



Town of Stillwater

Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

January 1, 2010 — September 30, 2011

2012M-158



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 Stillwater, 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 Stillwater (Town) is located in Saratoga County and has a population of about 8,300. The Village of Stillwater (Village) is located within the Town. The Town provides various services to its residents including general government support, public safety, road maintenance, and snow plowing. The Town Board (Board) comprises the elected Town Supervisor (Supervisor) and four elected council persons. The Supervisor is the chief executive officer and the chief fiscal officer. The Town has a Clerk who is appointed to a four-year term. The Town has a computer network with a single server located in the Supervisor's office. Certain technology services are outsourced to a local vendor.

Scope and Objective

The objective of our audit was to review selected financial activities of the Town for the period January 1, 2010 to September 30, 2011. We also reviewed the Town's 2012 adopted budget. Our audit addressed the following related questions:

- Does the Board properly manage Town finances by appropriately allocating expenditures between the town-wide and part-town funds?
- Are internal controls for the cash that is received and accounted for in the Clerk's office adequately designed and operating effectively?
- Are internal controls over information technology (IT) appropriately designed to safeguard Town assets and data?

Audit Results

The Board did not maintain equity among taxpayers by appropriately allocating expenditures between the town-wide and part-town funds. Instead, over a three-year period, the Board improperly allocated expenditures for Town buildings, the Town historian, and community center programs totaling \$840,000 to the part-town general fund. As a result, taxpayers within the Village are financially benefiting at the expense of the taxpayers outside the Village.

Internal controls in the Clerk's office need to be improved. For example, the Clerk's duties are not segregated. As a result, the Clerk performs all aspects of processing transactions in her office, such as recording receipts, making deposits and preparing financial reports. In addition, the Clerk and her Deputy access computer resources using the same access identification, making it difficult to determine who entered transactions. Despite these control weaknesses, compensating controls such

as bank reconciliations have not been performed since 2008. Furthermore, the Clerk does not issue a receipt for every transaction or document the method of payment (cash or check). She also deposited 19 receipts, totaling \$8,211, an average of nine business days later than required by law. Finally, the Board did not audit the Clerk's records. As a result, taxpayers cannot be assured that all money collected by the Clerk has been properly recorded and deposited.

We found weaknesses in the internal controls over IT. The Board has not established a policy for acceptable use or provided users with cyber-security training. In addition, the Board has not adopted a disaster recovery plan and backup tapes are not stored off-site. Also, there is no policy to notify affected individuals if their personal information is compromised. As a result, the Town's IT assets are at risk for inappropriate and wasteful use, computer data is subject to increased risk of damage and loss, and there is an increased risk that affected individuals will not be notified in a timely manner if their personal information is compromised.

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 specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on issues raised in the Town's response letter.

Introduction

Background

The Town of Stillwater (Town) is located in Saratoga County and has a population of approximately 8,300 residents. The Town provides various services to its residents including general government support, public safety, road maintenance, and snow plowing. For the 2011 fiscal year, budgeted appropriations for the general fund; part-town general fund, part-town highway fund, fire district and water, sewer, and lighting districts; totaled approximately \$5.8 million. These services were financed primarily by real property taxes, sales tax, State aid, and user fees.

The Town is governed by a Town Board (Board) that comprises the elected Town Supervisor (Supervisor) and four elected council persons. The Supervisor is the chief executive officer and the chief fiscal officer. The Town Clerk (Clerk) is appointed to a four-year term, and is assisted by a Deputy Clerk (Deputy). In 2010, the Clerk's office collected about \$61,000 in receipts that were deposited into the Clerk's bank account.

The Town has a computer network with a single server located in the Supervisor's office. Certain technology services are outsourced to a local vendor.

Objective

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

- Does the Board properly manage Town finances by appropriately allocating expenditures between the town-wide and part-town funds?
- Are internal controls for the cash that is received and accounted for in the Town Clerk's office adequately designed and operating effectively?
- Are internal controls over information technology (IT) appropriately designed to safeguard Town assets and data?

