



# City of Middletown

## Selected Financial Operations and Information Technology

### Report of Examination

Period Covered:

January 1, 2011 — July 9, 2012

2013M-56



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

May 2013

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 Council 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 Middletown, entitled Selected Financial Operations 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

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# EXECUTIVE SUMMARY

The City of Middletown (City) is located in Orange County and has a population of approximately 28,000. The City is governed by its Charter, general State laws, and local laws and ordinances. The City has a Mayor, a nine-member City Council (Council), and an appointed Treasurer. The Mayor and the Council make up the legislative and governing body of the City. The Council develops City policies and enacts laws, ordinances and resolutions. The City provides services that include fire and police protection, street maintenance, water and sewer utilities, and park and recreation programs for its residents. The City's 2012 and 2013 general fund budgets totaled \$34 million and \$35 million, respectively, funded primarily by property taxes, sales taxes and State aid.

The Council is responsible for providing oversight of the City's financial operations. The Mayor is the chief executive officer and the Treasurer is the chief fiscal officer. The Treasurer is responsible for maintaining appropriate accounting records and preparing monthly and annual financial reports. The Mayor and Treasurer also share the responsibility for ensuring that internal controls are adequate and working properly.

Day-to-day management of the City's computer system is the responsibility of the Information Technology (IT) Specialist. The City uses the services of an outside vendor for technical support and back-ups.

### **Scope and Objective**

The objective of our audit was to examine the City's purchasing practices, Council oversight, and IT for the period January 1, 2011, to July 9, 2012. Our audit addressed the following related questions:

- Did City officials procure goods and services in accordance with the established procurement policy?
- Did the Council provide adequate oversight of City financial operations to ensure that City assets were properly safeguarded?
- Did City officials ensure that the City's IT systems were adequately secured and protected against unauthorized access and loss?

## **Audit Results**

The City did not adopt a comprehensive procurement policy. As a result, City officials and employees did not solicit competitive proposals for five of eight professional services providers who were paid \$164,613. In addition, City officials did not have a written agreement with one of eight professional service providers we tested. Without a written agreement, City officials do not have a means of determining whether rates charged are reasonable and necessary. City officials did not solicit written quotations for eight of 18 purchases tested totaling \$73,661. By failing to seek competition when procuring goods and services, City officials cannot assure taxpayers that goods and services are procured in the most prudent and economical manner and without favoritism.

The Council needs to improve its oversight of the City's financial affairs. The Council did not require the Treasurer to provide written periodic financial reports for use in monitoring City financial operations. By not requiring the Treasurer to provide written financial reports, the Council does not have a means to determine the City's financial condition and manage its finances effectively.

The Council and City officials did not establish and implement a comprehensive policy and procedures to effectively secure and protect the City's computer systems and data against unauthorized access and loss. As a result, system users were unnecessarily assigned administrative rights and had access to system modules that they did not need to perform their job duties. The Council did not establish an information breach notification policy or a disaster recovery plan to minimize disruption of operations in the event of a catastrophic event. Because of these deficiencies, the City's computer systems and data are subject to an increased risk of unauthorized access and loss.

## **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. Except as indicated in Appendix A, City officials generally agreed with our findings and indicated that they planned to initiate corrective action. Appendix B includes our comments on issues raised in the City's response.

# Introduction

## Background

The City of Middletown (City) is located in Orange County and has a population of approximately 28,000. The City is governed by its Charter, general State laws, and local laws and ordinances. The City has a Mayor, a nine-member City Council (Council), and an appointed Treasurer. The Mayor and the Council make up the legislative and governing body of the City. The Council develops City policies and enacts laws, ordinances, and resolutions. The City provides services that include fire and police protection, street maintenance, water and sewer utilities, and park and recreation programs for its residents. The City's 2012 and 2013 general fund budgets totaled \$34 million and \$35 million, respectively, funded primarily by property taxes, sales taxes and State aid.

