



Town of Saugerties

Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

January 1, 2010 — March 2, 2011

2011M-283



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State of New York Office of the State Comptroller

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

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Saugerties (Town) is located in Ulster County and has a population of 19,500. The Town Supervisor (Supervisor) serves as the Town's chief executive officer. The Town Board (Board) is composed of the Supervisor and four Board members. The Board is the legislative body responsible for managing Town operations, including establishing internal controls over financial operations. The 2010 budget for all funds was approximately \$12.3 million.

The Town has two elected Justices who are responsible for all moneys received and disbursed by their Court and for safeguarding Court resources. Three full-time Justice Court clerks assist the Justices. During 2010, the Justices generated approximately \$554,700 in fines, forfeited bail, fees and surcharges. The Town's purchasing function is performed at the departmental level and the Board relies on each department head to comply with the Town's procurement policy.

Scope and Objective

The objective of our audit was to review selected financial activities of the Town for the period January 1, 2010 to March 2, 2011, except for information technology (IT) which was expanded to August 2, 2011. Our audit addressed the following related questions:

- Are internal controls over IT appropriately designed and operating effectively?
- Are internal controls over Justice Court funds appropriately designed and operating effectively?
- Are internal controls over purchasing and claims processing appropriately designed and operating effectively?

Audit Results

Internal controls over IT are not appropriately designed and operating effectively. Town officials do not maintain an inventory of computer assets, or a list of system users and their access abilities. In addition, there is no policy to notify affected individuals if their personal information is compromised, and system users visit non-Town business sites such as those for social networking, motorsports, guns and shopping. Furthermore, computers had administrative rights granting unlimited access, generic accounts were active allowing for unaccountable activity, and personally owned devices could be used to access the network, exposing the system to the introduction of malware by proxy. Finally, although backup tapes are run for the main server on a daily basis, they are not encrypted or stored off-site, and the Board has not adopted a business continuity plan to address potential disasters. As a result, there

is an increased risk that the system and data could be compromised without detection, that viruses or malware could be installed, or that system users could engage in illegal activities that increase the Town's legal liability. Furthermore, in the event of a disaster, the system could become inoperable, causing an inability to process transactions.

Internal controls over the Justice Court need to be improved. Although there are three Court clerks, their duties overlap. Consequently, they perform every aspect of the cash accounting function including collecting cash, recording transactions and making deposits. Despite this lack of segregation of duties, there are no compensating controls such as the verification of cashbook records to duplicate receipts, and no court personnel perform monthly accountabilities. We performed an accountability as of February 2011 and found that Judge Wendy Ricks' cash was \$8,710 lower than recorded liabilities, while Judge Daniel Lamb's cash was \$3,888 higher than recorded liabilities. When available cash does not reconcile with liabilities, bail can be substituted for current liabilities and excess cash can be taken to misappropriate funds, without detection or correction.

Internal controls over purchasing and claims processing are not appropriately designed and operating effectively. The Board has not updated its procurement policy to address recent changes in the law, and consequently, the policy does not provide clear guidance for obtaining competitive bids or quotes for public works contracts from \$20,000 to \$35,000 and purchase contracts from \$10,000 to \$20,000. As a result, Department heads did not solicit competitive bids for the lease-purchase of three trucks totaling \$35,203, or obtain verbal quotes for seven purchases totaling \$7,367, as required by Law. Furthermore, claims were not audited by the entire Town Board, as required, resulting in claims that lacked original receipts and evidence that the goods or services were received. In addition, the Town Clerk regularly paid claims by check using the Supervisor's signature without his oversight, hand-drawn checks were used for disbursements even though there was no Board review of documentation, and there was a lack of segregation of duties and supporting documentation for electronic transfers. As a result, the Town may be paying more than necessary for goods and services, and there is an increased risk that unauthorized or improper payments could be made and go undetected.

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 planned to initiate corrective action.

Introduction

Background

The Town of Saugerties (Town) is located in Ulster County and has a population of 19,500. The Town Supervisor (Supervisor) serves as the Town's chief executive officer. The Town Board (Board) is composed of the Supervisor and four Board members. The Board is the legislative body responsible for managing Town operations, including establishing internal controls over financial operations. The Town provides various services to its residents, including highway, police and fire protection, street lighting, and general governmental support. These services are financed primarily with real property taxes, sales tax and State aid. The 2010 budget for all funds was approximately \$12.3 million.

The Town has two elected Justices who are responsible for all moneys received and disbursed by their Court and for safeguarding Court resources. Three full-time Justice Court clerks assist the Justices. During 2010, the Justices generated approximately \$554,700 in fines, forfeited bail, fees and surcharges. The Town's purchasing function is performed at the departmental level and the Board relies on each department head to comply with the Town's procurement policy.

