



Town of Copake

Financial Oversight and Information Technology

Report of Examination

Period Covered:

January 1, 2010 — December 31, 2010

2011M-284



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2012

Dear Town Officials:

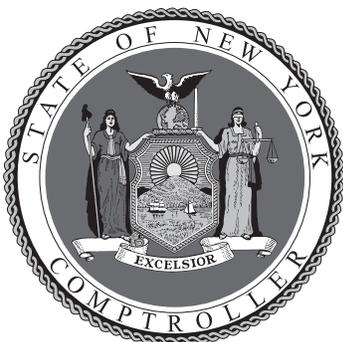
A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments 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 Copake, entitled Financial Oversight and Information Technology. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Copake (Town) is located in Columbia County and has a population of approximately 3,300 residents. The Town is governed by an elected five-member Town Board (Board) comprising the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing the Town's operations, finances, and overall management. The Supervisor, who serves as the Town's chief executive officer and chief fiscal officer, is responsible for overseeing the financial management of the Town's moneys.

The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, street lighting, parks, recreation and youth programs, fire protection, and general government support. The majority of the funding for these services comes from real property and sales taxes and State aid. In the 2010 fiscal year, the Town's operating expenditures were approximately \$793,000 for the general fund and \$1,026,000 for the highway fund.

Scope and Objective

The objective of our audit was to examine internal controls over selected Town financial operations for the period January 1, 2010 to December 31, 2010. Our audit addressed the following related questions:

- Does the Board provide effective oversight of fiscal operations, including online transfers and certain aspects of claims processing, payroll processing, and billed receivables?
- Are internal controls over information technology (IT) appropriately designed?

Audit Results

We found that, because Town officials and staff were generally unaware of Town Law requirements and sound business practices, essential controls were missing in key financial areas and IT operations.

The Board has not instituted the appropriate internal controls for online banking and certain aspects of claims processing, payroll processing, and billed receivables. The Town has not developed written policies and procedures for online banking and has not entered into an adequate agreement with its financial institution as required by General Municipal Law. Further, two individuals at the Town's outside bookkeeping firm – which keeps the Town's financial records and reconciles its bank statements – have full access to Town funds and can execute online transfers between bank accounts. The Town also has not properly segregated the duties of the Town Supervisor, who both executes online transfers and serves as the system administrator for online transfers. Further, the Board does not conduct

an adequate audit of claims, payroll registers were not certified, and the Town's payroll processing company keeps an electronic copy of the Supervisor's signature which it uses to sign the payroll checks without the Supervisor's oversight. As a result of these weaknesses, the Board does not have reasonable assurance that Town resources are being safeguarded, properly accounted for, and used only for proper Town purposes.

We also found that Town officials have not developed any formal policies related to IT. For example, there is no breach notification policy to guide personnel in notifying affected parties in the event of unauthorized computer activity. Several Town employees have access to areas of the financial software that are not consistent with their job responsibilities, and two outside vendors – specifically, the support staff of the Town's financial software vendor and two members of the Town's CPA firm – have full access to the financial software. The Board also has not adopted policies and procedures that address data backup and has not developed a formal disaster recovery plan. These control weaknesses increase the risk of unauthorized access and potential damage or misuse of the Town's IT system and data.

Comments of Local 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. Town officials generally agreed with our findings and recommendations and indicated they plan to initiate corrective action.

Introduction

Background

The Town of Copake (Town) is located in Columbia County and has a population of approximately 3,300 residents. The Town is governed by an elected five-member Town Board (Board), comprising the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing the Town's operations, finances, and overall management. The Supervisor serves as the Town's chief executive officer and chief fiscal officer (CFO). As the CFO, the Supervisor is responsible for overseeing the financial management of the Town's moneys. Town Law stipulates that, as chief fiscal officer, the Supervisor is responsible for the disbursement of Town moneys. In the Supervisor's absence, the Deputy Supervisor may make disbursements.

The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, street lighting, parks, recreation and youth programs, fire protection, and general government support. The majority of the funding for these services comes from real property and sales taxes and State aid. In the 2010 fiscal year, the Town's operating expenditures were approximately \$793,000 for the general fund and \$1,026,000 for the highway fund.

