



Town of Waterloo

Financial Management and Information Technology

Report of Examination

Period Covered:

January 1, 2010 — March 30, 2012

2012M-137



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:

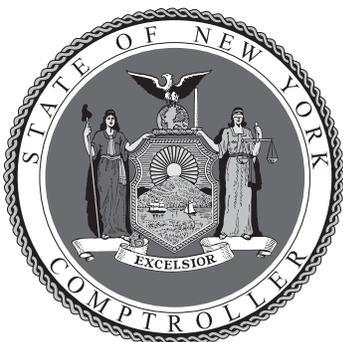
A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments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

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Waterloo (Town) is located in Seneca County and contains the Village of Waterloo. The Town has a population of about 8,000. The Town accounts for most of its financial activity in the general and highway town-wide (TW) and town-outside-village (TOV) funds.¹ The Town also maintains special revenue funds to account for financial activity of various special districts.² Budgeted appropriations totaled approximately \$2.6 million for 2011. The Town is governed by an elected Town Board (Board) which comprises four Council members and a Supervisor. The Board is responsible for the general oversight and control of the Town's financial affairs. The Supervisor is the chief executive officer and the chief fiscal officer.

In August 2005, the Town entered into a "community benefits agreement" (CBA) with the operator of a local landfill (Landfill). The CBA provides that the Town will receive fixed quarterly payments from the Landfill for a period of 18 years, based on an assumed life of the landfill expansion through 2023.

Scope and Objective

The objective of our audit was to review the Town's financial management and internal controls over information technology (IT) for the period January 1, 2010 through March 30, 2012. We extended our scope back to January 1, 2007 to compare fund balance and actual revenue and expenditure amounts to budgeted amounts for trend analysis. Our audit addressed the following related questions:

- Did the Board provide adequate oversight over the Town's budgeting and financial operations to ensure that Town resources are used effectively?
- Are internal controls over IT appropriately designed?

Audit Results

The Board and Town officials have not developed long-term financial plans, or policies or procedures to govern budgeting practices and the level of unexpended surplus funds to maintain. Lacking an established financial plan and budgetary guidance, Town officials were unable to effectively plan for the use of, or properly account for, CBA revenues. As a result, the Board has adopted budgets that were not based on sound and realistic estimates of revenues and expenditures, and the Town

¹ The TW funds have tax bases that encompass the whole Town, including the Village. The TOV funds have tax bases that encompass only the portion of the Town that lies outside the Village.

² These funds also have different tax bases (than the TW and TOV general and highway funds) which encompass the area served by each special district.

has accumulated significant unexpended surplus funds,³ which are excessive. For example, the TW general and TOV highway funds had unexpended surplus funds totaling \$964,048 and \$133,855 at the end of the 2011 year. These amounts represented 106 percent and 46 percent of 2012 appropriations and exceeded the 2012 tax levy for the TW general fund by \$553,753.

Internal controls over IT are not appropriately designed. The Board has not developed or implemented policies or procedures for acceptable computer and Internet use, breach notification or disaster recovery. In addition, one part-time clerk has access to areas of the financial software that are not consistent with assigned job responsibilities. As a result, the Town's IT system and its data are subject to an increased risk of loss or misuse. In addition, affected individuals may not be properly notified in the event their confidential 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. Town officials disagreed with certain aspects of our audit findings and recommendations. Appendix B contains OSC comments on the issues raised in the Town's response.

³ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

Introduction

Background

The Town of Waterloo (Town) is located in Seneca County and contains the Village of Waterloo. According to the 2010 census, the Town has a population of about 8,000. The Town provides various services to its residents including fire protection, street maintenance, snow removal, water, sewer and general government support. The Town accounts for most of its financial activity in the general and highway town-wide (TW) and town-outside-village (TOV) funds.⁴ The Town also maintains special revenue funds to account for financial activity of its various water, sewer, lighting and fire protection special districts.⁵ Budgeted appropriations for all Town funds totaled approximately \$2.6 million for 2011.

