



City of Canandaigua

Procurement and Information Technology

Report of Examination

Period Covered:

January 1, 2010 — Decemer 21, 2011

2012M-62



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2012

Dear City Officials:

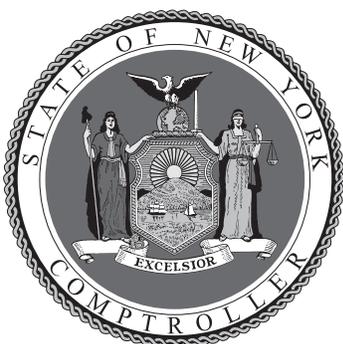
A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments 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 City 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 City of Canandaigua, entitled Procurement 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 City of Canandaigua (City) is located in Ontario County and has a population of approximately 11,000. The City provides services to its residents including fire and police protection, street maintenance, water and sewer utilities, and parks and recreation programs. It is governed by the City Charter, the General Laws of the State of New York, and local laws and ordinances. The City has a Mayor, an eight-member City Council (Council), and a Council-appointed City Manager (Manager). The Mayor and Council make up the legislative and governing body of the City. The Council develops City policies; enacts laws, ordinances and resolutions; and hires the Manager to serve as Chief Executive Officer and Chief Financial Officer for the City. The City of Canandaigua's 2011 budget totaled \$22.3 million and was funded primarily by property taxes, sales taxes and State aid.

The City's procurement policy governs the City's purchasing procedures. The policy dictates the procedures that City personnel must follow when procuring goods and services.

The City uses a computer network to process and store financial and non-financial data, and to provide email communication and Internet access to City officials and employees. Day-to-day management of the City's computer system is the responsibility of the City's Network Administrator, who also serves as the City's Director of Development and Planning. The City also uses the services of an outside vendor for technical support and troubleshooting for the City's networks and servers.

Scope and Objective

The objective of our audit was to assess the City of Canandaigua's internal controls over information technology (IT) and procurement for the period January 1, 2010 to December 21, 2011. Our audit addressed the following related questions:

- Did the Council establish adequate internal controls over the procurement process, and are these controls operating effectively?
- Have City Officials properly safeguarded IT assets?

Audit Results

We found the City's procurement policy was not reviewed by the council annually, as required by law, and was not adequate or up-to-date. Furthermore, the Council did not adopt policies and procedures to address the proper use of the City's purchase order (PO) system, or the authorized and documented use of City credit and procurement cards. In addition, City officials did not seek competition, such as using

requests for proposals, when procuring nearly \$165,841 in professional services from two vendors, and could not provide written agreements with six vendors. We also found that City employees regularly circumvented the purchasing policy by using confirming POs and by making purchases with credit or procurement cards. In addition, claims were not being audited in accordance with the City Charter. As a result, the City risks paying more than necessary for goods and services and there is an increased risk that errors and/or irregularities could occur and remain undetected.

City officials have not sufficiently safeguarded IT assets. The City's access rights are not deactivated in a timely manner, administrative rights of the City's financial software package were assigned to the Clerk/Treasurer with little oversight, inventory records for computer equipment are not kept or updated, and the City has no formal disaster recovery plan. In addition, City officials do not maintain an inventory of software owned by the City, or monitor what is being installed on City computers.

Comments of Local Officials

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

Introduction

Background

The City of Canandaigua (City) is located in Ontario County and has a population of approximately 11,000. The City provides services to its residents including fire and police protection, street maintenance, water and sewer utilities, and parks and recreation programs. It is governed by the City Charter, the General Laws of the State of New York, and local laws and ordinances. The City has a Mayor, an eight-member City Council (Council), and a Council-appointed City Manager (Manager). The Mayor and Council make up the legislative and governing body of the City. The Council develops City policies; enacts laws, ordinances and resolutions; and hires the Manager to serve as the Chief Executive Officer and Chief Financial Officer. The City of Canandaigua's 2011 budget totaled \$22.3 million and was funded primarily by property taxes, sales taxes and State aid.

The City's procurement policy governs the City's purchasing procedures. The policy dictates the procedures that City personnel must follow when procuring goods and services.

The City uses a computer network to process and store financial and non-financial data, and to provide email communication and Internet access to City officials and employees. They have 61 computers and six servers. Day-to-day management of the City's computer system is the responsibility of the City's Network Administrator, who also serves as the City's Director of Development and Planning. The Network Administrator is the only employee that provides Information Technology (IT) support and assistance to City personnel. The City also uses the services of an outside vendor for technical support and troubleshooting for the City's networks and servers.

Objective

The objective of our audit was to assess the City of Canandaigua's internal controls over IT and procurement. Our audit addressed the following related questions:

- Did the Council establish adequate internal controls over the procurement process, and are these controls operating effectively?
- Have City Officials properly safeguarded IT assets?

Scope and Methodology

We examined the internal controls over purchasing and information technology for the period January 1, 2010 to December 21, 2011. However, because of the sensitivity of some of the IT findings, certain vulnerabilities are not discussed in this report but have been

communicated to City officials in a separate letter, so that 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 City officials and their comments, which appear in Appendix A, have been considered in preparing this report. City officials generally agreed with our findings, and indicated they plan to initiate corrective action.

The City Council 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 Council to make this plan available for public review in the City Clerk's office.

Procurement

City officials are responsible for designing internal controls that help safeguard the City's assets, ensure the prudent and economical use of City moneys when procuring goods and services, and protect against favoritism, extravagance, fraud, and corruption. The primary objective of an effective procurement process is to obtain services, materials, supplies, or equipment of the desired quality and specified quantity, on a timely basis, in an efficient manner, and at the lowest overall cost in compliance with applicable laws and properly established Council requirements. Detailed written purchasing policies and procedures help to establish essential control and ensure that taxpayer dollars are expended with integrity and in the most efficient manner.

