



Town of Rotterdam

Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

January 1, 2007— September 3, 2008

2009M-156



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2010

Dear Town 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 Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Rotterdam, entitled *Internal Controls Over Selected Financial Activities*. 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 Town of Rotterdam (Town), located in Schenectady County, provides various services to its residents including law enforcement, highway maintenance, infrastructure improvements, snow removal, water services, sewer services, and general government support. These services, accounting for the majority of Town expenditures, are recorded in the general, highway, water and sewer funds. The Town's general fund expenditures for 2007 were approximately \$12.9 million funded primarily with real property taxes, sales tax, and State aid.

The Town is governed by the Town Board (Board) which is composed of five members. The Board is responsible for the general management and oversight of all Town operations, including establishing effective internal controls over financial operations. The Town Supervisor (Supervisor), who is a member of the Board, serves as the Town's chief executive officer and the chief fiscal officer. The Town Comptroller (Comptroller) is the accounting officer and is responsible for maintaining the Town's accounting records.

Scope and Objective

The objective of our audit was to examine internal controls over selected financial activities for the period January 1, 2007 to September 3, 2008. Our audit addressed the following related questions:

- Are internal controls over purchasing appropriately designed and operating effectively to adequately safeguard Town assets?
- Are internal controls over information technology appropriately designed?
- Are internal controls over the processing of police payrolls appropriately designed and operating effectively to adequately safeguard Town assets?

Audit Results

Internal controls over purchasing and information technology were not appropriately designed and operating effectively because the Board did not provide sufficient oversight over the purchasing process and the Board and Town officials did not establish adequate policies and procedures to address the possible loss or misuse of the Town's information technology (IT) system and computerized data. In addition, we reviewed internal controls over the police payroll and found them to be appropriately designed and operating effectively.

Internal controls over purchasing were not appropriately designed and operating effectively to adequately safeguard Town assets. The Board did not provide sufficient oversight of the purchasing process and Town officials have not sought competition for goods and services. We reviewed Town purchases from five vendors totaling \$114,411 during 2007. One public works contract valued at \$21,246 was awarded to a vendor without the competitive bidding process and another contract totaling \$18,575 was awarded to a vendor without seeking additional quotes. Payments totaling \$559,500 for professional services were procured during our audit period without the solicitation of competitive price quotes from other providers. As a result, the Town may be paying more for goods and services than necessary. Also, the Town awarded a contract for information technology services to the business partner of a Board member-elect without soliciting competitive prices, or seeking additional quotes.

Internal controls over the Town's information technology (IT) system also need to be improved. The Board and Town officials have not established adequate policies and procedures addressing access rights, acceptable use, and rules of behavior (i.e., restricting use to only Town-related functions) and did not institute controls to adequately protect the Town's computer equipment and data from unauthorized physical and electronic access. They also have not developed a disaster recovery plan for the Town's IT system. The Town's IT system is a valuable and essential part of operations, used for accessing the internet, email communication, processing and storing data, and maintaining financial records. Failure or interruption of the IT system may cause problems that range from inconvenient to severe.

We determined that the internal controls over the police payroll were adequately designed and operating effectively. Public safety is a significant expenditure for the Town. The Town's Police Department had an adopted budget for 2008 of almost \$4.7 million for personal services. Our review of the police payroll records for accuracy in the calculation of overtime, leave accruals, pay rates, and working hours reported found no significant deficiencies.

Comments of Town Officials

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Town's response letter.

Introduction

Background

The Town of Rotterdam (Town) is located in Schenectady County and has a population of approximately 28,000. The Town Board (Board) is composed of five members and is the legislative body responsible for managing and overseeing Town operations. The Town Supervisor (Supervisor), a member of the Board, serves as the Town's chief executive officer and chief fiscal officer. The Supervisor's duties as the chief fiscal officer include the receipt, disbursement and custody of Town moneys. The Town Comptroller (Comptroller), as the accounting officer, is responsible for maintaining the Town's accounting records. The Comptroller is also responsible for auditing claims, preparing abstracts, filing claims, preparing checks for the Supervisor's signature, and creating financial reports.