Objective

The objective of our audit was to examine internal controls over selected Town financial operations. Our audit addressed the following related questions:

- Does the Board provide effective oversight of fiscal operations, including online transfers and certain aspects of claims processing, payroll processing, and billed receivables?
- Are internal controls over information technology (IT) appropriately designed?

Scope and Methodology

We examined the internal controls over selected Town operations for the period January 1, 2010 to December 31, 2010. Our audit disclosed an area where additional IT security controls should be instituted to help prevent unauthorized access to Town assets. Because of the sensitive nature of this information, this specific vulnerability is not discussed in this report but has been separately communicated to Town 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 B of this report.

**Comments of
Local 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. Town officials generally agreed with our findings and recommendations and indicated they plan to initiate corrective action.

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.

Financial Oversight

The Board is responsible for the overall supervision and oversight of the Town's financial operations and for ensuring that policies and procedures are in place to safeguard the Town's financial resources. The Board fulfills this responsibility, in part, by instituting appropriate internal controls over Town operations to ensure that financial transactions are properly authorized, recorded, and reported. A good system of internal controls consists of policies, practices, and procedures that allow a local government to provide reasonable assurance that its resources are being safeguarded and accounted for properly.

The Board needs to improve its oversight of Town operations. The Board has not instituted appropriate internal controls for online banking and certain aspects of claims processing, payroll processing, and billed receivables. The Board has not developed written policies and procedures for online banking or entered into an adequate agreement with its financial institution, and there is an inadequate segregation of duties with online transfer capability. Also, the Board does not conduct an adequate audit of claims, payroll registers were not certified, and the Town's payroll processing company keeps an electronic copy of the Supervisor's signature which it uses to sign the payroll checks. As a result of these weaknesses, the Board does not have reasonable assurance that Town resources are being safeguarded properly accounted for, and used only for proper Town purposes.

Online Banking

Online banking allows the convenience of moving money between bank accounts and to external accounts, reviewing transaction histories, reconciling accounts in real time, and monitoring cash balances. General Municipal Law (GML) allows local governments to disburse or transfer funds in their custody by means of electronic transfer, which includes intra-bank transfers (between accounts within the same bank) and inter-bank, or wire, transfers (between banks). Because electronic transfers typically involve significant amounts of money, it is important for the Town to have formal policies and procedures in place to limit the individuals authorized to make electronic transfers, and which require all transfer instructions to be approved prior to execution and independently confirmed after transfer. Additionally, GML requires the Town to enter into an agreement with its financial institutions that provide online banking services, detailing the authorizations required and the accounts involved. Lastly, the duties of modifying bank accounts and performing electronic transfers should not be assigned to the same person, and individuals who perform the transfers should always use

a unique password to ensure accountability. The Town uses online banking services with one bank.

Policies and Procedures – We reviewed the Town’s Policy Manual and found that it included no policies or formal procedures related to online banking and electronic transfers. The Town’s IT consultant also did not know of any such policies or procedures, and the Board was unaware of the need for them. As a result, there is an increased risk of unauthorized transfers which could allow the potential misuse of funds.

Written Agreement – GML section 5-a stipulates that a written agreement between the Town and its online banking institution should prescribe the manner in which electronic or wire transfers of funds will be accomplished, identify the names and numbers of the bank accounts from which electronic or wire transfers may be made, identify which individuals are authorized to request an electronic or wire transfer of funds, and implement a security procedure as defined in Uniform Commercial Code section 4-A-201. Although the Town has a written online transfer agreement with its bank, the agreement is general in nature and does not comply with the statutory requirements. Town officials indicated they are unaware of the GML requirements. Because the Town’s agreement with its bank does not specify account names and numbers from which online transfers may be made, identify the individuals authorized to initiate transfers, or define a proper security procedure as required by law, Town officials cannot be assured that Town funds are adequately safeguarded by their bank.

Electronic Transfer Rights – The concentration of key financial duties with the same individual weakens controls over Town moneys. An official who is authorized to execute electronic bank transfers should not also be able to modify the accounting records and reconcile the bank statements, because these combined capabilities place Town funds at risk of misappropriation without detection. This risk is increased when these incompatible duties are assigned to an outside vendor. Similarly, the system administrator for online transfers should not have access to the Town’s financial software, since the administrative responsibilities often include establishing new users and assigning user access rights.

