that Village personnel could sustain critical business functions during and after a system disruption or that critical financial data is sufficiently protected against the risk of 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 disagreed with some of our findings and recommendations. Appendix B contains our comments on issues raised in the Village's response.

¹ Effective March 7, 2013, the Village created the position of claims auditor. The Trustee is appointed as claims auditor. The appointment of a Trustee to serve as claims auditor may raise questions of compatibility of offices. The Village Attorney may wish to contact the Attorney General's Office to discuss this issue.

Introduction

Background

The Village of Westbury (Village) is located in the Town of North Hempstead, Nassau County (County). The Village has a population of approximately 15,150 and is governed by an elected Board of Trustees (Board) comprising a Mayor and four Trustees.

The Mayor is the Board's presiding officer and the Village's chief executive officer and budget officer. The Clerk-Treasurer is the Village's chief financial officer and is responsible for collecting, disbursing and investing Village funds and approving purchases. The Clerk-Treasurer is also the administrator of the Village's accounting software.

The Village provides residents with various services including highway maintenance, a Building Department, a justice court, recreational services and sanitation services. These services are funded primarily through real property taxes, State aid and user charges. The Village's general fund expenditures totaled about \$6.8 million and \$7.4 million for the 2011-12 and 2012-13 fiscal years respectively.

Objective

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

- Are internal controls over purchasing adequately designed and operating appropriately to safeguard Village assets?
- Does the Board properly audit claims to ensure Village assets are safeguarded?
- Are policies and procedures over information technology (IT) adequately designed and operating appropriately to safeguard Village assets?

Scope and Methodology

We examined the Village's internal controls relating to purchasing, claims audit and IT for the period June 1, 2011 through November 30, 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 is included in Appendix C 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 disagreed with some of our findings and recommendations. Appendix B contains our comments on issues raised in the Village's response.

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-Treasurer's office.

Purchasing

An effective procurement process helps the Village obtain services, materials, supplies and equipment of the right quality and quantity, at the best price and in compliance with the Village Code and other applicable legal requirements. Effective controls generally include the use of a purchase order system, which helps officials in controlling Village expenditures by confirming that there are sufficient funds to pay claims and that purchases are properly authorized. General Municipal Law (GML) requires local governments to adopt written policies and procedures for procuring goods and services that are not subject to statutory competitive bidding requirements. Good business practices require the use of competition, such as verbal or written quotes from a number of potential vendors, to ensure that procurement is not influenced by favoritism, extravagance or fraud.

We found that Village officials do not enforce compliance with the Village's procurement policy guidelines. Village officials do not require the use of quotes for purchases not subject to bidding requirements, allow the use of "confirming" purchase orders (prepared after a purchase has been made) and in some cases do not require the use of purchase orders at all.

Purchase Order Process

A purchase order (PO) serves as the source document for Village claims that are entered into the accounting system. A properly functioning PO system ensures that purchases are properly authorized and pre-approved and that adequate funds are available before a purchase is made. The PO also documents an authorized placement of an order to the vendor and, subsequently, provides a cross-reference to the vendor's invoice and is the source document for Village claims (vendor bills) entered into the accounting system. A financial officer must verify that funds are available for a purchase before a PO is sent to the vendor for goods or services. To receive a PO, the individual requesting a purchase submits a purchase requisition form to the individual responsible for purchase authorization and approval. The purchase requisition form provides pre-approval accountability and a level of assurance that the requested items are needed and have been approved.

A "confirming" PO is one prepared after goods or services have already been ordered or received from a vendor. Because confirming POs circumvent the review and approval process, their use should be strictly controlled and limited to exceptional situations. Confirming POs should be marked as such and should include an explanation of the circumstances, such as a documented emergency.

While the Village's procurement policy does not require the use of requisitions or POs, it does require documentation of the action taken in connection with each procurement, which a properly functioning PO system would accomplish. However, Village officials have not developed procedures to comply with this requirement; they do not routinely require the use of requisitions and POs, but instead approve purchase requisitions after the purchases are made and the goods or services received and then issue confirming POs.

We reviewed 60 claims² totaling \$194,937 and found that POs were issued for 18 out of the 60 claims totaling \$26,796; further, all 18 were confirming POs, issued after the goods and services had been ordered. The remaining 42 purchases totaling \$168,141 were made without a requisition or PO. Without a proper system for the approval of purchases, there is reduced assurance that Village purchases are appropriate and necessary or that there is adequate money appropriated and available to pay for those purchases.

External Departments – Village officials require the use of requisition forms and purchase orders only for purchases originating from external departments (i.e., not located in the Village Hall).³ The external department heads, however, verbally approve purchases and do not submit requisition forms to the Clerk-Treasurer until after the goods or services are received, at which time the transaction is recorded into the system and a confirming PO is generated. For example, the Village received a \$480 invoice dated March 31, 2012 for refuse removal after the services were performed. On April 9, the department head forwarded a purchase requisition to the Clerk-Treasurer's office which generated a confirming PO, authorized by the Clerk-Treasurer, dated April 10 (10 days after the invoice date). The Clerk-Treasurer's office forwarded the confirming PO to the department head, who approved it on April 16 (16 days after the invoice date).