Objective

The objective of our audit was to review selected financial activities of the Town. Our audit addressed the following related questions:

- Are internal controls over information technology (IT) appropriately designed and operating effectively?
- Are internal controls over Justice Court funds appropriately designed and operating effectively?
- Are internal controls over purchasing and claims processing appropriately designed and operating effectively?

Scope and Methodology

We examined the Town's IT, Justice Court operations, and purchasing and claims processing for the period January 1, 2010 to March 2, 2011, except for IT which was expanded to August 2, 2011.¹ Our audit disclosed additional areas in need of improvement concerning some 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.

¹ The setup of IT systems and status of applications cannot always be determined for past periods, so we expanded the scope period to the date of physical inspection.

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 planned 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.

Information Technology

The use of information technology (IT) affects the fundamental manner in which transactions are initiated, recorded, processed and reported. The extent to which computer processing is used in significant accounting applications, as well as the complexity of that processing, determines the specific risks that IT poses to the Town's internal controls. The Town's widespread use of IT presents a number of internal control risks that must be addressed. These risks include, but are not limited to, unauthorized access to data, unauthorized changes to data in master files, and a potential loss of data. Town officials must therefore design internal controls to safeguard computerized data from loss and misuse.

The Town uses computerized applications to perform essential tasks including the processing financial information, Town Clerk services, building department transactions, and Justice Court activities. The Town relies on a system of servers, access points and workstations. There are approximately 65 computers, 25 laptops and four main servers in use.²

Town officials do not maintain an inventory of computer assets, or a list of system users and their access abilities. There is no policy to notify affected individuals if their personal information is compromised, and system users visit non-Town business sites such as those for social networking, motorsports, guns and shopping. Furthermore, computers had administrative rights granting unlimited access, generic accounts were active allowing for unaccountable activity, and personally owned devices could be used to introduce malware by proxy. In addition, backup tapes are not encrypted or stored off-site, and the Board has not adopted a business continuity plan. As a result, there is an increased risk that the system and data could be compromised or that system users could engage in illegal activities that increase the Town's legal liability. Furthermore, in the event of a disaster, the system could become inoperable.

Asset and User Control

It is essential that inventory records for computers, IT related assets, and significant applications installed be maintained and readily available. Town officials should also have lists of all system users including their access abilities. These records can be used to determine who should and should not be connected to the network. This is especially important for accountability purposes in the event there is an intrusion and data is compromised.

² An independent contractor performs all significant maintenance and hardware installation on an as needed basis.

Town officials did not maintain records of computers, IT assets, applications, system users or access abilities. During our audit, it took a significant amount of time and effort for Town personnel to compile this information to eventually provide to us. This occurred because the Board had not adopted a policy to ensure that IT related equipment and users are accounted for. Without complete and current records of IT assets and authorized users, the risk of the system being compromised by unauthorized parties, without detection, increases. Furthermore, regular maintenance would be difficult to monitor without an adequate inventory record.

Breach Notification Policy

New York State Technology Law requires local governments to establish an information breach notification policy. The policy should detail how Town employees will notify individuals whose private information was, or is reasonably believed to have been, acquired by a person without a valid authorization.

The Town does not have a breach notification policy. In the event that personal, private, or sensitive information was compromised, Town employees may not understand or be prepared to fulfill the legal obligation to notify the affected individuals.

Acceptable Use

Computers, email and Internet access are resources provided to Town employees to help them perform their official duties efficiently and effectively. The Board is responsible for establishing an acceptable use policy to protect the Town's computing environment, provide clear guidance to employees, and to protect the Town's computers from unauthorized and inappropriate use. It is important that all users acknowledge that they have had read the policy, and their computer use is regularly monitored for compliance with the policy.

The Board has adopted an acceptable use policy that includes specific stipulations regarding social media sites and directs that computer resources be used solely for the purpose of advancing and promoting government functions. The use of computer resources for non-Town business purposes is strictly prohibited. We selected and tested eight computer users and found that only two had acknowledged that they had read the acceptable use policy. In addition, the Board has not established procedures to monitor compliance with the acceptable use policy.

We reviewed the computer activity for the eight users, who collectively had four computers³ and found evidence of personal use on two

³ Two computers were selected because the users performed significant activity; one computer was selected because the user had access to online banking and maintained sensitive data; and the computer at the highway garage was selected because of its location.

computers. The users visited sites that had no Town business purpose including sites for social networking, personal email, motorsports, guns, shopping and entertainment. Further, the users who visited these sites were among those employees who had not acknowledged that they had read the Town's acceptable use policy. When users visit unauthorized sites, especially social media and shopping sites, the risk of viruses and malware being installed on Town computers increases significantly. Furthermore, using the Town's computers for non-Town business purposes could place undue legal liability on the Town if that use is illegal.