We found the City's procurement policy was not reviewed by the Council annually, as required by law, and was not adequate or up-to-date. Furthermore, the Council did not adopt policies and procedures to address the proper use of the City's purchase order (PO) system, or the authorized and documented use of City credit and procurement cards. In addition, City officials did not seek competition, such as using requests for proposals (RFPs), when procuring nearly \$165,841 in professional services from two vendors, and could not provide written agreements with six vendors. We also found that City employees regularly circumvented the purchasing policy by using confirming POs and by making purchases with credit or procurement cards. In addition, claims were not being audited in accordance with the City Charter. As a result, the City risks paying more than necessary for goods and services and there is an increased risk that errors and/or irregularities could occur and remain undetected.

Policies and Procedures

General Municipal Law (GML) requires the Council to adopt written procurement policies and procedures that help ensure that City officials comply with competitive bidding requirements, and that provide for some level of competitive procurement of goods and services that are not subject to competitive bidding requirements. Except for certain specified procurements, such as those utilizing State and County contracts, the City's policies and procedures must provide alternative methods on how competition will be sought, including the use of verbal and written quotes and RFPs, and specify how to determine which method of competition to use. Further, GML requires that the City document its purchasing decisions, including such actions as those involving non-bid procurements, emergencies and purchases from other than the lowest responsible dollar offerer, and that the Council annually review the City's purchasing policy. In addition, an effective system of internal controls requires City

officials to establish formal procedures for initiating, approving and processing City purchases, as well as a sound credit card policy, which establishes the parameters for using credit/procurement cards and procedures for monitoring credit/procurement card usage.

City officials did not establish adequate policies and procedures for procurement. The Council adopted a procurement policy on December 12, 1991, but has not annually reviewed the policy as required by GML. We found that, because the Council did not annually review the policy and revise it as necessary, the policy did not reflect various amendments to GML bidding requirements. Specifically, the policy incorrectly references the competitive bidding thresholds of \$10,000 for purchase contracts and \$20,000 for public works contracts,¹ despite the fact that the City's external auditor recommended in May 2010 that the purchasing policy be updated to reflect the changes in GML. Furthermore, the City's procurement policy does not provide specific guidelines for comparatively selecting professional service providers. In addition, the Council has not adopted policies and procedures governing credit card usage, and has not required City officials to establish, disseminate and enforce consistent procedures for the initiation, approval and processing of purchases through properly completed purchase orders.

City officials' failure to adhere to specific requirements of GML and to implement audit recommendations raises serious concerns about internal controls over the procurement process and whether the process ensures that taxpayer dollars are being spent in the most efficient manner.

Professional Services

GML does not require competitive bidding for the procurement of professional services that involve specialized skill, training and expertise. However, GML requires the City to adopt policies and procedures governing the procurement of goods and services when competitive bidding is not required, including professional services. An effective procurement policy should be comprehensive, and require City officials to seek competition when professional services are needed, to ensure the City receives the desired services from qualified professionals at the best possible price. RFPs are one effective method for soliciting competition. Additionally, it is essential that the City have a written agreement with professional service providers with a clearly defined and mutually agreed-upon basis for determining entitlement to payments. Written agreements should include the

¹ GML was amended to increase the bidding threshold from \$10,000 to \$20,000 for purchase contracts (effective June 22, 2010) and from \$20,000 to \$35,000 for contracts for public work (effective November 12, 2009).

timeframe and description of services to be provided and the basis for compensation, and may be used to verify that the fees charged are in accordance with the Council's intent, and can help to protect the City in the event that contractors default on their obligations or make excessive claims.

The City's procurement policy lists professional services as an exception, wherein the solicitation of alternative proposals will not be in the best interests of the City. The policy states that professional service providers must be chosen based on many factors including accountability, reliability, skill, education and training, judgment, and integrity — qualities that are not always found in the vendor who offers the lowest price. However, without obtaining comprehensive proposals from multiple vendors, City officials are not in a position to compare the various relevant factors, including total cost, and ensure they select the most suitable vendor.

We reviewed payments to eight vendors to whom the City paid \$685,704 for professional services during the period of January 1, 2010 through September 22, 2011, to determine whether the City sought competition when selecting these vendors, or entered into written agreements with them. The City did not solicit competition through an RFP process and did not provide adequate documentation of other actions taken for two of the eight professional service vendors. These procurements included \$88,199 for computer consultants and \$77,642 for legal services. Without the benefit of comparative proposals, City officials have no way to determine or demonstrate that they are expending taxpayer moneys in the most prudent manner.

The City does not have or could not provide written agreements for six of the eight professional service providers. As a result, there is no way for City officials to verify that the amounts billed by the providers are in agreement with amounts approved by the Council. For example, because the City does not have a written agreement with its computer consultant, City officials have no way to determine whether the rates charged by and paid to the consultant were approved by the Council. Further, invoices from two of the six vendors were not sufficiently itemized to clearly indicate the services provided or the rates at which hours were billed.

Without a comprehensive policy that outlines the required methodology for procurement of professional services, City officials have limited assurance that they are obtaining professional services at the most favorable terms and in the best interest of City taxpayers. Furthermore, without a contract detailing the services to be provided and with which to compare detailed invoices, City officials cannot be sure that they are paying only for authorized services and at the intended rates.

Purchase Orders

Effective controls over procurements include the consistent use of a purchase order (PO) system. A PO serves as the source document for vendor payment claims entered into the City's accounting system, as the means for an appropriate City official to approve the need for the goods or service requested, and as the means for the Clerk/Treasurer to certify the availability of funds² before goods or services are requested from a vendor. A properly functioning PO system provides budgetary control and assurance that purchasing policies and procedures are followed.

Although the City utilizes POs to initiate vendor payments for all departmental purchases in the accounting system, City officials have not established policies or procedures which outline requirements for requisition, proper approval, and issuance of a PO before goods or services are ordered from a vendor, or provisions for expenditures for which POs are not necessary or required. As a result, City employees do not consistently and properly prepare POs before ordering goods and services, and the City does not benefit from the assurance of budgetary control and policy compliance that is inherent in a properly functioning system.