The Clerk-Treasurer told us that the department heads call him for authorization in advance of purchases, at which time he ensures that funds are available, encumbers the funds and verbally approves the purchases. However, this authorization is not documented. These informal procedures limit the Village's ability to prevent unauthorized purchases, which could result in excessive costs being incurred. Furthermore, allowing department heads to make purchases prior to the written approval of the Clerk-Treasurer indicating that budget

² To obtain a variety of claims, we randomly selected 15 claims from \$250 to \$2,999 and 15 claims from \$3,000 to \$19,999, and randomly selected 30 claims from the remaining population of all claims paid during the audit period.

³ The external departments are Public Works and Parks and Recreation.

appropriations are available increases the risk that adequate funds may not be available.

Central Office – Village officials do not require the use of POs for purchases made by the central office⁴ staff. These purchases are verbally approved by the Clerk-Treasurer and are not recorded in the system until after the invoices are received, at which time a claim voucher and a check are generated by the accounts payable clerk. The Clerk-Treasurer told us he does not require the use of POs for claims originating in the central office because they are all payments for utilities or pursuant to existing contractual agreements; however, this is not always the case. For example, the central office received a \$1,200 invoice dated July 4, 2012 for the purchase and installation of carpeting in the lunch room. This purchase was made without a requisition, PO or any other documentation recording its authorization and approval. The purchase was not recorded in the system until the check and claim voucher were generated more than two months later, on September 20. In addition, the use of POs even in the case of contracted goods and services is a good internal control because, if properly used, a PO documents that the goods or services are needed, that the items were provided and billed according to contract terms and agreed-upon price and that funds are available to pay the claim. Failure to consistently use requisitions and POs increases the risk that Village personnel could make purchases that are not properly reviewed and approved and/or not for legitimate Village purposes.

Price Quotes

GML requires the Board to adopt written policies and procedures for the procurement of goods and services that are not subject to statutory competitive bidding requirements. The Board has adopted a procurement policy that outlines dollar thresholds for purchases requiring either verbal or written quotes to be obtained and documented⁵ as well as circumstances in which alternative proposals or quotes are not required, such as a documented emergency situation or documented purchases under a State or County contract.

Village officials do not enforce the procurement policy requirement for documented verbal or written quotes before purchasing goods or services within the thresholds set forth in the policy. Purchases are approved even though Village personnel do not obtain and/or provide

⁴ The central office, located in the Village Hall, comprises the Clerk-Treasurer's office, the Building Department, and Code Enforcement.

⁵ The Village's procurement policy requires the originator to obtain verbal quotes from at least two vendors for purchases of goods or public works from \$250 to \$2,999; written quotes from at least two vendors for purchases of goods from \$3,000 to \$5,999 or for public works from \$3,000 to \$4,999; and written quotes for purchases of goods from \$6,000 to \$9,999 or for public works from \$5,000 to \$19,999 from at least three vendors.

documentation of quotes or of the rationale for not obtaining quotes, as stated in the adopted policy.

We reviewed 23 claims⁶ totaling \$50,763 and found that 16 claims, totaling \$32,265, required quotes; however, the Village did not seek competition for 14 of these claims, totaling \$22,588. Village officials could not provide us with any documentation or acceptable rationale for not obtaining quotes. For example, the Village paid \$4,773 for the repair of a tractor. The Clerk-Treasurer said that the repair shop had to first diagnose the problem which involved a fee and some disassembly of the tractor, so it was impractical to get quotes at that point. However, the Village could have solicited quotes for diagnostic fees as well as hourly repair rates. Further, while quotes for one claim of \$6,153 (for the hauling of leaves collected from parks and other public areas) were properly obtained by the Village, no documentation of quotes was attached to the claim packet and, therefore, the Board would not have been able to determine whether this service was procured at a competitive price. (Upon our request, Village officials produced documentation to show that they had solicited three written quotes.)

Without the appropriate and prescribed use of competition, Village officials cannot be assured that they are obtaining the best quality of goods and services at the most reasonable cost to taxpayers. In addition, without documentation supporting these efforts, Village officials cannot effectively audit related claims.

Recommendations

1. The Board should ensure that Village employees use requisitions and purchase orders prior to ordering goods and services.
2. Village officials should restrict the use of confirming purchase orders to exceptional situations, such as a documented emergency situation.
3. The Board should ensure that all Village employees who are involved in the procurement process are aware of and comply with the Village's procurement policy requiring the use of verbal and written quotes.

⁶ We randomly selected 15 claims from \$250 to \$2,999 and eight claims from \$3,000 to \$19,999.