Scope and Methodology

We examined taxpayer equity, the Clerk's office, and IT for the period January 1, 2010 to September 30, 2011. We also reviewed the Town's 2012 adopted budget.

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 specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on issues raised in the Town's response letter.

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

Taxpayer Equity

Many towns in New York State contain one or more villages. The operational structure of town government needs to be distinguished into two general categories – services provided and functions performed on a town-wide basis, including services to town residents inside villages, and those provided to the part of the town outside of any existing villages. For compliance with statute and the sake of taxpayer equity, the costs of certain services are not charged to all property taxpayers, but rather to just those property owners outside the villages within the town. Revenues and expenditures for operations of the town outside the village (part-town) must be budgeted and accounted for separately from the operations of the entire town including the village (town-wide).

Because the Village of Stillwater (Village) is located within the Town, the Town must maintain separate funds to account for transactions that are required by law to be budgeted and accounted for in town-wide funds or part-town funds.¹ The Town's operating funds include the town-wide general fund that has a tax base that encompasses the entire Town, including the Village, and the part-town general fund and part-town highway funds that have tax bases that encompass the portion of the Town that lies outside the Village. Because the Town's financial transactions affect different tax bases, it is important for Town officials to budget and account for all expenditures in the appropriate funds to maintain equity among taxpayers in compliance with statutory requirements.

We found that, from 2010 to 2012, Town officials incorrectly allocated town-wide expenditures totaling over \$840,000 to the part-town general fund.

In 2010, the town-wide expenditures recorded in the part-town general fund totaled \$277,000. These expenditures were for Town buildings (\$92,400), the Town historian (\$41,200), and the Town's community center² programs (\$143,400). These expenditures represented about 36 percent of the part-town general fund's expenditures, which totaled \$777,000.

¹ Generally, expenditures must be budgeted in the town-wide funds unless statute requires or permits them to be accounted for in part-town funds.

² The Town provides funding to a community center that offers recreational and other programs, and services for youth and the aging from a building that is owned by the Town.

In 2011, the expenditures for these purposes budgeted in the part-town general fund totaled \$261,700, or about 32 percent of the fund's budget, which totaled \$814,750. Finally, in 2012, the expenditures for these purposes budgeted in the part-town general fund totaled \$302,000, or about 36 percent of the fund's budget which totaled \$832,853.

According to the Supervisor, this is because the Town cannot allocate any of its sales tax revenue to the town-wide general fund, but can allocate it to the part-town general and part-town highway funds. This is because Tax Law provides that, if a town and the villages therein elect to receive their share of county sales tax directly from the county (which is the case with the Town of Stillwater), the town shall first apply its share to reduce taxes levied for part-town activities. If any balance remains, the Board may apply the remainder to reduce general town-wide taxes. Because taxes have not been eliminated in the part-town funds, the Town is required to allocate all of its sales tax to the part-town funds. Since the Village taxpayers therefore do not receive a direct benefit from the sales tax revenue, the Supervisor decided to provide them an indirect benefit by reducing some of the Town's charges to the Village property taxes. However, this is not allowed by law.

Town officials budget and account for town-wide expenditures in the part-town general fund. As a result, taxpayers within the Village pay less in real property taxes and taxpayers outside the Village pay more in real property taxes than they would have if the expenditures were properly allocated.

Recommendations

1. The Board should adopt town-wide and part-town budgets that include expenditures allocated in accordance with statutory requirements.
2. The general town-wide fund should repay the part-town general fund for the \$840,000 improperly charged to the part-town taxpayers.

Town Clerk's Office

The Clerk is responsible for receiving, recording, depositing, disbursing, and reporting all moneys collected in an accurate and timely manner. A well-designed system of internal controls is necessary to ensure that money received by the Clerk is safeguarded and that the Clerk's financial activity is properly recorded and reported. The Clerk must remit all moneys received to the appropriate entities that include the Supervisor, Saratoga County, and various State agencies. These controls should also include an appropriate segregation of financial duties and adequate Board oversight. Adequate Board oversight includes the requirement to audit the books and records of the Clerk at least annually.