We reviewed 61 claims, totaling \$196,851 to test for proper itemization and documentation of departmental and Board approval and compliance with City policies. We compared the PO dates to the attached invoice dates to determine if they were confirming POs, which are POs issued after goods have already been ordered or received. Six claims did not have attached invoices to compare to PO dates³ and one claim had two supporting POs. Of the 42 POs reviewed, 36 (86 percent) were dated after the related invoices were received and thus were confirming POs. None of the purchases appeared to have been emergencies or other situations that necessitate the issuance of a confirming PO. For example, the City paid a vendor \$11,752 on September 9, 2010 for legal services. The vendor's invoice indicated the service was provided July 31, 2010, but the PO was dated September 2, 2010. Although the 36 purchases, totaling \$24,852, appeared reasonable and necessary, the routine use of confirming POs circumvents internal controls and weakens the procurement and budgetary control processes.

When officials and employees prepare POs after an invoice has been received, there is an increased risk that the purchases will not

² Sections 6.4(a) and 14.7 of the City Charter prohibit the expenditure or commitment of any funds unless the Manager certifies that there is an unencumbered balance of appropriation and funds available for the purpose.

³ Of the 48 purchase orders for the 47 remaining claims, six (for payments to coaches for camps, refunds, training registrations and establishing petty cash funds) did not have supporting invoices attached; we thus had only 42 purchase orders to compare to invoice dates.

be necessary or reasonable and can lead to the over expenditure of appropriations. It is good business practice to avoid using confirming POs, except for emergency situations, and then only upon the approval of the Council.

Claims Auditing and Electronic Signatures

Conducting a proper audit of claims prior to making payment is an integral part of any internal control system. The City Charter states the Manager is responsible for conducting an audit of all claims prior to payment. Therefore the Manager is responsible for conducting a deliberate and thorough review of each claim to determine whether it represents a valid, legal, and necessary obligation incurred by an authorized official, is in its proper form, is mathematically correct, does not include charges that were previously paid, and complies with all City policies and procedures. The Clerk/Treasurer should not pay claims prior to audit. Furthermore, an electronic signature affixed to checks provides access to moneys in the corresponding bank account. As the City officials responsible for signing checks, the Clerk/Treasurer and Manager must ensure that their signatures are not used to make payments that have not yet been approved.

The Manager did not audit claims in accordance with the City Charter. Instead, the Clerk/Treasurer is approving all claims, and the Manager is only approving claims over \$2,500, and both are performing the audit after the checks have been mailed. Furthermore, the Clerk/Treasurer's and Manager's electronic signatures are applied to checks without their supervision.

Due to these significant internal control weaknesses, we randomly selected two months and traced all checks from bank statements to the check registers (warrants). While we found all the checks traced from the bank statements to the check registers, we noted that checks were cashed prior to the claims audit being performed. The failure to audit claims prior to payment and directly supervise the use of electronic signatures increases the risk that improper claims may be paid and remain undetected and uncorrected in a timely manner.

Credit and Procurement Cards

An adequate policy addressing the use of City credit cards is an essential element of internal control. At a minimum, a sufficient credit card policy establishes guidelines for card use and procedures for monitoring usage. To retain a reasonable level of control over credit card purchases, policies should specify situations where the use of credit cards will be permitted and detailed procedures for required approvals and supporting documentation. In addition, Council policy or resolutions should identify authorized card users, set credit limits, and establish custody of the cards when not in use. Because credit card use could increase the potential for unauthorized purchases, the City should ensure that, at a minimum, all credit card purchases are

subject to the same purchasing laws and City policies, procedures and controls as all other City purchases. The Manager is responsible for auditing all claims before they are paid, including credit card statements. Requiring documentation detailing the purchases made with those cards and determining whether they are for legitimate municipal purchases are critical procedures for establishing strong internal controls.

The City used credit cards to purchase supplies, computers, gift cards, travel expenses (i.e., hotel), meals, and conference registration fees at a total cost of \$94,425 during our audit period. The City also used vendor procurement cards for purchases at a home improvement store totaling \$46,849. However, the City had not established and disseminated policies and procedures to control the use of credit cards and ensure that all card purchases complied with applicable legal and policy requirements. Authorized City employees are required to sign a card holder acknowledgment and agreement. However, the agreement only details the employee's responsibilities related to the credit card and does not direct employees to make purchases in compliance with the City's purchasing policies and procedures. Furthermore, the form is only used for credit cards; therefore, procurement cards are not acknowledged.

The use of these credit and procurement cards circumvented the established procurement internal controls. We randomly selected and tested six credit card statement claims (208 transactions) totaling \$26,403 and seven procurement card statement claims (226 transactions) totaling \$15,696 that were paid during our audit period. We found that all (100 percent) of those purchases were made through confirming POs. Because of the increased risk of unauthorized purchases, it is vital that a valid PO, authorizing the need and appropriateness of the purchase, be approved before the purchase is made. Furthermore, 15 of the 208 credit card purchases required quotes per the purchasing policy. However, the applicable department heads could not provide any supporting documentation to indicate that the required competitive quotes were obtained. As a result, City employees are making frequent purchases without documented prior approval, and potentially at higher than necessary costs.

As a result of the weak controls over credit card purchases, the former fire chief purchased \$14,540 in gift cards to retail stores and gas stations during the audit period. City officials indicated that the cards were purchased as incentives for volunteer fire fighters under the City's Recruitment and Retention Grant. However, a representative from the related grants management office told us that gift cards were not eligible purchases under the grant. The purchase of gift cards for individuals represents a gift of public funds and as such violates the

State Constitution. The new fire chief, effective March 3, 2011 told us he discontinued the practice of purchasing gift cards as incentives, as soon as he became aware of it. If the City had better controls over the use of credit cards, these types of purchases may have been prevented.