The Council is responsible for providing oversight of the City's financial operations. The Mayor is the chief executive officer and the Treasurer is the chief fiscal officer. As the chief fiscal officer, the Treasurer is responsible for the custody of City moneys, maintaining appropriate accounting records, and preparing monthly and annual financial reports. Although the Council is primarily responsible for the effectiveness and proper functioning of the City's internal controls, the Mayor and Treasurer also share the responsibility for ensuring that internal controls are adequate and working properly.

Day-to-day management of the City's computer system is the responsibility of the Information Technology (IT) Specialist. The City uses the services of an outside vendor for technical support for the financial software and City Hall's onsite and offsite backups.

## Objective

The objective of our audit was to examine the City's purchasing practices, Council oversight and IT. Our audit addressed the following related questions:

- Did City officials procure goods and services in accordance with the established procurement policy?
- Did the Council provide adequate oversight of City financial operations to ensure that City assets were properly safeguarded?
- Did City officials ensure that the City's IT systems were adequately secured and protected against unauthorized access and loss?

**Scope and  
Methodology**

We examined the City’s purchasing practices, Council oversight of financial operations, and IT for the period January 1, 2011, to July 9, 2012. Our audit disclosed areas where additional IT security measures should be instituted to help prevent unauthorized access to City assets. Because of the sensitivity of some of this information, certain specific vulnerabilities are not discussed in this report, but have been communicated confidentially to City officials 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 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 have been considered in preparing this report. Except as indicated in Appendix A, City officials generally agreed with our findings and indicated that they planned to initiate corrective action. Appendix B includes our comments on issues raised in the City’s response.

The 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 Clerk’s office.

# Procurement

The Council is responsible for providing oversight of the City's financial operations. One of the Council's important responsibilities is to establish and monitor a comprehensive procurement policy to help ensure that the City obtains goods and services of the required quantity and quality at the most favorable terms and to protect against favoritism, extravagance, fraud, and corruption. An effective and comprehensive procurement policy would require City officials to encourage competition when procuring services which will be paid for with public funds.

The Council did not adopt a comprehensive procurement policy that encourages solicitation of competition when acquiring professional services. As a result, City officials and employees did not solicit competitive proposals for five of eight professional services providers we tested who received payments totaling \$164,613. Further, City officials did not have a written agreement with one of eight professional service providers we tested. Without a written agreement, City officials do not have a means of determining whether rates charged are reasonable and necessary. In addition, City officials did not solicit written quotations for eight of 18 purchases tested totaling \$73,661. When purchases are made without soliciting competition, there is little assurance that goods and services are procured in the most prudent and economical manner and without favoritism.

## Professional Services

General Municipal Law requires the City to adopt policies and procedures governing the procurement of goods and services, such as professional services, that are exempt from competitive bidding. Requests for proposals (RFPs) are one effective method for soliciting competition for professional services. If City officials determine that certain vendors are the sole source available for providing the required services, they must maintain documentation justifying their reasoning.

It is essential for the Council to enter into written agreements with professional services providers that provide both parties with a clearly defined and mutually agreed-upon basis for entitlement to payment. Written agreements must include the timeframe and description of services to be provided and the basis for compensation, and should be used to verify that the fees charged are in accordance with the Council's intent. They also can help to protect the City in the event that contractors default on their obligations or make excessive claims.

The Council has adopted a procurement policy to govern the City's purchasing practices. However, the policy does not mandate the use of competitive methods to obtain professional services. During our audit period, the City contracted with 11 professional service providers who received payments totaling \$1,088,939. We reviewed eight professional services providers who received payments totaling \$680,819 during our audit period. City officials did not use competitive methods, such as an RFP process, when obtaining five of the eight professional service vendors who received payments totaling \$164,613. Services provided by these vendors included engineering services totaling \$117,238, audit services totaling \$19,575, legal services totaling \$22,300, and consulting services totaling \$5,500.

