



Town of Montgomery Police Funding and Information Technology

Report of Examination

Period Covered:

January 1, 2011 — May 31, 2012

2012M-166



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 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 Montgomery, entitled Police Funding 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 Montgomery (Town) is located in Orange County and serves approximately 22,000 residents. The Town provides various services to its residents, including police protection, street maintenance, snow removal, street lighting and general government support.

An elected five-member Town Board (Board), which consists of the Town Supervisor and four Board members, governs the Town. The Town Supervisor serves as the Town's chief executive officer. The Town has a 32-member police department consisting of 13 full-time and 19 part-time officers. The Chief of Police is responsible for the day-to-day operations of the police department.

The Town's total budgeted appropriations for the 2011 and 2012 fiscal years were approximately \$12.9 and \$13.3 million, respectively. Appropriations for the police department in 2011 and 2012 were approximately \$2.5 million.¹

The Town contracts with two different vendors for information technology (IT). The Town of New Windsor provides services to the Town Hall for all networked computers, and an independent contractor provides services for non-networked computers.

Scope and Objectives

The objectives of our audit were to examine the Town's funding for the police department and internal controls over IT for the period January 1, 2011 through May 31, 2012. For comparative purposes, we extended our review of police department funding to January 1, 2010. Our audit addressed the following related questions:

- Did the Board accurately charge Town taxpayers for police department operations?
- Did the Board ensure that the Town's IT system was adequately secured and protected against unauthorized access and loss?

Audit Results

The Board is incorrectly assessing the taxpayers in two of the Town's three villages for the costs associated with the police department. The Board has under-assessed the properties in these two villages by approximately \$2 million in the past three fiscal years. By under-assessing village taxpayers, a larger tax burden is being placed on Town taxpayers outside of the villages for police costs.

¹ This amount does not include approximately \$30,000 for capital expenditures such as police vehicles in 2011.

The Board did not adopt guidance for assessing the IT system for vulnerabilities or disaster recovery. The Town's IT system does not have web filters in place, exposing the IT system to a greater risk of becoming infected or being compromised from external sources. There also is a greater risk that internet access could be used inappropriately. Furthermore, administrative rights were not limited to only those employees who required them. As a result, the IT system was vulnerable to external threats.

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. Except as indicated in Appendix A, Town officials generally agreed with our findings and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue Town officials raised in their response.

Introduction

Background

The Town of Montgomery (Town) is located in Orange County, serves approximately 22,000 residents, and encompasses approximately 46 square miles. The Town provides various services to its residents, including police protection, street maintenance, snow removal, street lighting and general government support. These services are financed primarily with real property taxes.

An elected five-member Town Board (Board), which consists of the Town Supervisor (Supervisor) and four Board members, governs the Town. The Supervisor serves as the Town's chief executive officer. The Chief of Police is responsible for the day-to-day operations of the police department.

The Town's total budgeted appropriations for fiscal years 2011 and 2012 were approximately \$12.9 million and \$13.3 million, respectively. Appropriations for the police department in 2011 and 2012 were approximately \$2.5 million.² The Town contracts with two different vendors for information technology (IT) services. The Town of New Windsor provides support for all networked computers in the Town Hall, and an independent contractor provides support for non-networked computers located outside the Town Hall.

Objectives

The objectives of our audit were to examine the Town's funding of the police department and internal controls over IT. Our audit addressed the following related questions:

- Did the Board accurately charge Town taxpayers for police department operations?
- Did the Board ensure that the Town's IT system was adequately secured and protected against unauthorized access and loss?

Scope and Methodology

We examined the Town's funding of the police department and internal controls over IT for the period January 1, 2011 through May 31, 2012. For comparative purposes, we extended our review of police department funding to January 1, 2010.

Our audit disclosed areas in need of improvement concerning IT controls. Because of the sensitivity of some of this information, certain vulnerabilities are not discussed in this report but have been

² This amount does not include approximately \$30,000 for capital expenditures such as police vehicles in 2011.

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. Except as indicated in Appendix A, Town officials generally agreed with our findings and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue Town officials raised in their response.