The Town is governed by an elected Town Board (Board) which comprises four Council members and a Supervisor. The Board is responsible for the general oversight and control of the Town's financial affairs. The Supervisor is the chief executive officer and the chief fiscal officer. As the chief fiscal officer, the Supervisor is responsible for the custody of Town moneys, maintaining accounting records, preparing the budget subject to Board approval and preparing monthly and annual financial reports.

In August 2005, the Town entered into a "community benefits agreement" (CBA) with the operator of a local landfill (Landfill). The CBA contains provisions intended to address the rights, interests and obligations of the Town and the Landfill in regard to the Landfill's operations and expansion. The CBA provides that the Town will receive fixed quarterly payments from the Landfill for a period of 18 years, based on an assumed life of the landfill expansion through 2023.⁶

Objective

The objective of our audit was to review the Town's financial management and internal controls over information technology (IT). Our audit addressed the following related questions:

- Did the Board provide adequate oversight over the Town's budgeting and financial operations to ensure that Town resources are used effectively?

⁴ The TW funds have tax bases that encompass the whole Town, including the Village. The TOV funds have tax bases that encompass only the portion of the Town that lies outside the Village.

⁵ These funds also have different tax bases (than the TW and TOV general and highway funds) which encompass the area served by each special district.

⁶ For purposes of this Report, we have assumed that the Town is authorized to enter into the CBA and that the terms and conditions are enforceable.

- Are internal controls over IT appropriately designed?

**Scope and
Methodology**

We examined the financial management and internal controls over IT of the Town of Waterloo for the period January 1, 2010 to March 30, 2012. We extended our scope back to January 1, 2007 to compare fund balance and actual revenue and expenditure amounts to budgeted amounts for trend analysis. 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.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials disagreed with certain aspects of our audit findings and recommendations. Appendix B contains OSC comments on the issues raised in the Town's response.

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

Financial Management

The Board is responsible for making sound financial decisions that balance the level of services desired and expected by the Town's residents with the ability and willingness of the residents to pay for such services. It is important that the Board adopt long-term plans that set forth the Town's financial objectives and goals, as well as written policies and procedures to govern budgeting practices and the level of fund balance⁷ to maintain in each fund, including established reserves. The Board should adopt budgets that include realistic estimates of revenues and expenditures, based on actual financial results from prior years along with other relevant available data, and that use surplus fund balance as a funding source, when appropriate. The Board may retain a reasonable portion of unexpended surplus funds⁸ to be used as a funding source in the event of unforeseen circumstances.⁹ The Board may also establish and place moneys into reserve funds to finance the future costs of a variety of objects or purposes.¹⁰

The Town receives a significant amount of non-tax revenues from its "community benefits agreement" (CBA) with the operator of a local landfill (Landfill). Quarterly payments range from \$37,500 in August 2005 to \$164,935 in August 2022.¹¹ The Board can use these revenues in any manner that is consistent with the CBA, but must plan ahead each year, because once Town officials deposit the revenue into a certain fund, they have no authority to transfer it to other funds with

⁷ Fund balance represents the resources remaining from prior fiscal years that can be used as funding sources in the next year's budget to reduce the amount of revenues needed to be raised from other sources.

⁸ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

⁹ The Government Finance Officers Association (GFOA) recommends that a minimum of two months (approximately 17 percent) of regular revenues or expenditures be retained.

¹⁰ The statutes under which reserve funds are established determine how they may be funded, expended and discontinued. The Board is responsible for ensuring that reserve funds are maintained in accordance with statutory requirements and are in the best interest of the Town.

¹¹ With payments totaling over \$9.2 million over the estimated 18 year life of the current landfill and expansion

different tax bases. The CBA includes an Appendix entitled “Town Qualified Expenditures” that lists a series of purposes for which the Town would use the community benefits moneys. The purposes include capital improvements such as paving Town roads, upgrading or constructing water and sewer lines, construction or improvements of Town buildings, purchasing certain equipment, and placement of up to 20 percent of these moneys, annually, in a reserve fund “to be used for town-wide tax relief or future capital expenditures.”