The Board and the Clerk did not establish adequate internal controls. For example, the Clerk's duties are not segregated, and the Clerk and her Deputy access computer resources using the same access identification making it difficult to determine who entered transactions. Furthermore, bank reconciliations have not been performed since 2008, and the Clerk does not issue a receipt for every transaction or document the method of payment (cash or check). She also deposited 19 receipts, totaling \$8,211, an average of nine business days later than required by law. Finally, the Board did not audit the Clerk's records. As a result, taxpayers cannot be assured that all money collected has been properly recorded and deposited.

Segregation of Duties

Proper segregation of duties ensures that no one person controls all phases of a transaction and provides for the work of one employee to be verified by another employee. When duties cannot be properly segregated, compensating controls should be implemented. Further, the proper segregation of duties requires that, for access to computer systems and software applications, unique user accounts should be created for each employee that are used only by that employee.

We found a lack of segregation of duties within the Clerk's office. The Clerk performs all aspects of the processing of transactions. She opens her own mail, accepts and records receipts, prepares and makes the deposits, and prepares financial reports. The Deputy also accepts and records receipts. Also, although the Clerk and her Deputy access the computer system from different workstations, they use the same user identification and password, making it difficult to determine who entered transactions. They also share the same access identification for the web-based State Department of Environmental Conservation system.

This lack of segregation of duties highlights the need for compensating controls, such as a reconciliation of the Clerk's bank account to the financial activity recorded in her records by someone independent of her office. However, according to the Clerk, bank reconciliations have not been performed since at least 2008. As a result, there is an increased risk that errors and irregularities could occur and not be detected.

Receipts

Receipt information should be sufficiently detailed to determine the amount paid, who made the payment, for what reason, the manner in which it was paid (cash or check), and the date it was paid. The Clerk should issue duplicate press-numbered receipts to all customers that indicate this level of detail when no other evidence of receipt is available. Properly recording the amount and form of payment received (i.e., cash or check) and issuing a duplicate receipt for payments received enables Town officials to trace transactions from the point of collection through the accounting records to bank deposits and monthly reports.

The Clerk did not routinely issue a duplicate receipt for every transaction where no other evidence of receipt was available and did not record sufficient detail about the cash receipts in her cashbook. The Clerk maintained a hand-written notebook in which she recorded the date, amount, reason and person paying, but did not indicate the method of payment. The Clerk and the Deputy also record this receipt information in the computer system, but do not enter the method of payment. The Clerk maintained evidence of transactions for Department of Environmental Conservation computerized receipts and marriage and dog licenses, but did not document the method of payment for these receipts. The Clerk also receives fees for various items like death transcripts, Freedom of Information Law (FOIL) requests, and document copying charges. Though the Clerk uses a receipt book with press-numbered, duplicate receipts, she again does not record the method of payment. Because the Clerk did not indicate the method of payment when she recorded receipts in the software system, this important information was not included in her computer-generated daily cash report.

After being made aware of our control concerns during the course of the audit, the Clerk and the Deputy began recording the method of payment for each receipt.

Without issuing receipts for all collections when no other evidence of receipt exists and not adequately documenting the composition of payments received, there is no way to determine if all moneys collected are properly accounted for, and the Town is at risk that cash could be lost or misappropriated.

Deposits

Town Law requires the Clerk to deposit all moneys received no later than the third business day after the total exceeds \$250. The Clerk must deposit all moneys collected intact³ so that Town officials can track cash receipts through the accounting records to the bank statements to ensure that all moneys collected are properly deposited. It is important that detailed records and deposit tickets be maintained for verification purposes.

Because of the lack of adequate internal controls over the collection of receipts, we tested deposits made for timeliness and completeness. We found that the Clerk deposits collections only periodically during the month, and not within the timeframes stipulated in law. In addition, we were unable to determine if deposits were made intact because there was no indication in the Clerk's records whether cash or checks were received, and copies of detailed deposit tickets were not maintained.