The ability of City officers and employees to circumvent the purchasing policy is a severe internal control weakness. The use of confirming POs and failure to use POs weakens important internal controls over preapproval and monitoring of purchases by responsible officials. The lack of a credit card policy results in the City having weak internal controls and increases the possibility that fraud and abuse could occur and go undetected.

Recommendations

1. The Council should review the purchasing policy to ensure it continues to meet the City's needs and complies with applicable laws, update the policy to include procedures for procuring professional services and the amended GML competitive bidding thresholds, and ensure that they review and approve the policy annually, thereafter, as required by GML.
2. City officials should establish procedures to provide detailed formal guidance to City personnel on the routine and proper use of POs, including when the use of confirming POs is permitted.
3. The Clerk/Treasurer and Manager should ensure that they properly control the use of their electronic signatures.
4. The Council should ensure that the Manager is properly auditing claims per the City Charter and that all claims are supported, reviewed, and approved by the Manager prior to payment, and that the audit and approval of claims is properly documented.
5. The Manager should develop a written credit card policy and procedures for monitoring credit card and procurement card usage to ensure that city personnel comply with the Council's procurement policy.

Information Technology

The City has invested considerable resources in IT assets, including laptop and desktop computers, other related computer equipment, Internet access, and personnel costs. City officials are responsible for designing and implementing a comprehensive system of internal controls over IT to protect these assets from unauthorized, inappropriate, and wasteful use. Both administrative and information system controls should be part of any IT security system. This is especially important because of the rising number of instances of people with malicious intent trying to harm computer networks and/or gain unauthorized access to information through the use of viruses, malware and other types of attacks.

We found that City officials have not sufficiently safeguarded IT assets. Several internal control weaknesses related to IT have put these assets at an increased risk for loss and unauthorized access. Specifically, the City's access rights are not deactivated in a timely manner, administrative rights of the City's financial software package were assigned to the Clerk/Treasurer with little oversight, inventory records for computer equipment are not kept or updated, and the City has no formal disaster recovery plan. In addition, City officials do not maintain an inventory of software owned by the City, or monitor what is being installed on City computers.

Access Rights

Effective access controls provide reasonable assurance that computer resources are protected from unauthorized use or modifications by restricting users' access to only those applications, resources, and data that are necessary for their day-to-day duties and responsibilities. This includes policies and procedures designed to limit access to data. City employees are assigned user accounts to enable them to access the City's network. Any changes to user access accounts, including additions, deletions and modifications, should be authorized and approved in writing by appropriate City officials. Additionally, user accounts should be deactivated as soon as an employee leaves City service. Further, application administrative rights for the City's financial software should be assigned to someone independent of any treasurer office functions.

City officials have not adopted policies to ensure that user access rights are granted and modified appropriately. The network administrator is responsible to ensure user accounts for the IT system are managed in a timely and satisfactory manner. The City has no procedures for activating, modifying, or deactivating user access rights. The network administrator stated that he deletes access accounts when he is notified by email or through phone conversations.

Because the City lacked formal procedures for access rights, we reviewed the user accounts on September 27, 2011 and found that the access rights for nine former city employees had not been deactivated upon their separation from City service. We found these nine employees had departure dates ranging from June 30, 2010 through June 17, 2011. Without established policies and procedures over user access rights, there is an increased risk that unauthorized users could inappropriately gain access to the IT system and change, destroy, or manipulate data and computerized assets.

We found that the Clerk/Treasurer has been given administrator rights to the City's financial software package. Therefore, she has unrestricted access to all functions within the software package, can add new users to the system and change users' access rights, and can make payments. Due to the improper assignment of administrative privileges, there is an increased risk that unauthorized changes to the accounting records, software security settings, and user authorization privileges could occur and go undetected.

Inventory

The objectives of internal control over technology equipment, such as computers, are to ensure that there are procedures in place to adequately account for and safeguard these assets from loss and abuse. To safeguard equipment, City officials need to establish policies and procedures to adequately account for and protect these items. Good financial practices require that management maintain proper records of their equipment and perform a physical inventory on an annual basis. Accurate, complete inventory lists help to ensure that inventories are properly accounted for. A detailed inventory record should include, at a minimum, purchase date, cost, location, assignment and serial number of the items. The items should be periodically examined to establish their condition and ensure they have not been stolen or misappropriated.

The network administrator is responsible to ensure inventory of hardware and software is maintained in a timely and satisfactory manner. We requested an inventory of city computers and laptops from the network administrator; he stated that he did not have a listing and that one would be available from the Clerk/Treasurer's office. Therefore, we requested the listing from the Clerk/Treasurer's office and were told that the responsible account clerk had not had time to update the fixed asset report. We then followed up with the network administrator who stated that he would attempt to get us a listing. He then provided a list of 65 computers, which he stated he compiled with information obtained through email communications with the department heads; however he was unable to contact anyone at one of the fire stations, and therefore their inventory was not included in the listing.

Due to the lack of proper guidance on maintaining inventory lists, facilitation of consistent and accurate recording of technology equipment and periodic reconciliation of lists to ensure items are available at the City, City officials cannot be assured that the City's equipment is adequately accounted for and safeguarded from loss and misappropriation.

Disaster Recovery

A disaster recovery plan describes how an organization should deal with potential disasters. A disaster could be any sudden, unplanned catastrophic event that compromises the integrity and data of the IT systems; this could include fire, flood, a computer virus, vandalism, or inadvertent employee action. Contingency planning is used to avert or minimize the damage that disasters would cause to operations. Such planning consists of the precautions taken to minimize the effects of a disaster and to enable the organization to either maintain or quickly resume mission-critical functions. Typically, disaster recovery planning involves an analysis of business processes and continuity needs, and defines the roles of key individuals; it may also include a significant focus on disaster prevention.

City officials have not developed a comprehensive disaster recovery plan. Consequently, in the event of a disaster, City 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 disaster recovery procedures. The lack of a disaster recovery plan could lead to the loss of important financial data along with a serious interruption to City operations, such as not being able to process checks to pay vendors or employees.