We found that the Board and Town officials have not developed long-term financial plans, or policies or procedures, to govern budgeting practices and the level of unexpended surplus funds to maintain. Lacking an established financial plan and budgetary guidance, Town officials were unable to effectively plan for the use of, or properly account for, CBA revenues. As a result, the Board has adopted budgets that were not based on sound and realistic estimates of revenues and expenditures, and the Town has accumulated significant unexpended surplus funds, which are excessive. For example, the TW general and TOV highway funds had unexpended surplus funds totaling \$964,048 and \$133,855 at the end of the 2011 year. These amounts represented 106 percent and 46 percent of 2012 appropriations and exceeded the 2012 tax levy for the TW general fund by \$553,753.

Community Benefits Agreement

Town officials are responsible for properly accounting for the revenues the Town receives annually from the Landfill, and making the most effective use of the moneys to provide the best possible long-term benefit to Town residents. It is crucial for the Board to develop a formal multiyear financial plan, which sets forth the various long-term goals and objectives of the Town, and the most feasible options for using CBA revenues to fund those goals and objectives. For example, the Town could use CBA revenues to fund various planned capital projects, improvements or purchases (as described in the CBA appendix), or could establish and fund various reserves in which to legally accumulate funds for future capital purposes. The Town can also use a portion of its annual CBA revenues to reduce the town-wide tax levy.

The Board and Town officials did not adequately plan for the effective use of CBA revenues, through the use of a formal long-term plan or the annual budget process. Due to the lack of established plans for utilizing CBA revenues, the Board did not accurately budget for the revenues in its annual budgets, and the Supervisor and bookkeeper were unable to properly account for them.

The Town does not budget for the full amount it receives annually from the Landfill in accordance with its CBA. As illustrated in Table

1, between 2007 and 2011 the Board underestimated these revenues by approximately \$970,000. This trend continued in the 2012 budget, wherein the Town budgeted to receive \$105,000, even though the agreement specified \$536,000.

Fund	2007	2008	2009	2010	2011	2012
General Fund – TW	\$35,000	\$60,000	\$180,000	\$180,000	\$100,000	\$71,350
Highway Fund – TW	\$0	\$0	\$51,000	\$48,000	\$0	\$0
General Fund – TOV	\$0	\$0	\$12,000	\$0	\$0	\$0
Highway Fund – TOV	\$0	\$57,000	\$106,000	\$106,000	\$45,000	\$0
Sewer Districts	\$0	\$0	\$17,500	\$20,000	\$18,000	\$30,000
Water Districts	\$0	\$0	\$57,500	\$42,400	\$42,515	\$3,650
Total Budgeted	\$35,000	\$117,000	\$424,000	\$396,400	\$205,515	\$105,000
Total Received Per CBA	\$225,000	\$375,000	\$505,000	\$515,100	\$525,402	\$535,910
Unbudgeted Amount	\$190,000	\$258,000	\$81,000	\$118,700	\$319,887	\$430,910

Since the CBA’s inception, the Town has struggled to determine the appropriate methods to budget, account for and utilize the CBA revenues. The Board did not plan ahead each year for the use of the contractual amount to be received, and thus did not budget for the entire amount. Instead, the Board only budgeted amounts for which expenditures had been determined, in the fund that would make those expenditures.