The Clerk prepares and makes the deposits of all moneys collected by her and the Deputy. During our audit period, she reported processing receipts of about \$103,000. For these fees collected by her, she did not retain a detailed copy of a deposit slip indicating the composition of the deposit or record the deposit composition anywhere else. We reviewed the deposit activity in the Clerk's account period and found that she made less than four deposits per month on average. Because moneys were not deposited more frequently, we selected three deposits made in June 2011 that included 19 receipts totaling \$8,211 for testing. None of the 19 receipts were deposited timely. They were made an average of nine⁴ business days later than required by law. The Clerk stated that she agreed the deposits were late and she needs to make more frequent trips to the bank.

The failure to deposit collections timely and intact increases the risk that cash receipts could be lost or stolen.

Annual Audit

Town Law requires the Board to annually audit the Clerk's records and reports, or hire a certified public accountant or public accountant for that purpose. The audit serves an important internal control function by providing independent verification that the records have been maintained in accordance with established procedures, transactions have been properly recorded, and cash has been properly accounted for. The annual audit also gives the Board the opportunity to monitor the Clerk's financial procedures, and is particularly important in operations lacking an adequate segregation of duties.

³ In the same order and form (cash or check) in which they were received

⁴ Deposits ranged from four to eleven days late.

However, the Board has not audited or caused to be audited the Clerk's records for many years. The failure of the Board to properly audit the Clerk's records neglects an important monitoring control. As a result, the Board and the taxpayers have no assurance that the Clerk's records are accurate and complete, and there is an increased risk that moneys could not be properly accounted for or that errors or irregularities could occur and go undetected.

Recommendations

3. The Board should ensure that duties are adequately segregated and, where segregation of duties is impractical, put effective compensating controls in place.
4. The Clerk and her Deputy should discontinue the practice of using the same user identification and password to access the Town's computer system and using the same access identification to access the web-based State Department of Environmental Conservation System.
5. The Clerk or her Deputy should perform monthly bank reconciliations.
6. The Clerk should deposit all moneys collected intact and within three business days after the total exceeds \$250.
7. The Clerk should record the form of each deposit (cash or check) and keep the detailed deposit tickets on file.
8. The Board should perform or contract for an annual audit of the Clerk's records.

Information Technology

The Town has 12 networked desktop computers, and relies on its information technology (IT) system to perform a variety of tasks including word processing, email communication, Internet access, bookkeeping, and reporting to State and Federal agencies. Additionally, large amounts of information and data related to finances, taxes, water rents, payrolls, personnel, and building permits are stored on the IT system. The Town's use of IT presents a number of internal control risks, such as unauthorized access, which can increase the risk that computerized equipment could be damaged or data misused, lost, or corrupted without detection. Even small disruptions in the IT system can require extensive time and effort to evaluate and repair. Town officials are responsible for designing and implementing internal controls over IT to protect these assets from unauthorized, inappropriate, and wasteful use. Both administrative and information system controls should be part of any IT security system. This is especially important because of the increasing use of viruses, malware,⁵ and other malicious methods intended to harm data resources and gain unauthorized access to valuable data.

The Board has not established a policy for acceptable use or provided cyber-security training. In addition, the Board has not adopted a disaster recovery plan, backup tapes are not stored off-site, and there is no breach notification policy. As a result, the Town's IT assets are at risk for wasteful use, computer data is at risk of damage and loss, and there is an increased risk that individuals will not be notified if their personal information is compromised.

Acceptable Use and Security Awareness Training

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 promote security practices that protect the Town's computing environment, provide clear guidance to employees, and protect the Town's computers from unauthorized and inappropriate use. It is important that all users acknowledge that they have read the policy, and that their computer use is regularly monitored for compliance with the policy.

