



Town of Parma

Financial Management and Information Technology

Report of Examination

Period Covered:

January 1, 2010 — January 20, 2012

2012M-96



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2013

Dear Town Officials:

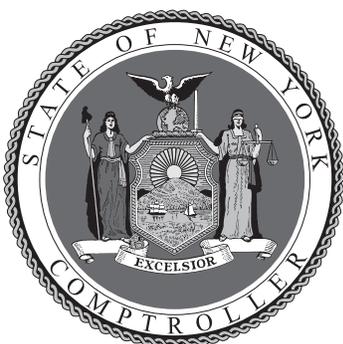
A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments 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 Parma, 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 Parma (Town) is located in Monroe County. For the 2012 fiscal year, the Town's budgeted appropriations were approximately \$5.1 million, which were funded primarily with real property taxes, sales tax, and State and Federal aid. The Town is governed by the Town Board (Board), which comprises four elected members and an elected Town Supervisor (Supervisor).

The Supervisor serves as the Town's chief executive and chief fiscal officer. As chief fiscal officer, the Supervisor is responsible for overseeing or performing virtually all of the Town's financial duties. In particular, the Supervisor is responsible for gathering the initial estimates and producing the tentative budget subject to the Board's approval. The Board is the legislative body responsible for the overall management of the Town, including oversight of the Town's operations and finances, such as adopting and monitoring the budget.

Scope and Objective

The objective of our audit was to examine the Town's management and oversight of financial operations and information technology (IT) for the period January 1, 2010, to January 20, 2012. We extended our audit period back to 2007 to review the Town's historical budgeting practices and trends. 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?
- Has the Town ensured that its computer hardware, software, and data are adequately safeguarded?

Audit Results

We found that the Board did not adopt reasonable budgets that were based on realistic estimates of revenues and expenditures. The Board did not allocate adequate revenues to the TOV highway fund,¹ which caused the TOV highway fund to report a deficit fund balance since 2007. At the same time, the Board appropriated nonexistent fund balance in the highway fund budget for three of the last five fiscal years, all the while knowing that the TOV highway fund had a deficit fund balance. In addition, the Board consistently underestimated sales tax revenue for the TOV general fund and significantly

¹ The town-wide (TW) funds have tax bases that encompass the whole Town, including the Village. The town-outside-village (TOV) funds have tax bases that encompass only the portion of the Town that lies outside the Village.

underestimated expenditures. For example, the Board underestimated revenues by \$309,631 (42 percent) in 2010 and by \$284,194 (40 percent) in 2011. The Board also underestimated expenditures by similar amounts.

Although the Board adopted a 2012 budget that did not exceed its calculated tax cap,² the Town still may have levied unnecessarily high taxes for 2012. We reviewed an updated 2012 budget status report from the Town and found that the general fund had already received \$269,000 more in sales tax than budgeted (168 percent). The Board has transferred almost \$224,000 from the TOV general fund to the TOV highway fund, but has not made extra transfers to attempt to eliminate the TOV highway fund's longstanding deficit fund balance. The Board could use the TOV general fund's excessive fund balance to eliminate the TOV highway fund's deficit and fund some current expenditures, and it could appropriate fund balance in the library fund to reduce the tax levy. Furthermore, the Board did not audit or contract with an independent accountant to audit the books and records of the Supervisor or Town Clerk and did not develop a multi-year financial plan to address the Town's long-term operational needs.

The Town needs to improve its internal controls over IT. Specifically, the Board has not adopted comprehensive IT policies and procedures or a disaster recovery plan to follow in the event of emergency. The Town did not designate an administrator over the Town's financial software application who is independent of the financial recordkeeping functions. Both the Finance Director and the Finance Office clerk have full administrative rights to the Town's financial software and can add new users to the system, change users' access rights, and can make, or delete evidence of, payments without detection. Further, the Town does not maintain an inventory of its IT assets. As a result, the Town's IT system and electronic data are subject to an increased risk of loss or misuse.

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 indicated they plan to take corrective action.

² In 2011, the State passed legislation limiting the percentage increase in taxes that a municipality can levy to 2 percent of the prior year's tax levy, subject to certain exclusions. Towns may elect to exceed the 2 percent limit on the tax levy increase by passing a local law annually.