Claims Audit

Pursuant to Village Law, the Board generally is responsible to audit all claims⁷ against the Village prior to authorizing the Treasurer to make payment. The Board may create the office of Village claims auditor or authorize a separate board of commissioners to audit only claims incurred by the separate board and payable out of funds within the jurisdiction of the separate board.⁸ If the Board is the auditing authority, the minutes of the Board meetings should reflect what claims have been audited by documenting the sequential numbering of claims including the total dollar amounts audited and approved by fund and whether they were allowed or disallowed, in whole or in part. A proper audit ensures that each claim is itemized and accompanied by an invoice or receipt, that a purchase order was created in advance of each purchase (i.e., not a confirming PO) and that each claim is a proper and valid charge against the Village. A proper audit should also determine whether the officer or employee who gave rise to a claim approved it, usually by signing the claim attesting that goods and services were received and that the charges are correct. The Board's approval should be expressed by a resolution adopted by a majority of the Board as a whole and, if required by the Board, further documented by the signature or initials of individual Board members written on the claims, along with the date signed.

The Board has not provided effective oversight of the claims audit process to make sure that transactions are properly authorized, approved and audited. The Board does not review individual claims to verify their accuracy and legitimacy. Instead, the Board appoints one of the Trustees once a year as Commissioner of Claims⁹ with the responsibility to audit all claims, and the Board approves abstracts¹⁰ of claims. The Board passed a resolution which allows the Clerk-Treasurer to pay certain recurring charges prior to audit, such as utilities, postage and freight. The minutes of the Board meetings indicated only the total dollar amount of claims to be paid as submitted.

⁷ The Board may, by resolution, authorize payment in advance of audit of claims for public utility services (electric, gas, water, sewer and telephone), postage, freight and express charges. However, the claims for such prepayments must be presented at the next regular Board meeting for audit.

⁸ The Board, by resolution, must first empower a separate board of commissioners to undertake this limited claims audit function.

⁹ Effective March 7, 2013, the Village created the position of claims auditor. The Trustee is appointed as claims auditor, which may raise questions of compatibility of offices. The Village Attorney may wish to contact the Attorney General's Office to discuss this issue.

¹⁰ The Village's abstracts contain a list and description of claims, the amounts claimed, the check dates and numbers, the vendor names and numbers and the purchase order, voucher and invoice numbers.

The claim numbers, by fund, were not documented in the minutes. We also found that the claims lacked sufficient documentation to permit a proper audit, such as signed approvals, signed receiving slips, requisitions and quotes.

We reviewed 60 claims¹¹ totaling \$194,937 and found that no claims had all the documentation necessary for an effective audit. Our audit disclosed the following deficiencies (some claims had multiple deficiencies):

- Forty-five of the 60 claims, totaling \$168,924, did not identify the individual who gave rise to the claim because there was no requisition completed. For example, the Village paid \$933 for printing services. The claim did not have a requisition or any other documentation identifying the individual who initiated the purchase.
- Forty-two claims totaling \$80,285 required delivery confirmation.¹² Of these, 30 claims totaling \$68,544 did not contain a delivery slip or any other documentation confirming the receipt of the goods or services. For example, the Village paid \$891 for parking meter batteries. However, there was no documentation confirming the quantity or quality of goods received.
- Three claims totaling \$13,655 had invoices that were not itemized; therefore, a proper audit was not possible.
- Two claims¹³ were paid prior to the assigned Trustee's approval. One payment was for an allowable exception, but the other was a lease payment for office equipment which should not have been paid prior to approval.

While all 60 claims appeared to be for proper and necessary Village purposes and were paid in a timely manner, the Board's failure to audit claims increases the risk of payments to vendors that are not for proper Village purposes, for goods or services not of the quality or price agreed upon and/or for goods and services not actually received.

¹¹ These are the same claims that comprised our test for purchase orders (see Purchase Order Process in the previous section).

¹² The other 18 claims did not require confirmation because they were for items such as utilities, tax certioraris and refunds for tax overpayments.

¹³ Both claims were subsequently approved by the Trustee prior to the next regular Board meeting.

Recommendations

4. The Board should conduct a thorough and deliberate audit of claims for payment, ensuring that each claim has sufficient supporting documentation. The Board should approve or disapprove claims by resolution, and, if required by the Board, Board members should sign and date the claim. Approval should be noted in the Board minutes, indicating the total dollar amount of claims to be paid and the claim numbers by fund. The Clerk-Treasurer should disburse payments for claims only after they have been audited and approved by the Board.
5. Village officials should establish procedures that require the officer or employee whose action gave rise to the claim to approve the claim and require the claim to be accompanied by documentation that confirms the goods were received or services rendered.

Information Technology

The Village's information technology system is a valuable and essential part of the Village operations, used for Internet access, email and maintaining data as well as financial records. The potential consequences of a system failure range from inconvenient to severe; even small disruptions in processing can require extensive time and effort to evaluate and repair. Accordingly, Village officials are responsible for establishing internal controls over the IT system to ensure that Village assets are protected against waste, loss and misuse. Effective IT controls include policies and procedures over user access rights, disaster recovery, data backup, remote access and server room protection.

