



# Town of Lloyd

## Internal Controls Over Selected Financial Operations

### Report of Examination

Period Covered:

January 1, 2010 — August 4, 2011

2012M-31



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>EXECUTIVE SUMMARY</b>	3
<b>INTRODUCTION</b>	5
Background	5
Objective	5
Scope and Methodology	6
Comments of Local Officials and Corrective Action	6
<b>CLAIMS AUDIT</b>	7
Claims Audit	7
Conflict of Interest	8
Recommendations	8
<b>CASH RECEIPTS AND DISBURSEMENTS</b>	9
Recommendations	10
<b>INFORMATION TECHNOLOGY</b>	11
Breach Notification Policy	11
Remote Access Policy	12
Disaster Recovery Plan	12
Outsourcing IT Services	12
Intrusion Detection	13
Recommendations	14
<b>WORKERS' COMPENSATION AND DISABILITY INSURANCE</b>	15
Recommendations	16
<b>APPENDIX A</b> Response From Local Officials	17
<b>APPENDIX B</b> OSC Comment on the Local Officials' Response	20
<b>APPENDIX C</b> Audit Methodology and Standards	21
<b>APPENDIX D</b> How to Obtain Additional Copies of the Report	23
<b>APPENDIX E</b> Local Regional Office Listing	24

# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

May 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 Lloyd, entitled Internal Controls Over Selected Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

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



## State of New York Office of the State Comptroller

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# EXECUTIVE SUMMARY

The Town of Lloyd (Town) is located in Ulster County, covers approximately 33 square miles and has a population of 10,863. The 2011 budget for all funds was approximately \$8.9 million. The Town is governed by the Town Board (Board) which comprises the Town Supervisor (Supervisor) and four elected Board members. The Board is responsible for the general management and control of the Town's financial affairs, including the auditing of claims. The Supervisor serves as the chief executive officer and chief financial officer and is responsible, along with other administrative staff, for the day-to-day Town management under the Board's direction. The Town contracts with an outside vendor for various information technology (IT) services.

### **Scope and Objective**

The objective of our audit was to examine internal controls over selected financial operations for the period January 1, 2010 to August 4, 2011. Our audit addressed the following related questions:

- Are internal controls over claims auditing appropriately designed and operating effectively to adequately safeguard Town assets?
- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively to adequately safeguard Town assets?
- Are internal controls over IT resources appropriately designed and operating effectively to adequately safeguard Town assets?
- Did the Town comply with the requirement that businesses they contract with carry workers' compensation and disability insurance?

### **Audit Results**

The Town's internal controls over claims auditing were not operating effectively. The Board, as a collective whole, does not audit and approve claims as required, but rather establishes an audit committee, consisting of one Board member, to audit and approve claims for payment. We reviewed 84 claims totaling \$26,815 and found that the Board did not audit nine claims totaling \$5,750. In addition, one Board member, who is the owner of a hardware store, had a prohibited interest in a contract with the Town.

We also found that, other than an electronic banking policy, the Town did not have any policies and procedures related to cash receipts and disbursements. In addition, the electronic banking policy was not adequate because it did not require a second authorization prior to initiating wire transfers. As a result, there is an increased risk of unauthorized transfers which could allow the potential misuse of funds. Also, the bookkeeper did not maintain voided checks on file. By not accounting for all checks, there is an increased risk that Town officials would not be able to detect misused checks.

In addition, the Board has not established a breach notification policy detailing how affected residents will be informed about security breaches; nor has it established a remote access policy that defines who can access the IT system remotely, how remote access is granted, the methods of gaining access, and how remote access will be monitored, tracked, and controlled. As a result, Town officials may not be prepared to effectively manage information breaches and are at higher risk of unauthorized access to systems and data. Also, the Board has not developed a disaster recovery plan, nor entered into a contract with its third-party IT vendor and the Town does not have an intrusion detection system (IDS) in operation on the Town server or Town computers. 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 disaster recovery procedures; the Town does not have a formalized means of capturing organizational needs and expectations, and avoiding potential future misunderstandings about the services to be performed; and the absence of an IDS increases the risk that unauthorized individuals could gain access to confidential information, input viruses or improper data, or change files without detection in a timely manner.

