



City of Lockport

Financial Operations

Report of Examination

Period Covered:

January 1, 2010 — February 29, 2012

2012M-68



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	6
Comments of Local Officials and Corrective Action	6
INTERNAL CONTROL SYSTEM	7
Control Environment	7
Risk Assessment	8
Control Activities	8
Information and Communication	9
Monitoring	10
Recommendations	11
INFORMATION TECHNOLOGY	13
Computer Use Policy	13
User Access Rights	14
Data Backup	16
Disaster Recovery	16
Recommendations	17
FIRE PREVENTION CODE INSPECTIONS	18
Recommendations	20
APPENDIX A Response From City Officials	21
APPENDIX B OSC Comments on the City's Response	27
APPENDIX C Audit Methodology and Standards	28
APPENDIX D How to Obtain Additional Copies of the Report	30
APPENDIX E Local Regional Office Listing	31

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 the City of Lockport, entitled Financial Operations. 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 Lockport (City) is located in Niagara County, has 21,165 residents and covers 8.4 square miles. The City employs 217 full-time and 10 part-time employees. The City is governed by a Common Council (Council), which comprises seven elected members, including a Mayor. The Council has oversight responsibilities and can adopt and amend local laws, ordinances, and resolutions of the City. The Mayor, as the chief executive officer, makes recommendations to the rest of the Council and ensures that any legislation adopted by the Council is properly implemented. The City Treasurer (Treasurer), as chief finance officer, oversees accounting and financial reporting controls, supervises the preparation of accounting records, produces financial reports, and ensures compliance with State and Federal laws. The City's general, water, and sewer funds' budgeted expenditures for 2012 total \$31.5 million.

Scope and Objective

The objective of our audit was to assess the financial operations for the period January 1, 2010, to February 29, 2012. Our audit addressed the following related questions:

- Have the Council and Mayor developed an internal control system that adequately safeguards assets?
- Is City management adequately safeguarding information technology (IT) assets?
- Is the City completing all required fire prevention code inspections in a timely manner, and accurately and completely billing and collecting inspection fees?

Audit Results

The Council, Mayor, and other City officials did not ensure that the standard elements of a strong internal control framework were in place, allowing inconsistent and isolated departmental processes without adequate controls, oversight, or communication.

City officials have not updated the City's code of ethics since 1970 or established a proper tone for the control environment by communicating ethical standards and management expectations to City employees. The Council and Mayor did not ensure that risk assessments are conducted to identify risks to the efficiency of financial and service operations, the reliability of financial reporting, and compliance with laws and regulations. Critical control activities are not in place; for example, within both the payroll and accounts payable functions, one individual controls most aspects of the financial

cycle. Further, City officials did not ensure that there is an adequate system of information and communication, and had inconsistent explanations of how the City handles “whistle blowing” reports or concerns from employees or residents. Finally, City officials do not work in concert to monitor internal controls across operational areas and management levels, and are not using all available means for monitoring controls. For example, the Council has not addressed the external auditor’s recommendations, and does not meet with the external auditors or delegate these responsibilities to a committee.

City management also has not established or implemented any computer use policies. The City does not use Internet filtering devices, and users have unrestricted access rights to the City’s IT system, which includes modifying settings and installing software. City management also has not developed policies and procedures to safeguard against unauthorized access to financial data. User access to the financial software is not appropriately restricted, and City officials did not generate audit logs of user activity. Management also has not developed data backup policies and procedures, and the Council has not adopted a disaster recovery plan. This lack of controls increases the risk of unauthorized access, misuse or damage to City data, and could result in costly interruptions to key operations in the event of a disaster.

We also found that the City is not completing all fire prevention code inspections in a timely manner as required by City Code, and the Fire Chief’s records and reports were inaccurate, unreliable, and not up-to-date. As of February 2012, the Department had not performed fire prevention code inspections within the required timeframes for 92 of the 100 properties we reviewed, and five of the 25 properties that were reported as inspected during our audit period were not appropriately billed for the City’s \$100 inspection fee. If all 602 of the City’s listed properties¹ were inspected in accordance with the City Code, the City would receive \$36,000 in revenue annually.² The failure to perform all fire prevention code inspections in a timely manner increases the risk of undetected code violations that could potentially cause harm to life or property, and, together with the incomplete billings, has cost the City revenue.

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 take corrective action. Appendix B includes our comments on the issues raised in the City’s response letter.

¹ The Fire Chief does not regularly update this document. Therefore, this list may include properties that are no longer active or may be missing properties that should have been added.

² This calculation includes conducting 360 inspections annually (126 annual inspections, 229 bi-annual inspections, and five tri-annual inspections).

Introduction

Background

The City of Lockport (City) is located in Niagara County, has 21,165 residents and covers 8.4 square miles. The City employs 217 full-time and 10 part-time employees. The City is governed by a Common Council (Council), which comprises seven elected members, including a Mayor. The Council has oversight responsibilities and can adopt and amend local laws, ordinances and resolutions of the City. The Mayor, as the chief executive officer, makes recommendations to the rest of the Council and ensures that any legislation adopted by the Council is properly implemented. The City Treasurer (Treasurer), as chief finance officer, oversees accounting and financial reporting controls, supervises the preparation of accounting records, produces financial reports, and ensures compliance with State and Federal laws. The City's general, water, and sewer funds' budgeted expenditures for 2012 total \$31.5 million.