Software Management

The City Council developed a computer use policy that is part of the personnel manual to provide employees with guidelines over IT assets. The computer use policy addresses hardware/software, email, and internet usage as well as data transfers/downloads and security. Specifically, users should not download or load software or data without authorization of the network administrator.

However, according to the network administrator, all City computer users have local administrative⁴ rights over their computers even though such rights are not necessary for them to fulfill their day-to-day responsibilities. In addition, City officials neither maintain an inventory of software owned by the City, nor perform any real-time monitoring of what is being installed. In addition, the City does not perform random or structured spot checks of computers. As a result,

⁴ Local administrative rights allow users to add, delete or modify programs and applications on their personal computers.

City officials may not be aware of all software or applications residing on the City's computers and whether they are properly licensed.

Because the City has no centralized, up-to-date inventory record of software installed on its computers, we reviewed the software programs installed on 61 computers to determine whether licenses were required for any of the installed software programs, and if programs were for a legitimate business purpose. We identified several issues related to installed software programs. First we found three instances where department heads had purchased and installed software that the network administrator was unaware of. Additionally, we found six software applications on 12 computers that do not appear to be for a legitimate business purpose; for example, a streaming movie viewer, a retail store coupon printer, and an instant messenger. Also we found that the City has several software programs that, although allowed to be downloaded free for personal use, licenses must be purchased when used for business use. Finally, there were several software programs installed on City computers that require licenses for which the network administrator is not monitoring.

Recommendations

6. City officials should develop written policies and procedures addressing user access controls to strengthen internal controls over computer data and safeguard the City's computerized data and other IT assets.
7. The Manager should designate an employee outside of the Clerk/Treasurer's office as the system administrator over the financial software package.
8. The Manager should implement formal inventory control procedures designed to properly account for electronic equipment. At a minimum, these procedures should require the maintenance of a comprehensive inventory of electronic equipment on a perpetual basis, and performance of periodic, unannounced physical inventories to ensure the accuracy of the records.
9. The Manager should develop and adopt a formal disaster recovery plan that documents steps to be taken in the event of an emergency.
10. City officials should implement a program that requires software use to be monitored, complete up-to-date software inventory records to be maintained, software inventory records to be periodically reconciled to purchase documents, and periodic surprise audits to be conducted of installed software. Computer users should only have rights that are necessary for them to fulfill their day-to-day responsibilities.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

City of Canandaigua

New York

Two North Main Street
Canandaigua, NY 14424

(585) 396-5000

June 20, 2012

Edward V. Grant, Jr., Chief Examiner
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Division of Local Government & School Accountability
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Rochester, New York 14614-1608

Re: Audit Response, City of Canandaigua
Procurement and Information Technology, January 1, 2010 – December 21,
2011

Dear Chief Examiner Grant:

This letter is the City of Canandaigua's response to the preliminary draft audit report findings and recommendations of the Comptroller's Office's recent examination of the City.

The audit report includes ten (10) recommendations to address the findings of this examination of the City's internal controls over IT and procurement.

The audit found that "the City's procurement policy was not reviewed by the council annually, as required by law, and was not adequate or up-to-date. Furthermore, the Council did not adopt policies and procedures to address the proper use of the City's purchase order (PO) system, or the authorized and documented use of credit and procurement cards. In addition City officials did not seek competitions, such as using RFPs, when procuring ... professional services...". These findings led to two recommendations:

1. The City Council should review the purchasing policy and ensure it continues to meet the City's needs and comply with applicable laws, update it to include procedures for procuring professional services and the amended GML competitive bidding thresholds, and ensure that it reviews and approves the policy annually, thereafter, as required by GML.
2. City officials should establish procedures to provide detailed formal guidance to City personnel on the routine and proper use of POs, including when the use of confirming POs is permitted.

Procurement Policies and Procedures

The City acknowledges that it has not kept its procurement policy up-to-date. In fact, "Enhanced Purchasing Policy" has been on the Pending Items list on the City Council's Finance Committee's monthly agendas since May, 2007. The desire to make the procurement policy update comprehensive (as the audit recommends), and a lack of staff time to devote to such an extensive project, has



As residents, city staff and appointed & elected officials of the City of Canandaigua, our decisions and actions will be guided by these Core Values: Responsive, Participatory Governance; Caring; Respect; Integrity; Heritage; Stewardship; and Continuous Improvement.

led to this prolonged deferral. The Finance Committee has decided to break this project into smaller segments, beginning with an update of the bidding thresholds to reflect amended GML bidding requirements, and has placed this item on the active agenda to be addressed promptly. A more detailed plan to address this finding will be presented in the Corrective Action Plan.

Professional Services

The audit report, while acknowledging that "General Municipal Law (GML) does not require competitive bidding for the procurement of professional services that involve specialized skill, training and expertise", states that "However, GML requires the City to adopt policies and procedures governing the procurement of goods and services when competitive bidding is not required, including professional services." The audit report notes that the City's procurement policy does address professional services, with the policy stating that "professional service providers must be chosen based on many factors including accountability, reliability, skill, education and training, judgment and integrity – qualities that are not always found in the vendor who offers the lowest price." The audit report notes two of eight professional service vendors for which the City "did not solicit competition through an RFP process, and did not provide adequate documentation of other actions taken". The two vendors noted were computer consultants and legal services.

The City has had a long-term (nearly 20 year) relationship with the computer consultants, who have designed our local area network, and are specialists in the information technology needs of local municipalities. Because we do not have in-house IT personnel, these consultants serve as our outsourced IT department. Although we have not issued an RFP for these services, we have informally compared the hourly rates that we are paying with those paid by other municipalities for similar services, and are comfortable that we are obtaining these services at a competitive price. We acknowledge that we do not have a written agreement with this vendor.