Finally, only three of 15 vendors selected had the required workers' compensation insurance form on file. Two vendors submitted a form which was not an approved form and no forms for the remaining ten vendors were on file. In addition, none of the 15 vendors had an approved form on file for proof of disability insurance. As a result, the Town does not have assurance that benefits are available should a worker be injured. Also, by not having the required forms on file for all vendors the Town contracts with, the Town is not in compliance with Workers' Compensation Law.

### **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. Our comments concerning the Town officials' response can be found in Appendix B.

# Introduction

## Background

The Town of Lloyd (Town), located in Ulster County, covers approximately 33 square miles and has a population of 10,863. The Town provides services to its residents, including maintenance and improvements of Town roads, snow removal, and general government support. These services are financed mainly by real property taxes, special recreational facility charges, and State aid.

The Town is governed by the Town Board (Board) which comprises the Town Supervisor (Supervisor) and four elected Board members. The Board is responsible for the general management and control of the Town's financial affairs, including the auditing of claims. The Supervisor serves as the chief executive officer and chief financial officer and is responsible, along with other administrative staff, for the day-to-day Town management under the Board's direction. The 2011 budget for all funds was approximately \$8.9 million.

The Town contracts with an outside vendor for various information technology (IT) services including advising and consulting with Town officials on computer matters, and providing support and technical assistance relating to the Town's computer network. Payments to the IT vendor for the audit period totaled approximately \$21,900.

## Objective

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

- Are internal controls over claims auditing appropriately designed and operating effectively to adequately safeguard Town assets?
- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively to adequately safeguard Town assets?
- Are internal controls over IT resources appropriately designed and operating effectively to adequately safeguard Town assets?
- Did the Town comply with the requirement that businesses they contract with carry workers' compensation and disability insurance?

**Scope and  
Methodology**

We examined the Town’s internal controls over selected financial operations for the period January 1, 2010 to August 4, 2011. Our audit disclosed additional areas in need of improvement related to IT controls. Because of the sensitivity of some of this information, certain vulnerabilities are not discussed in this report, but have been communicated confidentially 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 C 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. Our comment concerning the Town officials’ response can be found in Appendix B.

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.

## Claims Audit

With few exceptions, Town Law requires the Board to audit and approve all claims before the Supervisor can disburse payment. The Board's approval should be accurately recorded in the Board's minutes. The audit of claims should be a deliberate and thorough process to determine whether the Town's purchasing policy, procedures and applicable laws have been followed. All claims must be for valid Town expenditures and must be written, itemized and accurate; include evidence of approval of the Town official responsible for the purchase; and include evidence that the goods or services have been received. In addition, General Municipal Law (GML) limits the ability of Town officials to enter into contracts in which both their personal financial interests and their public powers and duties conflict.

Internal controls over claims auditing were not operating effectively. The Board, as a collective whole, does not audit and approve claims as required. We reviewed 84 claims totaling \$26,815 and found that the Board did not audit nine claims totaling \$5,750. In addition, one Board member's business received \$1,255 in 2010, which exceeded the limit set in GML by \$505. Since no other statutory exceptions applied, the Board member had a prohibited interest in the contract with the Town.

### Claims Audit

Town Law requires the Board to audit and approve all claims before the Supervisor can disburse payment. Conducting a proper audit of claims prior to payment is an integral part of any internal control system over disbursements. Among other things, a proper audit of claims should provide assurance that the proposed payment is for valid and legal purposes, the obligation was incurred by an authorized official, the goods or services for which payment is claimed were actually received or rendered, and the obligation does not exceed available appropriations.

The Board, as a whole, does not audit and approve claims as required. Rather, the Board established an audit committee, consisting of one Board member, to audit and approve claims for payment. This position is rotated each quarter-year. In addition, the Board member did not approve all claims prior to payment. We reviewed 84 claims totaling \$26,815<sup>1</sup> and found that the Board did not audit nine claims totaling \$5,750. The bookkeeper told us that sometimes claims come

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<sup>1</sup> We selected all 35 payments made to Board members' businesses and both payments made on a weekend (Sunday). The remaining 47 claims were selected using a random number generator.

back from the auditing Board member without being audited. She tries to ensure that they are audited prior to preparing the checks for payment; however, due to the volume of claims she cannot check all the claims when they are returned to her. Failure to properly audit claims prior to payment increases the risk that the Town could pay for expenses that are unauthorized, excessive, or unnecessary.