The Town's general fund expenditures were \$12.9 million for 2007. Actual expenditures for the highway, water district and sewer district funds totaled \$6.5 million for the same period. Revenues for these four operating funds consisted primarily of real property taxes, sales tax revenues, water and sewer charges, and State aid. The Town provides various services to its residents including public safety and law enforcement, highway maintenance, infrastructure improvements, snow removal, water services, sewer services, and general government support. To provide these services, the Town employs approximately 135 full-time and 75 part-time employees.

Objective

The objective of our audit was to examine internal controls over selected financial activities for the period January 1, 2007 to September 3, 2008. Our audit addressed the following related questions:

- Are internal controls over purchasing appropriately designed and operating effectively to adequately safeguard Town assets?
- Are internal controls over information technology appropriately designed?
- Are internal controls over the processing of police payrolls appropriately designed and operating effectively to adequately safeguard Town assets?

Scope and Methodology

We examined the Town's internal controls over purchasing, information technology and police payrolls for the period January 1, 2007 to September 3, 2008.

Our audit also disclosed areas in need of improvement concerning information technology controls. Because of the sensitivity of the information, certain vulnerabilities are not disclosed in this report but have been confidentially communicated to Town officials so they can 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
Town Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Town's response letter.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Purchasing

An essential part of a governing board's responsibility is to establish, implement, and monitor controls over purchasing that help ensure that the local government obtains goods and services of the required quantity and quality at competitive prices and to protect against favoritism, extravagance, abuse and fraud. These responsibilities are further defined in General Municipal Law (GML). Effective purchasing controls include comprehensive purchasing policies and procedures that provide for adequate monitoring of procurements.

Internal controls over purchasing were not appropriately designed and operating effectively to adequately safeguard Town assets. While the Board has adopted a purchasing policy requiring that competitive prices be sought for most Town purchases, there are no provisions in the policy that provide for oversight of the procurement process to ensure compliance, and the policy specifically exempts the procurement of professional services from its price competition requirements. Purchases of goods and services are made by the Town's various department heads with little or no oversight from a central purchasing authority, or the Board.

Because of these weaknesses, competitive prices were not consistently sought when procuring goods and services. Also, the Town spent \$559,500 for professional services procured without the benefit of competition.

Price Competition

Price competition may be sought by publicly advertising for bids, requesting proposals from select vendors or obtaining written or verbal quotes from several vendors. Seeking prices from several sources helps to ensure that the best price is received for the desired quality.

GML requires that local governments competitively bid for purchases and public works¹ contracts that exceed \$10,000 and \$20,000, respectively, in a fiscal year. If the aggregate amount expected to be expended by the local government in a fiscal year for like goods or services exceeds these thresholds, then GML requires competitive bidding. For purchases below these thresholds, Town purchasing policies and procedures require that written quotes be obtained for public work contracts and purchase contracts that exceed \$250.

¹ Effective November 12, 2009, GML was amended to increase the bidding threshold from \$20,000 to \$35,000 for public works contracts. The \$10,000 bidding threshold for purchase contracts remains the same.

Although the Board has adopted a purchasing policy requiring that competitive prices be sought for most Town purchases, the policy contains no provisions for monitoring compliance with this requirement. There is no central purchasing authority (agent) to monitor and approve purchases and compliance with the policy's competitive price requirements is left to individual department heads. Without a way to monitor compliance with its purchasing policy, the Board has no assurance that department heads are consistently obtaining the best prices for goods and services procured.

Town officials and employees are not complying with the Board's policy requiring competition. As a result, the Town may be paying more than necessary for goods and services. Because of these weaknesses, we reviewed payments totaling \$114,411 that were made to five vendors during 2007. The Town made two payments to one vendor, totaling \$21,246, for the installation of sod at a baseball field located in the Town. This public works contract was not competitively bid as required. A payment of \$18,575 to a second vendor for the installation of five light poles at a baseball field was procured without seeking quotes or proposals as required by Board policy. Another vendor provided the installation of heating and cooling equipment to various Town departments and received payments totaling \$17,716 for 2007. Of that \$17,716, we found three purchases of \$1,990, \$4,100 and \$4,883, totaling \$10,973 where the department heads did not seek additional quotes or bids for the services even though the Town purchasing policy required them to do so.