We examined controls over the Village's computerized financial operations and found that Village officials have not developed comprehensive policies and procedures to protect critical financial data. The Village has a Computer Network and Internet Usage policy that addresses unacceptable uses of the Village's computer system, but it does not adequately address all major areas of IT operations. Village officials have not established sufficient internal controls over key components of the Village's IT system, including the safeguarding of computerized financial data against unauthorized access or potential loss in the event of a disaster, the monitoring of remote access users and the security of the server room.

User Permissions

To ensure proper segregation of duties and internal controls, the computer system should allow users access to certain functions based on their job descriptions and responsibilities. To control electronic access, a computer system or application needs a process to identify the user and establish relationships between the user and a network, computer or application. Access controls can prevent users from being involved in multiple aspects of financial transactions and can help ensure that users are restricted from unauthorized areas where they can intentionally or unintentionally destroy or change critical financial data.

The Village uses a financial accounting software package (software) to process and maintain the Village's financial transactions. The software consists of modules that segregate various financial recording and reporting processes. Access privileges within the software include the ability to add, update, delete and print transactions within these modules. Village officials did not effectively safeguard the Village's computerized financial data because there are no policies

or procedures established to ensure that the level of access granted to users is appropriate for their duties and responsibilities.

There are seven active user accounts with access to the software. We compared the user permissions of three of these accounts¹⁴ to the respective user's job description and found that all three user accounts gave employees access to functions within the software that were incompatible with their duties:

- The payroll clerk/Deputy Treasurer and the Village secretary had full access to the purchase order modules which enabled them to add, modify and delete purchase orders even though their duties are not related to the purchasing cycle.
- The payroll clerk/Deputy Treasurer also had full access to the budget preparation modules, which is not required by those job descriptions.
- The accounts payable clerk and Village secretary had full access in the general ledger modules, which is not required by their respective job descriptions.

When we brought these excessive user permissions to the attention of Village officials, they limited the user permissions for the accounts payable clerk and the payroll clerk/Deputy Treasurer to those that pertain to their job responsibilities. However, they did not restrict the Village secretary's access to the general ledger as read-only; the secretary is still allowed to delete accounts within the Chart of Accounts File Maintenance module even though the only responsibility in her job description that requires access to the financial software application is entering purchase orders. Village officials should either revise the Village secretary's job description to include file maintenance responsibilities within the chart of accounts, and therefore the required user permissions, or revoke those permissions that are not required under the current job description.

When access rights to the financial system are not in accordance with job duties, there is an increased risk that unauthorized changes could be made or inappropriate transactions could be initiated and not detected and corrected in a timely manner. Additionally, employees could gain access to sensitive information that may not be necessary for their job duties.

¹⁴ We judgmentally selected for review the user accounts for all employees within the Clerk-Treasurer's office except the Clerk-Treasurer. They included the payroll clerk/Deputy Treasurer, the accounts payable clerk and the Village secretary.

Disaster Recovery Plan

A disaster recovery plan describes how an organization will deal with a potential disaster, which could be any sudden catastrophic event such as a fire, flood, computer virus, vandalism or employee action that compromises the integrity of the data and the IT systems. A formal disaster recovery plan (DRP) minimizes the damage that a disaster could cause to operations if the IT system fails. The plan needs to address the roles of key individuals and include precautions to minimize the effects of a disaster so officials can 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 Village officials to distribute the plan to all responsible parties and to periodically test and update the plan to address changes in the Village's IT security requirements.

Village officials have a proposed DRP which was prepared by their IT consultant; however, as of the end of our fieldwork in April 2013, it had not been presented to the Board. While the plan does include certain responsibilities of Village personnel and the IT consultant should an event occur, the plan is not comprehensive. It does not address the range of threats to the Village's IT system or require periodic testing and updating as needed. Further, the plan details the roles of key individuals under limited scenarios but does not assign responsibility to any specific individuals. For example, the plan refers to a Recovery Team Leader but does not assign this role to any specific individual, by name or by title, or similarly identify the team members. In addition, while the proposed plan addresses resuming critical day-to-day operations, it does not address disaster prevention.

The failure to adopt and test a comprehensive DRP increases the risk of loss of important financial data and serious interruptions to Village operations, such as the inability to process checks to pay vendors or employees. Without a formal comprehensive plan, the Board cannot be assured that Village personnel could sustain critical business functions during and after a disruption.

Data Backup

Effective controls over IT assets include policies and procedures for the routine backup of computer activities to help recover data and minimize loss in the event of a disaster. Backup files should be physically kept off site so they are not subject to loss from the same event that could damage the Village's server. In addition, it is important that backup data and software is tested for validity on a routine basis.

Although the Village uses an online backup service that backs up its data daily to two secure remote locations, it does not have formal policies or procedures addressing data backups and specifying what

records should be backed up and how often. Further, there is no formal process in place to periodically test the restoration of data from the backups. As a result, the backup data has not been test-restored to ensure that it is complete, accurate and usable.

Without a comprehensive backup policy, including the periodic restoration of backup data, Village officials cannot be certain that all critical data is being backed up or that the backups can be used to successfully restore critical systems or data in the event of loss.