Specialized legal services were needed when the City undertook to exercise its right of eminent domain, and the City's priority in selecting legal counsel for this matter was experience in this highly specialized area of the law. The selection was made after consulting "Super Lawyers", which listed only two attorneys under the category of eminent domain procedures. Both attorneys were contacted directly by Corporation Counsel for an interview and their references were checked with past clients before selection was made. The City does have a written agreement with the law firm, and it also has an acquisition agreement that requires the developer of the property to reimburse the City for all associated legal fees.

Purchase Orders

The audit report notes that "City officials have not established policies or procedures which outline requirements for requisition, proper approval, and issuance of a PO, before goods or services are ordered from a vendor, or provisions for expenditures for which POs are not necessary or required. As a result, City employees do not consistently and properly prepare POs before ordering goods and services, and the City does not benefit from the assurance of budgetary control and policy compliance that is inherent in a properly functioning system."

The City acknowledges that it frequently pays from “confirming POs” (POs issued after goods have already been ordered or received). A plan to address this finding will be presented in the Corrective Action Plan.

Claims Auditing and Electronic Signatures

The audit report states that “The City Charter states the Manager is responsible for conducting an audit of all claims prior to payment. Therefore the Manager is responsible for conducting a deliberate and thorough review of each claim to determine whether it represents a valid, legal, and necessary obligation incurred by an authorized official, is in its proper form, is mathematically correct, does not include charges that were previously paid, and complies with all City policies and procedures. The Clerk/Treasurer should not pay claims prior to audit. ... The Manager did not audit claims in accordance with the City Charter. Instead, the Clerk/Treasurer is approving all claims, and the Manager is only approving claims over \$2,500, and both are performing the audit after the checks have been mailed.” During the exit conference, we inquired as to what City Charter provision was being cited, and were directed to § 6.4. *Commitments and disbursements*, in Chapter 6. This chapter describes the duties of the Department of Administration, headed by the Clerk/Treasurer. While that section does state that “Disbursements in payment of bills, claims and demands shall be made by the Clerk/Treasurer upon pre-audit and warrant of the Manager”, there is another section of the Charter, § 5.4. *Manager, powers and duties*, that allows the Manager to delegate such tasks to other personnel. This section states that the City Manager shall:

- (i) Provide for the exercise of budgetary control for each separate appropriation account; establish procedures and practices for the pre-auditing and control of all City revenues and expenditures; provide for the safety and investment of all City funds; provide for the management of the City debt; develop policies to safeguard the City's financial interest in the fullest extent.
- (n) Assign and transfer administrative functions, powers and duties among and within departments, as the best interest of the City may appear, subject to the Charter and Local Law.
- (o) Delegate to department heads such powers as may be deemed necessary for efficient administration.

It would not be an effective use of the time of the City Manager, who is the Chief Executive Officer of the City, to personally review each and every purchase order before it is paid. This responsibility has been delegated to the Assistant City Manager/Budget Director (a position not listed in the charter). This delegation still allows for the separation of authority required for adequate internal controls, as the ACM/BD reports directly to the City Manager, and not to the Clerk/Treasurer.

The audit states that “Furthermore, the Clerk/Treasurer's and Manager's electronic signatures are applied to checks without their supervision. ... The failure to audit claims prior to payment and directly supervise the use of electronic signatures increases the risk that improper claims may be paid and remain undetected and uncorrected in a timely manner.” These findings are the basis for the third and fourth recommendations:

3. The Clerk/Treasurer and Manager should ensure that they properly control the use of their electronic signatures.
4. The Council should ensure that the Manager is properly auditing claims per the City Charter and that all claims are supported, reviewed, and approved by the Manager prior to payment, and that the audit and approval of claims is properly documented.

The matters of the control of the use of electronic signature and the audit and approval of claims will be addressed in the Corrective Action Plan.

Credit and Procurement Cards

The audit report recommends that:

5. The Manager should develop a written credit card policy and procedures for monitoring credit card and procurement card usage to ensure that city personnel comply with the Council's procurement policy.

This recommendation will be addressed in the Corrective Action Plan as part of the procurement policy update.

Information Technology

In addition to the findings and recommendations with regard to the City's procurement policies, the audit found that "City officials have not sufficiently safeguarded Information Technology (IT) assets. The City's access rights are not deactivated in a timely manner, administrative rights of the City's financial software package were assigned to the Clerk/Treasurer with little oversight, and inventory records for computer equipment are not kept or updated, and the City has no formal disaster recovery plan. In addition, City officials do not maintain an inventory of software owned by the City, or monitor what is being installed on City computers." The audit makes the following recommendations with regard to the IT findings:

6. City officials should develop written policies and procedures addressing user access controls to strengthen internal controls over computer data and safeguard the City's computerized data and other IT assets.
7. The Manager should designate an employee outside of the Clerk/Treasurer's office as the system administrator over the financial software package.
8. The Manager should implement formal inventory control procedures designed to properly account for electronic equipment. At a minimum, these procedures should require the maintenance of a comprehensive inventory of electronic equipment on a perpetual basis and to conduct periodic, unannounced physical inventories to ensure the accuracy of the records.
9. The Manager should develop and adopt a formal disaster recovery plan that documents steps to be taken in the event of an emergency.
10. City officials should implement a program that requires software use be monitored, complete up-to-date software inventory records be maintained, software inventory records be periodically reconciled to purchase documents, and periodic surprise audits be conducted of installed software. Computer users should only have rights that are necessary for them to fulfill their day-to-day responsibilities.

The City adopted a Computer Use Policy in June, 2002. In September, 2011, the City Council adopted an updated Acceptable Use Policy for Information Technology (IT) Resources, using the State model policy as a template. (A copy of this policy is appended.)

Due to limited resources, the City does not have an IT department to oversee all aspects of information technology resource management. The position of network administrator is an additional assignment given to a department head with other full-time responsibilities. In the past, this assignment was given to the Clerk/Treasurer, and later

to the Assessor, and is now the responsibility of the Director of Development & Planning. (A copy of the position description for the Network Administrator is also appended.) The maintenance of the computer hardware and local area network is outsourced to a private firm, and that service contract is managed by the network administrator. The kind of management oversight and control that the audit report recommends will require that the City devote more resources to this function. A plan to address the audit findings and recommendations for improved information technology asset management, including security, access controls, inventory control, disaster recovery planning, and software management will be presented in the Corrective Action Plan.