Professional Services

The procurement of professional services often requires substantial amounts of municipal resources. The significant dollar amounts (and complexities) of professional service contracts increase the need to obtain quality services at competitive prices. GML does not require competitive bidding for the procurement of professional services which involve specialized skill, training and expertise, use of professional judgment or discretion, and/or a high degree of creativity. However, GML does require that municipalities adopt internal policies and procedures governing the procurement of goods and services when competitive bidding is not required. Seeking competitive prices for professional services helps ensure that quality services are obtained at a reasonable cost and avoids the appearance of favoritism or impropriety.

The Town's purchasing policy acknowledges the unique aspects of professional services. The policy states that the individual or company must be chosen based on accountability, reliability, skill, education and training, judgment, integrity, and moral worth and that these qualifications are not necessarily found in the individual or company that offers the lowest price. The policy concludes that the nature of

these services is such that they do not readily lend themselves to competitive procurement procedures. As such, the policy exempts the procurement of professional services from its requirement for seeking price competition, stating that the solicitation of alternative proposals of quotations will not be in the best interest of the Town.

We reviewed payments made to 11 professional service providers, totaling \$1.7 million, during the audit period. During this period, payments to individual service providers included approximately \$262,500 for architect services, \$173,000 for legal services, and \$118,000 for IT services. We found that professional services totaling \$559,500 were procured without the Town seeking competitive price quotes from other providers.

By opting not to seek competition for professional services, there is an increased risk that the Town is not paying the most reasonable price for those services. When this process is not opened to competition, there is also an increased risk of favoritism or impropriety. As a result of this weakness, the Town is at risk of not expending moneys in the best interest of its taxpayers.

Because of the lack of competition in the procurement of professional services, there is an appearance of favoritism involving the Town's procurement of information technology (IT) services. In 2007, the Board passed resolutions authorizing the Supervisor to execute a contract with a vendor for IT services. When that vendor was elected to the Town Board effective January 1, 2008, the Board passed another resolution on December 12, 2007 authorizing the Supervisor to execute a new contract with another IT service provider for three years valued at \$19,200. The new service provider was incorporated 14 days prior to the Board resolution, on November 28, 2007, by the business partner of the former vendor, i.e., the Board member-elect. This new contract for IT services was awarded without any attempt to seek competitive price quotes from other vendors.

Recommendations

1. The Board should ensure that all Town purchases comply with its purchasing policies and procedures and the bidding requirements of GML. The Board should consider designating a purchasing agent to monitor compliance with these directives.
2. The Board should consider revising its procurement policy to require Town officials to award professional services contracts only after soliciting competition.

Information Technology

The Town's information technology (IT) system is a valuable and essential part of operations, used for accessing the internet, email communication, processing and storing data, maintaining financial records, and reporting to State and Federal agencies. The routine reliance on and the complexity of these computerized applications creates internal control risks such as unauthorized access to data and equipment, unauthorized changes to data master files, and the loss of data or equipment. If the IT system fails, the results could range from inconvenient to severe; even small disruptions in processing can require extensive effort to evaluate and repair. Accordingly, Town officials are responsible for establishing internal controls over the IT system and data to protect these assets against the risk of loss, misuse, or improper disclosure of sensitive data.

Policies and procedures to safeguard the Town's IT system and data need to address the physical security of IT equipment and the responsibilities of Town users and third parties with remote access privileges. In addition, an internal control system should include policies and procedures to ensure that only authorized users have active user accounts.² The system or application administrator should create user accounts and assign privileges based upon management's written authorization. Finally, a formal disaster recovery plan is essential to help ensure that the Town's critical operations resume as quickly and efficiently as possible if there is a disruption of computer processing.

Internal controls over IT are not appropriately designed. The Board has not established comprehensive policies for Town employees addressing access rights, acceptable use, and rules of behavior (i.e., restricting use to only Town-related functions). The Board has not established internal controls to help ensure the safeguarding of computer data. Specifically, Town officials have not established adequate policies and procedures to address these issues and did not institute controls to adequately protect the Town's computer equipment and data from unauthorized physical access, and did not develop a disaster recovery plan. As a result of these control weaknesses, the Town's IT system and electronic data are susceptible to an increased risk of loss, unauthorized use, or improper disclosure.

² User accounts identify specific users with a particular network, computer and/or application. These accounts contain information such as passwords, and the access rights to files, applications, directories and other computer resources.