Introduction

Background

The Town of Parma (Town) is located in Monroe County and has approximately 15,600 residents. The Village of Hilton (Village) is located within the Town's boundaries. The Town is governed by the Town Board (Board), which comprises four elected members and an elected Town Supervisor (Supervisor). The Board is the legislative body responsible for the overall management of the Town, including oversight of the Town's operations and finances and adopting and monitoring the budget. The Supervisor is the Town's chief fiscal officer and is responsible for maintaining adequate accounting records of all receipts, expenditures, and account balances and for providing the Board with timely, accurate, and useful financial information. The Supervisor, acting as budget officer, is responsible for compiling the initial estimates and producing the tentative budget subject to the Board's approval. The Supervisor oversees a Finance Director and Finance Office clerk who carry out the Supervisor's responsibilities of maintaining the accounting records and providing financial reports to the Supervisor and the Board.

The Town provides various services to its residents, including recreation, sewer maintenance, drainage, street lighting, highway, public library, and general government support. For the 2012 fiscal year, the Town's budgeted appropriations were approximately \$5.1 million, which were funded primarily with real property taxes, sales tax, and State and Federal aid. The Town's main operating funds include the town-wide (TW) general fund, TW highway fund, town-outside-village (TOV) general fund, and the TOV highway fund. Expenditures from those funds in the 2011 fiscal year totaled approximately \$4.7 million. The TW funds have tax bases that encompass the entire Town, including the Village. The TOV funds have tax bases that encompass only the portion of the Town that lies outside of the Village.

The Board also approves and manages the budget for the Town's public library. The library's operations are governed by a five-member board of trustees (Library Board) who are appointed by the Board. The day-to-day administration of the library is the responsibility of the Library Director (Director), who is appointed by the Library Board. In addition, the Board adopts budgets and levies taxes on behalf of 23 sewer districts, nine street lighting districts, and one drainage district.

Objective

The objective of our audit was to examine the Town's management and oversight of financial operations and information technology. 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?
- Has the Town ensured that its computer hardware, software, and data are adequately safeguarded?

Scope and Methodology

We examined the Town’s financial operations, records and reports for the period January 1, 2010, to January 20, 2012. We extended our audit period back to 2007 to review the Town’s historical budgeting practices and trends. We also examined the design of controls over information technology. 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 in a separate letter, so that 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 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 indicated they plan to take 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.

Financial Management

The Board must adopt structurally balanced budgets for all operating funds that provide for sufficient revenues to finance recurring expenditures. It is important that the Board adopt budgets based on actual financial results from prior years along with other relevant available data. Once the budget is adopted, the Supervisor must ensure that appropriation accounts are not overexpended and must provide monthly reports to the Board, so that the Board can monitor the budget during the year and amend it, if needed.

We found that the Board did not adopt reasonable budgets that were based on realistic estimates of revenues and expenditures. These unrealistic budgets included fund balances that were appropriated as funding sources but not used, underestimated sales tax revenues, and underestimated expenditures. The Board's budgeting practices decreased the transparency taxpayers are entitled to and caused TOV taxpayers to pay real property taxes that were higher than necessary. Furthermore, the Board did not audit or contract with an independent accountant to audit the books and records of the Supervisor or Town Clerk and did not develop a multi-year financial plan to address the Town's long-term operational needs.

Budgeting Practices

Town Law provides the framework for the adoption of the Town's budget, and it is important that the Board adopt policies and procedures that provide detailed guidance on preparing and monitoring the annual budget, including the level of surplus funds to be maintained. Such policies and procedures will help ensure that the Board adopts budgets that include realistic estimates of revenues and expenditures to sufficiently fund operations and that use surplus funds as a funding source, when appropriate. If the Board follows these practices, it will raise only the necessary amounts of real property taxes.

The Board did not adopt detailed policies and procedures for its budget process to ensure the development of the most accurate and realistic annual budgets as possible. Without a formalized budget process, the Board repeatedly adopted unrealistic budgets for the majority of its operating and special district funds, which led to the Town maintaining financial resources in excess of the Town's operating needs. The effect of these unrealistic budgets was most apparent in the TOV general and highway funds, where there were significant budget variances. The library fund also accumulated excess fund balance. Several smaller special purpose funds had similar budget problems, which we reviewed with Town officials.