Two individuals at the Town’s outside bookkeeping service have the ability to make online transfers between Town bank accounts. Because this firm keeps the Town’s financial records and reconciles its bank accounts, this arrangement does not provide a proper segregation of duties and the safeguarding of Town resources is compromised. Additionally, the Town Supervisor and Town Clerk can both execute

online transfers. The Supervisor is also the system administrator for online transfers; someone with these capabilities could potentially create an unauthorized account, transfer moneys into it, and modify the record to conceal the transaction. Further, there is no provision in Town Law for the Town Clerk to perform online transfers.

Board members were unaware of what constitutes an adequate segregation of duties over electronic transfers. We tested 18 transfers¹ made by the CPA firm, totaling in excess of \$1.3 million, and found that they were properly made between Town accounts at the Town's depository, were adequately supported, and were for a valid business purpose. However, the control weaknesses identified place Town funds at risk of improper transfer without detection and correction in a timely manner.

Claims Processing

Town Law stipulates that the Board is responsible for auditing and approving all claims for payment and for establishing appropriate internal controls. Payments to vendors should be supported by properly audited claim vouchers and appropriate intermediary records, such as warrants or abstracts (a list of claims approved for payment). The audit of claims should be a deliberate and thorough process to determine whether proposed payments are proper and for a valid town expense, and whether the Town's purchasing procedures and applicable laws have been followed. All claims must be written, itemized, and accurate; include evidence of approval by the Town official responsible for the purchase; and include evidence that the goods or services were received. With few exceptions, all claims must be audited by the Board before payment. Good business practices dictate that the date of the audit be documented to ensure claims are audited prior to payment. After a claim has been audited, the Clerk must file each claim and prepare an abstract of the audited claims directing the Supervisor to pay them. Finally, the Board minutes should contain a record of the claims audited and approved for payment.

The Town's claims auditing process does not ensure that taxpayer funds are properly safeguarded and used only for authorized purposes. The Board had not ensured that detailed procedures were in place for a proper and thorough audit of claims,² and Town officials and staff told us they were not familiar with the related requirements of Town Law. We reviewed 35 claims totaling \$121,049 to determine whether they were properly supported, audited, and approved, and found the following deficiencies:³

¹ A judgmental selection based on larger, more significant dollar amounts

² The Town has a policy for conduct of Board meetings which requires presentation of bills and approval of payments at each meeting.

³ Some claims had more than one deficiency.

- Ten claims were not itemized sufficiently.
- Twenty-nine claims did not have signed receiving documentation attached.
- Eighteen claims did not have evidence of bids, quotes, or State contracts attached or noted.

The failure to conduct a deliberate and thorough audit of claims increases the risk that the Town could pay for expenses that are not authorized or not for valid Town purposes, or pay for goods and services that were not actually received.

Payroll Processing

An effective internal control system over payroll processing requires supervisory approval, or certification, of the completed payroll prior to issuing employee paychecks, in which a Town official examines the payroll and certifies that the persons included have worked the hours claimed and are paid at Board-approved rates for their services. Town Law requires that Town officials having direct supervision over employees must certify or, if required by Board resolution, verify that services indicated on the payrolls were actually performed.

Payrolls were not certified during our audit period because Town officials and staff were not aware of Town Law requirements and sound internal control practices. We compared all amounts paid to the payroll clerk in fiscal year 2010 with her timesheets and authorized pay rate, payroll journal entries, and W-2 (taxable wage statement). Although our examination disclosed no significant differences, the absence of payroll certification increases the risk of improper payments being made to employees for personal services rendered.

Town Law also requires that all Town funds must be expended by a Town check signed by the Supervisor. Furthermore, when a Town employs the services of a payroll processing company, it is necessary to compare the processed paychecks to payroll registers in order to ensure payroll accuracy.

The Town contracts with a payroll processing company to process its payroll. The company has possession of blank payroll check stock and an electronic copy of the Supervisor's signature which it uses to sign the completed payroll checks. The checks are processed and signed at the company's facility without the Supervisor's presence. Because the Supervisor does not maintain control over his electronic signature, the potential exists for its inappropriate use, particularly in the absence of a formal payroll certification process.

Although it is permissible for the Town to enter into an agreement with an outside firm for the preparation of the payroll, the Supervisor must have a process for overseeing and verifying the appropriate use of his signature. Because the Town lacks such a process, the Board cannot guarantee the accuracy of the Town payrolls.