Remote Access

Remote access is the ability to access a computer system from the Internet or other external source. Remote access must be controlled, monitored and tracked so that only authorized individuals are allowed to access the Village computer system. These individuals have the same access to the system as if they were using a computer in a Village facility. Policies and procedures should address how remote access is granted, who is given remote access and how it will be monitored and controlled. In addition, there should be a written agreement between the Village and its independent contractors/vendors that establishes the Village's needs and expectations, specifies the level of service to be provided by the contractor/vendor and specifies the level of system access that the Village will allow for the contractor/vendor to provide those services.

The Village has not established policies and procedures that address how remote access is granted and who should have remote-access privileges. The Village provides remote access to a software vendor upon request; however, the Village's accountant and IT consultant, both independent contractors, have open access allowing them to access the Village's network and financial software at any time without restriction. There are currently no controls in place such as user authorization or monitoring.

Even though remote activities are automatically logged, they are reviewed by the IT consultant, who is one of the remote-access users, rather than a Village employee or official. In addition, there are no written agreements between the Village and the remote-access users outlining policies and remote-access rules.

Internal controls are compromised when remote access is not properly monitored and controlled. Accordingly, there is an increased risk that financial data could be manipulated and errors and irregularities could occur and go undetected. This could lead to loss of important financial data, allow sensitive information to be leaked or cause serious interruption to Village operations.

Server Room Access

The physical security of server rooms is important to adequately safeguard computer assets. Village officials can establish security by controlling access to the server where data resides and by physically securing the server in a locked room. Additionally, it is important that servers are located in an adequately ventilated or climate-controlled environment to protect against the hazards of excessive heat. The optimum server room temperature may vary depending on the type of equipment, air flow and humidity levels.

The Village has not established policies and written procedures over the physical security of its IT assets, which increases the risk of damage and misuse. The Village has one server room located in the Village Hall in a publicly accessible area. The server room is not always locked and physical access to it is not tracked or monitored. Furthermore, to prevent the room from getting too hot, the door is left open, which increases the risk of unauthorized access. Therefore, the Village's IT equipment and data assets are at an increased risk of damage or misuse that could result in costly disruptions.

Recommendations

6. Village officials should review and revise user access rights (permissions) along with job descriptions to ensure that users have access only to transactions within the scope of their responsibilities.
7. 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.
8. The Board should adopt comprehensive policies and procedures addressing the safeguarding of computerized data and assets, including procedures to periodically test and restore backup data to ensure that it is complete, accurate and usable.
9. The Board should establish remote-access policies and procedures to define who can access the system and the methods to gain access. These policies and procedures should designate an individual who does not have remote access to the Village's system to produce and review remote-access logs for appropriate usage. The policy should require a written agreement between the Village and remote-access users that establishes the Village's needs and expectations, the level of service to be provided by third-party contractors/vendors and the level of system access the Village will allow for the contractor to perform those services.
10. Physical components of the IT system should be located in an adequately ventilated or climate-controlled area that is protected from unauthorized access.

APPENDIX A

RESPONSE FROM VILLAGE OFFICIALS

The Village officials' response to this audit can be found on the following pages.

Peter I. Cavallaro, Mayor
Joan M. Boes
William B. Wise
Steven L. Corte
Beaumont A. Jefferson

Village of Westbury



Ted A. Blach
Village Clerk/Treasurer

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Westbury, New York 11590
516-334-1700 Fax: 516-334-7563

January 3, 2014

Mr. Ira McCracken
Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear Mr. McCracken:

This letter serves as the Village of Westbury's formal response and Corrective Action Plan to the preliminary draft audit report received by us in connection with the State Comptroller's periodic audit of the Village of Westbury, entitled *Purchasing, Claims Audit, and Information Technology, Report of Examination 2013M-301 for the period of June 1, 2011 – November 30, 2012* (draft under cover from you dated December 4, 2013).

First, however, let me take this opportunity to thank the Office of the Comptroller for the efficient and courteous manner in which the audit was conducted, and in particular, the professional and cooperative manner in which the Comptroller's office's staff conducted their duties.

While the Village has certain comments and responses to your findings and recommendations (outlined below), we appreciate the suggestions and recommendations that your office has provided us to improve our systems and internal controls. While we believe that we have a very efficient and accountable process for our operations, as recognized by our outside auditors and by independent bond rating agencies, we acknowledge that there are always areas for improvement, and we accept your input, suggestions and recommendations as an opportunity to do so.