Town-Outside-Village (TOV) Funds – The TOV general and highway funds are used to account for services provided for the benefit of the residents and taxpayers residing in the area of the Town that is outside of the Village. The Board may, by resolution, authorize the transfer of surplus moneys from the TOV general fund to the TOV highway fund; however, it cannot transfer moneys from the TOV highway to the TOV general fund. For this reason, it is common for towns to budget for most or all sales tax revenue in the TOV general fund, as the Board has done during the last several years. During the budget process, it is important that the Board either include budgeted transfers from the TOV general fund to the TOV highway fund, or allocate sales tax revenues to the TOV highway fund, to fund TOV highway department operations and ensure that taxpayers are not being unnecessarily taxed.

For the past five fiscal years, the Board did not allocate adequate revenues to the TOV highway fund. Instead, the Board allocated and recorded all sales tax revenues in the TOV general fund and then transferred resources to the TOV highway fund as needed during the year. However, the Board did not transfer sufficient resources to cover highway operations, which caused the TOV highway fund to report a deficit fund balance since 2007. At the same time, the Board appropriated nonexistent fund balance in the highway fund budget for three of the last five fiscal years, all the while knowing that the TOV highway fund had a deficit fund balance (Table 1).

Table 1: Appropriated Fund Balance of Each TOV Fund (Fiscal Years 2007-11)

		2007	2008	2009	2010	2011
TOV General Fund	Fund Balance (unreserved)	\$1,032,909	\$1,105,194	\$1,105,190	\$1,102,456	\$1,064,006
	Appropriated Fund Balance (ensuing budget)	\$0	\$0	\$0	\$0	\$0
	Unexpended Surplus Funds^(a)	\$1,032,909	\$1,105,194	\$1,105,190	\$1,102,456	\$1,064,006
	Expenditures	\$667,130	\$631,565	\$517,080	\$732,440	\$728,507
	Surplus Funds as % of Expenditures	155%	175%	214%	151%	146%
TOV Highway Fund	Fund Balance (unreserved)	(\$112,788)	(\$75,029)	(\$36,145)	(\$63,919)	\$1,686
	Appropriated Fund Balance (ensuing budget)	\$0	\$100,000	\$0	\$69,719	\$185,512
	Unexpended Surplus Funds^(a)	(\$112,788)	(\$175,029)	(\$36,145)	(\$133,638)	(\$183,826)
	Expenditures	\$812,244	\$832,108	\$807,821	\$793,079	\$743,057
	Surplus Funds as % of Expenditures	-14%	-21%	-4%	-17%	-25%

^(a) Prior to the 2011 fiscal year, these funds were referred to as unreserved, unappropriated.

Town officials told us that the Board used this budgeting practice to strengthen the Board’s control of surplus funds. However, it is misleading for the Board to carry negative fund balances in the TOV highway fund while sufficient funds are available in the TOV general fund to eliminate the deficit. Though revenues received have been sufficient to cover expenditures in both funds without a real property tax levy in the TOV general fund, the Board has steadily increased the tax levy in the TOV highway fund, from \$140,000 in 2007 to \$317,938 in 2012, causing taxpayers living outside of the Village to pay unnecessary property taxes. Because both funds cover the same area of the Town, and funds can be transferred from the TOV general to the TOV highway fund, the two funds can be combined to assess financial condition. As of December 31, 2011, the combined surplus fund balance of the TOV funds amounted to 60 percent of combined expenditures (Table 2), indicating that the Town has accumulated resources in excess of its combined needs in the TOV funds.

Table 2: TOV Funds – Combined Surplus Funds and Revenues

Fiscal Year	Unexpended Surplus Funds			Taxes Levied for Highway Fund	Combined Surplus Funds as Percent of Expenditures	Transfers, General Fund to Highway Fund
	General Fund	Highway Fund	Total General and Highway			
2007	\$1,032,909	(\$112,788)	\$920,121	\$140,000	62%	\$219,579
2008	\$1,105,194	(\$175,029)	\$930,165	\$212,028	64%	\$251,047
2009	\$1,105,190	(\$36,145)	\$1,069,045	\$293,022	81%	\$142,704
2010	\$1,102,456	(\$133,638)	\$968,818	\$296,415	64%	\$133,508
2011	\$1,064,006	(\$183,826)	\$880,180	\$309,950	60%	\$301,588

The Board should transfer additional moneys from the TOV general fund to make up for the TOV highway fund deficit. By eliminating the highway fund’s deficit in this way, it also would be easier for the Board and taxpayers to assess the TOV general fund’s financial condition.