## **Conflict of Interest**

GML limits the ability of municipal officers and employees to enter into contracts in which both their personal financial interests and their public powers conflict. Unless a statutory exception applies, GML prohibits municipal officers and employees from having an interest in contracts with the municipality for which they serve when they also have the power or duty, either individually or as a Board member, to negotiate, prepare, authorize, or approve the contract; to authorize or approve payment under the contract; to audit bills or claims under the contract; or to appoint an officer or employee with any of those powers or duties.

We reviewed the outside business interests of Town officials serving during our audit period and found that the Town conducted business with businesses owned by two Board members. One Board member is the owner of a hardware store and the other Board member is the owner of a tent rental company and pizza parlor. As the owners of the companies, the Board members are deemed to have an interest in the contracts. Furthermore, as Board members, these individuals also have a number of powers and duties that can lead to a prohibited interest, including the power to audit and approve claims for payment. Therefore, the Board members' interest in the contracts is prohibited unless a statutory exception applies. One Board member's businesses were paid less than the \$750 allowance in each year and, therefore, a statutory exception applied. However, the other Board member's hardware store received \$1,255 in 2010, which exceeded the limit set by GML. This occurred because the Town did not have controls in place to prevent employees from using this business once the threshold was reached. Since no other statutory exceptions applied, the Board member had a prohibited interest in the contract with the Town. When Town officials conduct business with the Town for which they serve, the public may question the propriety of the related transactions. Such transactions may create an actual conflict of interest or, at a minimum, create an appearance of impropriety.

## **Recommendations**

1. The Supervisor should ensure that all vouchers are audited prior to disbursing checks for payment.
2. The Board should establish and implement controls to ensure that the Town does not enter into contracts in which an officer or employee has a prohibited interest.

## Cash Receipts and Disbursements

Written policies and procedures should be established to promote effective operations, the prudent use of resources, and the adherence to applicable laws and regulations. Policies and procedures should specifically address issues such as collecting, recording, and depositing cash; check disbursement; and wire transfers. To protect Town funds from unauthorized and improper electronic/wire transfers, it is essential that the Board adopt an electronic banking policy to ensure that at least two authorized individuals are involved in each electronic/wire transaction.

Other than an electronic banking policy, the Town did not have any policies and procedures related to cash receipts and disbursements. In addition, the electronic banking policy was not adequate because it did not require a second authorization prior to initiating wire transfers. Also, the bookkeeper did not maintain voided checks on file. As a result, there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

Electronic and Wire Transfers – Although the Town has adopted an electronic banking policy that addresses electronic and wire transfers, the policy does not require a second authorization prior to initiating a transfer. Instead, the banks send the Supervisor a confirmation in the mail informing him that the transaction has occurred. As a result, the bookkeeper is able to transfer funds between bank accounts and wire funds to other banking institutions without obtaining prior approval. She stated that this is necessary because some of the transfers are time sensitive and there is not always someone available to provide the second authorization. We reviewed all electronic transfers<sup>2</sup> for July 2011 to determine if electronic transfers were made only to Town bank accounts and if wire transfers were for legitimate Town business. Although we found no exceptions, when electronic and wire transfers are not approved in advance there is an increased risk that inappropriate transactions can be made and not detected timely.

Voided Checks – To maintain control over cash disbursements, it is important for the Town to retain voided checks and to require personnel to explain the reason for each void. We selected 15 of the 162 check numbers not included in the cash disbursement data and found that 13 were recorded as voided in the Town's financial management system. However, Town officials were unable to produce 12 of these checks because the bookkeeper did not maintain all voided

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<sup>2</sup> Intra-bank transfers between Town accounts and wire transfers to other banking institutions

checks. The bookkeeper told us that she does not keep voided checks because she does not have enough space available to store them. By not accounting for all checks, there is an increased risk that checks can be lost, stolen, or misused.

## **Recommendations**

3. The Board should establish written policies and procedures for cash receipts and disbursements to help ensure that all funds are safeguarded and used as intended.
4. The Board should amend its electronic banking policy and assign an appropriate individual to provide a second authorization for electronic transfers prior to the transfer being performed.
5. The bookkeeper should retain voided checks to account for all Town checks in proper sequential order.