In addition, City officials could not provide a written agreement for the legal service provider. City officials told us that the vendor is a law firm with special experience with labor and labor contract law and has been working with the City for 17 years. They stated that they did not issue an RFP for this service because the vendor's expertise and unique experience with the City makes the vendor like a sole source. However, City officials did not maintain documentation stating that this service provider was a sole source provider. Further, without an agreement detailing the services to be provided, City officials have nothing to compare invoices with to be sure that they are paying only for authorized services and at the intended rates. Additionally, the written agreement for the vendor providing audit services was not sufficiently itemized to clearly indicate the services provided or the rates at which hours were billed.

Without a comprehensive policy that encourages the use of competition when awarding professional service contracts, the Council and City officials cannot assure taxpayers that these services are procured at the most favorable terms and without favoritism. Also, without written agreements, there is no clear understanding of what compensation professional service providers are entitled to and the extent of the services that they are required to provide.

## Written Quotes

According to the City's procurement policy, purchase contracts between \$5,000 and \$19,999 require three or more written quotes. However, we found that City officials did not always follow the adopted policy when procuring goods and services that were subject to quotation requirements.

City officials made 400 purchases totaling \$3,951,395 during our audit period that required written quotes. We judgmentally selected a sample of 18 purchases totaling \$431,147 based upon dollar value and the payee's name. We found that Department heads or assigned staff did not obtain written quotes for eight of the 18 purchases totaling

\$73,661. These purchases included fire hydrants totaling \$20,280, police vests totaling \$12,500, street lights costing \$6,297, and rigging equipment for the Paramount Theater totaling \$5,253.

City officials' failure to ensure compliance with the procurement policy places the City at risk of not obtaining goods and services that are the lowest available price and free of favoritism.

## **Recommendations**

1. The Council should consider revising the City's procurement policy to require the use of competitive methods when obtaining professional service providers.
2. The Council should enter into written agreements with all professional service providers that detail the services to be provided and the compensation for those services.
3. City officials should obtain quotations as required by the procurement policy prior to making purchases that fall below the bidding thresholds.

## Council Oversight

The Council is responsible for managing and overseeing the City's overall fiscal affairs and safeguarding its resources. Interim financial reports provide the Council with timely information on such issues as financial position, results of operations, budget status, and service or project costs. Therefore, so that the Council can make informed financial decisions, it must ensure that it receives such necessary financial information and reports from the Treasurer.

The City Charter requires that, at each regular monthly meeting, the Treasurer report to the Council the moneys received during the preceding month. This report should include a statement showing to what fund the Treasurer credited the moneys. The Charter also requires the Treasurer to provide and file with the Council a full statement of receipts and expenditures after the date of the last annual report.

The Council did not require the Treasurer to provide written periodic financial reports for use in monitoring actual operations. There was no evidence in the Council minutes that the Treasurer provided the Council with written interim financial information and reports as required by the City Charter. The Treasurer informed us that he provided the same information to the Council that the previous Treasurer did. Two Council members stated that they received and accepted verbal financial information because they trusted that those responsible were performing their jobs.

By not requiring the Treasurer to provide written financial reports, the Council is unable to manage City finances effectively.

### **Recommendation**

4. The Council should require the Treasurer to provide the periodic written financial reports it needs to fulfill its responsibility of monitoring City financial operations.

## Information Technology

Computerized data is a valuable resource that City officials rely on to make financial and non-financial decisions and report to State agencies. If computers on which this data is stored fail, or the data is lost or altered, either intentionally or unintentionally, the results could range from inconvenient to catastrophic. Even small disruptions can require extensive time and effort to evaluate and repair. For this reason, it is important that City officials control and monitor computer system access and usage, establish a formal disaster recovery plan, formulate a breach notification policy, and ensure that computerized data and assets are physically secured and backups are secure and encrypted.