Access Controls

Internal controls over users' access to the IT system provide reasonable assurance that computer resources – which include equipment, data files, application programs, and computer-related facilities – are adequately safeguarded. Effective access controls consist of manual and automated measures, including:

- Physical security provisions to allow only properly authorized personnel to access computer equipment and to require access to be recorded in an access log
- Restrictions on, and accountability for, remote access (the ability to log onto a network from an off-site location), particularly with regard to third parties
- System administration performed by someone not involved in day-to-day financial operations.

The Town's access controls were not sufficient to provide adequate assurance that the IT system and data are properly safeguarded because acceptable use and remote access policies were deficient. Also, key equipment was not adequately protected and system administration was not properly assigned.

Acceptable Use — A good system of IT internal controls starts with policies to define appropriate user behavior, and the tools and procedures necessary to protect information systems. Town officials should adopt computer use policies to define appropriate user behavior. Such policies should include procedures governing the acceptable use of computers, internet access, electronic mail and portable devices, as well as procedures for information security, virus protection, and password security. Town officials should distribute computer use policies to all employees.

Town officials have not developed or implemented acceptable computer and technology resources use policies for all employees. One of the Town's union contracts (covering less than half of the Town's employees) contains an electronic communications provision that states that computers, voice mail and email systems are for business purposes only. Without comprehensive policies that explicitly convey the appropriate use of the Town's electronic equipment, Town officials cannot ensure that users are aware of their responsibilities and there are no consistent standards for which users are accountable.

Physical Security — Maintaining adequate security over IT assets helps to ensure that the assets are protected from loss or damage and are used effectively. File servers are an integral part of an IT

system, and are valuable assets that Town officials must protect from intentional or unintentional loss or damage. An effective internal control system restricts physical access to computer resources, such as servers, to help prevent costly disruptions.

While physical security over IT assets was generally adequate, when we visited the server room/wiring closet located in the Public Works office in the Town Hall, the room was not locked and was not protected from fire or water damage. The lack of physical security precautions increases the risk of loss or damage (intentional or otherwise) to the Town's IT assets.

Remote Access — Remote access is the ability to log onto a network from off-site locations using a computer, a modem or internet access, and remote-access software. Remote access causes security risks for an otherwise secure network because off-site computers, even if physically secure, may be vulnerable to threats from other systems. If remote access capability is granted to third parties, then policies, procedures and agreements need to be established for the access. Regular monitoring of such access will help to preserve the integrity of Town systems and data.

Town officials have not established and implemented policies and procedures governing remote access and, as a result, the Town is at risk of unauthorized changes to the system, programs, or data without the knowledge of Town officials. Without an acceptable-use policy and/or remote-access agreements with the Town's providers of application support, there is an increased risk that the Town's IT resources could be compromised or unauthorized transactions could be initiated and not be detected.

System Administration — To control electronic access, a computer system or application needs a process in place to uniquely identify users and establish relationships between a user and a network, computer, or application. Accounts are created by the system or application administrator that contain information about the users, access rights to files, applications, directories and other computer resources. To provide for a proper segregation of duties and internal controls, a financial software system must allow users access to only the computer functions that are necessary to fulfill their job responsibilities, and it must prevent users from being involved in multiple aspects of financial transactions. In addition, because a user with administrative rights can add new users, change users' passwords and rights, and control and use all aspects of the software, he/she must not be involved in financial functions.

The administration of the Town's computerized financial system was under the control of the Comptroller's office and the assignment of

user rights had not been adequately restricted. The payroll audit clerk served as the system administrator. As the system administrator, the payroll audit clerk has unrestricted access to the financial system and the ability to assign user privileges. With administrator rights, the payroll audit clerk can access all financial operations (including payroll) and has the ability to change financial data and then conceal the transaction. Without a segregation of duties between system administration and payroll operations, there is an increased risk that unauthorized access and/or modification to data may occur and go undetected.