In addition, the Board consistently underestimated sales tax revenue for the TOV general fund and significantly underestimated expenditures. For example, the Board underestimated revenues by \$309,631 (42 percent) in 2010 and by \$284,194 (40 percent) in 2011. The Board also underestimated expenditures by similar amounts. Table 3 illustrates the significant differences between the Board’s adopted budgets and actual results that occurred during 2010 and 2011.

Table 3: Budget-to-Actual Results, 2010-11							
		2010			2011		
Fund		Revenues	Expenditures	(Deficit)/ Surplus	Revenues	Expenditures	(Deficit)/ Surplus
TOV General Fund	Budgeted	\$420,492	\$420,492	\$0	\$418,354	\$418,354	\$0
	Actual	\$730,123	\$732,440	(\$2,317)	\$702,548	\$728,507	(\$25,959)
	Variance	\$309,631	(\$311,948)	(\$2,317)	\$284,194	(\$310,153)	(\$25,959)
TOV Highway Fund	Budgeted	\$678,295	\$678,295	\$0	\$666,450	\$736,169	(\$69,719)
	Actual	\$765,306	\$793,079	(\$27,773)	\$958,662	\$743,057	\$215,605
	Variance	\$87,011	(\$114,784)	(\$27,773)	\$292,212	(\$6,888)	\$285,324
Total Budget Variances		\$396,642	(\$426,732)	(\$30,090)	\$576,406	(\$317,041)	\$259,365

The Board consistently amends the budget during the year to make interfund transfers from the TOV general to the TOV highway fund to help finance TOV highway expenditures. However, the Board should include these anticipated transfers in its adopted budgets each year to provide increased transparency to taxpayers and to avoid the need to adopt misleading and unbalanced budgets which appropriate nonexistent fund balance in the TOV highway fund.

Library Fund – The Board adopted budgets for the library fund with inaccurate estimates which contributed to this fund retaining excessive fund balance. The Board routinely overestimated expenditures and underestimated revenues to generate operating surpluses. In addition, the Board did not appropriate fund balance in the library fund’s adopted budget for the past four years and, thus, retained excessive surplus funds each year, which averaged 100 percent of annual expenditures and 102 percent of the annual tax levy (Table 4). For 2011 the Board did lower the tax levy and reduced fund balance by almost \$55,000, but the fund still had enough fund balance to fund 89 percent of yearly expenditures.

Table 4: Library Fund – Excessive Fund Balance						
Fiscal Year	Operating Surplus (Deficit)	Unexpended Surplus Funds	Expenditures	Surplus Funds as % of Expenditures	Taxes Levied	Surplus Funds as % of Tax Levy
2008	\$41,742	\$400,442	\$433,525	92%	\$436,283	92%
2009	\$36,529	\$426,991	\$433,177	99%	\$438,082	97%
2010	\$58,667	\$490,460	\$414,766	118%	\$446,432	110%
2011	(\$58,857)	\$435,642	\$487,714	89%	\$402,180	108%
Totals	\$78,081		\$1,769,182	Average: 100%	\$1,722,977	Average: 102%

For 2012, the Board adopted a budget with a tax levy of \$2,249,410 which was about \$7,000 less than the calculated tax cap.³ However, the Town still may have levied unnecessary taxes for 2012. The Board could use the TOV general fund's excessive fund balance to eliminate the TOV highway fund's deficit and fund some current expenditures, and it could appropriate fund balance in the library fund to reduce the tax levy. However, we found that in the 2013 budget the Board again appropriated no fund balance in the TOV general fund, but appropriated nearly \$186,000 in the TOV highway fund (which is likely unavailable) and increased the tax levy to more than \$321,000. Further, the Board reduced its sales tax estimate instead of increasing it to more closely reflect actual revenues, and did not budget for any interfund transfers from the TOV general to the TOV highway fund, or appropriate any fund balance in the library fund.