Fuel Billings

Town officials are responsible for developing and enforcing policies and procedures to ensure that billings for goods or services provided, such as fuel purchased from the Town, are accurate, timely, and collected in the most efficient manner. An effective process provides guidance for Town personnel with regard to their duties and responsibilities, billing procedures, assigned authority, and individual accountability. The process should also include management oversight. Municipalities generally bill their customers for fuel usage on a monthly basis to help ensure that this consumable asset is accounted for properly.

During the 2010 fiscal year, several external entities⁴ and the Town Police Department used the Highway Department's fuel supplies. The Town billed the users twice for fuel consumption during the 2010 fiscal year.⁵ We found weaknesses in the Town's internal controls over these receivables during that time period. Although there were informal procedures for generating usage reports and processing the billings, there were no formal policies or written procedures regarding fuel billings in 2010. Billings were infrequent and lacked adequate management oversight. According to the Supervisor, fuel billings were done only once annually prior to 2010, and monitoring was "haphazard" in 2009 and 2010. Due to insufficient monitoring, the Town had an uncollected balance for fuel usage totaling \$16,544 at December 31, 2010. Further, the amounts billed were not posted to a receivables account at the time that each billing was generated. At the time of our fieldwork, Town officials indicated that they have addressed most of the deficiencies cited.⁶

Recommendations

1. The Board should adopt an official policy for online banking and electronic transfers.
2. The Board should enter into an online banking and transfer agreement with its bank that complies with GML.

⁴ Copake Fire District, Craryville Fire District, the Resident Deputy in the Sheriff's Department, and the Community Rescue Squad

⁵ January-June 2010 billed on September 11, 2010, and July-December 2010 billed on January 9, 2011

⁶ With the exception of formally assigning the responsibility of monitoring delinquent accounts

3. The Board should realign online transfer functions so that the ability to execute online transfers is restricted to employees in the Supervisor's office.
4. The Supervisor's administrative privileges for electronic transfers should be handled by another Town official who cannot execute transfers or handle cash in any other capacity.
5. The Board should develop detailed written procedures to guide and govern the processing of claims against the Town. Procedures should require that all claims be sufficiently supported and properly approved prior to payment.
6. Payrolls should be certified by the Town officers having direct supervision of employees, to certify that services indicated on the payrolls were actually performed.
7. The Town should require the payroll processing company to return payroll checks to the Town unsigned. The Board should adopt a formal policy requiring the comparison of payroll checks to payroll registers. The Supervisor should sign payroll checks after the checks have been compared to payroll registers.
8. The Board should adopt formal policies and procedures regarding fuel billings and formally assign responsibility for monitoring fuel account balances.

Information Technology

The Town relies on its information technology (IT) system for access to the Internet, e-mail communication, data storage, and financial records. Therefore, the Town's IT system and the data it holds are valuable resources. If the IT system fails, the results could range from inconvenient to severe. Even small disruptions in IT systems can require extensive effort to evaluate and repair. Town officials are responsible for developing written policies and procedures to effectively safeguard IT resources. Such policies and procedures should address the use and monitoring of the Town's IT system and data backups, as well as the development of a formal disaster recovery plan to reduce the risk of data loss and to provide guidance on its recovery in the event of a disaster. Finally, a breach notification procedure is important should the Town have to notify affected parties in the event of unauthorized access to their confidential information.

Town officials have not developed any formal policies related to IT. Several Town employees have access to areas of the financial software that are not consistent with their job responsibilities. In addition, the support staff of the Town's financial software vendor and two members of the Town's CPA firm also have full access to the financial software. The Board has not adopted policies and procedures for data backup, developed a formal disaster recovery plan, or instituted breach notification procedures. As a result of these weaknesses, the Town's IT system and its data are subject to an increased risk of corruption, loss or misuse.

IT Policies

Board members are responsible for creating an appropriate internal control environment over IT security. They should provide important oversight and leadership by establishing IT policies that take into account people, processes and technology, and communicate these policies throughout the organization. IT policies define appropriate user behavior and describe the tools and procedures needed to protect data and information systems. The policies should address issues such as acceptable computer, e-mail and Internet use; the protection of personal, private and sensitive information; password security; remote access; and virus protection.