## Information Technology

The Town relies on its IT system for many essential functions including user charges and taxpayer billings, internet access, email communications, payroll and non-payroll disbursements, and financial records. Therefore, the IT system and the data it holds are a valuable Town resource. If the IT system fails or is damaged, the resulting problems could range from inconvenient to severe. Even small disruptions can require extensive time and effort to evaluate and repair. Town officials are responsible for establishing policies and procedures to protect the Town's computer equipment,<sup>3</sup> software, and data. Effective controls include, among other things, establishing a breach notification policy detailing how affected residents will be informed about security breaches; and establishing a remote access policy that defines who can access the IT system remotely, how remote access is granted, the methods of gaining access, and how remote access will be monitored, tracked, and controlled.

Town officials have not established a breach notification policy or remote access policy. Therefore, Town officials may not be prepared to effectively manage information breaches and are at higher risk of unauthorized access to systems and data. In addition, the Board has not developed a disaster recovery plan, nor entered into a contract with its third-party IT vendor, and the Town does not have an intrusion detection system (IDS) in operation on the Town server or Town computers

### **Breach Notification Policy**

An individual's private and/or financial information, along with confidential business information, could be severely affected if security is breached or data is improperly disclosed. New York State Technology Law requires counties, cities, towns, villages, and other local agencies to establish an information breach notification policy. Such a policy should detail how the agency would notify residents whose 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 Town does not have an information breach notification policy because the Supervisor was unaware that it was required. Without an information breach notification policy, Town officials and employees

<sup>3</sup> The Town had 32 computers in use during the audit period.

may not be prepared to notify affected individuals in the event that private information is compromised.

### **Remote Access Policy**

Effective internal controls ensure that remote access – the ability to access the computer from the Internet or other external sources – is controlled and monitored so that only authorized individuals may enter or retrieve data. Internal controls include policies and procedures addressing how remote access is granted, who is given remote access, and security issues such as how remote access will be monitored.

The Board has not established policies and procedures for remote access to ensure that computerized data is properly safeguarded. Town officials granted remote access to the Town’s computer operations to a private firm by means of an over-the-counter software program. While Town staff does authorize access to the system, no one monitors remote users’ activity after they enter the system. As a result, there is a risk that computerized data could be compromised and unauthorized activity could go undetected.

### **Disaster Recovery Plan**

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

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

### **Outsourcing IT Services**

Risk management is the process of identifying, measuring, and monitoring risk, including the risk arising from contractual relationships with IT service providers, so that appropriate controls can be put in place to minimize that risk. An effective risk management

process requires that Town officials establish risk-based requirements in contracting with IT service providers; continuously monitor the nature and level of risk; and ensure that procedures, roles and responsibilities, and reporting mechanisms are clearly established and documented. A contract is typically entered into with third-party IT vendors as a means of capturing organizational needs and expectations, and avoiding potential future misunderstandings about the services to be performed. It should establish measurable targets of performance so a common understanding of the nature and level of service required can be achieved.

The Town outsourced its IT services to a third-party vendor. The costs associated with outsourcing the IT services were approximately \$21,900 for the audit period. Although the Town has a letter stating the rates to be charged and that they have a 100 hour maintenance contract for small business computer consulting services, the letter does not provide specific information describing what those services entail. Also, the Board has not entered into a contract with the vendor that defines the roles and responsibilities of both parties. The Supervisor stated that the IT contractor was working for the Town before he took office, and the Board did not believe they needed a contract.

As a result, the Town does not have a formalized means of capturing organizational needs and expectations, and avoiding potential future misunderstandings about the services to be performed.

## **Intrusion Detection**

An IDS inspects all inbound and outbound network activity and identifies suspicious patterns that may indicate a network or system attack from someone attempting to break into or compromise an IT environment. An IDS allows a local government to detect, monitor, and stop intruders trying to access the network. In addition, access to systems and applications must be monitored and analyzed to detect deviations that may indicate inappropriate use from authorized access.

The Town does not have an IDS in operation on the Town server or Town computers and user access is not monitored. The IDS has not been installed because the Supervisor did not know it was available and the IT contractor will not install anything without explicit instructions from the Board. In addition, user access was not monitored because the Supervisor was unaware he could perform this function. If these controls are not implemented appropriately, unauthorized individuals could gain access to confidential information, input viruses or improper data, or change files without detection in a timely manner.