The Council did not develop and implement comprehensive IT policies and procedures to effectively safeguard the City's computer systems and data and provide guidance to City employees on the appropriate use of these resources. Access to City computer systems was not suspended immediately upon termination of employment. User accounts were still enabled for seven individuals who separated from City service. We also found that some users unnecessarily had administrative rights on their computers. City officials neither developed a formal disaster recovery plan to address the effects of potential disasters nor complied with the law that requires the adoption of a breach notification policy. As a result, the City's IT resources, systems, and its electronic data are subject to increased risk of unauthorized access, manipulation, theft, and loss or destruction.

### **User Accounts and Access Controls**

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, must be authorized and approved in writing by appropriate City officials. Additionally, user accounts must be deactivated as soon as an employee leaves City service. The IT Specialist is responsible to ensure user accounts for the IT system are managed in a timely and satisfactory manner.

Network User Accounts — Network access controls limit or detect inappropriate access to computer resources, thereby protecting them from unauthorized modification, loss, and disclosure. Access controls provide reasonable assurance that computer resources are protected from unauthorized use or modification. An employee's unique user

account and user access must be disabled when the individual is on extended leave, or when employment has been terminated.

The City did not have written policies for assigning and deactivating user accounts. The process used by the City for terminating access to the City's network is inadequate. The Personnel Department did not formally notify the IT Specialist when an employee left City service; instead, the IT Specialist relied on word of mouth to identify users leaving City employment. We reviewed all 169 employee user accounts as of August 2012 and found that seven employees remained on the active directory between 89 days and 10 years after terminating their employment. Failure to promptly remove the access rights of inactive employees increases the risk that unauthorized users could inappropriately gain access to a system and change, destroy, or manipulate confidential and/or critical data.

Power Users— The City should grant user rights based on the concept of least privilege and only authorize users access to the systems which are necessary to accomplish their job duties. Power users have the capability to access all functions within the software. Therefore, to reduce the risk that City resources could be misappropriated, user rights should be restricted based on job responsibilities.

We found that five individuals, all who work in the Treasurer's office, have power user rights to the City's financial software package. With power user rights, they have unrestricted access to all functions within the software package. Therefore, they could add new users to the system and change users' access rights. They also could make payments. The Treasurer, Deputy Treasurer, accounts payable clerk, senior bookkeeper and a temporary worker all have this level of access. The Treasurer was the only one of the five users who needed to have this level of access; all others should have been restricted by their job responsibilities.

All of the power users were set up by the financial system vendor; however, the temporary worker was given power user access by the Deputy Treasurer, who is the system administrator. The Deputy Treasurer stated that she granted the temporary worker the same access as the individual whom the temporary worker was replacing. The job duties for this position do not require power user rights.

Due to the improper assignment of power user 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.

Administrative Access — Users with administrative access can assign user rights and access control permissions as necessary. Administrators can install and uninstall applications and make adjustments to security and system settings at will. Administrators can not gain access to other users' data or access other users' applications. Conversely, a user account only can perform common tasks, such as running applications, using local and network printers, and locking the computer. Users must have restricted rights to prevent them from threatening the system's security.

All of the City's system users have administrative access rights on their assigned computers. The IT Specialist told us that he granted administrative rights to users because certain applications are inoperable without these rights. Although users have administrative rights, they do not have access to the entire system; they are restricted by domain groups or user accounts. However, they can download and install software and make adjustments to security settings on their assigned components of the system without prior knowledge or approval.

Granting unnecessary administrative rights to users makes the system vulnerable to attacks from outsiders seeking to gain access. The ability to potentially download and install unauthorized software increases the risk that sensitive or critical data may be lost or compromised.

## **Breach Notification**

State Technology Law requires local governments to establish an information breach notification policy. The policy must detail how employees would notify individuals whose personal, private or sensitive information was, or is reasonably believed to have been, acquired by a person without valid authorization. It is important for the disclosure to be made in the most expedient time possible and without unreasonable delay, consistent with the legitimate needs of law enforcement or any measures necessary to determine the scope of the breach and restore the reasonable integrity of the data system.