Initially, the bookkeeper deposited unallocated CBA revenue in the TW general fund bank account and recorded it as TW general fund revenue. The bookkeeper would then record transfers from the TW general fund, once the Board decided how, and for which funds, to spend the money. Revenues that were not allocated or used in the year they were received resulted in unplanned increases to the TW general fund balance. This method of accounting for CBA revenue significantly inflated reported general TW fund revenues and expenses¹² and often resulted in improper or inequitable transfers to funds with different tax bases. Once the moneys are allocated (deposited and recorded) in the TW general fund, they become TW general fund money, and thus can only be transferred to other funds with the same tax base, essentially only the TW highway fund.¹³

In 2010, the Town began recording the unbudgeted portion of CBA revenues as deferred revenue in the TW general fund, until the Board determined which funds to allocate the revenues to.¹⁴ However,

¹² From the recorded interfund transfers

¹³ Town Law, section 113

¹⁴ At which time the cash would be moved to the appropriate bank account, and the deferred revenue account reduced

Town officials did not even record (or use) those CBA moneys that had been budgeted in the applicable funds, when received. In fact, for 2011, they did not move them from the TW general fund to the proper funds until they were closing the 2011 fiscal year, when, in March 2012, the bookkeeper recorded entries to transfer money between bank accounts and record the revenue in the funds that were designated to receive the money in the 2011 budget. Furthermore, in 2010 and 2011, Town officials did not allocate or recognize all CBA revenue received, and instead reported approximately \$130,000 and \$244,000 as deferred revenue as of December 31, 2010 and 2011, respectively. These moneys do not qualify to be reported as deferred revenue and actually represent TW general fund revenue, as well as additional increases to the excessive unexpended surplus funds in the TW general fund.

To most properly and prudently account for and utilize CBA revenues, the Board should plan ahead and determine in advance how it would like to use the annual revenues in the most equitable manner, and in the best interests of its taxpayers. This would enable the Board to include in its adopted budget each year the appropriate amount of CBA revenues in each fund in accordance with established plans. The Board must budget for the entire anticipated revenue amount each year, to avoid misleading budgets, significant budget variances, and the need to use complicated or questionable accounting methods or make unauthorized transfers between funds with different tax bases. As quarterly payments are received, Town officials should deposit and record them as revenue, to the credit of the individual funds in the amounts budgeted.¹⁵

Budgeting

The Board and Town officials have not established formal policies and procedures to develop and monitor budgets, or to establish the appropriate level of unexpended surplus funds to be retained at the end of the year. Detailed and agreed upon procedures are especially important to help ensure the Town properly accounts for and utilizes its annual CBA revenues. The Board has consistently underestimated revenues and/or overestimated expenditures in the Town's operating funds. The resulting budget variances generated consistent and significant operating surpluses and have resulted in the accumulation of significant amounts of fund balance.

Underestimated Revenues – Town officials consistently underestimated revenues, and had revenue budget variances totaling approximately \$500,000 for the 2010 and 2011 fiscal years. The most significant revenue variances occurred in the TW general fund, and

¹⁵ Unless the Board has taken interim action to amend the budget and allocate CBA revenues for different funds or purposes

resulted from the failure to budget for expected CBA revenues, which made up 88 percent of the total revenue variance in both years.

Overestimated Expenditures – Town officials consistently overestimated expenditures, which further impacted the budgetary surpluses. As shown in Table 2, the Town’s actual expenditures in the TW and TOV funds have been between 17 percent and 42 percent less than the amounts budgeted in 2010 and 2011. Budget variances occurred in many different expenditure accounts, the most significant of which were unused contingency accounts (in the general funds) and amounts budgeted for the use of CBA revenues, which were often not used, even when they were budgeted.

Table 2: Budget to Actual Expenditures								
	General Fund – TW		General Fund – TOV		Highway Fund – TW		Highway Fund – TOV	
	2010	2011	2010	2011	2010	2011	2010	2011
Appropriations	\$950,370	\$938,410	\$67,700	\$70,350	\$346,500	\$343,700	\$283,000	\$238,700
Actual Expenditures	\$775,463	\$776,901	\$41,067	\$40,623	\$247,496	\$241,170	\$180,100	\$199,203
Budget Variance	\$174,907	\$161,509	\$26,633	\$29,727	\$99,004	\$102,530	\$102,900	\$39,497
Percentage Variance	18%	17%	39%	42%	29%	30%	36%	17%

Appropriated Fund Balance – Appropriating fund balance as a revenue source is a useful tool for the Board to reduce tax levies and excessive accumulated fund balance. The Board appropriated fund balances as revenue sources in its adopted budgets, which should have led to operating deficits, or planned reductions in fund balances. However, the appropriated fund balances were not used because of the consistent operating surpluses, caused by unrealistic revenue and expenditure estimates. Table 3 shows the Town’s actual results of operations.