In addition, New York State Technology Law Section 208 requires towns to establish an information breach notification policy. Such a policy helps to ensure that affected residents or employees are notified when their private information was, or is reasonably believed to have been, acquired by a person without a 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 Board has not adopted policies that address IT, including a breach notification policy, and was unaware of the need for such policies.

While IT policies do not guarantee the safety of the Town's IT system or the electronic information it has been entrusted with by taxpayers, customers, employees and others, the lack of policies significantly increases the risk that data, hardware and software systems may be lost or damaged by inappropriate access and use.

Financial Software Access Rights

A proper segregation of duties ensures that users of the Town's financial software are allowed access to only the functions that are consistent with their job responsibilities, and that users cannot be involved in multiple aspects of financial transactions. Additionally, remote access – the ability to access a computer system from an offsite location – creates security risks because remote computers may be vulnerable to threats from other systems. Essential controls include policies and procedures that define who can access the IT system remotely, how remote access is granted, the methods of gaining access, and how remote access to the Town's computer system and financial data is monitored, tracked, and controlled. Additionally, the Town should have a remote access agreement outlining the policy, access standards, and rules for all remote users, and maintain a log of remote access activity. Finally, Town officials should periodically review user access rights, whether in-house or remote, and revise those rights when work conditions change.

The Town Clerk, her two deputies (including one who also functions as an accounts payable clerk), and the CPA firm have full access to all financial software functions, although none of these users' responsibilities requires this level of access. These permissions allow them to make adjusting entries, record deposits, edit receipts, perform vendor maintenance, approve vouchers for payment, and create and print vendor checks. For example, the Town Clerk can make adjusting journal entries even though this is not one of her job responsibilities. Unnecessary or excessive user rights to the financial software could result in unauthorized access to the Town's sensitive information, manipulation of records, and/or the loss or misuse of critical or confidential data.

Additionally, the financial software vendor's technical support staff has full remote access to all functions. The Town has not established policies and procedures that define who can access the IT system remotely, how remote access is granted, the methods of gaining access, and how remote access to the Town's computer system and financial data is monitored, tracked, and controlled. Further, the Town does not have a remote access agreement outlining the policy, access standards, and rules for all remote users, and the IT consultant (or any Town official) does not review a log of remote access activity. The Town's IT consultant told us that the financial software vendor obtains remote access on a case-by-case basis only after the consultant gives his authorization, and that he monitors the vendor's activity. However, without formal policies, procedures and written agreements to govern remote access to IT resources, the Town has an increased risk that unauthorized users could inappropriately gain access. Further, when remote access activity is not routinely monitored, Town officials may not be alerted in a timely manner if the Town's IT systems or data are compromised.

This situation exists because Town officials were unaware of what constitutes adequate controls over access rights to financial software, including remote access to the financial system.

Data Backup

Town computers house considerable private and valuable data related to employees, vendors and taxpayers. Accordingly, the Town should routinely back up (make a duplicate copy of) data stored on computers to enable the data to be restored in the event of loss. Further, backup data should be encrypted and kept at an offsite location to ensure against loss in the event of a disaster at the computer location site. It is also important that the Town routinely test the backups to ensure data integrity. Finally, the Board should formally establish written policies and procedures addressing data backup (i.e., the frequency of backups, encryption, storage location, frequency of testing, protection of backups from fire and water, and protection against theft and data corruption).

The Board has not adopted a formal data backup policy and Town officials have not established written backup procedures. The Town's financial records and data, which reside on the Clerk's computer, are backed up daily to the Clerk's computer hard drive and monthly to an external hard drive that is stored in the Town Hall records room. Although the records room where the monthly backups are stored is locked and fireproof, these backups are still onsite, and are also not encrypted. This situation exists because the Board was not familiar with what constituted adequate backup procedures.

Because the Board has not adopted policies and procedures to address data backup, the Town could experience a significant loss of data in the event of an unexpected occurrence. The lack of encryption also exposes sensitive information on the backups to theft or compromise.