User Accounts

Access should be granted based on job functions and responsibilities and administrative rights need to be limited and controlled because they provide unrestricted access. All user accounts should be assigned to specific users and any unused accounts should be deleted from the system.

We found that users of the four aforementioned Town computers had administrative rights to the individual computers. In addition, the Town had 14 generic user accounts, one of which was unused and had administrative rights to the server. When access to computers and applications is not controlled, accountability is compromised. Open unused accounts can be easily subject to malicious activity and pose the greatest risk when those accounts have been granted administrative access to the servers.

Use of Personal Devices

Remote access is the ability to log onto a network from an off-site location using a computer or other device, a modem, or Internet access and remote access software. It is important for the Board to establish a policy to address remote access to ensure access is through a secure connection and that only computers or devices secured by the Town are allowed to access the system.

Multiple persons are allowed to connect through a secure connection into the Town's network to access files and use Town applications. Users can access the Town's networks directly or indirectly using a third-party application. The third-party application allows access to users' desktop computers and a remote server allows access to files and applications installed on the Town's main network.

Although the connections may be secure,⁴ the personally owned computers and devices that are used to access the Town's network are not secured by the Town, which introduces a multitude of vulnerabilities. For example, if the personally owned devices become infected, the user's log-on credentials could be compromised and

⁴ We could not confirm the extent of the security, especially the third-party web-based application.

allow for the unauthorized access to the entire Town network or malware could be introduced into the network by proxy. In addition, sensitive information stored on the Town's server is at risk of being compromised.

Business Continuity

A disaster recovery plan, also called a business continuity plan, provides a framework for reconstructing vital operations to ensure the resumption of time-sensitive operations and services in the event of an emergency. This plan should be distributed to all responsible parties, periodically tested, and updated as needed. A well-formulated plan includes provisions to ensure the safety of employees; the identification of IT services that, if compromised, would cause significant financial and/or operational losses for the Town; and the identification of off-site locations that use software packages that are compatible with the Town's data backups. It is important that multiple backup copies of data be prepared, and that they be encrypted and stored at an environmentally and physically secure off-site location.

The Board has not adopted a business continuity plan. In addition, although the Town's main server is backed up by rotating five daily tapes that are reused after one week, the backup tapes are not encrypted or stored off-site. As a result, if a disaster occurs, the Town may not be able to prevent unauthorized access to, or the loss of, vital and sensitive data.

Recommendations

1. The Board should adopt a policy to ensure responsible personnel maintain complete and up-to-date:
 - Inventory records for the computers and IT related assets that are in use, including the significant applications installed
 - A list of all users, including their access abilities.
2. The Board should adopt an information breach notification policy.
3. The Board should ensure all system users acknowledge that they have read the Town's acceptable use policy.
4. The Board should establish procedures to ensure all system users comply with the acceptable use policy.
5. The Board should establish a formal policy that address the risk associated with remote access capabilities and the use of personal devices for that purpose.

6. The Board should establish a policy to ensure that access to the IT system is provided to a specified person based on the needs associated with their job functions. All generic and unused user accounts should be removed, and administrative rights should be restricted to only those individuals who need them.
7. The Board should develop a business continuity plan that:
 - Identifies IT services that, if compromised, would cause significant financial and/or operational losses for the Town
 - Identifies off-site locations that use software packages that are compatible with the Town's data backups
 - Ensures that backup tapes are encrypted and stored off-site.
8. The business continuity plan should be distributed to all responsible parties, periodically tested and updated as needed.

Justice Court Operations

Town Justices are responsible for adjudicating all cases brought before their Courts, and for accounting for and reporting all related court financial activities. Justices are personally responsible and accountable for all moneys received by their courts. Therefore, it is important that they segregate cash accounting duties or establish compensating controls if they do not consider this feasible. The Court's liabilities, such as bails held for pending cases and unremitted fines and fees, should equal the Justice's cash on hand and in the bank. Court personnel must perform monthly accountabilities to confirm that Court moneys are properly accounted for.

Although there are three Court clerks, their accounting duties, such as collecting cash, recording transactions and making deposits, overlap. Despite this lack of segregation of duties, there are no compensating controls such as the verification or records to duplicate receipts and no Court personnel perform monthly accountabilities. We found that Judge Wendy Ricks' cash was \$8,710 lower than recorded liabilities, whereas Judge Daniel Lamb's cash was \$3,888 higher than recorded liabilities. Due to these control weaknesses, excess cash can be misappropriated without detection.