Table 3: Operating Results and Fund Balance

	General Fund – TW ^a		General Fund – TOV		Highway Fund – TW		Highway Fund – TOV	
	2010	2011	2010	2011	2010	2011	2010	2011
Beginning Fund Balance	\$891,298 ^b	\$1,137,982	\$91,370	\$73,832	\$284,772	\$268,872	\$82,078	\$185,741
Actual Revenue	\$1,022,147	\$928,871	\$23,523	\$27,680	\$231,596	\$230,065	\$283,763	\$229,317
Actual Expenditures	\$775,463	\$776,901	\$41,061	\$40,623	\$247,496	\$241,170	\$180,100	\$199,203
Operating Surplus(Deficit)	\$246,684	\$151,970	(\$17,538)	(\$12,943)	(\$15,900)	(\$11,105)	\$103,663	\$30,114
Year-End Fund Balance ^c	\$1,137,982	\$1,289,952	\$73,832	\$60,889	\$268,872	\$257,767	\$185,741	\$215,855
Reported Reserves	\$105,904	\$105,904	\$0	\$0	\$13,268	\$13,314	\$0	\$0
Fund Balance Appropriated in Next Year's Budget	\$130,000	\$220,000	\$37,000	\$40,000	\$120,000	\$118,000	\$10,000	\$82,000
Unexpended Surplus Funds ^d	\$902,078	\$964,048	\$36,832	\$20,889	\$135,604	\$126,453	\$175,741	\$133,855
Surplus as a % of Next Year's Appropriations	96%	106%	52%	29%	39%	35%	74%	46%
Real Property Taxes Levied	\$517,270	\$500,510	\$2,400	\$14,600	\$182,500	\$222,900	\$133,500	\$140,200

^a We included in the revenues and calculated fund balances, amounts improperly reported as deferred revenues, because they actually represent revenues and increases to fund balance.

^b Includes a prior period adjustment (increase) of \$29,305

^c Fund balance amounts do not agree with the Town's reported balances because we included the effect of improperly reported deferred revenues.

^d Prior to 2011, these funds were referred to as "unreserved, unappropriated fund balance."

While small operating deficits did occur in the TOV general and TW highway funds, they were much smaller than planned, as compared to the fund balance amounts appropriated. More significantly, fund balances actually increased in the TW general and TOV highway funds because none of the appropriated fund balances were used. For example, the TW general fund realized an operating surplus for 2011 of nearly \$152,000, despite the appropriation of \$130,000 in the budget, and an increase in unexpended surplus funds to 106 percent of 2012 appropriations.

The lack of consistency in the Town's budgets and failure to properly budget and record all CBA revenue makes it more difficult to monitor the budget and maintain stable funds. The Board's budgeting practices have resulted in the Town's operating funds accumulating excessive moneys that could be used to benefit taxpayers. While the Town has

used CBA funds sporadically to reduce tax levies in certain years,¹⁶ this has resulted in inconsistent tax levies, which makes financial planning more tedious for both the Board and Town residents. Furthermore, the Board has continued to levy significant taxes in the TW general and TOV highway funds despite the excessive surplus fund balances on hand. The Supervisor¹⁷ informed us that the Town wants to develop both long-term financial and capital plans that will outline how the CBA revenues and excessive fund balances will be spent.