The City employs one part-time information technology (IT) coordinator to support the City's computer system and network. The Police Department has two officers who, as part of their duties, support that department's computer functions. The City's network includes between 55 and 60 computers³ and three servers. The City's financial software had a reported 25 users at the time of our audit.

The Fire Department (Department) employs 50 firefighters, including the Fire Chief, who is responsible for fire prevention code inspections. As of 2011, eight firefighters, including the Fire Chief, were certified by the State to conduct fire prevention code inspections. According to the City Code, the Fire Chief is responsible for administering and enforcing the collection of fees, and maintaining and filing all records necessary for the administration of these inspections.

Objective

The objective of our audit was to assess the City's financial operations. Our audit addressed the following related questions:

- Have the Council and Mayor developed an internal control system that adequately safeguards assets?
- Is City management adequately safeguarding information technology (IT) assets?

³ The City does not have an up-to-date inventory of computers. However, the Police Department has a current inventory of its electronic assets.

- Is the City completing all required fire prevention code inspections in a timely manner, and accurately and completely billing and collecting inspection fees?

**Scope and
Methodology**

We interviewed appropriate City officials and employees and examined records and reports relating to these areas for the period January 1, 2010, to February 29, 2012. Our audit disclosed areas in need of improvement concerning IT controls. Because of the sensitivity of this information, certain vulnerabilities are not discussed in this report but have been communicated confidentially to City officials so they could take corrective action.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C 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 take corrective action. Appendix B includes our comments on the issues raised in the City's response letter.

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

Internal Control System

Internal controls provide management with reasonable assurance that operations are functioning appropriately, and reduce the likelihood of significant errors or irregularities. Internal controls also help ensure that departments are performing as expected. To maintain an effective internal control system, City management has the responsibility to not only develop control activities but also integrate them into an overall internal control framework.

The City's Common Council is primarily responsible for oversight, authorization, and ethical leadership of the City's operations. The Council relies on management to design policies, which it approves, to ensure that services are provided effectively and assets safeguarded. The Mayor, as chief executive officer, is responsible for ensuring that effective internal controls are implemented. The Mayor, Council, and management share responsibility for establishing a positive "tone at the top" by conducting the City's affairs in an ethical manner and establishing accountability at all levels. The Treasurer, as chief finance officer, should be knowledgeable about specific control procedures and the integrated control framework to fulfill the financial responsibilities of the Treasurer's position.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO)⁴ issued a report, entitled *Internal Control – Integrated Framework*, that presented a common definition of internal control and identified five key elements of a successful internal control framework. We reviewed the City's internal controls using those five elements: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. We found that the City has a poor control environment. The Council and the Mayor did not ensure that risk assessments were conducted, that information is readily available and clearly communicated, and that the internal control system is adequately monitored.

Control Environment

The control environment is the general sense of control activities projected by City management, which includes the Council, the Mayor, and other officials and department heads. The Council should set the proper tone for the control environment by establishing and communicating a code of ethics, requiring ethical and honest behavior

⁴ COSO is a joint initiative of five professional organizations [American Accounting Association, American Institute of CPAs, Financial Executives International, Institute of Management Accountants, Institute of Internal Auditors] that is "dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence." (COSO website)

from all employees, observing the same rules it expects others to follow, and requiring appropriate conduct from everyone in City government. The proper control environment is crucial to the effective implementation of all the other elements of the internal control system. City management has the responsibility to communicate its support for internal controls to all levels of staff within the organization and develop and communicate written policies over employee activities.

The City has a poor control environment. Management has not established an overall policy regarding internal controls. The City's code of ethics has not been updated since 1970, and the ethics committee, comprising several City officials, meets only as needed. No City officials we spoke with knew when the last meeting was held. While the code of ethics is distributed to all employees, including elected and appointed officials, when they are initially elected, appointed, or hired, City officials have not made any effort to periodically reeducate employees on the code of ethics, reiterate its requirements, or redistribute it on a regular basis.

Risk Assessment

The effective design of an internal control system to fit the City's needs begins with a risk assessment, which identifies the factors or conditions that threaten the achievement of an organization's objectives and goals. It involves identifying risks to the effectiveness and efficiency of financial and service operations, to the reliability of financial reporting, and to compliance with laws and regulations.

The Mayor told us that formal risk assessments had been conducted and documented by the former City Clerk and that internal audits had been performed by a public accounting firm. However, City officials provided no documentation of risk assessments or internal audits after we made several requests. Several City officials also stated that they were not aware of any risk assessments or internal audits.

The City retains a public accounting firm to perform an annual financial audit and receives a management letter along with the audited financial statements. The management letters we reviewed identified control deficiencies and made recommendations to improve operations. Although the Mayor stated that the management letter recommendations had been implemented for the 2010 fiscal year, other City officials said these recommendations were not implemented. During our review of the City's budget and accounting records, we confirmed that the City had not implemented the recommendations made by its external auditor.