The City did not have an information breach notification policy because the Council was unaware of the requirement to establish such a policy. Without a formal breach notification policy, the City may not be able to fulfill its legal obligation to notify affected individuals in the event that sensitive information is compromised.

## **Disaster Recovery**

A comprehensive IT policy includes a disaster recovery plan to prevent or minimize the loss of computerized equipment and data, and provide procedures for recovery in the event of an actual loss. A disaster could be any unplanned event that compromises the integrity and the data of the IT systems. Even small disruptions can require extensive effort and cost to evaluate and repair. Typically, disaster

recovery planning involves an analysis of business processes and continuity needs, and defines the roles of key individuals. It also may 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 employees do not have guidance or a plan in place to follow to restore or resume critical operations in a timely manner. The lack of a disaster recovery plan could lead to loss of important financial and confidential data along with a serious interruption to the City's operations, such as not being able to process checks to pay vendors or employees.

## **Recommendations**

5. The Council should establish policies and procedures detailing how users are added and removed from the system.
6. City officials should limit individual system users' access to modules to only those needed to perform their job responsibilities.
7. City officials should not assign power user rights to individuals who do not need them to perform their job responsibilities.
8. The Council should ensure that administrative rights are restricted on computers to minimize system vulnerability.
9. The Council should adopt a comprehensive IT policy that includes the breach notification requirement.
10. The Council should develop and adopt a formal written disaster recovery plan for the City's protection in the event of a catastrophe. The plan should outline procedures for employees to follow if disaster occurs or operations are interrupted. The plan should be distributed to and discussed with responsible parties, tested, and updated at regular intervals to ensure that the City's safety is addressed at all levels.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

The City's response letter also contained five additional exhibits that we did not include in our audit report. Since the City's response letter generally describes the exhibit's contents and their importance in sufficient detail, we did not include the exhibits in Appendix A.



# CITY OF MIDDLETOWN

16 James Street  
Middletown, NY 10940  
Tel: (845) 346-4100  
Fax: (845) 343-7439

Via Overnight Delivery

May 9, 2013

Tenneh Blamah  
Chief of Newburgh Office  
Office of the State Controller  
Suite 103  
33 Airport Center Drive  
New Windsor, NY 12553

Via E-Mail [tblamah@osc.state.us](mailto:tblamah@osc.state.us)

Dear Ms. Blamah:

Below are the city's comments regarding your draft report of Selected Financial Operations and Information Technology for the period of Jan 1, 2011-Jul 9, 2012. We strongly believe the City's procurement practices comply with the City's Procurement Policy

## Audit Results

**Comment** "The City did not adopt a comprehensive procurement policy"

**Response**-The City adopts a Procurement Policy annually and updates it when appropriate and in fact did so in 2012.

**Comment** "City Officials and employees did not solicit competitive proposals for six of the eight service providers who were paid \$164,933. In addition, City officials did not have a written agreement with one of the eight professional service providers we tested.

**Response**- [REDACTED] has long been the City's outside auditors. 2012 was the 5th year of a five year agreement approved by the Common Council. There were modest increases in the first three years and 2011 and 2012 were flat. As an aside they have offered to hold the 2011 fees thru 2015. This firm is well respected and their reputation has contributed to the City's strong Bond Rating.

[REDACTED] are our actuaries that are specialists in calculating OPEB benefits to assure compliance with GASB 45. They are well recognized and used by many municipalities in NY. Their annual fee is \$5,500 under our Procurement Policy that is not subject to competitive bidding and has been flat for years.