Segregation of Duties

An effective system of internal controls should include the segregation of duties so that no one person can complete a transaction without another person involved. When duties cannot be segregated, compensating controls should be established. Compensating controls can include the Justices themselves reviewing monthly cashbook records and certifying the month end reports, including a verification of original documents; and/or having the monthly bank statements mailed directly to them to open and review.

There are three clerks who perform general office duties; however, their duties overlap. Consequently, they perform every aspect of the cash accounting function including collecting cash, recording transactions and making deposits. Although the Justices review monthly cash book records and certify month end reports, this is not an effective compensating control because it does not include any verification to the original dockets, duplicate receipts, or other hard copy support generated during Court proceedings. Thus, this review could not determine if the monthly cashbook records and month end reports are accurate and complete. Furthermore, the Justices do not have monthly bank statements mailed directly to them to open and review, and deposits are made by a clerk who has full access to the computerized application system, which increases the risk that the records could be manipulated to conceal improper transactions. As a

result, there is an increased risk that bail, fines and fees received will not be properly recorded, remitted and protected against the threat of being lost or stolen.

Bail Accounts

It is essential that each Justice maintain a record of all bail. The receipt and disposition of bail should be recorded promptly to ensure that the computerized records are complete and up-to-date. The bail activity report identifies all bail for which a Justice is accountable. The Justice must ensure that the total per the bail activity report agrees with the bank balance. Exonerated bail should be given back to the person who posted the bail, less any applicable fees. The Court should make a good faith effort for a reasonable period of time to locate the person who posted cash bail. If unable to locate this person to return bail, the Court may transfer such moneys to the Supervisor pending a claim. Cash bail that remains unclaimed six years after exoneration becomes the property of the Town.

Due to the lack of segregation of duties, we performed a limited bail accountability audit as of February 2011 and found that the bail amounts that should be allocated to each Justice did not reconcile to the Court's computerized records:

- Judge Wendy Ricks' adjusted bank balance was \$10,850 lower than bail for pending cases per the bail activity report.
- Judge Daniel Lamb's adjusted bank balance was \$3,020 higher than bail for pending cases per the bail activity report.

In addition, based on the computer system's records of bail, we identified possible stale bail (unclaimed six years after exoneration). We found 58 cases totaling \$19,675 that pre-dated March 2, 2005, with the oldest dating back to 1988. The primary Court clerk was aware of the requirements for turning over stale bail, and the issue of old bail has been cited in previous reports issued by the Town's accountant; however, the old bail had not been addressed and the court clerk stated that the accountant is presently working on the old bail records with the Court. When bail cannot be properly accounted for, there is risk that these funds can substituted for current liabilities and available cash to misappropriate funds without detection or correction.

Monthly Accountability

All cash on hand and in the bank should equal outstanding liabilities, including the amounts held for bail and the amounts needed to satisfy Justice Court Fund (JCF) obligations.⁵ A monthly analysis of Court

⁵ Justices are required to report monthly to the Office of the State Comptroller's JCF the financial activities of the preceding month, and to disburse such fees collected either to the JCF or the Supervisor.

liabilities with cash on hand and in the bank enables Court personnel to verify the accuracy of financial records and establishes control over cash.

Due to the lack of segregation of duties and bail activity report differences discussed previously, we inquired to determine if monthly accountabilities were performed. We found that neither the Justices nor the Court clerks prepared a monthly accountability. We attempted to prepare monthly accountabilities⁶ for February 2011 and found:

- Judge Wendy Ricks' cash was \$8,710 lower than recorded liabilities.
- Judge Daniel Lamb's cash was \$3,888 higher than recorded liabilities.

We identified multiple errors that affected each Justice's accountability. Some errors were due to bail moneys being returned to defendants but not removed from the system, thus inflating the bail liability, and others were due to bail moneys being erroneously recorded as negative amounts in the Court's records, thus deflating the bail liability.

When available cash does not reconcile with liabilities, bail can be substituted for current liabilities and available cash and excess cash can be misappropriate funds without detection or correction.

Recommendations

9. The Justices should:

- Segregate the duties of the Court clerks so that no one person collects cash, records transactions, and makes deposits
- Review monthly cash book records and certify the month end reports, including the verification to original dockets, duplicate receipts, or other hard copy support generated during court proceedings
- Ensure that deposits are not made by any clerk who has full access to the computerized application system
- Have monthly bank statements mailed directly to them to open and review.

⁶ The monthly accountabilities include the bail account differences discussed previously, and additional fine and fee differences that either offset, or are in addition to, those differences.