Control Activities

Control activities are the policies and procedures designed by management to help ensure that the organization's objectives and goals are not negatively affected by internal or external risks. For example,

control procedures typically would include bank reconciliations and the review of those reconciliations by supervisory personnel; segregation of duties so that no one person controls all phases of a transaction cycle; daily deposit of cash receipts; appropriate limits on access to check stock, signature plates, and wire transfer software; and an audit of claims prior to payment.

The City does not have any current written policies over primary accounting functions including general ledger, accounts payable, payroll, and cash receipts activities. The City's purchasing policy has not been updated since March 2001, and there are no written policies, other than the City Charter and City Code, that were approved by the Council. Instead, various departments developed separate procedures: the City Clerk's office developed standard operating procedures, the Police Department established written procedures, and other individual employees created written procedures for their positions including the City Accountant/Auditor (Accountant) and the Payroll Administrator.

In addition, the City has not segregated duties in payroll and in accounts payable. For example, the payroll clerk can add new employees and the accounts payable clerk can add new vendors or change information without proper compensating controls. Although the Accountant performs a review of the payroll and accounts payable check registers for each check run, this review is limited and not a sufficient mitigating control. Further, the Accountant reviews the payroll only for large check amounts, and does not determine whether registers contain only legitimate employees and whether the payroll is accurate. The Accountant said she does not have access to collective bargaining agreements and contracts, which would allow a more comprehensive review. The ability to perform unsupervised incompatible duties and the limited review presents an increased opportunity for the misappropriation of funds and for errors and irregularities to go undetected.

In addition, while the City requires all accounts payable check registers to be approved by the City Clerk and the Council prior to payment, the Council as a whole did not approve individual claims, prior to payment; instead, one Council member, the Finance Committee chairman, reviews all claims paid by the City. Further, this review takes place after the City has made the payments.

Information and Communication

Information and communication is another element of effective internal control that affects the entire system. In order for risks to be controlled, it is imperative to have a sound communication process that captures information and then provides it to all who need it. Information about identified risks and the means of controlling them

need to be communicated to all who are responsible for mitigating those risks. Information about the policies and procedures to be followed by employees should flow down through the organization.

The Council meets weekly and committees typically meet monthly. The Council members receive minutes from the previous meeting, information on bills to be paid, and employment items. Before committee meetings, the Council members also receive individual reports for their respective committees, such as financial reports, public works reports, and so forth. Council members review these reports and ask appropriate department heads for clarification or additional information if needed, and also use the information when enacting resolutions.

The City does not maintain an adequate system for employees and concerned citizens to report information to City officials such as complaints or concerns about fraud (i.e., whistle blowing). The Treasurer said that any correspondence received by the City is handled by the City Clerk's office and distributed to other departments as needed. However, the Mayor and City Clerk stated that correspondence is sent to the Mayor's office and then forwarded to appropriate department heads. When the process for receiving and addressing potentially serious complaints is not clearly defined and communicated, the City is at risk of ignoring control weaknesses and failing to address the related risks.

Monitoring

A City's internal control system needs to be monitored to determine whether policies and procedures are being effectively used by employees. Internal control deficiencies and new risks detected through monitoring activities should be reported to City management and corrective action initiated in a timely manner. Monitoring is the shared responsibility of the Council and of other officials, including the Mayor, the Treasurer, and department heads.

We found, however, that the Council primarily relies on other City officials and department heads to take action on internal controls. The lack of centralized controls over key financial areas reduces the ability of City officials to monitor operations. In addition, City officials are not making full use of various tools available to them for recognizing and addressing problems. It is important for the Council to routinely review the Treasurer's financial reports and external financial audits and internal audits of operations, and take prompt corrective action. The Council can delegate this responsibility to a committee, either an audit committee or the existing finance committee, which would regularly report its findings to the Council.

The Council has a finance committee – comprising five of the six Council members, the Treasurer, the Accountant, and the Budget Director⁵ – that reviews and discusses the Treasurer’s monthly financial reports. While this is an important step, a strong internal control framework requires monitoring of operations across all departments. The City does not have an audit committee, and the Council does not meet with the external auditors to discuss the audited financial statements or the management letter. Currently, the external auditors meet only with the Treasurer, Deputy Treasurer, and Accountant, and none of the management letter recommendations have been implemented. For example, the external auditors’ 2010 management letter cited the recording of certain programs within an inappropriate fund, and the improper recording of revenues as reductions of expenditures.

The City’s lack of an effective internal control system, as demonstrated by the failure to develop the five standard elements of the control framework, makes the City vulnerable to internal and external risks, inefficiencies in delivering services, and the waste or misuse of public funds.

Recommendations

1. City management should work together to improve the City’s system of internal controls.
2. The City’s ethics committee should conduct regular meetings, ensure that the City’s code of ethics is periodically reviewed and updated, and implement a method for regular distribution of, and training on, the code of ethics.
3. The Council and the Mayor should implement a policy to conduct risk assessments and/or internal audits of City operations on a routine basis.
4. City management should ensure that adequate policies and procedures are developed for procurement, payroll, accounts payable, cash receipts, and other business functions. Such procedures should provide for the adequate segregation of financial duties, or mitigating controls.
5. The Council should review and approve claims prior to payment as required by the City Charter.
6. City management should implement an efficient system for employees and residents to report information to the City, and for the prompt communication of such information to the responsible parties for appropriate action.