Disaster Recovery Plan

A disaster recovery plan provides a framework for reconstructing vital operations to ensure the resumption of time-sensitive operations and services in the event of an emergency. A strong system of internal controls includes a disaster recovery plan that describes how the Town plans to deal with potential disasters. Such disasters may include any sudden, catastrophic event (e.g., fire, computer virus, power outage, or a deliberate or inadvertent employee action) that compromises the availability or integrity of the IT system and data. The plan should detail the precautions to be taken to minimize the effects of a disaster and enable the Town to either maintain or quickly resume mission-critical functions. The plan should include a significant focus on disaster prevention and should be distributed to all responsible parties, periodically tested, and updated as needed.

The Board has not developed a formal disaster recovery plan to address potential disasters. The Board was unaware of the need for such a plan. Consequently, in the event of a disaster, Town personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data or guidance on how to implement data recovery procedures. Further, without a disaster recovery plan, the Town is at risk for the loss of important data and the disruption of time-sensitive operations.

Recommendations

9. The Board should adopt formal IT policies and implement procedures to effectively safeguard the Town's IT resources.
10. Town officials should periodically review user access rights to the financial software functions to ensure that users have access only to those functions that are consistent with their job responsibilities.
11. Backups should be encrypted, stored off-site, and routinely tested. In addition, Board-written policies and procedures should address how the Town's electronic data is backed up.
12. The Board should establish a formal disaster recovery plan that addresses the range of potential threats to the Town's IT systems and data, and provides the guidance necessary to maintain Town operations or restore them as quickly as possible in the event of a disaster. This plan should be distributed to all responsible parties, periodically tested, and updated as needed.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF COPAKE
230 Mountain View Road
Copake, New York 12516



Phone: 518-329-2591
518-329-1234
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March 19, 2012

Office of State Comptroller
Newburgh Regional office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Gentleman,

After reviewing your draft audit for the Town of Copake and consulting with our new accountant and computer consultant about your concerns, we will be beginning to address these issues as soon as possible. We will be addressing most of the concerns you have here when we file our corrective action plan. Some of your concerns have already been addressed by me as the new Town Supervisor, many of your concerns about online banking, pre signed payroll checks, & fuel billing to name a few.

I have discussed your IT concerns with our computer consultant and he is proposing solutions to your concerns. Currently he is looking into an offsite backup for the computers [REDACTED]. A disaster recovery plan has also been addressed with him.

If you have any other concerns for the Town or questions about this letter, please do not hesitate to call me.

Jeff Nayer

A handwritten signature in black ink, appearing to read "Jeff Nayer", written over a horizontal line.

Copake Town Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if internal controls over selected financial activities were appropriately designed and operating effectively. To accomplish this, we performed an initial assessment of 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, control environment, chief financial officer's records and reports, cash management, cash receipts and disbursements, billed receivables, procurement, claims processing, personal services, inventory, equipment, performance, capital projects, and information technology.

During our initial assessment, we interviewed Town officials, performed limited tests of transactions, and reviewed pertinent documents such as adopted policies and procedures, Board minutes, and financial records and reports. 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 inherent control risks. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected financial oversight and information technology for further audit testing.

To accomplish the objective of this audit and to obtain valid audit evidence, our procedures included the following:

- We reviewed appropriate policies and procedures. We also interviewed appropriate Town officials and employees to obtain additional information regarding the procedures and practices surrounding financial oversight and information technology.
- To assess and examine the design and effectiveness of financial oversight of online transfers, we interviewed Town officials, consultants, and bank officials responsible for online banking. We also obtained and reviewed the applicable documentation pertaining to online transfers. We reviewed Town records and bank statements for the audit period of January 1, 2010 to December 31, 2010 to determine if the electronic transfers that were selected as part of our testing were proper and deposited in Town bank accounts in a timely fashion.
- To assess and examine the design and effectiveness of financial oversight of certain aspects of claims processing, we examined warrants, vouchers, and supporting documentation.
- To assess and examine the design and effectiveness of financial oversight of certain aspects of payroll processing, we scanned payrolls for certifications. We also examined the payroll clerk's timesheets, authorized pay rate, payroll journal entries, and W-2 form.

- To assess and examine the design and effectiveness of financial oversight of certain aspects of billed receivables, we examined billings, ledgers, duplicate receipts, deposit slips, and bank statements, and performed analyses of outstanding balances.
- To obtain valid audit evidence regarding the Town’s computer system and data, we verified the assertions of Town officials and consultants regarding information technology by reviewing relevant documents and by physical observation.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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Nathalie N. Carey, Assistant Comptroller

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