10. The Justice Court should perform an analysis of all bail liabilities and adjust the computerized records to ensure that the bail activity reports represent a complete and up-to-date list of bail moneys.
11. The Justices should make a good faith effort to locate the persons who posted exonerated bail so it can be returned. All exonerated bail that is unclaimed after six years should be transferred to the Supervisor.
12. The Justices should ensure that monthly accountabilities are performed and available cash reconciles with liabilities. Any differences should be investigated and resolved promptly.
13. Court personnel should take immediate action to resolve the deficiency of funds needed to meet Justice Ricks' recorded liabilities.
14. Court personnel should attempt to identify the moneys on deposit that Justice Lamb is holding in excess of recorded liabilities. If moneys on deposit cannot be identified, Justice Lamb should contact JCF to determine the appropriate actions needed to dispose of these moneys.

Purchasing and Claims Processing

The objective of a purchasing and claims processing system is to ensure that the Town is using its resources effectively, complying with laws and regulations, and controlling disbursements that are made by check or electronic transfer. The Board must ensure that its procurement policy is up-to-date, and that there is evidence that Department heads obtain competitive bids or quotes, original receipts, and evidence that goods and services have been received. The Supervisor must oversee the use of his signature in the check signing process, and ensure that payment documentation is reviewed by the Board. It is also important that duties for electronic transfers be segregated and that all electronic transfers be properly documented.

The Board has not updated its procurement policy to address recent changes in the law and, consequently, the policy does not provide clear guidance for obtaining competitive bids or quotes for public works contracts from \$20,000 to \$35,000 or purchase contracts from \$10,000 to \$20,000. In addition, Department heads did not solicit required competition, and claims were not audited by the entire Board as required, resulting in claims that lacked original receipts and evidence that the goods and services were received. In addition, the Town Clerk's Office regularly paid claims by check using the Supervisor's signature without his oversight, hand-drawn checks were used even though there was no review of supporting documentation by the Board, and there was a lack of segregation of duties and documentation for electronic transfers.

Procurement Policy

General Municipal Law (GML) requires the Board to adopt, and to annually review, a policy for the procurement of goods and services when competitive bidding is not required. Such a policy helps to ensure that the Town obtains goods and services of the desired quantity and quality, at competitive prices, and protects against favoritism, extravagance, fraud and corruption.

The Board has not updated the Town's procurement policy since February 2002. As a result, the policy does not address recent changes in GML, including the increased thresholds for the bidding requirements for public works contracts from \$20,000 to \$35,000 and for purchase contracts from \$10,000 to \$20,000, which were effective in November 2009 and June 2010, respectively. The Town's procurement policy only stipulates methods to obtain lowest prices for purchases under \$10,000 and public works contracts under \$20,000.

When policies do not address the procurements that are below the GML competitive bidding thresholds, there is no assurance that goods

and services are procured in the most prudent and economical manner, that goods and services of desired quality are acquired at the lowest possible price, and that procurement decisions are not influenced by favoritism, improvidence, extravagance, fraud and corruption.

Purchasing Process

The objectives of a procurement process are to obtain goods and services of the desired quality and quantity, at the lowest cost, in accordance with Board and legal requirements. This helps to ensure the prudent and economical use of Town moneys when procuring goods and services and protects against favoritism, extravagance, fraud and corruption. This helps ensure that taxpayer dollars are expended in the most efficient manner.

The purchasing function in the Town is performed at the departmental level. Department heads are allowed to procure items within the stipulations of the Town's procurement policy. However, Town officials have not implemented procedures to ensure that all policy requirements are met. Documentation is maintained at the departmental level and not regularly reviewed by another official. The Board relies on Board liaisons to approve purchases for the departments they oversee. However, purchases made by separately elected officials, such as the Highway Superintendent and Town Clerk, are not subject to this review. Furthermore, this process does not always include a review of supporting documentation, such as bidding and quote documentation. Rather, this oversight measure is generally performed electronically without a review of the supporting documentation.

We reviewed a sample⁷ of 50 claims totaling \$484,000 and found that the purchases were generally made in accordance with the Town's procurement policy. However, we found exceptions with three truck leases and seven purchases totaling \$42,570 as follows:

- Prior to June 2010, GML and the Town's procurement policy required Town officials to competitively bid purchase contracts in excess of \$10,000. However, Town officials entered into separate lease-purchase agreements for three trucks totaling \$35,203 each without the required competitively bidding. The trucks were used by the Animal Control Officer and Building Department. The purchases were made at a local dealer.
- The Town's procurement policy requires that documentation be maintained to indicate quotes were obtained for purchases not subject to competitive bidding. The number and types

⁷ More information on our sampling methodology is included in Appendix B

of quotes depend on the dollar amount of the prospective purchase. We found three claims, for seven purchases totaling \$7,367, did not have documented action that at least two verbal quotes were obtained, as required by the policy. Upon request, the responsible Department head provided us the names of the vendors with whom he had purportedly obtained the verbal quotes; however, he did not have any documented evidence to support his assertions.