The City thanks the Office of the State Comptroller for its recommendations. While acknowledging the areas for improvement in internal controls that were identified in the audit report, we are pleased to note that there were no instances of misappropriation of funds, accounting errors or compromises of our computer records identified by the auditors; nor did the audit find any instances of "favoritism, extravagance, fraud, and corruption," nor of the City "paying more than necessary for goods and services." While stating that "the City risks paying more than necessary for goods and services and there is an increased risk that errors and/or irregularities could occur and remain undetected" [due to employees circumventing the purchasing policy], the audit also noted that "... the 36 purchases [for which confirming POs were issued] ... appeared reasonable and necessary ..." Neither did the audit find any instances of "improper claims" being paid due to the "failure to audit claims prior to payment and directly supervised the use of electronic signatures".

Given the limited number of City administrative personnel, some internal controls are not cost effective or achievable; however, we have been following recommendations from our external auditors to ensure that we have compensating controls in those areas.

Sincerely,



Kay W. James
City Manager

City of Canandaigua Acceptable Use Policy For Information Technology (IT) Resources

1.0 Purpose of the Policy

Information technology resources are provided by the City of Canandaigua (the City) to employees and other officials (Users) to assist them with their assigned work responsibilities and duties. Use of such resources is subject to a variety of laws, regulations, and policies. The purpose of this acceptable use policy for the City of Canandaigua information technology (IT) resources is to make Users aware of the parameters of acceptable use, as an essential part of assuring that the information technology resources are used only for intended purposes, and to help mitigate the potential that inappropriate uses will expose the City of Canandaigua to unnecessary risks.

Users of IT resources agree that by using these resources they will comply with and be subject to this policy. Users are responsible to possess a level of proficiency in the use of computing equipment to ensure that they are capable of complying with this policy.

2.0 General

The City of Canandaigua's IT resources can be separated into two categories: physical assets and information assets. Physical assets are the tangible items, including, but not limited to, workstations, computer servers, writable media, and computer print. Information assets are intangible and include, but are not limited to, passwords, software, and data.

Users are required to protect both types of assets when using the City's IT resources and are responsible for the following:

- Preserving and protecting the IT resources by following all password, protection, and disposal requirements.
- Using the IT resources solely for their intended purposes. Examples of misuse would include viewing inappropriate Internet sites or allowing unauthorized persons to use a city-owned personal computer.

Computer equipment, programs, electronic mail, and all electronic data shall only be used by authorized personnel to complete tasks associated with their job functions. All electronic data shall be considered property of the City of Canandaigua. No equipment, programs, or data shall be removed from, or copied from, city offices without department head's prior approval. Users shall abide by all applicable copyright laws and licenses. Users shall not load or download software or data from unknown sources without the permission of the system administrator.

3.0 Policy Details

3.1 Individual Accountability

User-IDs and passwords must not be shared with **any** person. Users shall not access the network under another User's password.

In addition, Users must not:

- Seek to represent themselves as someone else (spoof), obscure, suppress or replace another individual's identity.
- Access copy, alter, modify or destroy information belonging to others unless the User is authorized to do so by the information owner or the City's Network Administrator.

Users shall not deliberately attempt to damage computing equipment, electronic data, or degrade the

performance of any computing equipment. Users shall notify the system administrator immediately if they perceive a problem with computing equipment or information integrity. Users shall not attempt to repair or install computing equipment or software without notifying the Network Administrator.

3.2 Software and Hardware

Users must not install, attach, or download any hardware or software without prior documented approval from the user's supervisor, the City's Network Administrator, or the City's contracted computer support personnel. Users must follow all procedures required by the same. Compliance with such procedures will help prevent infection by computer viruses and ensure that the City and its users do not violate applicable software licensing restrictions.

3.3 Acceptable Uses

IT resources are provided to users to assist them with assigned work responsibilities and duties and are intended to be used only for that purpose. Users may use the City IT resources to:

- Further the City's mission;
- Deliver government services;
- Facilitate business-related research and access to information;
- Provide service of the highest quality to its citizens;
- Discover new ways to use resources to enhance government service;
- Increase staff efficiency; and
- Promote staff development.

3.4 Prohibited Uses

Users are not permitted to circumvent, probe or test security measures unless such activity is part of their job duties. Users are prohibited from using the City's IT resources to:

- Write personal communications in a manner that could reasonably be interpreted as official City policies.
- Conduct outside employment or self-employment activities or engage in private marketing, private advertising of products or services.
- Engage in political activity or solicit for or promote any not-for-profit, religious, political or personal causes.
- View, display or send pornographic or obscene materials. If a user accidentally connects to a site that contains sexually explicit or obscene material, the user must disconnect from that site immediately and report the incident to their supervisor. "Accidental" connections are logged by seconds, not minutes.
- Sign up for personal services, including but not limited to dating or horoscope services.
- Mass distribute any communication, including "chain" letters.

3.5 Personal Use

Personal use of the City's IT resources must be subordinate and subject to the business needs of the City and not interfere with the conduct of the City's business. Personal use must not interfere or disrupt in any way other Users, City IT resources, network users, services or equipment. Personal use must only account for an incidental amount of a user's time. An individual has no entitlement to accumulate time to use such IT resources for personal matters. Personal use is restricted to Users and does not extend to the User's family members or acquaintances.

3.6 E-mail

Users should keep in mind that e-mail sent and received from City IT resources are visible representations of the City. E-mails can be immediately broadcast worldwide and can be received by intended as well as unintended parties. Users can easily misaddress e-mail, and receiving parties can forward e-mail messages to other persons without the original sender's permission or knowledge. Users should be aware

that all electronic data, including E-mail is subject to review of the Network Administrator and may also be subject to Freedom of Information Law and may be made available to the public. Consequently, users should assume that whatever they write may at some time be made public. Accordingly, users should use City IT resources in a legal, professional and responsible manner.