We reviewed an updated 2012 budget status report from the Town, which was generated on December 4, 2012, and included most activity through November 30, 2012. We found that the general fund had already received \$269,000 more in sales tax than budgeted (168 percent). The Board has transferred almost \$224,000 from the TOV general to the TOV highway fund, but has not made extra transfers in an attempt to eliminate the TOV highway fund's longstanding deficit fund balance. Thus, we expect the Town to again report excessive surplus funds in the TOV general fund and a deficit fund balance in the TOV highway fund.

Board Oversight

Town Law requires all Town officers and employees who receive or disburse moneys during the year to account for these transactions and present their books and records to the Board for audit by January 20th of the following year. The Board must then audit the records, or contract with an independent public accountant to do so, and record the results of the audit in the minutes of its proceedings. This annual audit provides the Board and taxpayers with a measure of assurance that the Town's financial records and reports contain reliable information on which to base management decisions and gives the Board the opportunity to monitor the Town's fiscal procedures.

During our audit period, the Board did not audit, or contract with an independent public accountant to audit, the books and records of the Supervisor and Town Clerk. Town officials confirmed that the Board had not performed or contracted for an annual audit of the Town's financial records, but acknowledged they were aware of the requirement. Although the Board contracted with an independent

³ In 2011, the State passed legislation limiting the percentage increase in taxes that a municipality can levy to 2 percent of the prior year's tax levy, subject to certain exclusions. Towns may elect to exceed the 2 percent limit on the tax levy increase by passing a local law annually.

auditor to do an internal audit of the Justice Court's 2010 records and an internal control audit of the Town (issued January 2011), the same auditor could not conduct an independent audit of the Town's financial records.⁴ The Town did not correct various weaknesses identified in the internal control audit report, which included the following:

- Failure to cover TOV highway expenses with budgeted revenues
- Consistent reliance on unbudgeted interfund transfers from the TOV general fund to the TOV highway fund to fund operations.

The Board's failure to perform an annual audit, or cause an audit, of the Supervisor's and Town Clerk's records diminishes its ability to effectively monitor the Town's financial operations.

Long-Term Planning

An important oversight responsibility of the Board is to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, it is important for Town officials to develop comprehensive, multi-year financial and capital plans to estimate the future costs of ongoing services and future capital needs. Effective multi-year plans project operating and capital needs and financing sources over a three-to-five year period and allow town officials to identify developing revenue and expenditure trends, set long-term priorities and goals, and avoid large fluctuations in tax rates. They also allow town officials to assess the effect and merits of alternative approaches to address financial issues, such as the use of surplus fund balance to finance operations and the accumulation of money in reserve funds. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide necessary guidance to employees on the financial priorities and goals set by the Board. Also, the Board must monitor and update long-term financial plans on an ongoing basis to ensure that its decisions are guided by the most accurate information available.

The Board did not develop a comprehensive, multi-year financial and capital plan, and it did not have any other mechanism in place to adequately address the Town's long-term operational and capital needs. Such plans are an important tool for the Board to use to address the excessive fund balance in the TOV general fund and the deficit fund balance in the TOV highway fund.

⁴ The auditor could not conduct an independent financial audit of the Town's financial records because he had provided accounting assistance to the Town and completed the Town's annual financial report, which the Town was required to submit to the Office of the State Comptroller.

Recommendations

1. The Board should establish written policies and procedures governing the budgeting process, which include defining reasonable amounts of unexpended surplus funds that the Town should maintain.
2. The Board and Town officials should develop and adopt budgets that include realistic estimates for revenues and expenditures and the appropriation of fund balance only in amounts that are available and necessary.
3. The Board should develop a plan to reduce the excessive fund balances in the TOV general fund and library fund. Potential uses of excess balance include the following:
 - Payment of long-term debt
 - Funding needed reserves
 - Purchasing capital assets
 - Reducing the tax levy.
4. The Board should conduct an annual audit of the financial records and reports of all Town officers and employees who received or disbursed money during the preceding fiscal year or contract with an independent auditor to conduct the audits.
5. The Board should develop comprehensive multi-year financial plans to establish the goals and objectives for funding long-term needs.

Information Technology

The Board is responsible for designing and implementing a comprehensive system of internal controls over information technology (IT) resources, including policies and procedures that protect IT equipment, software, and data from loss due to error, malicious intent, or accidents (disasters). The Town relies on an IT system for many essential functions including Internet access, e-mail communication, cash disbursements, financial records, and reporting to State and Federal agencies. Therefore, the IT system and the data it holds are a valuable Town resource.