Awarding contracts without seeking competitive bids or satisfying procurement policy requirements could result in the Town paying more than necessary for goods and services.

Claims Process

With certain exceptions,⁸ the Supervisor is not authorized by law to disburse funds to pay claims unless they have been audited and approved by the entire Board. The Board must ensure that each claim contains supporting documentation to determine that it complies with Town policies, and that the amounts represent actual and necessary Town expenses.⁹ In addition, the Supervisor should exert his authority as custodian of cash by ensuring that all check disbursements are reviewed and signed under his supervision, and the Board should ensure that electronic transfer duties are segregated and that electronic transfers are supported.

The Board does not perform a proper audit of claims. The Board passes a resolution annually requiring the bookkeeper to audit each claim and designates a Board member liaison for each Department. These actions do not satisfy Town Law because the only action the Board takes is the approval to pay claims based on a list of disbursements (abstract) provided by the bookkeeper. Because the abstracts lack itemization and documentation to support that the claims comply with Town policies, and that the amounts represent actual and necessary Town expenses, this procedure is not sufficient to detect improper payments and increases the risk that moneys could be expended for inappropriate purposes.

We reviewed a sample of 50 claims, one month's electronic disbursements and a sample of hand-drawn checks to determine whether each disbursement was adequately supported and for a proper Town purpose. We found four claims for credit card purchases that were not supported with original detailed receipts, three claims

⁸ Town Law provides that the Board may authorize payment in advance of audit for public utility services, postage, freight and express charges.

⁹ All claims must be sufficiently itemized, in proper form, mathematically correct, not include charges previously paid, include documentation to support compliance with the Town's purchasing policy, and contain evidence that the goods or services were actually received.

that were not signed by the department head and all four hand-drawn checks that were issued during our audit period were not supported with documentation or reviewed by the Board. We also found that there is a lack of segregation of duties over electronic disbursements, and claims are being paid using the Supervisor's signature without his oversight.

Credit Cards — Local governments often issue credit cards to key officials for specific, recurring expenses, such as for business travel. Because the risk for abuse is inherently high, there must be strong internal controls, including written policies and procedures, in place. It is important that the credit card policy identify the individuals authorized to use the credit cards, describe the documentation required to support purchases, the type of purchases permitted, and procedures for monitoring credit card usage.

We found that controls over credit cards were generally lacking. The Town does not maintain a listing of cards and authorized users, and does not have a policy to ensure that credit card use is properly supported. We identified nine credit card purchases totaling \$763 that did not include sufficient supporting documentation. These included charges for gas, computer related vendors, and unspecified tolls.

Hand-Drawn Checks — The issuance of hand-drawn checks is generally infrequent. However, we reviewed all four hand-drawn checks that were issued during our audit period totaling \$13,700 and found that these checks were issued without any Board review of supporting documentation. These checks were accounted for using journal entries and were never added to abstracts. The checks were used to replace a lost check to a vendor; for catering services associated with the Town's Bi-Centennial celebrations, and for the cost associated with a dinner recognizing a Town Police Officer at an association appreciation function. In addition, the Town Clerk maintained custody of these checks. Three of these checks were not supported by satisfactory documentation.

Electronic Transfers — Duties are not properly segregated to ensure accountability over electronic withdrawals or transfers. The accountant processes electronic transfers, receives the bank statements, performs all reporting functions, and completes bank reconciliations without any other person being involved in the process. Because of this weakness we reviewed the documentation for 12 transfers (electronic withdrawals) totaling \$86,462 and found that 11 were adequately supported. The use of automatic withdrawals is commonly used as a means to process liabilities for payroll withholdings, pension costs, the lease payment on the Highway truck, and payrolls paid through direct deposit. One transfer totaling \$32.35 was not supported. This

transfer was for a lease payment for the use of a credit card machine. While this payment was for a proper municipal purpose, there is a risk that the accountant could use the Town's banking credentials, such as routing and account number, to pay vendors for personal, non-Town use, with such transactions not being detected.

Supervisor's Signature — The Supervisor maintains custody of Town moneys. When authorized by Board resolution, checks may be signed with the Supervisor's facsimile signature by a check signer.

We found that the Supervisor's signature is being applied to checks by the Town Clerk's Office¹⁰ without the Supervisor's direct supervision. Without the Supervisor's direct involvement in the check signing process, there is a risk that unauthorized checks could be processed and not be detected or prevented.