The following are our specific comments and Corrective Action Steps with respect to each recommendation contained in the audit report:

Purchase Order Process

1. **Audit Recommendation #1:** *The Board should ensure that Village employees use requisitions and purchase orders prior to ordering goods and services.*
2. **Audit Recommendation #2:** *Village officials should restrict the use of confirming purchase orders to exceptional situations, such as a documented emergency situation.*

Village's General Response/Comment to Recommendation 1 and 2:

In clarification to the procedure of the confirming purchase orders ("PO's") and Claim Vouchers process for the Village, not all claim vouchers require a PO, as the majority of the Village's claim vouchers are recurring and/or prepay (i.e. utilities, monthly lease payments such as copiers etc.) or contractual agreements (i.e. purchases off NYS-OGS contracts, tax certiorari's claims, information technology services, etc.). Confirming POs, as stated during the audit, are used for the majority of these contractual agreement invoices (i.e. solid waste disposal agreement, street lighting maintenance agreement, projects awarded under a Request for Bid (RFB) process such as road resurfacing, etc.) that have already been budgeted as per the amounts of said agreements. Our procedure provides an effective means of monitoring real-time balances of the budget for these larger expenditure items, unlike a blanket PO (as suggested by your office) that would skew the budget line early in the fiscal year where encumbrances of these funds would not provide a true real-time balance of available funds for realistic monitoring of the budget. Additionally, all confirming PO's and claim vouchers are processed through the Treasurer's Office for the actual budget account lines to be charged for all these goods and services purchased.

See
Note 1
Page 29

Implementation of Action Plan:

The Village's current Procurement Policy will be reviewed and, where applicable, amended to adopt the higher legal threshold dollar amounts provided in state law for the procurement of goods and services. Once the current policy is updated, most of the claims reviewed under this audit would have been in compliance.

See
Note 2
Page 29

Implementation Date:

June 1, 2014 with the commencement of the start of the new fiscal year.

Responsible Person:

Village Clerk-Treasurer and Village Attorney

#####

3. **Audit Recommendation #3:** *The Board should ensure that all Village employees who are involved in the procurement process are aware of and comply with the Village's procurement policy requiring the use of verbal and written quotes.*

Village's General Response/Comment:

With the implementation of a new procurement policy which is currently being revised, along with the development of a new procedures manual, all personnel will be trained on the new procedures.

Implementation of Action Plan:

The Clerk-Treasurer's office will prepare a Procurement Policy and Procedures Manual and train all personnel involved with purchasing goods and services with the new procedures.

Implementation Date:

June 1, 2014 with the commencement of the start of the new fiscal year.

Responsible Person:

Village Clerk-Treasurer and Village Attorney

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Claims Audit

4. **Audit Recommendation #4:** *The Board should conduct a thorough and deliberate audit of claims for payment, ensuring that each claim has sufficient supporting documentation. The Board should approve or disapprove claims by resolution and, if required by the Board, Board members should sign and date the claim. Approval should be noted in the Board minutes, indicating the total dollar amount of claims to be paid and the claim numbers by fund. The Treasurer should disburse payments for claims only after those claims have been audited and approved by the Board.*

Village's General Response/Comment:

The Village strongly believes that its current procedure for auditing claims and expenditures is not only adequate, but very strong and effective. In fact, the village's control of costs is evidenced by its recent history of five consecutive surplus budgets, and the fact that overall village expenditures are today only modestly higher than they were five years ago. Notwithstanding the village's strong expenditure practices and controls, based on discussions between personnel from the Comptroller's Office who performed the audit and the Village Clerk/Treasurer and Village Attorney, the Village Board created the position of Village Claims Auditor at their March 7, 2013 meeting.

The creation of this position formalized a prior policy of the Village Board wherein one member of the Village Board is designated by the Mayor to review all claims on a monthly basis. The Village Board created this position on the recommendation of the Village Attorney who relied on the Comptroller's Opinion No. 87-65 dated September 25, 1987 which found that although a Village may not establish an audit commission, it may establish the office of auditor pursuant to Village Law §5-524.

See
Note 3
Page 29

The position of Village Claims Auditor is an appointed position which is for a one year term made by the Mayor at the annual Organizational Meeting of the Village Board. The position of Village Claims Auditor is currently held by Trustee Beaumont Jefferson, who performs his duties as Village Claims Officer for no additional salary. Trustee Jefferson has a banking background and is currently the Nassau County Treasurer.

See
Note 4
Page 29

All claim vouchers are subject to several levels of review for approval: (i) initially review by the Village Claim Auditor; (ii) report by Claims Auditor to Village Board; (iii) review of report by Village Board; (iv) adoption by Village Board of resolution accepting the claims and authorizing their payment; (v) inclusion in the minutes of the meeting where the resolution was adopted a copy of the claims report by the Claims Auditor attaching the schedule of particularized claims.

See
Note 5
Page 29

The Board of Trustees finds that this approval process is comprehensive and in accordance with applicable law and standard municipal practice.

Implementation of Action Plan:

Not Applicable.

Implementation Date:

Not Applicable

Responsible Person:

Not Applicable

#####

5. **Audit Recommendation #5:** *Village officials should establish procedures that require the officer or employee whose action gave rise to the claim to approve the claim and require the claim to be accompanied by documentation that confirms the goods were received or services rendered.*

Village's General Response/Comment:

This was an On-the-Spot Correction during the audit where applicable – Claims that required some sort of procedure for sufficient back-up documentation to confirm receipt of goods were attached, or in the case of a professional service invoice, the Department Head signed the invoice confirming receipt of goods and services.