⁵ At the time of our audit, this position was vacant.

7. The Council and the Mayor should meet with the external auditors on an annual basis to review the audit report and management letter. If the Council delegates this responsibility to a committee, it should ensure that the committee reports its findings to the Council.
8. The Council and the Mayor should ensure that all external auditor recommendations are reviewed and a corrective action plan developed and implemented.

Information Technology

City officials rely on the information technology (IT) system to maintain financial data, process transactions, access the Internet, communicate by email, and report to State and Federal agencies and the general public. The potential consequences of a system failure can range from inconvenient to severe. Computerized personal data can also be a potential liability to the City if it is lost or improperly disclosed. Accordingly, City management (which includes the Council, the Mayor, other elected officials, and department heads) is responsible for establishing policies and procedures and implementing internal controls to safeguard the City's valuable IT assets, including computer data, equipment, and systems.

City officials have not implemented policies and procedures for IT, including a computer use policy and adequate controls and restrictions over user access to computers, the financial system, and the Internet. Further, City management has not developed adequate procedures for data backup and storage, or a comprehensive disaster recovery plan. As a result of these control weaknesses, the City's IT assets are at an increased risk of possible theft, or compromise by intentional or unintentional manipulation or corruption. Without adequate and tested processes for backing up and restoring lost data in the event of a disaster, the City is also at risk of potentially costly disruption to critical operations.

Computer Use Policy

A good system of IT controls starts with policies to define appropriate user behavior, and the tools and procedures necessary to protect information systems. Such policies should include procedures governing the acceptable use of computers, Internet access, email, and procedures for information security, virus protection, and password security. A computer use policy holds users accountable for the proper use and protection of City resources. City management should distribute acceptable use policies to all employees.

City management has not established or implemented any computer use policies. City officials stated that they attempted to implement a computer use policy in the past, but the City's employee unions disagreed with the City over its implementation and it was abandoned. We tested computers assigned to 12 City employees with the authority to process financial transactions and access other vital City systems. We found limited evidence of inappropriate use on four computers, such as accessing social networking sites and online shopping, and only minimal personal use on the other eight computers. However, without comprehensive policies that explicitly convey the

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

User Access Rights

City officials are responsible for defining appropriate use of the Internet for employees, ensuring that computer users have only those user permissions that they need to perform their job duties, and monitoring employees' computer activity to help prevent, as well as identify and trace, inappropriate activity. We found that the City's controls over, and monitoring of, user access were not adequate.

Internet Access – Internet browsing increases the likelihood that users will be exposed to malicious software that may compromise data confidentiality. For example, social networking sites have become particularly vulnerable to attacks due to their popularity. City management can reduce the risks to the City's sensitive data and IT assets by defining the amount of Internet browsing that represents legitimate business purposes, imposing appropriate limits, and developing detailed policies that are clearly communicated to all users.

The City does not use any filtering devices to limit Internet access. According to City officials, employees can access any website from their computers. Our review of Internet browsing histories found that two employees had visited social networking sites. Although we did not identify excessive Internet browsing, the lack of clearly established, communicated, and monitored controls over Internet access leaves the City's data resources vulnerable to external attack.

Administrative Rights – Administrative rights give users complete access to create, delete, and modify files, folders, or settings. It is important that general users are restricted from unauthorized areas and functions on the City's computer system. An unauthorized user who gains access to an account with administrative rights would have the ability to install programs, download or destroy data, and change log files (computer-generated trails of activity) to conceal such actions. In addition, mistakes and accidents could occur, such as unintentional deletions and modifications. Therefore, it is important that administrative rights are limited to authorized IT staff and a designated alternate. Such designated individuals should use the administrator accounts only when absolutely necessary.

All City employees have operating-system administrative rights, including the ability to modify configuration settings and install software. The assignment of administrative rights in this manner increases the risk that the City's systems and data could be lost, corrupted, or misused.

Financial System Access – Effective access controls prevent users from being involved in multiple aspects of financial transactions and from accessing unauthorized areas where they can intentionally or unintentionally change or destroy critical data. The proper segregation of payroll, human resources, and accounts payable duties within the IT environment is an essential internal control to ensure that no one employee performs key aspects of payment processing – such as adding new vendors or employees to the City's computer system, entering disbursements or payroll information, and processing checks. Compensating controls can limit the risks associated with inadequate segregation of duties. For example, someone independent of the payroll or accounts payable process can be designated to perform a review of all new employees and vendors added to the system. While cross-training on certain applications is necessary, the ability to perform these functions should be assigned only in the absence of the person primarily responsible for each function. Furthermore, the granting of financial software permissions, whether permanent or temporary, should be done only with the written consent of City management and carried out by a system administrator who is not directly involved with the financial operations of the City.