Recommendations

15. The Board should amend the procurement policy to address requirements for public works contracts from \$10,000 to \$35,000 and purchase contracts from \$10,000 to \$20,000. In addition, the Board should annually review the procurement policy to ensure it is current.
16. The Board should develop procedures to ensure that procurement policy requirements are met, including:
 - Independent reviews of procurements made by elected officials
 - Forwarding of supporting documentation to a centralized location for review.
17. The entire Board should conduct a thorough and deliberate review of each claim prior to payment.
18. The Board should develop a credit card policy that identifies the individuals authorized to use credit cards, describes the documentation required to support purchases, defines the types of purchases permitted, and establishes procedures for monitoring usage.
19. The Board should adopt a policy and procedures to ensure that hand-drawn checks are listed on Town abstracts and have adequate supporting documentation that is submitted to, and reviewed by, the Board.

¹⁰ Signatures are applied using a signature stamp.

20. The Board should adopt policies and procedures to ensure duties for electronic transfers are segregated and that all electronic transfers are properly supported.
21. The Supervisor should use, or supervise the use of, the check-signer to apply his signature to Town checks.

APPENDIX A
RESPONSES FROM LOCAL OFFICIALS

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



KELLY A. MYERS
 SUPERVISOR
 JAMES J. BRUNO
 DEPUTY SUPERVISOR

TOWN OF SAUGERTIES

4 HIGH STREET, TOWN HALL
 SAUGERTIES, NEW YORK 12477

TEL. (845) 246-2800 FAX. (845) 247-0355



MEMBERS OF TOWN BOARD
 FRED COSTELLO, JR.
 BRUCE LEIGHTON
 LEEANNE THORNTON

May 4, 2012

Christopher J. Ellis

Chief Examiner of Local Government and School Accountability

Newburgh Regional Office

Office of the NY State Comptroller

33 Airport Center Drive

Suite 103 New Windsor, NY 12553

Dear Mr. Ellis,

The Town of Saugerties offers the following response to the findings reported in your audit report covering internal controls over selected financial activities for the period January 1, 2010 through March 2, 2011. This response covers the findings in the information technology and the purchasing / claims functions for the Town of Saugerties. Enclosed please also find a response from The Saugerties Town Justice Court.

The meeting we had with auditors from your office to discuss the findings was very useful. The Town does not dispute any of the Audit findings and will institute corrective systemic actions to improve internal controls over information technology, and financial resources.

The information technology systems in the Town of Saugerties evolved in a fragmented fashion as the technology developed and department needs arose. The Town of Saugerties began the process of developing an overall IT system several years ago and is in the process of refining systems to address department needs, accessibility, and security. The assessment of our current systems is a valuable aid. The findings and recommendations noted in the report will be utilized by the Town Board, department heads, and IT professionals to develop a system and protocol to correct noted internal control weaknesses. In response to the Audit, numerous immediate changes were made to make the operating systems more secure and additional options for system management and integration are being investigated.

With regard to internal financial controls the following procedures have been addressed:

Purchasing and claims processing was noted to have internal control weaknesses. The out dated procurement policy has been updated to current GML. This policy was provided to Town department heads and addresses the requirement that all procurement procedures be documented and that the documentation follow the voucher through all approval levels.

The claims process had developed to require review and approval by department heads and a Board liaison. While claims were available for review prior to and at all Board meetings, the signature of all Board members was not required. The process has been revised to include the review of all claims by all Board members and their signing off on the abstract to indicate the review was completed.

Due to the inherent delay in payment for municipal goods and services provided, the Town of Saugerties utilizes credit card and hand drawn check payment methods. As these represent a small fraction of the claims paid, the systems of approval did not follow the procurement policy. The Town of Saugerties is in the process of drafting credit card use policies and hand drawn check policies which will address the recommendations of the State.

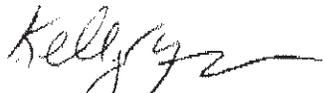
Electronic transfers are used to pay payroll tax deposits, retirement system payments, debt service payments, direct paycheck deposits, and to transfer funds between Town of Saugerties accounts. The town of Saugerties has revised the reconciliation procedures to deliver the original bank statements to the Supervisor for review prior to delivery to the accounting office for reconciliation. The supervisor reviews the electronic transfers for appropriateness.

To facilitate the signing of hundreds of checks, the Supervisor utilizes a signature stamp. In accord with the recommendation of the State, the policy of the Supervisor is to apply or supervise the application of the signature personally.

Attached please find the response to audit findings regarding the Town Justice Court.

Thank you for this valuable review, we will utilize the information to strengthen our internal controls over sensitive information and public resources.