The Town needs to improve its internal controls over IT. Specifically, the Board has not adopted comprehensive IT policies and procedures or a disaster recovery plan to follow in the event of emergency. The Town did not designate an administrator over the Town's financial software application who is independent of the financial recordkeeping functions. Both the Finance Director and the Finance Office clerk have full administrative rights to the Town's financial software and can add new users to the system, change users' access rights, and make, or delete evidence of, payments without detection. Further, the Town does not maintain an inventory of its IT assets. As a result, the Town's IT system and electronic data are subject to an increased risk of loss or misuse.

Policies and Procedures

Town officials are responsible for establishing policies and procedures that provide guidance for employees on all aspects of the Town's technology assets. Effective IT policies and procedures address acceptable computer, Internet, and e-mail use and IT security issues, including data and equipment safeguards, anti-virus protection, password security, remote access, access controls, data backup systems, protection of personal, private, and sensitive information, and disaster recovery. It is important that Town officials regularly review these policies and procedures and update them to reflect changes in the organization's technology environment and in the outside computing environment.

The Town has an IT policy that is a very basic acceptable use policy for computer equipment, Internet, and e-mail use. However, the Town does not have comprehensive written policies and procedures that address many other important IT security issues, such as remote access, password security, mobile devices, system backups, virus protection, and protecting personal, private, and sensitive information. The Town's lack of policies significantly increases the risk that data, hardware, and software systems may be lost or damaged by inappropriate access and use.

Administrative Rights

Administrator rights allow users to create, delete, and modify files, folders, or settings, including the assignment of users' access rights. Generally, an administrator is designated as the person who has oversight and control of a system or application with the ability to add new users and change users' passwords and access rights. A good system of controls requires that the administrator position be separate from the financial processes and functions. Also, to ensure proper segregation of duties and internal controls, it is important for the computer system to limit individual user access rights only to the functions necessary to fulfill their job responsibilities. Such access controls prevent users from being involved in multiple aspects of financial transactions. When it is impractical to segregate incompatible duties, Town officials must provide oversight of the work being performed to mitigate the risk created by the incompatible duties.

The Town did not designate an administrator who is independent of the financial recordkeeping functions. Both the Finance Director and the Finance Office clerk have full administrative rights to the Town's financial software. Therefore, they have unrestricted access to all functions within the software package, can add new users to the system, can change users' access rights, and can make, or delete evidence of, payments. Also, even if the Finance Director and Finance Office clerk did not have full administrative rights to the Town's financial software, they still would both need to have access to all of the modules of the financial software package. Therefore, after the Town assigns someone outside of the Finance Office as the administrator of the financial software application, Town officials still would need to provide oversight of work performed by the Finance Director and Finance Office clerk to mitigate the risk created by their incompatible duties.

Due to the improper assignment of administrative privileges and the lack of oversight of work performed by employees in the Finance Office, there is an increased risk that unauthorized changes to the accounting records, software security settings, and user authorization privileges could occur and go undetected.

IT Asset Inventories

The Town's inventory of computer and technology equipment represents a significant investment of resources. A good system of internal controls includes policies and procedures that are designed to ensure that employees record and maintain an inventory of computer and technology equipment and software, which includes descriptions of the equipment and software and their locations and condition. It is important that the inventory be periodically checked and kept up-to-date with new acquisitions, disposals, and current condition of these assets. These policies and procedures help to reduce the risk of

loss, theft, misuse, and obsolescence. Maintaining inventory records helps safeguard assets and provides a means of planning for future replacement and a reference for the asset's location.

The Town does not maintain any inventory of computer and technology equipment and software. Without an inventory of computer and technology equipment and software, the Town cannot ensure that these assets are protected from the potential for loss, theft, misuse, and obsolescence.

Disaster Recovery Plan

A disaster recovery plan, sometimes called a business continuity plan, is intended to identify and describe how Town officials plan to deal with potential disasters. Such disasters may include any sudden catastrophic event (e.g., fire, computer virus, or deliberate or inadvertent employee action) that compromises the availability or integrity of the IT system and data. Contingency planning to prevent loss of computer equipment and data and the procedures for recovery in the event of an actual loss are crucial to an organization. The plan needs to address the roles of key individuals and include the precautions to be taken to minimize the effects of a disaster, so that officials and responsible staff will be able to maintain or quickly resume day-to-day operations. Disaster recovery planning also involves an analysis of business continuity needs and threats to business processes and may include significant focus on disaster prevention.