## Recommendations

6. The Board should adopt an information breach notification policy.
7. The Board should establish remote access policies and procedures to define who can access the system and the methods to gain access. These policies and procedures should include designating an individual to produce and view remote access logs.
8. Town officials should develop and implement a formal disaster recovery plan, identifying potential risks and detailing the responses to be taken. Town officials should distribute the plan to all responsible parties, periodically test the plan, and update the plan as needed.
9. The Board should enter into a contract with the Town's IT vendor that clearly outlines the Town's needs and expectations related to the services to be performed.
10. Town officials should establish procedures to ensure that an intrusion detection system is installed and activated on all Town computers.
11. The Board should assign an individual to monitor user access and take appropriate actions when unauthorized access occurs or is attempted.

## Workers' Compensation and Disability Insurance

Workers' Compensation Law requires municipalities to maintain proof that all vendors with whom they do business carry workers' compensation and disability insurance. To fulfill this requirement, Town officials should obtain copies of required forms<sup>4</sup> from all vendors with whom they do business and maintain them on file. This requirement applies to both original issuances and renewals, whether the Town is having the work done or is simply issuing the contract.

The Town did not have a formal process for collecting and tracking workers' compensation and disability insurance forms from vendors they do business with. In practice, the confidential secretary to the Supervisor was responsible for collecting the workers' compensation and disability insurance forms from the vendors and maintaining them on file in her office. In addition, vendors responding to bids were required to submit proof of workers' compensation insurance with their bids. The form received from the winning bidder was then kept on file in the secretary's office with the other forms.

We judgmentally selected 15 of the 567 vendors<sup>5</sup> the Town contracted with during our audit period to determine if the Town maintained the required forms on file and found that only three vendors had the required workers' compensation insurance form on file. Two of the remaining 12 vendors submitted a form which was not an approved form, and no forms for the remaining ten vendors were on file. In addition, none of the 15 vendors had an approved form on file for proof of disability insurance. Although two vendors had a form on file, it was not one of the accepted forms. The Supervisor's secretary stated that the Town was not aware that there were specific forms that were approved. In addition, they did not realize they were required to keep these forms on file for all vendors.

Verification of insurance is necessary to ensure benefits are available, should a worker be injured. It also levels the playing field for

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<sup>4</sup> SI-12: Certificate of Workers' Compensation Self-Insurance; C-105.2: Certificate of Workers' Compensation Insurance; U-26.3: Certificate of NY Workers' Compensation Insurance from the New York State Insurance Fund; or CE-200: Certificate of Attestation of Exemption from NYS Workers' Compensation and/or Disability Benefits Coverage as proof of workers' compensation insurance. In addition, forms DB-155: Certificate of Disability Benefits Self-Insurance; DB 120.1: Certificate of Disability Benefits Insurance; or CE-200: Certificate of Attestation of Exemption from NYS Workers' Compensation and/or Disability Benefits Coverage should be obtained to document proof of disability insurance

<sup>5</sup> Vendors were selected based on the vendor name in order to select a variety of businesses for our sample.

responsible businesses, because they are less likely to be under bid by unscrupulous employers who gain a cost advantage by not carrying insurance. In addition, it reduces the Town's liability in the event of an accident or injury. By not having the required forms on file for all vendors the Town contracts with, the Town is not in compliance with Workers' Compensation Law.

## **Recommendations**

12. The Board should develop a formal process for the collection, maintenance, and tracking of workers' compensation and disability insurance forms from vendors.
13. The Supervisor should obtain the required forms from all vendors with whom the Town does business.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

The Town's response refers to an enclosed letter from a Town consultant describing the implementation of our recommendations related to information technology findings. We did not include this letter because the Town's response is sufficient to address these issues.



# TOWN OF LLOYD

Thomas Shay Square, 12 Church St., Highland, NY 12528

09, May 2012

Office of the State Comptroller  
Newburgh Regional Office  
Christopher J. Ellis, Chief Examiner  
33 Airport Center Drive, suite 103  
New Windsor, NY 12553

Dear Mr. Ellis:

I, Paul J. Hansut, Supervisor took office on January 1, 2012 and I am writing in response to the Draft Audit Report entitled "Internal Controls over Selected Financial Operations" for the Town of Lloyd for the period covered January 1, 2010 to August 4, 2011 under the control of former Supervisor Raymond Costantino who was in office from January 1, 2008 through December 31, 2011.