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 Town Board to make this plan available for public review in the Town Clerk's office.

Police Funding

Town Law generally provides that the costs associated with a town police department are a town-wide charge. However, Town Law provides an exemption for properties located within certain villages that have their own police departments meeting certain requirements. For town police departments formed after 1960, properties in villages that have their own police department of four or more full-time police officers are exempt from taxes levied for the costs of operating the town police department.³

The Town's police department was formed in 1974. Therefore, operating costs must be funded by the entire Town, except within any village having a qualifying police department of its own. There are three villages within the Town: the Villages of Maybrook, Montgomery, and Walden. All three villages have police departments. However, only the Village of Walden has a police department consisting of more than four full-time officers. The Village of Maybrook has three full-time and nine part-time officers, whereas the Village of Montgomery has 31 part-time and no full-time officers. Therefore, the Villages of Montgomery and Maybrook do not meet the qualifications set forth in Town Law necessary for the exemption to apply. Accordingly, properties within those villages are not exempt from taxes levied for the costs of operating the Town's police department.

The Board charged the Villages of Montgomery and Maybrook for police services based on the estimated number of hours that the Town's police department would cover calls from the two municipalities. However, Town Law does not permit this method of cost allocation. Instead, the entire costs of operating the Town police department must be shared by properties outside of the villages and properties located in these two non-qualifying villages.

We examined the Town police costs and the amount of money the Town collected from taxpayers in the two villages for the 2010 through 2012 fiscal years. Based on the assessed values of the properties within each village and the Town outside of the villages, we calculated that the Town has under-collected approximately \$2 million from taxpayers in the two villages during this period, as indicated in Table 1.⁴

³ This exemption does not apply to capital costs.

⁴ Our calculations exclude any moneys for capital expenditures such as police vehicles.

Table 1: Amount Collected for Department Expenses Village of Maybrook			
Year	Actual Amount	Correct Amount	Amount Underpaid
2010	\$18,314	\$242,471	\$224,157
2011	\$18,314	\$262,234	\$243,920
2012	\$18,314	\$264,749	\$246,435
Total	\$54,942	\$769,454	\$714,512
Village of Montgomery			
Year	Actual Amount	Correct Amount	Amount Underpaid
2010	\$11,992	\$416,870	\$404,878
2011	\$11,992	\$452,312	\$440,320
2012	\$11,992	\$454,764	\$442,722
Total	\$35,976	\$1,323,946	\$1,287,970
Town of Montgomery (Outside of the Villages)			
Year	Actual Amount	Correct Amount	Amount Overpaid
2010	\$2,232,772	\$1,603,737	\$629,035
2011	\$2,421,075	\$1,736,835	\$684,240
2012	\$2,458,319	\$1,769,112	\$689,207
Total	\$7,112,166	\$5,109,684	\$2,002,482

The Village of Maybrook has approximately 1,000 taxable parcels. On average, a taxpayer in the Village of Maybrook paid \$18 toward funding the Town police department annually, although the taxpayer should have paid \$256. In the Village of Montgomery, there are approximately 1,320 taxable parcels. On average, a taxpayer in the Village of Montgomery paid \$9 toward funding the Town police department annually, although the taxpayer should have paid approximately \$334. The taxpayers that reside outside the Town's villages actually paid more than was required to fund the Town's police department. There are approximately 3,840 taxable parcels in the Town outside of the villages. Taxpayers in the Town outside of the villages paid, on average, \$174 more annually than they should have because the costs of police operations were not properly charged.

The Supervisor told us that the Board, although aware of Town Law, believed that the cost allocation method used was a more fair and equitable way to distribute the costs of providing police services. The Board's failure to adhere to Town Law has resulted in over-taxing residents in the Town outside of the villages and under-taxing taxpayers in the Villages of Maybrook and Montgomery.

Recommendation

1. The Board should correctly levy taxes on Village and Town taxpayers for the operation and maintenance of the Town police department in accordance with Town Law.

Information Technology

The Town relies on an information technology system for many essential functions including internet access, email communication, payroll and non-payroll disbursements, financial records, and reporting to State and Federal agencies. Therefore, the IT system and the data it holds are valuable resources. 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.