City management has not developed policies and procedures to safeguard against unauthorized access to the City's financial data. We reviewed the access rights for all City financial system users for key modules and found that users had access to routines that were not necessary to perform their job duties. For example, the payroll clerk and a Treasurer's office employee were given full access to all accounts payable functions, and various departments had the capability to convert purchase requisitions to purchase orders without proper approval. Further, permissions were not assigned to adequately segregate the payroll and accounts payable (non-payroll) duties. The accounts payable clerk had the ability to control most aspects of disbursement transactions, i.e., to add and change vendor records, enter requisitions, convert requisitions to approved purchase orders, record disbursements, and print checks. Similarly, the payroll clerk could add and change employee information, enter pay rates, enter payroll information (e.g., hours worked), and print checks. In addition, during our audit period, as the designated system administrator for the financial software, the Deputy Treasurer had access to and was solely responsible for assigning user permissions. The assignment of financial system access to numerous employees in

excess of their job duties, without mitigating controls, increases the risk of unauthorized access and intentional or unintentional changes that could be detrimental to the City.

Audit Log – An audit log is a computer-generated monitoring tool that provides information such as the date and time a user accesses a program, the transaction or activity that occurred, and the time and date of the user’s logoff. Maintaining and regularly reviewing audit logs for the financial software enables City officials to determine who is accessing the program and whether the transactions processed are appropriate, and to trace questionable system activity.

City officials did not know if their financial software created an audit log and, therefore, had no means of detecting inappropriate transactions and identifying the users responsible.

Data Backup

A strong system of internal controls includes a system to back up (create a copy of) computer-processed data. Good business practices require City officials to run daily backups, keep the backup data as current as possible, and store the data at an environmentally and physically secure offsite location for retrieval in case of an emergency.

City management has not adopted comprehensive data backup policies and procedures for computer-processed data. Although the City’s IT coordinator performs a daily backup of data files to a tape, he does not store the backup tape in a secure offsite location for retrieval in case of an emergency, but instead stores the backup tapes on City premises in a locked fireproof safe. While the safe provides a limited level of security, storing the backup tape onsite subjects the backup data to the same risks (disasters) as the original data and does not appropriately address the purpose of a backup control procedure.

Disaster Recovery

A formal disaster recovery plan includes policies and procedures to help prevent or minimize the loss of computer equipment and data, and to guide recovery in the event of an actual loss. Even small disruptions in electronic data systems can require extensive effort and cost to evaluate and repair. Therefore a disaster recovery plan should include precautions to minimize the effects of a disaster so that City officials can maintain or quickly resume critical functions. The plan may also include a significant focus on disaster prevention.

The Council has not adopted a comprehensive disaster recovery plan. In the event of a disaster, City personnel have no guidelines to follow to prevent the loss of equipment and data, and no procedures for data recovery. This could lead to the loss of important financial data and serious interruptions to City operations, such as not being able to process checks to pay vendors or employees.

Recommendations

9. City management should establish policies and procedures for computer use and ensure that they are distributed to all appropriate City employees.
10. City officials should implement a system to limit the Internet access of City employees to ensure that computers are used only for appropriate business purposes and to limit threats caused by inappropriate use.
11. City management should limit administrative rights to authorized and appropriate staff.
12. City management should establish policies and procedures for access controls to restrict financial software permissions to only those functions that are necessary for employees' job duties.
13. City management should assign user rights to prevent users from having access to multiple aspects of the payroll and accounts payable processes and implement appropriate compensating controls when duties are not adequately segregated.
14. City management should designate someone independent of Treasurer's office operations as the City's financial system administrator.
15. City management should ensure that logs for the financial system are maintained and periodically reviewed.
16. City management should establish policies and procedures for data backup and storage, and comprehensive guidelines for disaster recovery.

Fire Prevention Code Inspections

Fire prevention code and safety inspections are required for multiple dwellings and for buildings and structures having areas of public assembly. The Fire Chief is responsible for ensuring that fire prevention code inspections are conducted in a timely manner and for issuing property owners an inspection report. Depending on the type of property, a fire prevention code inspector (inspector) or the Fire Chief must perform an inspection every one to three years. City Code requires that public assembly properties are inspected annually; business, educational, factory, hazardous, and institutional properties, every two years; and residential⁶ and storage properties, every three years. The City's inspection fee is \$100. Based on the Fire Chief's records, the City has 602 properties that require inspection, of which 126 should be inspected annually, 459 every two years, and 17 every three years.

The Department has no written policies and procedures for fire prevention code inspections. The Fire Chief stated that he uses guidance from the New York State Department of State. Once an inspection is completed, the inspector conveys the results to the Fire Chief who prepares an inspection report indicating whether any violations were found. The administrative coordinator prepares an invoice for the inspection fee and attaches it to the report. The Fire Chief told us that if the administrative coordinator is absent, the inspection report may be sent to the property owner without an invoice because the administrative coordinator is the only employee who knows how to prepare the invoices. If any violations are noted in the inspection report, a follow-up inspection is scheduled.

We reviewed a sample of 100 properties⁷ and related documentation to determine when the last inspection was conducted and whether the Department was accurately and completely billing and collecting the inspection fees. As of February 2012, the Department had not performed 92 of the 100 inspections in our sample within the timeframes required by the City Code. Fifty of these 100 inspections were required to be performed annually, 38 every two years, and four every three years. According to Department records, these

⁶ Single and multiple occupancy rental units (excluding high-rise buildings) are inspected, pursuant to City Code, by the City's Building Inspection Department and are not included on the Fire Chief's list of properties that we used for our audit testing.