Very truly yours,



Kelly Myers

Saugerties Town Supervisor

Town Hall
4 High Street
Saugerties, NY 12477

TOWN OF SAUGERTIES
JUSTICE COURT



Tel. (845) 246-2800
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April 30, 2012

NYS Office of the State Comptroller
Division of Local Government and School Accountability
33 Airport Center Drive Suite 103
New Windsor, New York 12553

RE: Draft Audit Report for Town of Saugerties Justice Court

Dear Office of the State Comptroller:

Please accept this letter as our response to your preliminary findings set forth in the Draft Audit for the period of January 1, 2010 through March 2, 2011. Your report made a number of recommendations to improve the operation and accountability of the Saugerties Justice Court. The three main issues raised by your report were; segregation of duties, monthly accountability and bail accounts.

Segregation of duties and internal controls

Your report emphasized the importance of the segregation of duties as an effective system for internal controls. Based on the logistics and scheduling of our three court clerks, it is not possible to have a full segregation of duties. Depending on when payments are made, different clerks will write the receipts or make the entries. Only one of the clerks writes the checks, which the judges then review and sign. Every month, the monthly reports are prepared by one clerk, and then reviewed and double checked by a second clerk. The Judges then review the monthly reports, and supporting documentation, and electronically submit said reports to the State.

Going forward, the Judges will institute a policy to audit a certain number of receipts each month, whereby the receipts will be compared to the original ticket or case file, and to the deposit slips.

An annual audit of the Saugerties Justice Court accounts is completed each year by the Town's accountant. The Court will also be conducting monthly bank reconciliations

Bail accounts

Your audit revealed that the bail amounts that should be allocated to each Justice did not reconcile with the Court's computerized records. Your audit revealed that Judge

Ricks' adjusted bank balance was lower than the bail for pending cases per the bail activity report, while Judge Lamb's bank balance was higher than the bail activity report.

In regard to Judge Ricks' account, the majority of the discrepancy is based on the fact that at the time of the audit, the Court's computerized records in regards to bail were not completely up to date, and certain bail transfers had not been recorded. When a case is transferred from one judge to the other, the bail also needs to be transferred. The computerized records are now up to date and the necessary transfers have been made. A thorough review of the bail books, bail activity report and bank statements has been conducted. The 2010 audit conducted by the Town's accountant found a discrepancy of \$160.95. We have located an unreimbursed bank fee, and have reduced the discrepancy to approximately \$111.45.

We are in the process of reviewing and reconciling Judge Lamb's bail accounts. This process will be slower as Judge Lamb's account includes bail from retired and deceased Judges. The Court will be working with the town's accountant to reconcile the bail accounts, and address the issue of old bail. A good faith effort will be made to locate individuals who posted exonerated bail. The bail will then, either be returned, or forfeited, as appropriate.

Going forward, both judges have discussed the issue of maintaining a separate bail account in addition to the general account, and plan on opening same.

Monthly accountability

The Court will be instituting a policy to perform monthly accountabilities to insure that the monthly bank statements reconcile with the monthly liabilities.

We would both like to thank the auditors for their professionalism and their input. I believe that these recommendations can help our court become more efficient and accountable.

Sincerely,

Wendy S. Ricks, Esq.
Town Justice



Daniel N. Lamb, Esq.
Town Justice



APPENDIX B

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 of transactions 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 objective and scope by selecting for audit those areas most at risk. We selected information technology, Justice Court operations, and purchasing and claims processing for further audit testing. Our audit included various procedures to gather relevant evidence concerning our stated objective.

With respect to information technology (IT), we:

- Inquired to determine if Town officials maintained lists of computers, IT assets, applications, system users or access abilities
- Inquired as to policies and procedures related to breach notification, acceptable use, user accounts, personal devices and business continuity
- Took custody of four computers and reviewed specific activities such as Internet use and general application installations.

With respect to Justice Court operations, we:

- Interviewed the Justices and Court clerks to determine if the following procedures are being performed and who performs them: maintenance of case files, maintenance of a cashbook, maintenance of an official bank account for each Justice, issuance of acceptable receipt forms, depositing receipts in a timely manner and filing monthly reports
- Determined whether remittances to the Supervisor were made in a timely manner and whether monthly reports were submitted timely to the Office of the State Comptroller
- Reviewed a current list of bail to determine the accuracy of the report
- Determined whether bank reconciliations were properly performed
- Obtained Justice Court records and performed monthly accountability audits for a month selected in a non-biased manner to determine if assets and liabilities were comparable.

With respect to purchasing and claims, we:

- Reviewed a sample of 50 claims picked in a non-biased judgmental way and reviewed all supporting documentation to ensure that each claim was properly supported, complied with General Municipal Law and Town polices, and was for actual and necessary Town expense
- Reviewed all four hand-drawn checks that were issued during our scope period and a non-biased sample month of electronic transfers from the bank statement to support provided by the Town.

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 C

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DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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