See  
Note 1  
Page 21

See  
Note 2  
Page 21

██████████ is a specialty law firm in the practice of labor law. They are well acquainted with the City (having worked with the City since the 1990's) and its various collective bargaining agreements and aid the City in defending grievances, enforcing work rules and representing the City in binding arbitration. Corporation Counsel confirms their hourly fees are in line with other firms in the area. Their years of experience make them far more efficient than breaking in a new firm and learning the details of three CBA's.

See  
Note 2  
Page 21

██████████ is a law firm that the City has used for years and specializes in tax matters with respect to assessment challenges. Their years of experience make them far more efficient than breaking in a new firm. Corporation Counsel confirms their rates are competitive for the area.

██████████ is a company that won the bid to operate the City's water treatment plant in 2010. Their rates have remained the same since that point and the City has recently renewed for another year. The bidding process was in accordance with City policy.

See  
Note 3  
Page 21

██████████ has long been the lead engineering firm for the City, with great knowledge and access to detailed plans of City infrastructure, including underground drainage, water and sewer mains. The charges you have selected to review were in connection with Hurricane Irene and Tropical Storm Lee where many major roads and areas of the City were flooded and completely underwater, were done on an emergency basis within the parameters of the City's Procurement Policy.

See  
Note 2  
Page 21

As a general statement in addition to the reasons given above supporting the above purchases being in compliance with the City's approved Procurement Policy the City encourages competitive bidding but it is not mandatory in selected situations for professional services.

These are the City's comments on the first set of professional invoices totaling \$164,933.

**Comment** "City officials did not solicit written quotations for nine of 18 purchases tested totaling \$73,661."

**Response-** ██████████ appears in the group twice. ██████████ is the sole source of ██████████ the City's standardized water meter, and a major local municipal supplier of Fire Hydrants by ██████████ that match the City's current inventory. The City Water Department routinely obtains verbal prices of Fire Hydrants from other authorized Hydrant suppliers. Also the City is currently engaged in the public bidding process for its Fire Hydrant supplies for the year. Proof of sole supplier status was provided at the exit conference on 5/8/13.

See  
Note 4  
Page 21

██████████ are the supplier of decorative street lighting in the City. When one is damaged through normal wear and tear or an auto accident we have to match the new lights with the other lights in place. The amount cannot be estimated recognizing the need to bid. Naturally should the city decide to replace a large amount of lights as a capital project the City would bid the project. In addition they are the sole source distributor of matching equipment in Orange County. See Exhibit I.

See  
Note 5  
Page 21

██████████ is for the purchase of computer equipment and was purchased on state contract not requiring bidding. At the exit conference there was some confusion regarding the state contract number. It is Dell PT64100-Servers. See Exhibit II

See  
Note 6  
Page 21

██████████ is another sole source for bullet proof vests that match others in stock plus they are purchased under government contract pricing. See attached Exhibit III.

See  
Note 7  
Page 22

██████████ was in response to a safety inspection requiring multiple repairs small in nature to bring the Paramount stage area in compliance with current codes. Given the volume of the individual repairs each unit was under the bidding threshold, and it was not expected the bidding threshold would be crossed. This was also done on an emergency basis resulting from a safety inspection to operate the theater. See Exhibit IV

See  
Note 8  
Page 22

█████ excavating was for the rental of a bull dozer and operator for \$2,500 per day. It was not anticipated the work would last two days driving the invoice up to \$5,000.

█████ is recognized as a national catalog type distributor that sells very specific pumps for a water pump on the City owned Sewer Jet Truck. The pump purchase in question is for a specific pump that must be an exact replacement of the existing pump and fit the City's truck precisely. Based on this criterion they became a sole source. See Exhibit V.

See  
Note 9  
Page 22

The above purchases totaling \$73,661 comply with City policy.

**Comment** "The Council did not require the Treasurer to provide written financial reports"

**Response** The Council has copies of the budget and can expect revenues and appropriations to match the current budget. Any variance to the Budget requires the Council's approval. The reporting in on an exception basis. All variance from the budget are approved by the Council.

A bi-weekly overtime report is published to the Council covering all departments.