⁷ Using a non-biased judgmental selection process, we selected every other property in each of the three categories until we reached a sample size of 100.

inspections had not been completed for two to six years and were in excess of the required timeframes, and there was no record of many required inspections having been completed at all.

Also, all inspections performed were not billed the \$100 fee. Of the 25 properties that had documentation of inspections during our audit period, five were not appropriately billed. The day after we discussed the lack of billings with the Fire Chief, the Department invoiced two of the five properties. A lack of proper billing and collection of inspection fees results in lost revenue to the City. If all 602 properties⁸ were inspected in accordance with City Code, the City would have received \$36,000 in revenue annually.⁹

Additionally, the Fire Chief's records and reports were inaccurate, unreliable, and not up-to-date. The Fire Chief maintains a list of properties that require fire prevention code inspections, periodically prepares handwritten lists of the inspections performed, and maintains a paper file for each property that requires an inspection. We compared the handwritten inspection lists with the property files and found that they did not agree. For example, six properties' inspection dates did not match, and five properties were listed as inspected but had no inspection report on file. According to the lists provided by the Fire Chief, 31 inspections were conducted during our audit period,¹⁰ which should have resulted in the City receiving \$3,100. However, our review found documentation of only 25 inspections,¹¹ and the records showed that the City received only \$1,900.¹²

The Fire Chief said his ability to complete these inspections is affected by staffing limitations, including the Council's 2002 elimination of a position for a fire prevention code inspection officer. As of 2011, the City has eight inspectors including the Fire Chief. According to Department officials, there are no limitations that would prevent all Fire Department staff from being trained to conduct inspections.¹³ However, the inspectors are not assigned solely to fire prevention code inspections, but must also perform other Department functions such as ambulance and fire calls. The

⁸ The Fire Chief does not regularly update this document; therefore, this list may include properties that are no longer active, or may not include new businesses.

⁹ This calculation includes conducting 360 inspections annually (126 annual inspections, 229 bi-annual inspections, and five tri-annual inspections).

¹⁰ For 2012 we used a report from the Department's invoicing software.

¹¹ The Department conducted eight inspections in 2010, 13 in 2011, and four in 2012 (through February 29, 2012).

¹² The City collected \$600 in 2010, \$1,100 in 2011, and \$200 in 2012 (through February 29, 2012).

¹³ According to the Lockport Professional Fire Fighters Association agreement, the most senior firefighters are initially offered the opportunity to perform inspections.

Fire Chief told us that ambulance and fire calls account for about 90 percent of the firefighters' time, preventing inspections from being completed in a timely manner, and that therefore it is not practicable for all firefighters to become inspectors.

The failure to conduct and appropriately bill for fire prevention code inspections as required by City Code increases the risk that potentially harmful code violations are not being detected and costs the City up to an estimated \$36,000 annually in inspection fee revenues.

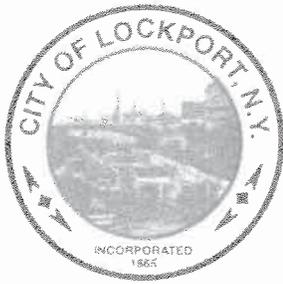
Recommendations

17. The Fire Chief should develop and implement written policies and/or procedures for fire prevention code inspections.
18. The Council and Fire Chief should ensure that all required inspections are performed in the mandatory timeframe.
19. The Council and the Fire Chief should ensure that all inspections are billed and the fees collected in a timely manner.
20. The Fire Chief should ensure that the list of properties is up-to-date and implement a system to accurately track inspections conducted.
21. The Fire Chief should ensure the efficient use of staff by training additional firefighters to perform fire prevention code inspections and to prepare invoices for these inspections.

APPENDIX A

RESPONSE FROM CITY OFFICIALS

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



Office of the Mayor

Michael W. Tucker, Mayor



LOCKPORT MUNICIPAL BUILDING
One Locks Plaza
Lockport, NY 14094
P: (716) 439-6665
F: (716) 439-6668

July 10, 2012

Robert E. Meller
Chief Examiner of Local Government and
School Accountability
Buffalo Regional Office of
New York State Comptroller
295 Main Street Room 1032
Buffalo, New York 14203

Dear Mr. Meller:

In response to the preliminary draft findings audit of the City of Lockport, I am enclosing our response to your twenty-one recommendations. I believe that many of the control measures that you say don't exist, in fact, do exist and are in place. These measures are what make us function as well as we do.

See
Note 1
Page 27

Having said that, I believe that there is an opportunity for improvement and possibly further consolidation and restructuring of government operations to achieve the efficiency and effectiveness in pursuit of a better local government. The following is our response to your findings.

RECOMMENDATIONS 1-8 INTERNAL CONTROL SYSTEMS

1. IMPROVING THE CITY'S SYSTEM OF INTERNAL CONTROLS: Probably the most important thing here would be to develop (in writing) standard operating procedures and have the Common Council adopt by resolution. This would include payroll, accounts payable/receivable and tax and water billings. Our external auditing firm will help us in completing this task. The fact that they haven't raised the red flag leads me to believe that these controls are for the most part already in place. Nonetheless, we will consult them, and soon.
2. CODE OF ETHICS: The recommendations regarding this puzzle me. I approach it as "if it isn't broke don't fix it". Outside of reviewing it annually

with the Committee, Common Council and the Corporation's office, I would not bother the people who serve with needless meetings.