Recommendations

1. The Board should develop a multiyear financial plan to establish the goals and objectives for funding long-term operating and capital needs. This plan should provide for the strategic use of accumulated fund balance and CBA revenues, and should be monitored and updated on an ongoing basis.
2. The Board should adopt budgets that include realistic estimates for revenues and expenditures and the fund balance amounts that will be used to fund operations. The Board should plan for the appropriate use of CBA revenues, and budget accordingly in the appropriate funds. The Board should then ensure that Town officials allocate, deposit, record, and utilize CBA revenues in the appropriate funds in accordance with the budget.
3. The Board should establish a policy and develop procedures to govern the Town's budgeting practices. This policy should provide guidance for determining the appropriate level of fund balance to maintain, accurately estimating the amount that will be available at the end of the fiscal year, determining the proper amount to appropriate in the ensuing year's budget, and monitoring the budget against actual operations throughout the year.
4. Town officials should use excess fund balance identified in this report in a manner that benefits Town taxpayers. Such uses could include, but are not limited to, increasing necessary reserves, financing one-time expenses, paying off debt or reducing real property tax levies.

¹⁶ For example, the most significant tax levy decrease was in the TW general fund in 2009, from \$575,620 to \$382,370. However, the tax levy increased again in 2010 to \$517,270.

¹⁷ The Supervisor first took office January 1, 2012.

Information Technology

The Town relies on its information technology (IT) system for Internet access, email communication, data storage and financial records. Therefore, the Town's IT system and the data it holds are valuable resources. If the IT system fails, the results could range from inconvenient to severe. Even small disruptions in IT systems can require extensive effort to evaluate and repair. The Board is responsible for developing policies and procedures to address the use and monitoring of the Town's IT system, and breach notification procedures to ensure affected parties are notified in the event of unauthorized access to their confidential information. Town policies and procedures should also address the assignment of access to the Town's financial software so that employees are allowed access to only the functions that are consistent with their job responsibilities. In addition, the Board should develop a plan to reduce the risk of data loss and to provide guidance on its recovery in the event of a disaster.

The Board has not developed policies or procedures for acceptable computer and Internet use, breach notification, or disaster recovery. In addition, one part-time clerk has access to areas of the financial software that are not consistent with job responsibilities. As a result, the Town's IT system and its data are subject to an increased risk of loss or misuse, and affected individuals may not be notified in the event their confidential information is compromised.

Policies and Procedures

Board members are responsible for developing adequate internal controls over IT security, and should provide important oversight and leadership by establishing IT policies that take into account people, processes, and technology, and communicating these policies throughout the organization. IT policies define appropriate user behavior and describe the tools and procedures to protect data and information systems. The policies should address issues such as acceptable computer and Internet use; the protection of personal, private and sensitive information (PPSI); password security; remote access; and virus protection.

In addition, New York State Technology Law section 208 requires towns to establish an information breach notification policy. Such a policy helps to ensure that affected residents or employees are notified when their private information was, or is reasonably believed to have been, acquired by a person without a valid authorization. It is important for the disclosure to be made in the most expedient manner possible and without unreasonable delay, consistent with the legitimate needs of law enforcement or any measures necessary to

determine the scope of the breach and restore the reasonable integrity of the data system.

The Board has not adopted any policies that address IT security issues. While IT policies do not guarantee the safety of the Town's IT system or electronic information, the lack of policies significantly increases the risk that data, hardware and software systems may be lost or damaged by inappropriate access and use, and that affected individuals will not be notified in an expedient manner in the event their confidential information is compromised.

Financial Software Access Rights

A proper segregation of duties ensures that users of the Town's financial software are allowed access to only the functions that are consistent with their job responsibilities. Town officials should periodically review user access rights and revise those rights when work assignments change.

The Town has a part-time clerk who has full access to all financial software functions. Although the clerk's responsibilities do not require this level of access, these permissions allow her to make adjusting entries, record deposits, edit receipts, perform vendor maintenance, and create and print vendor checks. For example, the clerk can make adjusting journal entries even though this is not one of her job responsibilities.