Minutes of the Board of Estimate meeting are published to the Council within two days of the meeting.

The Treasurer meets with the Mayor, President of The Common Council and the Chairman of the Finance Committee routinely at the Board of Estimate meeting. There is often information exchanged on a request basis.

Year-end audited financial statements are provided along with a detailed management letter along with an analysis of operations and internal control. 2012 had virtually zero negative comments.

Furthermore there are many signs that the elected officials are being very effective from a financial point of view:

- 2011 and 2012 budgets passed without Fund Balance support conforming to the 2% tax cap
- Fund Balances grew in 2011 and 2012
- Long-term financing secured at less than .5%
- Strong A-1 Bond rating

We strongly recommend the comment be removed, "By not requiring the Treasurer to provide written financial reports, the Council does not have means to determine the City's financial condition and manage its finances effectively".

See  
Note 10  
Page 22

### **Information Technology**

As you know the City has invested \$325,000 in a state of the art computer system and equipment upgrades with █████ and the Code enforcement software replacing systems well over 15 years old.

You are correct inasmuch as the City does not have a formal bound disaster recovery plan. The City does have many plans and systems and backup in place to protect data and insure a minimum of downtime in a natural or manmade disaster.

### **Disaster Recovery in City of Middletown IT resources**

The servers and data for the City of Middletown are backed up on a daily basis to a dedicated backup appliance provided and supported by █████. Multiple versions of backups are maintained in order to protect the City from data loss and system unavailability. In addition to backups stored locally on the appliance in City Hall, data is streamed to offsite storage managed by █████ that is co-located in datacenters on both the East Coast and the West Coast of the US to provide additional redundancy in backups.

All users in City Hall have a personal documents folder provisioned on a server that is backed up, and are instructed to use that folder for all work that is not intended for sharing among department members. In addition, all departments have network drives for data that is shared between department members. Users are told not to save documents to locations that are on their personal computers, to avoid the possibility of data loss in the event of a PC failure.

All servers in City Hall are virtualized, meaning that they run in an environment that is not dependent on specific server hardware. This approach allows for easy migration to new or different server hardware in the event of a failure.

In the event of a data (file) loss, restoration from either the local appliance or offsite backup is quick to execute.

In the event of a PC failure that involves data storage, the client PC is rebuilt with a replacement hard drive (if under warranty) or considered for replacement (if no longer under warranty). Any locally stored data is lost.

In the event of a (virtual) server failure, restoration of the entire server from the local appliance is a quick task, while restoration from offsite backup is slower but still possible.

In the event of a server hardware failure, migration of the virtual servers to the remaining hardware or to a new hardware server is a straightforward, if time-consuming, process.

In the event of a catastrophe that physically damages the server room in City Hall, restoration of operations would involve the procurement and configuration of replacement server hardware and the restoration of server data from offsite backup. This would be a time-consuming (several days) process.

Such a disruption of business continuity can be mitigated through the investment in building an offsite disaster recovery datacenter with redundant server hardware. As the draft audit states, "disaster recovery planning involves an analysis of business processes and continuity needs, and defines the roles of key individuals." The City needs to go through the process of determining what processes can least afford to be interrupted, and what changes to the current environment must be made in order to reduce the duration of such interruptions as much as affordably possible.

#### **Response to Information Technology recommendations in draft State Audit**

5. We are working to formalize the procedures that are used to request Adds, Changes and Deletions in IDs for various City applications.

6. The City does limit individual users' access to modules to the minimum functionality required to perform job duties. All deviations from this policy that have been identified are being addressed, and such deviations are not business as usual.

7. The City does not assign power user rights to individuals who do not need them to perform their job responsibilities. As above, identified deviations are being addressed.

8. as the audit states, the limitation of certain applications has prompted the enabling of local administrator rights to users' workstations. Those rights will be lowered to 'Standard user' for all City users, and exceptions will be considered based on problems that may arise for users.