3. RISK ASSESSMENTS/INTERNAL AUDITS: This is done, and done annually. That is why we hire an external auditing firm. The annual audit is done to safeguard our operations. Again, our auditors will be front and center when we address the State's recommendations, especially when addressing internal controls.
4. ADEQUATE POLICIES AND PROCEDURES: Recently the City Clerk's office updated the standard operating procedures for work done in that office. If I understand the comments correctly, apparently the State wants the Council to formally adopt these SOP's. If I am reading the report correctly, each department should complete SOP's and have the Council adopt. That's what we will do.
5. COUNCIL APPROVAL OF CLAIMS: No Council member will want to serve on the Finance Committee if they have to review each and every purchase order. In the past, the chairman met with the accounting department every two weeks to approve the bills. Additionally, the auditor met with the Finance Committee monthly. Maybe this should be done bi-weekly prior to the Council approving bills and payroll. A listing of the bills to be paid and a copy of the payroll can be made available for scrutiny.
6. IMPLEMENT EFFICIENT SYSTEM FOR EMPLOYEES/RESIDENTS TO REPORT INFORMATION: First and foremost, the employees do have a means. They are represented by unions and may file grievances. Secondly, the Charter addresses the filing of claims. It could be tweaked, but the infrastructure is in place.
7. MEET WITH EXTERNAL AUDITORS: The cost of the external auditors is charged to the Council's budget, but the City Treasurer controls the process. This will change and the external auditor will report to the Mayor and Council.
8. IMPLEMENTATION OF EXTERNAL AUDITOR'S RECOMMENDATIONS: The external auditor's recommendations are just that, recommendations. The Council has final say on implementation. Going forward they will see and discuss them and implement when necessary.

See
Note 2
Page 27

See
Note 3
Page 27

RECOMMENDATIONS 9 – 14 INFORMATION TECHNOLOGY

9. ESTABLISH POLICIES AND PROCEDURES REGARDING COMPUTER USE: There is a policy in place. It is outdated, but exists. It will be updated.
10. LIMIT INTERNET ACCESS: Absolutely, as part of #9
11. LIMIT ADMINISTRATIVE RIGHTS: Absolutely, as part of #9
12. ESTABLISH LIMITS FOR EMPLOYEE ACCESS TO FINANCIAL SOFTWARE: Absolutely, as part of #9 and #10
13. USER RIGHTS ASSIGNMENTS: Absolutely, as part of #10, #11, #12
14. DESIGNATE SOMEONE INDEPENDENT OF TREASURER'S OFFICE AS FINANCIAL SYSTEM ADMINISTRATOR: Easier said than done, but good advice. We will look into it.

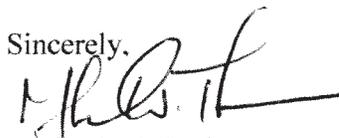
15. FINANCIAL SYSTEM LOG MAINTENANCE AND REVIEW: The City needs to determine if our system currently allows for this. If so, implement.
16. DATA BACKUP AND STORAGE: Currently we back up, but do not store off site. Should prove to be relatively inexpensive and easily done.

RECOMMENDATIONS 17 – 21: FIRE PREVENTION CODE INSPECTION

17. DEVELOPMENT/IMPLEMENTATION OF WRITTEN POLICIES AND PROCEDURES: I am confident these exist but possibly need updating. We will look at that.
18. MANDATED INSPECTIONS AND COMPLETION: I am concerned that there seems to be some problem regarding what should be inspected and the frequency thereof. The Fire Chief, the Assessor's office and Building Inspection will be involved in clearing up any confusion over identifying building classifications and coming up with the correct numbers for inspection and then the Fire Department will carry out the inspections.
19. INSPECTION BILLING: I believe that a billing operation should be pursued as it relates to taxes, water/sewer bills and included in this would be inspections. Changes regarding who bills and who collects are in order.
20. UP TO DATE LIST OF PROPERTIES TO BE INSPECTED: This should be done in conjunction with #18.
21. TRAINING OF ADDITIONAL FIREFIGHTERS TO PERFORM INSPECTIONS: Something we will look at and will do if possible.

In conclusion, I will charge the Department Heads with developing (in writing) standard operating procedures for their respective operation. Then have the Council adopt them. This audit presents another opportunity for the City to make some changes to increase efficiency and effectiveness, which relates to a better bang for the taxpayers buck.

Sincerely,



Michael W. Tucker
Mayor

MWT/lag

OFFICE OF THE CITY TREASURER

MICHAEL E. WHITE, TREASURER
STEPHEN A. GOERSS, DEPUTY
RUTH E. OHOL, AUDITOR
TEL. (716) 439-6744
FAX (716) 439-6650

July 12, 2012

State of New York
Office of the State Comptroller
Buffalo Regional Office
[REDACTED]

Dear [REDACTED]

I am responding as the Chief Financial Officer of the City of Lockport. In reviewing the audit report presented to Mayor Tucker and myself from the State Comptroller's Office on June 19, 2012, I found the report, as it relates to my areas of responsibility, to be accurate and helpful. This audit serves as a confirmation of the details that were provided by this office to the on-site accountants prior to their actual work to let them know we had similar concerns.