We are in the process of modifying and implementing policies and procedures for cash receipts and disbursements, electronic banking and the coding and auditing of vouchers. The bookkeeper shall keep all voided checks to account for all Town checks and we are amending our electronic banking policy to include authorization provisions. Currently we are reviewing information from other municipalities and townships with regard to voucher audits which should provide us a more effective and proactive auditing process. To start, our proposed auditing procedure shall be to request all vouchers be coded and submitted by the Town Board workshop meeting; two Town Board members will audit and sign said vouchers; audited vouchers will be presented to the bookkeeper for processing and preparation of the abstract report. The abstract report shall be presented at the Town Board meeting for acceptance by resolution and signature of all Town Board members and the Supervisor. This should address all of the recommendations noted as #1 and #3-5 in the draft report.

See  
Note 1  
Page 20

We have contracted with Northeast Computer Services for our information technology services and as such they have been diligently working to correct delinquencies in our current policies and procedures. They are assisting in the creation and update of policies and procedures with regard to remote access, intrusion detection and password

Town Clerk (845) 691-8011/Supervisor 691-2144/Assessor 691-2197/Building - Zoning 691-2735/Highway Dept. 691-7631  
Police 691-6102/Town Justice 691-7544/Highland Water - Sewer District 691-2400/Planning Board - Zoning Board 691-7167



# TOWN OF LLOYD

Thomas Shay Square, 12 Church St., Highland, NY 12528

protection. They are working to implement a formal disaster recovery plan and have already made arrangements for an intrusion detection system. Enclosed is a letter detailing their findings, implementations and propositions with regard to rectifying the IT deficiencies. This should address all of the recommendations noted as #6 - 11 as presented in the draft report.

All departments are to be notified in writing of the requirements of verifying and/or obtaining the appropriate workers compensation and certificate of insurance forms for all vendors providing services to the town. All workers compensation and certificate of insurance forms shall be filed and remain on file in the office of the Supervisor and updated accordingly. The Town Board will also reiterate, in writing, the necessity of following general municipal law with regard to personal financial interests and public powers to avoid conflicts of interest and maintaining the \$750 maximum allowance. This should address all of the recommendations noted as #2 and #12-13.

Upon completion of our corrective action plan, we will submit to your office for review. We appreciate the effort and professionalism that was shown during the audit process and welcome any information your office may provide to help us rectify our deficiencies.

Sincerely for the Town Board,

Paul J Hansut  
Supervisor Town of Lloyd

PJH/kj

enclosure

## **APPENDIX B**

### **OSC COMMENT ON THE LOCAL OFFICIALS' RESPONSE**

Note 1

Town Law requires that itemized vouchers be presented to the Board, as a whole, for audit and approval.

## 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 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 oversight, Supervisor's records and reports, cash receipts and disbursements, purchasing, payroll and personal services, Town Clerk's office, Tax Collector, Justice Court, Building Department, and information technology.

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. 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 on the reported objective and scope by selecting for audit those areas most at risk. We selected information technology, claims auditing, cash receipts and disbursements, and workers' compensation and disability insurance for further audit testing.

The objective of our audit was to examine internal controls over the financial operations of the Town for the period January 1, 2010 to August 4, 2011. To accomplish our audit objective and obtain audit evidence, we performed the following procedures:

- We interviewed appropriate Town officials to gain an understanding of the internal control policies and procedures.
- We reviewed 84 claims<sup>6</sup> to determine if they were properly authorized, for a legitimate business purpose, mathematically correct, contained evidence of receipt and original invoices, and were properly audited by the Board.
- We canvassed key Town officials for outside employment interests.
- We reviewed the cash disbursement data for the audit period and examined payments to outside businesses of Town officials who may have potential conflicts of interest.
- We reviewed all electronic and wire transfers performed in July 2011 to determine if all transfers were made to official Town bank accounts.
- We reviewed cash disbursement data to identify gaps in the check numbers.

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<sup>6</sup> We selected all 35 payments made to Board members' businesses and both payments made on a weekend (Sunday). The remaining 47 claims were selected using a random number generator.

- We reviewed voided checks to ensure that the checks were defaced and kept on file.
- We reviewed Workers' Compensation and Disability Insurance forms to determine if the Town had the correct forms on file from its vendors.

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

### HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

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