Implementation of Action Plan:

Immediately Implemented- Department Head signature is now required on all invoices to confirm receipt of goods and services, and said requirement will be included in the new procedures manual along with providing sufficient back-up documentation.

Implementation Date:

Immediate - for the Department Head signature requirement on all invoices, and June 1, 2014 with the commencement of the start of the new fiscal year for the procedural changes that will be included in the procedures manual for supportive documentation to confirm receipt of goods and services.

Responsible Person:

Village Clerk-Treasurer

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Information Technology

6. **Audit Recommendation #6:** *Village officials should review and revise user rights (permissions) along with job descriptions to ensure that users have access only to transactions within the scope of their responsibilities.*

Village's General Response/Comment:

This was an On-the-Spot Correction during the audit where applicable. The financial software that had defaulted user permissions to three separate users (there are five users total) that utilize the [REDACTED] software had certain access rights disabled in accordance with their job description. Since the Village has several approval levels for all these financial transactions, no one person is able to process a transaction throughout the entire approval process without an authorized override. The Village made an administrative adjustment to line up the job description duties of the users to the specific access levels within the scope of their responsibilities.

Implementation of Action Plan:

Immediately Implemented – as stated above. In addition, a thorough review and/or revision of the job descriptions that require use of the [REDACTED] financial software will be completed to ensure access levels within the scope of their responsibilities.

Implementation Date:

Immediate for user permissions as an on-the-spot correction; June 1, 2014 with the commencement of the start of the new fiscal year for the procedural changes that will be included in the procedures manual and revision of job descriptions, where applicable.

Responsible Person:

Village Clerk-Treasurer

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7. **Audit Recommendation #7:** *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.*

Village's General Response/Comment:

This was a Work-In-Progress during the audit, a disaster recovery plan was available in a template format and the Village continues to develop this plan in more detail in accordance with all applicable guidelines.

Implementation of Action Plan:

Developing a Disaster Recovery Plan is currently on-going.

Implementation Date:

June 1, 2014 with the commencement of the start of the new fiscal year.

Responsible Person:

Village Clerk-Treasurer

#####

8. **Audit Recommendation #8:** *The Board should adopt comprehensive policies and procedures addressing the safeguarding of computerized data and assets including procedures to periodically test and restore backup data to ensure that it is complete, accurate and usable.*

Village's General Response/Comment:

Through the Village's agreement with our vendor for Information Technology professional services, back-ups of the Village's servers were being done on a daily basis and stored offsite. The Village now keeps the copy of these daily logs as supportive documentation.

Implementation of Action Plan:

The Information Technology Policies and Procedures manual will be updated to include a more comprehensive program in the safeguarding of computerized data and assets and a periodic test to restore back-up data.

Implementation Date:

Immediate for maintaining the back-up logs of computerized data, and June 1, 2014 with the commencement of the start of the new fiscal year for an updated IT Policy and Procedures Manual.

Responsible Person:

Village Clerk-Treasurer

#####

9. **Audit Recommendation #9:** *The Board should establish remote-access policies and procedures to define who can access the system and the methods to gain access. These policies and procedures should designate an individual who does not have remote access to the Village's system to produce and review remote-access logs for appropriate usage. The policy should require a written agreement between the Village and remote-access users that establishes the Village's needs and expectations, the level of service to be provided by third-party contractors/vendors and the level of system access the Village will allow for the contractor to perform those services.*

Village's General Response/Comment:

Only 2 vendors and 1 consultant/contractor have remote access. Both vendors have contractual agreements with the Village; one vendor provides information technology professional services in maintaining our computer network; and, the other vendor maintains the [REDACTED] financial software, as needed, for troubleshooting issues and/or updating the versions of the software. Additionally, [REDACTED] must call in and request permission any time they need to remote in for access. The one individual is our internal auditor.

Implementation of Action Plan:

Remote-Access Policies and Procedures will be adopted for oversight and review of logs by a separate individual to assure appropriate usage. A written Memorandum of Understanding (MOU) will be established for all remote-access users to sign.

Implementation Date:

June 1, 2014 with the commencement of the start of the new fiscal year.

Responsible Person:

Village Clerk-Treasurer

#

10. **Audit Recommendation #10:** *Physical components of the IT system should be located in an adequately ventilated or climate-controlled area that is protected from unauthorized access.*

Village's General Response/Comment:

The Village will analyze all options available and take the necessary corrective actions to provide for a climate-controlled area for the computer server room.

Implementation of Action Plan:

The Village will need to plan and budget for capital improvements to the computer room and take the necessary measures to provide for a climate-controlled area.

Implementation Date:

TBD – Based upon analysis of need, priority and funding.

Responsible Person:

Senior Building Inspector

Board Approval of Response and Corrective Action Plan

The Board of Trustees of the Village of Westbury, by resolution dated January 2, 2014, approved and adopted the Corrective Action Plan set forth herein to address the items that were raised by the audit report, to the extent that we deem such action appropriate and necessary, as outlined above.