I would like to formally address the operational hurdles that my areas had to overcome during the last several years. First, our long-tenured city auditor became gravely ill, very unexpectedly, and ultimately retired without returning to work. In her absence, no other staff had adequate background experience to keep that position running smoothly. Not unexpectedly, many of your observations are tied to this key absence. At the same time another key position, that of payroll and benefits administrator, retired after forty years of service and yet a third position, senior account clerk, required surgery and an extended recovery period. This third position of senior account clerk that was cut for budgetary purposes a few years earlier was re-created via a requested recommendation from our independent auditor to the Common Council. Upon return after recovery the third position filled the position of payroll and benefits administrator. Once again, for budgetary purposes, the third position was cut and not filled. Given that these three instances revolved around my entire accounting support staff, it was necessary to assign permissions to others on staff to keep the city operating. Your comments relative to the permissions is well received. As mentioned, the Council, in an effort to maintain a constant tax levy has reduced the accounting staff by one person (Our backup for multiple positions) and has only provided us with a part-time IT person. As the Deputy Treasurer used to be and is still heavily involved in IT, we currently need to rely on him to maintain the system during the IT person's absence. However, your suggestion that system changes be documented by a written permission form is one that I value.

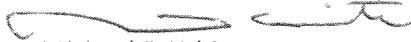
I was always aware of the weaknesses that existed and was diligent in recruiting an experienced person to help get back up to speed and to revise our internal systems. My first concern was to regain

operational stability and then to address our known weaknesses. As of this writing, much of this has been accomplished. We are now in the process of upgrading our software, reviewing permissions and reassigning permissions.

Our lack of current policy has been discussed with the Finance Committee and I have been awaiting updated policies in order to implement better procedures. Again, when the policies are in place my staff will have the documents from which to formulate much needed written procedures. I might add that the goal is to create a comprehensive Policies and Procedures Manual to incorporate the areas of internal control, risk assessment, and monitoring. The document would be distributed to the responsible employees.

Our lack of written documentation and its importance has ultimately left us in a weakened position for succession and loss of institutional knowledge. I plan to work with my staff to develop a corrective action plan (CAP) for the areas relative to my areas of control once the final report is received.

Very Truly Yours,



Michael E. White

Lockport, New York 14094

APPENDIX B

OSC COMMENTS ON THE CITY'S RESPONSE

Note 1

We believe we have sufficient evidence to show otherwise. The Mayor in fact states that the City will address most of our recommendations.

Note 2

The City's external auditor conducts financial audits, which are distinctly different from internal audits. Financial audits are designed to provide independent assurance of the fair presentation of financial information. Internal audits are appraisals of various operations and controls within a government entity; they could include determining whether policies are complied with, standards met, and resources used effectively or efficiently.

Note 3

The City Charter states that individual claims are to be audited by the Common Council. If this is not feasible, the City should consider revising its Charter to provide for an adequate claims audit process that is acceptable to the Common Council, such as appointing a claims auditor.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess City operations and identify areas where the City could realize efficiencies and protect assets from loss or misuse. To accomplish this, our initial assessment included a review of financial condition, accounts payable, payroll, cash receipts, information technology, and the Departments of Public Works, Youth and Recreation, Police, and Fire.

During the initial assessment, we interviewed appropriate City officials, performed limited tests of transactions, and reviewed pertinent documents, such as the City Code, City policies and procedures manuals, Common Council minutes, financial records and reports, and lists of vendors and employees. In addition, we reviewed the City's internal controls and procedures over its computerized financial systems to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected the internal control system, information technology, and fire prevention code inspections for further audit testing.

To achieve our internal control system objective and obtain valid audit evidence, we performed the following audit procedures:

- We used the five elements of the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control Framework.
- We reviewed the City Charter, City Code, and any policies and procedures for information relevant to internal controls and financial and accounting functions.
- We interviewed City officials and department heads to determine what controls were in place and gain an understanding of internal controls.
- We reviewed documentation to support the internal control system, including organization charts, audit reports, and internal reports.

To achieve our information technology objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed the City Charter, City Code, and any relevant policies and procedures relating to information technology.
- We interviewed information technology staff to determine what internal controls were in place.
- We interviewed users to determine their knowledge of information technology controls.

- We reviewed a sample of 12 City employees' computers for virus protection, inappropriate files, and inappropriate Internet activity.
- We reviewed user access rights to the network and to the financial software to determine if users had access only to necessary systems and if there was adequate segregation of duties.

To achieve our fire prevention code inspection audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed City officials and employees to understand the processes and procedures in place over performance of fire prevention code inspections.
- We reviewed the City Charter and City Code for fire prevention code inspection policies and procedures.
- We obtained a listing of all properties that were invoiced and quantified the total amount of inspection fees billed.
- We verified the calculation of fees collected and determined if they were accurately recorded and deposited.
- We reviewed fire prevention code inspection files to determine if inspections were performed in a timely manner.
- We used a non-biased judgmental process and selected every other listed property owner until we reached a sample of 26 property owners and then contacted them to determine if an inspection had been conducted.

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 D

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OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
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