9. Left Open on Purpose

10. The City is well-positioned to handle many of the most common potential disruptions to business continuity due to its server virtualization and system backups. However, the state audit's point is well taken that there is a need for formally developing a disaster recovery plan and then verifying and testing it at regular intervals. The development process will make clear many potential risks in the City's IT environment that can be either mitigated or accepted.

Cordially,

Donald J. Paris, Treasurer

Joseph M. DeStefano, Mayor

Copy:

Common Council

Commissioner Tawil

Corporation Counsel

B. Minerly

[REDACTED]

## APPENDIX B

### OSC COMMENTS ON THE CITY'S RESPONSE

#### Note 1

The City uses a decentralized purchasing system in which department heads are responsible for procuring goods and services for their respective departments. The City's procurement policy is not comprehensive enough to ensure that individual departments procure goods and services at the best price possible. For example, the policy does not provide guidance on using request for proposals for obtaining professional services, evaluating proposals, and determining if purchases are emergency in nature or if a vendor is a sole source for a specific procurement.

#### Note 2

Although professional services are not subject to bidding requirements, it is important that City officials seek competition when awarding such contracts to help ensure that these contracts are awarded in the best interests of the taxpayers. City officials continued the services of vendors by extending existing contracts without seeking competition periodically. For example, City officials have retained the services of a law firm since 1990. By awarding professional service contracts without the benefit of competition, City officials cannot assure taxpayers that these services are procured in the most prudent and economical manner and without favoritism.

#### Note 3

We have amended the final report to reflect that this procurement was made in accordance with the City's policy.

#### Note 4

Based on the additional information City officials provided during the exit conference, we determined that the vendor is a sole source provider. We have revised the report to reflect the change.

#### Note 5

City officials did not provide adequate documentation to support their claim that this is a sole source provider. City officials obtained a letter from the vendor that indicated that the vendor is an authorized distributor. City officials did not provide any documentation to support that other vendors would not be able to provide these goods and services.

#### Note 6

City officials provided us with four different State contract numbers; the vendor was not included as an approved State contract vendor for computer equipment in any of these contracts.

#### Note 7

We identified several other vendors that provide bullet proof vests and do not agree that this vendor is a sole source provider. City officials did not provide any documentation to support that the items were purchased under the government contract pricing.

#### Note 8

City officials did not provide adequate documentation to support their claim that these repairs were an emergency.

#### Note 9

Besides a letter from the vendor dated May 8, 2013, (the day of our exit conference) claiming to be a sole source provider, City officials failed to provide adequate documentation to support their claim that other vendors would not be able to provide these items.

#### Note 10

We reviewed the City Charter for reports that should be submitted to the Council for proper oversight, obtained and reviewed various months of Council minutes and interviewed two Council members. The Council members stated that they did not receive any written reports and accepted verbal financial information because they trusted that those responsible were performing their jobs. City officials did not provide any supporting documentation that written reports were provided periodically, as outlined in the City Charter, to aid the Council in monitoring City financial operations.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard 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: control environment, financial condition, budgeting, accounting records and reports, cash management, cash receipts and disbursements, purchasing, claims processing, payroll and personal services, real property taxes, and information technology.

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 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. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit the area most at risk. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We reviewed Council minutes to determine the timing and nature of events.
- We reviewed contracts associated with purchases and services.
- We interviewed Council members, department heads, the IT Specialist and the Deputy Treasurer.
- We obtained and reviewed City policies and procedures related to IT and procurement.
- We performed an analysis of the City's purchasing transactions and reviewed the documentation for the payments.
- We obtained the list of user accounts in the active directory and compared them to the current staff list.
- We tested multiple computers and servers by running audit software, and examining temporary internet files, cookies, and internet histories.

- We reviewed the City Charter to determine the Treasurer’s financial reporting responsibilities.
- We examined the server rooms and server rack for physical security.

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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