Closing Remarks

Again, I want to thank the Comptroller's Office and your staff for the manner in which this audit was conducted. While we have several areas of comment and response above, we truly appreciate the input of the Comptroller's Office in improving our systems and controls. We appreciate the informal comments from your staff, at the various stages of the audit process, in which they acknowledged that the Village of Westbury's financial position is strong, and that, overall, our systems are transparent, accountable and appropriate. We acknowledge that many of the suggestions and recommendations that your staff has made will improve our systems and controls. As noted, we have already adopted and implemented a number of the suggestions and recommendations and as

indicated above, we have devised the outlined Corrective Action Plan to address those areas that we deem appropriate for correction. We are committed to taking the action steps outlined above to make our systems and controls even better than we believe they already are.

We appreciate the opportunity to have input in the audit process along the way, and we appreciate the opportunity to have our comments (as set forth in this letter) made a part of the audit as issued.

We are happy to answer any additional questions that you may have prior to the issuance of the final audit.

Thank you, and please thank State Comptroller DiNapoli, as well as the audit staff on this engagement, for their work on behalf of our taxpayers.

Best regards,

/Peter I. Cavallaro
Mayor

Cc: Board of Trustees

APPENDIX B

OSC COMMENTS ON THE VILLAGE'S RESPONSE

Note 1

Neither our finding nor our recommendations make reference to the use of blanket purchase orders.

Note 2

Raising the Village's thresholds for bidding of purchases and public work contracts would not address the internal control deficiencies over purchasing as identified in our audit. These deficiencies apply to obtaining competitive quotes. The review of purchases and public work contracts subject to competitive bidding was not included in our audit objective or scope.

Note 3

The Board may create the office of Village claims auditor to audit claims against the Village in lieu of the Board performing that function. Our discussions during fieldwork did not include recommending the Board appoint one of its members to the position of claims auditor. As indicated in our report and in the Comptroller's Opinion No. 87-65, any village officer or employee could be appointed as auditor, provided that the office of auditor is not incompatible with the position which the officer or employee presently holds. Appointing a Board member as the Village claims auditor may pose an issue as to the compatibility of offices and we recommended that the Village Attorney contact the Attorney General's Office.

Note 4

In lieu of appointing a Trustee to the office of claims auditor, the Board could appoint a committee of the Board (which may be a committee of one) to aid and assist the Board in the performance of its audit duties by performing pre-audit functions, such as checking claims for mathematical accuracy, and make recommendations to the Board, prior to audit by the Board (24 Ops St Comp No. 68-778, at 736 [1968]; see also 34 Op St Comp No. 78-36, at 6 [1978]; 1991 Ops St Comp No. 91-43, at 121). However, the Board should still retain full responsibility for the audit function.

Note 5

During our fieldwork, claim vouchers were reviewed by the Trustee appointed as the claims auditor and a signed warrant (list of the claims) was forwarded to the Board for review and approval. By reviewing only the warrant, and not the actual claims themselves, the Board has fully delegated the audit of claims function to the claims auditor.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Village assets. 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. Our initial assessment included evaluations of the following areas: financial condition, cash management, cash receipts and disbursements, billed receivables, purchasing, claims processing, payroll, personal services and information technology.

During the initial assessment, we interviewed appropriate Village officials, performed limited tests of transactions and reviewed pertinent documents such as Village policies and procedures, Board minutes and financial records and reports. In addition, with the help of Village personnel, we obtained information directly from the computerized financial databases. This approach provided us with additional information about the Village's financial transactions as recorded in its databases.

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 upon the reported objectives and scope by selecting for audit those areas most at risk. In addition to inquiries and observations of Village staff, we examined the following records and reports in an effort to determine if the Board and Village officials had properly designed and implemented internal controls over the selected areas:

- We reviewed policies and procedures over purchasing and claims processing.
- We interviewed Village officials and key personnel to determine the procedures in place within the purchasing and claims audit processes, particularly regarding the use of requisitions, purchase orders and verbal and written quotes.
- We randomly selected 15 claims from \$250 to \$2,999 and eight claims from \$3,000 to \$19,999 to determine if Village staff followed the guidelines in the Village's policy when procuring goods and services that are not required by GML to be publicly bid.
- We reviewed a sample of 60 claims to determine compliance with policies and best business practices within the claims audit process; i.e., if claims are audited by the Board and if claim packages contain enough documentation for an effective audit. We also reviewed the sample to determine compliance with policies and best business practices within the purchasing process, including the use of requisitions and purchase orders and the documentation of purchase approvals and authorizations. To obtain a variety of claims, we randomly selected 15 claims from \$250 to \$2,999, 15 claims from \$3,000 to \$19,999 and 30 claims from the remaining population of all purchases made during the audit period.
- We reviewed written policies and procedures over IT to determine if disaster recovery, data backup and remote access policies are adequate to protect computerized data and assets.

- We reviewed and observed user access rights and permissions in the accounting system for all employees within the Clerk-Treasurer' office, except the Clerk-Treasurer, to ascertain if there is adequate oversight of IT.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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