Disaster Recovery

A system of strong IT controls also includes a disaster recovery plan that describes how an organization will deal with potential disasters. A disaster could be any sudden, unplanned catastrophic event that compromises the integrity of the data and the IT systems; this could include fire, flood, a computer virus, vandalism, or inadvertent employee action. Contingency planning to prevent loss of computer equipment and data as well as the procedures for recovery in the event of an actual loss is crucial to an organization. The plan needs to address the roles of key individuals and include precautions to be taken to minimize the effects of a disaster so officials will be able to maintain or quickly resume day-to-day operations. In addition, disaster recovery planning involves an analysis of continuity needs and threats to business processes and may also include significant focus on disaster prevention.

Town officials have not developed a comprehensive disaster recovery plan. Although the Town does perform some nightly backups of data, in the event of a disaster, Town personnel have no guidelines or plan to follow to prevent the loss of equipment and data or to appropriately recover data. The lack of a disaster recovery plan could lead to loss of important financial data along with a serious interruption to Town operations, such as not being able to process checks to pay vendors or employees.

Recommendations

3. The Board should establish policies and procedures that ensure access to computer assets and data is effectively restricted to authorized personnel and to define acceptable use of computer and technology resources. Access should be restricted through more effective physical security of server rooms and wiring closets, increased controls over users with remote access to the system, and assigning system administration to someone not involved in day-to-day financial operations.
4. The Town should develop and implement a formal disaster recovery plan, identifying potential risks and detailing responses to be taken.

Police Payroll

Payroll controls consist of written policies and procedures that describe and assign employee responsibilities for all aspects of payroll processing – ranging from hiring employees and keeping time-records, to preparing payrolls and disbursing payroll checks. Responsibilities must be clearly defined and properly segregated. Adequate records must be maintained and independently reviewed and approved. There must be timely, effective oversight of the process.

There are a number of risks associated with the payroll process. Rates paid to employees could be improper or incorrect. Payments for time worked and/or for leave time used may be made improperly or in error. There may even be instances where individuals receiving pay and benefits may not be bona fide employees. When pay rates and benefits are many and varied and governed by multiple labor agreements, the risks increase for payment errors and/or irregularities to occur.

The Town's Police Department had an adopted budget for 2008 of almost \$4.7 million for personal services. The department has 83 full and part-time employees working three shifts of operations. Time-keeping responsibilities for these employees were performed by Police Department personnel. General payroll responsibilities were performed by two clerks in the Comptroller's Office.

Generally, the Town's internal controls over processing police payrolls were appropriately designed. To the extent that we tested them, the controls were operating effectively. Although the Town did not have a formal, Board-adopted payroll policy, the Town's police department and Comptroller's office had developed a comprehensive system of procedures establishing adequate internal controls over payroll processing. Our audit included reviews of timesheets, earning records, leave time records, and payroll registers. We examined the Town's police department payroll records for various pay periods during our audit period to ensure that work-time and leave records were adequately maintained and overtime hours were properly supported and authorized, and verified the accuracies of pay rates police officers were paid.

We reviewed 25 occurrences of leave time taken by eight police officers to ensure leave request forms were completed and approved prior to leave being taken, and to ensure the leave time was appropriately reflected on employee timesheets and on individual leave records. In addition, we reviewed 30 occurrences of overtime worked during our audit period to ensure they were appropriate, supported, and authorized by the appropriate provisions. Lastly, we examined payroll records of

12 officers for two pay periods, in February and May 2008, to verify the officers were receiving pay amounts that were authorized by their contract. We found no significant deficiencies in the payroll records we examined.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF ROTTERDAM

Steven A. Tommasone, Supervisor
Joseph M. Signore, Deputy Supervisor
John R. Mertz, Councilmember
Michael Della Villa, Councilmember
Stanley Marchinkowski, Councilmember



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December 17, 2009

[REDACTED]

State of New York, Office of the State Comptroller
110 State Street
Albany, New York 12236

Gentlemen,

Please include the attached document as our response to the Town of Rotterdam, Internal Controls Over Selected Financial Activities, Report of Examination, Reference number 2009M-156.
Thanks to you and [REDACTED] for your professionalism and diligence, and an open and honest discussion regarding the findings. Enjoy the holidays and best wishes to you in the coming New Year.