The Board is responsible for establishing policies and procedures to protect the Town's computer equipment, software, and data. These include a security assessment that identifies, prioritizes, and minimizes data security risks and guidelines for disaster recovery. The Board also is responsible for establishing, communicating, and monitoring controls over internet access. Web filters need to be enabled to restrict internet access and limit risk of external threats to the IT system. Both wired and wireless networks need to be secured to reduce the vulnerability of the IT system. In addition, access rights, including administrative rights, need to be limited to only those employees whose job duties require such access to protect the IT system from unnecessary susceptibilities.

The Board did not adopt guidance for assessing the IT system for vulnerabilities or disaster recovery. As a result, there is an increased risk that Town data, hardware and software systems may be lost or damaged by a disaster or unauthorized access and use. The Town's IT system does not have web filters in place, which exposes the IT system to a greater risk of becoming infected or being compromised from external sources. Further, there is a greater risk that internet usage could be abused. In addition, administrative rights were not limited to only those employees who required them; as a result, the IT system has increased vulnerabilities.

Policies and Written Procedures

The Board must adopt IT policies and establish control procedures. To be effective, adopted policies must be effectively communicated to users of the Town's IT system. The Board did not adopt a security plan or a disaster recovery plan. As result, there are significant control weaknesses in the Town's IT operations that could result in lost data.

Security Assessment – A formal, written security plan serves to document the process for evaluating security risks, identifying and prioritizing the more vulnerable areas, and documenting the measures Town personnel must take to minimize and monitor such risks.

For example, a security plan may call for classifying types of data according to their sensitivity, documenting the classification levels and specifying which officials, employees, and vendors are allowed access to each level.

The Board has not developed a written security plan to document any processes that are currently followed or the informal procedures that may already be in place. Without a well-developed, written security plan, there is an increased risk that the informal procedures that are already in place may not address all vulnerable areas and, therefore, may not be effective.

Disaster Recovery – An effective disaster recovery plan identifies critical system functions and describes the steps that Town personnel must take to restore essential operations in the event of a disaster. Such disasters include any sudden, catastrophic event (e.g., fire, computer virus, power outage, or inadvertent employee action) that compromises the integrity of the IT system and data. An effective plan also must include measures that focus on disaster prevention.

The Board has not established a formal disaster recovery plan. Therefore, Town personnel have no procedures to prevent or minimize the loss of equipment and data, and no guidelines for implementing data recovery procedures and resuming critical operations as efficiently as possible. In the event of a disaster, the Town is at risk of not being able to perform essential operations such as payroll and vendor payments.

The adoption of policies and/or procedures for security and disaster recovery does not guarantee the safety of the Town’s computer system or the electronic information it holds. However, the lack of such guidance significantly increases the risk that data, hardware and software systems may be lost or damaged by unauthorized access and use, or a disaster.

Web Filters

Many municipalities find that the internet is a nearly indispensable resource for conducting business. However, users are susceptible to significant threats from cyber criminals who exploit the vulnerabilities of IT systems to gain unauthorized access to sensitive data. For example, computers can be infected by malicious software (malware)⁵ that can install a keystroke logger that captures computer user identification and password information. Internet browsing increases the likelihood that users will be exposed to some form of malware that may lead to a compromise of data confidentiality. Town officials

⁵ Malware is designed to infiltrate a computer system by circumventing network defenses, avoiding detection, and resisting efforts to disable it.

can reduce the risks to the Town's sensitive data and IT assets by using web filters that limit the internet sites users may visit.

The Town does not use any web filtering devices to limit internet access. We judgmentally⁶ selected six of the Town's 45 computers; two computers were non-networked and in an offsite location. Though our review did not identify excessive or inappropriate internet browsing, without web filters in place, employees are able to browse the internet freely. This increases the risk that employees could be viewing inappropriate websites or subjecting the Town to cyber criminals.

Administrative Rights

Effective controls over access rights to computer operations restrict access to only those functions that individuals need to perform their job duties. Administrator or "admin" accounts have more control over programs and settings than normal user accounts. Hackers can potentially take control of a computer by gaining access to these accounts when a user is logged in. Non-administrator accounts can still use programs, but are limited in their ability to make the changes hackers need to harm a computer.