This situation exists because the bookkeeper provided the part-time clerk with her user name and password rather than creating a unique user name and password with access to only the appropriate and necessary functions in the financial system. Unnecessary or excessive user rights to the financial software could result in unauthorized access to the Town's sensitive information, manipulation of records, and/or the loss or misuse of critical or confidential data.

Disaster Recovery Plan

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

The Board has not developed a formal disaster recovery plan. Consequently, in the event of a disaster, Town personnel have no

guidelines or plan to follow to help minimize or prevent the loss of equipment and data or guidance on how to implement data recovery procedures. As a result, the Town is at risk for the loss of important data and the disruption of time-sensitive operations, such as the inability to process checks to pay employees or vendors.

Recommendations

5. The Board should develop and implement policies and procedures that address IT security issues such as acceptable computer and Internet use, the protection of PPSI, password security, remote access, virus protection, and breach notification.
6. The bookkeeper should create a user name and password for the part-time clerk with access to only the functions that are consistent with assigned job responsibilities. The bookkeeper should change her user name and password and not share her new user name or password with any employee.
7. Town officials should periodically review user access rights to ensure that users have access only to those functions that are consistent with their job responsibilities.
8. The Board should develop a formal disaster recovery plan that provides the guidance necessary to maintain or restore Town operations as quickly as possible in the event of a disaster. This plan should be distributed to all responsible parties, periodically tested, and updated as needed.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Town of Waterloo

Seneca County, New York

Municipal Offices
Phone (315) 539-9331
Fax (315) 539-4119

66 Virginia Street
Waterloo, New York 13165

November 30, 2012

State of New York
Office of the State Comptroller
110 State Street
Albany, NY 12236

Attn: Edward V. Grant, Jr., Chief Examiner
Division of Local Government

Dear Mr. Grant:

Please see the following responses to your recommendations:

1. The Board should develop a multiyear financial plan to establish the goals and objectives for funding long-term operation and capital needs. This plan should provide for the strategic use of accumulated fund balance and CBA revenues, and should be monitored and updated on an ongoing basis.

Response: It has always been the desire of the Town Board to prepare a multiyear financial plan. However, with the changing economic needs of the Town this is much easier to say than to implement.

See
Note 1
Page 21

2. The Board should adopt budgets that include realistic estimates for revenues and expenditures and the fund balance amounts that will be used to fund operations. The Board should plan for the appropriate use of CBA revenues, and budget accordingly in the appropriate funds. The Board should then ensure that Town officials allocate, deposit, record, and utilize CBA revenues in the appropriate funds in accordance with the budget.

Response: The Town Board in the past has adopted budget that it thought were realistic.

See
Note 2
Page 21

3. The Board should establish a policy and develop procedures to govern the Town's budgeting practices. This policy should provide guidance for determining the appropriate level of fund balance to maintain, accurately estimating the amount that will be available at the end of the fiscal year, determining the proper amount to appropriate in the ensuing year's budget, and monitoring the budget against actual operations throughout the year.

Response: The Town follows the guidelines as prescribed in Town Law. As Town Law does not provide for what is a reasonable amount of fund balance, it has been the Town Board's decision to maintain a reasonable unappropriated fund balance of approximately thirty five percent (35%).

See
Note 3
Page 21

4. **NO RESPONSE**

5. The Board should develop and implement policies and procedures that address IT security issues such as acceptable computer and Internet use, the protection of PPSI, password security, remote access, virus protection, and breach notification.

Response: The Town Board has not developed a policy for various IT items, but has addressed items through their IT consultant for password security, remote access and virus protection.

See
Note 4
Page 21

6. The bookkeeper should create a user name and password for the part-time clerk with access to only the functions that are consistent with assigned job responsibilities. The bookkeeper should change her user name and password and not share her new user name or password with any employee.

Response: The part-time clerk resigned as of 10/31/2012. At the present time the Town Board has not appointed a new part-time clerk. The prior part-time clerk only had instruction on how to look up amounts due and at no time was told how to modify records.