Only approved e-mail products should be used for sending and receiving business e-mails. Use of commercial e-mail systems or Internet service providers (e.g., ██████████) for business e-mails is prohibited.

3.7 Web 2.0 and Social Networking

Government-related communications

Social networking and other Web 2.0 technologies can help drive the City's mission and support professional development. However, improper uses of Web 2.0 technologies raise a number of security and reputational risks and the potential for widespread damage to the state government entity. If use of Web 2.0 and other social networking technologies is permitted by the user's supervisor, users must adhere to the following guidelines when using such technologies on City IT resources:

- All policies and work rules apply when participating in a social network or using a Web 2.0 technology for business use. Users are responsible for all of their online activities that are: conducted with a City e-mail address; can be traced to the City's domain; and/or use City resources.
- Users must not discuss or post confidential information.
- Users should be transparent when participating in any online community; disclosing their identity and affiliation with the City.
- Users should communicate in a professional manner
 - Be direct, informative and brief
 - Fact-check posts and include links to source information if possible Spell and grammar check everything
 - Correct errors promptly
- Abide by copyright and other applicable laws. Participation online results in a user's comments being permanently available and open to being republished in other media. Users should be aware that libel, defamation, copyright and data protection laws apply.
- Ensure that the terms of service for social networking sites comply with State laws.
- When communicating on behalf of the City, obtain necessary authorizations by their supervisor.
- Obtain permission before publishing photographs, videos or quotes of others.

Personal communications

When not representing the City, users who publish personal or professional opinions must not invoke their City title. In such cases, users must use a disclaimer such as the following where technically feasible: *"The postings on this site are my own and don't necessarily represent the position, strategy or opinion of the City of Canandaigua."*

3.8 Compliance Measures

The Network Administrator may monitor and log usage data and may review this data for evidence of violation of law or policy; when necessary, they may monitor all the activities and inspect the files of specific users on their computers and networks. A department head, in conjunction with the Network Administrator, may suspend computer and network privileges of an individual under their supervision.

City of Canandaigua Network Administrator Job Description

The City of Canandaigua's **Network Administrator** is a special work assignment with the primary duty of serving as a liaison between city staff and contracted technical support (currently *Integrated Systems*). In this role, the Network Administrator is responsible to ensure that the following duties are completed in a timely and satisfactory manner:

1. Maintain computer network services
2. Maintain data back-up and data integrity
3. Manage E-Mail system
4. Maintain Antivirus and Anti-Spam
5. Manage user accounts
6. Maintain inventory of user hardware and software
7. Trouble-shoot and respond to users computer problems
8. Install new workstations and peripheral devices for users

The Network Administrator is the Chair of the **Technology Committee**, an ad-hoc group of representatives from each of the city facilities: City Hall, Police, Fire, and Public Works. This group meets as needed to address issues related to the computer network, the telephone systems, and long-term technology planning.

The Network Administrator manages and prepares, with the support of the Technology Committee, the **Technology Budget**, a special budget fund, which generates revenues from the leasing of city-owned telecommunication towers and dedicates this revenue to citywide telecommunication needs. The Network Administrator carries out central purchasing of computer equipment upon request of individual departments, consistent with the adopted Tech Fund Budget

The Network Administrator maintains a laptop computer and LCD projector for staff checkout.

The Network Administrator oversees the maintenance of the City website www.CanandaiguaNewYork.gov with support from departmental users.

The Network Administrator oversees the maintenance of the City **Telephone Systems**, working with the Technology Committee and serving as liaison between city staff and telephone service technical support.

October 2008

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 City 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 oversight, cash management, claims processing, purchasing, payroll and personal services, and IT.

During the initial assessment, we interviewed appropriate City officials, performed limited tests of transactions, and reviewed pertinent documents, such as City policies and procedures manuals, Council minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the City's financial transactions as recorded in its databases. Further, we reviewed the City's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems is secure. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct.

We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected IT and procurement for further audit testing. To accomplish the objectives, our examination included the following steps:

- We interviewed appropriate City officials and employees regarding procurement and claims audit policies and procedures. These discussions allowed us to analyze the City's internal control structure governing the purchasing and claims audit process.
- We reviewed pertinent documents such as the Charter, minutes of the Council's proceedings, the procurement policy, claims, and various other purchasing documents.
- We reviewed bid documents, claims, and supporting documentation to determine if purchases were made in compliance with GML and the City's procurement policy.
- We examined random abstracts, claims packages, and canceled checks for evidence of audit prior to payment.
- We visited departments throughout the City to determine if documentation was available to support compliance with the City's procurement policy.
- We selected all professional service vendors that were paid over \$30,000 for the period January 1, 2010 through September 15, 2011, by reviewing the financial data obtained through our computer assisted techniques. We then determined if the services were obtained using a RFP process.

- We randomly selected six credit card claims totaling \$26,404 and seven procurement card claims totaling \$15,696 and the supporting documentation for these purchases, including POs and receipts. We determined if these claims were in compliance with the City's procurement policy.
- We interviewed appropriate City officials to determine internal controls in place over IT.
- We reviewed IT controls currently implemented for effectiveness.
- We compared an email listing to the active employees list to determine if employees no longer with the city were removed from the system.
- We interviewed City officials to determine what policies and procedures were in place for the monitoring of software licensing and user access rights.
- We reviewed the City's personnel manual for computer policies and procedures, including those for the adding/removal of software.
- We reviewed 61 networked workstations throughout different departments within the City, utilizing add/remove software screenshots for each to capture installed software. We reviewed the software for licensing requirements, and legitimate business purposes.
- We reviewed licensure documentation provided by the network administrator, and determined if the City had enough licenses on file for the installed software.

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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