We tested the same six computers discussed above to determine the access rights granted to employees. The two non-networked computers granted the users administrative rights, which allowed users to load software and make changes to the computer's operating system. The four networked computers did not permit the user administrative rights. Because the non-networked computers permitted administrative rights, these computers could be compromised by an attacker or piece of malware; the attack could result in the gaining of the same level of privilege as an administrator to the system.

Recommendations

2. The Board should adopt a comprehensive security plan and update it when necessary.
3. The Board should develop a disaster recovery plan to ensure that, in the event of a disaster, the Town will be able to perform essential operations.
4. The Board should require the IT contractor to establish web filters to limit internet access.
5. The Board should ensure that administrative rights are limited to only those Town employees with a need for such access.

⁶ This included two in the Business Office, one in the Highway Department, one in the Clerk's Office and two non-networked computers located offsite in the Highway Department. Once the computers were logged on, they did not time out. Therefore, anyone in the building could conceivably use the computers and access the information contained on them.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF MONTGOMERY

110 BRACKEN ROAD
MONTGOMERY, NEW YORK 12549-2627

Tel: (845) 457-2600 • Fax: (845) 457-2603

Email: tomsupervisor@frontiernet.net

Michael R. Hayes Supervisor

December 6, 2012

Office of the State Comptroller
Newburgh Regional Office
Mr. Christopher J. Ellis
33 Airport Drive
Newburgh, NY 12553

Dear Mr. Ellis,

The Town of Montgomery (Town) has received and reviewed the State Comptroller's Office Report of Examination that examined the Town's Police Funding and Information Technology (IT) for the period January 1, 2011 to May 31, 2012.

The Town had worked with the two Villages affected by the police funding area of your report in 2009 to try and implement a way to address the question of funding the police department in the Town budget. The Town was aware that these two Villages were providing police services to their residents and in one case on a 24/7/365 program. The Town felt that the formula that was worked out was to the benefit of all the residents of these three municipalities.

See
Note 1
Page 16

The Town concurs with the findings that pertain to the IT portion of the report. It is the goal of the Town to provide a secure and financially responsible IT system. The Town has already been improving our IT system as explained below.

In 2010 the Town entered into an inter-municipal agreement with the Town of New Windsor to provide IT services to the Town. For the past year the Town of New Windsor has been working to rebuild and upgrade the Town of Montgomery's complete IT system. This project is in the final stages of its implementation. This upgrade has improved the Town's IT system and has addressed and corrected some of the recommendations that were noted in the IT section of the Comptroller's review. The IT changes that the Town has undertaken over the past year will allow the Town to upgrade the IT system in the future as new products and systems become available.

The Town has implemented corrective measures to address the IT recommendations of the Comptroller's report and has laid the ground work to address the police funding section of the same report. Attached is a more detailed corrective action plan for these two areas. Please contact my office if you need any additional information.

Sincerely,

Michael R Hayes
Supervisor, Town of Montgomery

APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

Our report acknowledged that the Supervisor believed the Town's cost allocation method used for providing police services to the two villages was a more fair and equitable way to distribute these costs. However, the Town's method of allocating police costs is not in compliance with Town Law.

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. During the initial assessment, we interviewed Town officials, performed limited tests, and reviewed pertinent documents such as Town policies and procedures, Board minutes, and financial records and reports.

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 the areas most at risk. We selected the Town's police funding and information technology practices. To achieve our audit objectives and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials and gained an understanding of their process for funding the police department and the Town's information technology environment.
- We reviewed the Town's budgets and financial information from 2010 through 2012.
- We obtained the 2010 through 2012 assessments for the Town and the Villages within the Town.
- We reviewed the Town's calculations for funding operations and maintenance of the police department, and performed our own calculations based on the data we collected.
- We contacted the Villages within the Town and confirmed the number of police officers currently employed by the Villages.
- We performed audit software tests on six Town computers.

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 objectives.

APPENDIX D

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