See
Note 5
Page 21

7. Town officials should periodically review user access rights to ensure that users have access only to those functions that are consistent with their job responsibilities.

Response: The various users of Town computers do not have the availability to access other parts of programs that are not part of their function or scope of work.

See
Note 6
Page 21

8. The Board should develop a formal disaster recovery plan that provides the guidance necessary to maintain or restore Town operations as quickly as possible in the event of a disaster. This plan should be distributed to all responsible parties, periodically tested, and updated as needed.

Response: Every user is requested to back up their computer and store that backup in a fire proof container. A formal disaster plan would be meaningful; however, the cost of preparing it would be cost-prohibitive.

We also take exception to the wording on page 4 of the draft under Audit Results, "Lacking an established financial plan and budgetary guidance, Town officials were unable to effectively plan for the use of, or properly account for, CBA revenues." We feel that the underlined portion of the sentence should be removed and it should read, "... Town officials were unable to effectively plan for the use of CBA revenues."

See Note 7 Page 22

If you have any questions on our response, please do not hesitate to call.

Sincerely,

Gary Westfall, Supervisor
Town of Waterloo

Cc: Sandra Ridley, Town Clerk
Joyce French, Supervisor's Secretary

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

The changing economic times are precisely why multiyear financial planning is so important. Multiyear financial planning can help Waterloo officials make decisions that will keep the Town solvent and healthy, and even help them make the case for the tough choices that must be made. A set of handy, easy-to-use tools designed to help officials prepare a plan can be found at: <http://www.osc.state.ny.us/localgov/myfp/index.htm>.

Note 2

Our audit showed that improvements could be made in the accuracy of the Town's budget estimates. The publication "Understanding the Budget Process" provides the groundwork for the development, preparation, and monitoring of the annual budget and can be found at: <http://www.osc.state.ny.us/localgov/pubs/lmg/budgetprocess.pdf>.

Note 3

If the Town has an informal policy that sets a goal of 35%, the Board should formalize the policy including specific guidance on minimum and maximum fund balances levels, why these levels are appropriate, and how the Town will reach this goal, from the much higher levels cited in our report. This plan should be publicly available and summarized in materials used in budget preparation.

Note 4

Formalized policies and procedures with clear instructions for staff help ensure Town employees are aware of their responsibilities and that there are consistent standards for which these users are held accountable.

Note 5

The Town's response indicates they do not appreciate the need for separate and distinct passwords for individuals, which limit their access to only those functions required to perform their duties. Relying on the premise that a person has only been instructed to do certain functions and was not told how to do others is not an internal control; it is an invitation for individuals to exceed their authority and for errors and irregularities to occur without being detected timely or attributed to the responsible individual. There is no good business reason for not implementing this basic internal control.

Note 6

While that may currently be the case, to ensure future compliance the Town should have a formal process that ensures a qualified person is responsible for appropriately assigning access rights and reviewing assigned rights periodically to ensure they are still appropriate and compatible with staff's currently assigned duties.

Note 7

Our finding concerns the accounting for the CBA revenues and we see no reason to alter the wording.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Board's financial management and the adequacy of internal controls over information technology (IT) assets. We performed the following procedures:

- We interviewed Town officials and Board members to gain an understanding of the Town's financial management policies and procedures. This included inquiries about the Town's budgeting practices and the preparation of multiyear financial and capital plans.
- We reviewed Board minutes, policies and procedures, and financial and budgetary information.
- We documented year-end fund balances from 2007 to 2011 as reported and calculated year-end fund balance as a percentage of that year's expenditures.
- We compared budgeted revenues and expenditures to actual revenues and expenditures from 2007 to 2011.
- We reviewed the CBA between the Town and the operator of a local landfill, and interviewed Town officials to gain an understanding of how they were using and accounting for CBA moneys.
- We reviewed the reserves in place for proper establishment and funding.
- We discussed IT controls with Town officials and verified their assertions by reviewing relevant documents and by physical observation.

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