The Board has not adopted an acceptable use policy that covers Town officials and employees, or the outside vendors and consultants

⁵ Malware, or malicious software, consists of programming designed to disrupt or deny operation, gather information that leads to loss of privacy or exploitation, gain unauthorized access to system resources, or otherwise cause damage. A computer worm is a self-replicating malware computer program which uses a computer network to send copies of itself to other computers on the network.

who use the IT system, or provided security awareness training to users that would alert them to computing practices that may place the Town's IT assets at risk. The Town did not place restrictions or limitations on using the Internet. We observed that one user's Internet browsing history included visits to social networking, online gaming, and online auction sites. Further, Town officials do not monitor computer use to determine whether staff members are properly using the Town's computer resources.

Without comprehensive policies that explicitly convey the appropriate use of the Town's IT equipment, Town officials cannot ensure that users are aware of their responsibilities and there are no consistent standards for which users are held accountable. While comprehensive computer use policies and security training do not guarantee the safety of the Town's electronic information, the lack of such policies and training significantly increases the risk that hardware and software systems and the data they contain may be lost or damaged by inappropriate use. This leaves the Town vulnerable to risks including computer viruses and spyware that could potentially be introduced by accessing non-work-related websites or downloading unauthorized programs.

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 local governments to establish an information breach notification policy. The policy should detail how employees would notify residents whose private information was, or is reasonably believed to have been, acquired by a person without a valid authorization. The disclosure should 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.

Town officials were unaware of this requirement and did not establish a breach notification policy. In the event that private information is compromised, officials and employees may not understand or be prepared to fulfill their legal obligation to notify affected individuals.

Disaster Recovery Plan

An effective system of internal controls includes a disaster recovery plan to help prevent or minimize the loss of computerized equipment and data, and provide procedures for recovery in the event of an actual loss. A disaster could be any sudden catastrophic event that compromises the integrity and the data of the IT systems. Even small disruptions in electronic data systems can require extensive effort and cost to evaluate and repair. The plan should address the roles of

key individuals and include precautions to be taken to minimize the effects of a disaster so Town officials will be able either to maintain or quickly resume day-to-day operations. It is also important for the plan to have significant focus on disaster prevention. This plan should be distributed to all responsible parties, periodically tested, and updated as needed.

The Board has not adopted a comprehensive disaster recovery plan. Consequently, in the event of a disaster, Town personnel have no guidelines on how to maintain Town operations or restore them as quickly as possible. The lack of a disaster recovery plan could lead to loss of important financial data along with a serious interruption to the Town's operations, such as not being able to process checks to pay vendors or employees.

Data Back-Up Storage

A strong system of internal controls also includes a system to back up (create a copy of) computer-processed data. Sound business practices require Town officials to complete a daily backup of the Town's electronic data so that it can be restored in the event of loss. Back-up data must be stored at a secure off-site location and routinely tested to ensure its integrity.

The Board has not adopted comprehensive data back-up policies and procedures for the computer-processed data within the Town's departments. Although the Town's bookkeeper in the Supervisor's office runs backups daily, the backups are not stored at an off-site location. Instead, the backups are stored in the Town hall and are therefore subject to many of the same risks as the Town's main IT system and data. As a result, a fire or other disaster could not only destroy or damage the computers, but also the back-up tapes, resulting in a loss of essential data that may not be recoverable.

Recommendations

9. The Board should adopt an acceptable computer use policy, and ensure that computer users receive cyber-security awareness training including safe and appropriate use of the Internet. In addition, all users should acknowledge that they have had read the policy, and the Board should establish procedures to ensure that their computer use is regularly monitored for compliance with the policy.
10. The Board should establish a breach notification policy.
11. The Board should develop a formal disaster recovery plan that addresses the range of potential threats to the Town's IT systems and data, and provides the guidance necessary to maintain Town operations or restore them as quickly as possible. This plan should

be distributed to all responsible parties, periodically tested, and updated as needed.