Sincerely,

Steven A. Tommasone
Town Supervisor, Town of Rotterdam

TOWN OF ROTTERDAM

Steven A. Tommasone, Supervisor
Joseph M. Signore, Deputy Supervisor
John R. Mertz, Councilmember
Michael Della Villa, Councilmember
Stanley Marchinkowski, Councilmember



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Thank you for meeting with Comptroller Aragosa, Police Chief James Hamilton, Deputy Police Chief Bill Manikas, and myself regarding your findings of a recent audit you conducted on the Town of Rotterdam. As I stated during our conference, the findings will allow the town to make changes where necessary, however, with the thousands of transactions the town effects annually, the language in your summary is over-reaching at times and somewhat extended. However, we will take all actions necessary and entrust the new board will adhere to the established guidelines for all town transactions/business.

We discussed at length the professional services contracts understanding that the audit period you analyzed was overlapped by our having bid contracts which, in some cases, were multi-year. Regarding our discussion of engineering services, we have relied upon the excellent work product and coverage received these past several years, from early 2000's to date, in contracting with these firms. I have tried to rotate these services among many firms based on their area of specialty and their ability to meet the demands of our planning and zoning boards. Our town staff experience, coupled with the vendor's quality services, skills, and expertise, provided consistency in the delivery of services.

See
Note 1
Page 19

Regarding the public works contracts you cited, we discussed how the work was completed on parklands owned by the Town. The work, and necessary materials required for the Rotterdam Little League baseball fields, parking area, paving, lighting and necessary improvements to the electrical infrastructure in the baseball clubhouse, was completed in a few weeks time. The necessity was to ensure the season started on-time and that the facilities were safe.

Regarding the IT contract with [REDACTED], as these are professional services we understood we could continue with [REDACTED] as they could continue to employ the technician, [REDACTED], who had worked on the town's systems since 2006. At the time we hired [REDACTED], I can assure you we acted only to achieve one goal; that was to come up with a way to continue utilizing the professional services provided by [REDACTED]. [REDACTED] has done a phenomenal job for the Town and [REDACTED] cost is comparable to other local municipalities IT expenses. When compared to those who employ full-time staff, the cost of benefits etc., ultimately exceeds the amount paid to [REDACTED] by the Town.

See
Note 1
Page 19

Further, these services were planned to be placed out for bid this spring as we were discussing a plan to launch more on-line functionality for our residents.

Regarding the HVAC repairs and replacements at the Police Department, I believe this was adequately explained as an emergency. In addition, the HVAC/mechanical systems are so antiquated that getting service contracts is nearly impossible to accomplish. In summary, I look forward to viewing the final report which will reflect updates and corrections to your initial findings based on discussion and documentation provided by the Town Comptroller.

See
Note 2
Page 19

Thank you.

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

By opting not to seek competition for professional services, there is an increased risk that the Town is not paying the most reasonable price for those services.

Note 2

The emergency exception within GML would not apply here because these purchases for heating and cooling equipment fell below the bidding threshold; therefore, they would be subject to the Town's purchasing policy. If it is the intent of the Town Board to allow exceptions to its purchasing policy for emergency situations, Board members should consider amending the policy to address the procurement requirements in such situations. These new requirements should then be effectively communicated to all department heads.

APPENDIX C

OSC COMMENTS ON THE TOWN'S RESPONSE

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition, purchasing, payroll and personal services, cash receipts and disbursements, information technology, capital assets and inventories.

During the initial assessment we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents such as Town policies and procedures manuals, Board 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 Town's financial transactions as recorded in its databases. Further, we reviewed the Town'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. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected purchasing, police payroll and information technology.

To accomplish the objectives of our audit during the period January 1, 2007 to September 3, 2008, our procedures included the following steps:

- We interviewed appropriate Town officials to obtain an understanding of the organization, the Town's accounting system and to identify key personnel.
- We reviewed the Town's policies and procedures.
- We reviewed collective bargaining agreements for employees covered under negotiated contracts.
- We reviewed the payroll records and leave records of the police department to verify accuracy.
- We reviewed the minutes of the Board for the 2007 and 2008 fiscal years.
- We reviewed claim packets and supporting documentation to determine proper authorization.
- We reviewed the Town's purchasing policies and procedures to determine if purchases were in accordance with Town policy.
- We reviewed service agreements between the Town and the IT network administrator and interviewed the Town's IT network service provider, an independent contractor.

We conducted our 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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AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
John C. Traylor, Assistant Comptroller

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