12. The Board should adopt comprehensive data back-up policies and procedures. Town officials should ensure that back-up tapes are stored at an environmentally secure off-site location.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF STILLWATER

ESTABLISHED 1788 - SITE OF THE TURNING POINT OF THE AMERICAN REVOLUTION

[Redacted]

27 November 2012

Principal Examiner
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Re: Local Officials Response to Draft Audit Report (2012M-158)

Dear [Redacted]

I wish to thank your audit team for accomplishing this comprehensive audit with minimal impact on our Town functions. The findings you address were a wake-up call in many respects; and some need adjustment to fit our capabilities and response to periodic employee and elected official turn-overs. As a relatively new Supervisor, the task of adhering to all regulatory budget requirements seems daunting at times; and certainly when regulations are not necessarily clear or open to a variety of subjective interpretations.

Additional time is certainly necessary to accurately address all findings through the Corrective Action Plan (CAP); but many items have been corrected on the spot and will be noted as such upon submission. I offer the follow general comments concerning the three main areas of the Draft Audit:

- A. Taxpayer Equity – The budget distinctions between Town Outside and Town Wide can be very gray; and I would say need more municipal feedback for legislative change. The three areas affecting this finding – Town Buildings, Town Historian and Community Center -- may be best case in point. I do not agree with the entire \$840,000 finding and believe the CAP will offer specifics. The degree of municipal support from Town and Village, coupled with a shared funding distribution of PILOT revenues, should present a better explanation of taxpayer equity.
- B. Town Clerk’s Office – First and foremost I need to address our Town Boards confidence, in every respect, toward our Clerk and Deputy Clerk. Their team approach and duty to fulfilling their daily administrative tasks are above reproach. Adherence to sometimes cumbersome or routine processes can lead to mistakes, lacking periodic review or oversight. This audit area received a great deal of attention; and did provide our Town with respected feedback to improve our administrative processes. However, although weaknesses were found, our Clerks did not jeopardize overall accountability due to redundant systems. Our Clerks have made all required adjustments to the findings; and will provide explanations in the CAP.

See
Note 1
Page 20

- C. **Information Technology (IT)** – Upon taking office in 2010, I found our Town to have outdated technology and associated training to meet current cyber-security concerns. However, as of this writing, we have installed a new computer network system, applied best available threat detection software, established daily off site data storage and will soon implement a new Personnel Manual addressing use and control of IT. This area finding is certainly budget driven and may prove difficult to keep pace with evolutions in IT.

Once again, I thank your very professional team and welcomed their open approach to address our concerns. During their visit, I made full use of their time, and found their response to my inquiries extremely helpful.

Respectfully,

Edward D. Kinowski, Supervisor

Sue Cunningham, Town Clerk

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Engineers
The Chazen Companies

APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

Expenditures must be budgeted in the town-wide funds unless statute requires or permits them to be accounted for in part-town funds.

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 condition and oversight, budgeting, Supervisor's records and reports, cash receipts and disbursements, purchasing, payroll and personal services, real property taxes, user charges, fixed assets, capital projects, Town Clerk's office, Justice Court, and information technology (IT).

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 taxpayer equity, cash receipts in the Town Clerk's office, and IT for further audit testing. To accomplish our audit objective and obtain audit evidence, we performed the following procedures:

Taxpayer Equity

We reviewed the Town budgets for the 2010, 2011, and 2012 fiscal years. We reviewed the year end results of operations for the 2010 fiscal year as reported by the Town. We interviewed Town officials to determine their process for developing their budgets. We reviewed the Town's 2010 financial statements and accounting information in the scope period.

Town Clerk's Office

We interviewed Town Clerk's office staff members to understand the procedures for collecting, recording, depositing, and reporting cash receipts. To accomplish certain audit steps, we obtained information from the Town's bank. We reviewed documentation of cash receipts that included a handwritten cash book, bank statements, and deposit receipts. We also reviewed records of payments for water and sewer rents.

IT

We interviewed Town officials and reviewed documentation to determine existing policies for information technology and the availability of cyber-security awareness training. We also interviewed computer users and asked them to demonstrate normal procedures for opening programs, accessing and browsing the Internet, and accessing online bank accounts. We also assessed their general knowledge

of cyber-security awareness and reviewed the Town's third-party agreement with the vendor who provides IT services.

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

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AND SCHOOL ACCOUNTABILITY

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