The Board has not adopted a disaster recovery plan to address potential disasters. Therefore, in the event of a disaster, Town personnel have no guidelines or plan to help minimize or prevent the loss of equipment and data, or to implement data recovery procedures. As a result, the Town's IT assets are at an increased risk of loss or damage, and could be subject to potentially costly disruptions to its critical operations. For example, lacking adequate guidance, a disaster could lead to the loss of important financial data along with a serious interruption to Town operations, such as not being able to process checks to pay vendors or employees.

Recommendations

6. The Board should adopt comprehensive IT policies and procedures and review and update these policies and procedures periodically, as needed.
7. The Town should designate an employee who does not work in the Finance Office as the system administrator for the Town's financial software package.
8. The Supervisor should provide oversight of the work performed by the Finance Director and Finance Office clerk to mitigate the risk created by their incompatible duties.

9. Town officials should maintain an up-to-date inventory list of all of the Town's computer and technology equipment and software.
10. The Board should establish a comprehensive written disaster recovery plan that addresses the range of potential threats to the Town's IT systems and data, and that provides the direction and guidance necessary to maintain Town operations or restore them as quickly as possible during or following a disaster. This plan should be distributed to all personnel who are responsible for IT operations, 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 page.



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The Town of Parma would like to thank the Comptroller's office for reviewing our Financial Management and Information Technology for the Town. We welcome the opportunity to strengthen the policies and procedures to protect the Town's assets.

In 2013 the Town will proceed with an adoption of an Acceptable Internet and Computer policy along with a Disaster Recovery plan. We have contacted various companies to start the process to establish the safeguards and security that reflects the changes in technology environment. The Town does have an inventory of our IT assets and updates this on a regular basis to our insurance company which we will continue to document.

In today's financial outlook, the Town of Parma has positioned itself to prevent tax spikes for its citizens. In doing such, the Town is able to finance capital improvements, bridge replacements, salt shed and a septic system replacement without borrowing which incurs interest. Beginning in 2009, the Town Board established its first reserve account and have added 3 additional reserve accounts in 2011 and 2012, Highway Equipment, Farmland and a Capital Library Reserve. We will continue to work closely with our Department Heads to build budgeting policies so that timely information is available to the Town Board to closely monitor the needs for our community. This will help with any long term planning that needs to be put in place. We agree that an independent CPA firm should and will audit the Supervisor's and Town Clerk books on a yearly basis beginning in 2012.

Again, we welcome the review from the Comptroller's office and we appreciate the time and effort that was given to the Town of Parma.

Sincerely,

Carmey Carmestro

Town of Parma Supervisor

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 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, cash receipts and disbursements, purchasing, claims processing, payroll, and information technology.

During the initial assessment, we interviewed Town officials and employees, performed limited tests of transactions, and reviewed pertinent documents such as adopted 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 inherent control risks. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected financial management and oversight, and information technology for further testing.

We examined the Town's financial operations, records, and reports, and its design of controls over IT for the period January 1, 2010, to January 20, 2012. We extended our scope back to 2007 to review budget information.

To accomplish the objectives of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed Town officials responsible for financial oversight and maintaining accounting records to obtain an understanding of the Town's budgeting practices and financial operations.
- We reviewed the minutes of the Board's proceedings to obtain an understanding of the Town's policies and procedures.
- We reviewed the Supervisor's management of the Town's financial information and, on a test basis, reviewed the available accounting records, including the general ledger, journal entries, bank reconciliations, and budget reports.
- We assessed the financial information provided to the Board and the Board's procedures to provide oversight of Town finances.
- We interviewed Finance Office staff and compared annual update documents (AUDs) with financial reports from the accounting system to determine if the annual financial reports were accurate, complete, and filed on a timely basis.
- We analyzed budget and financial data for the four major operating funds from the Town's annual financial reports for the 2007 through 2011 fiscal years to determine trends in the Town's budgeted and actual financial activity.

- We calculated the percentage of the ensuing year’s budgeted appropriations that was covered by the unreserved, unappropriated fund balance. Due to the unrealistic estimates included in adopted budgets, we also calculated fund balance as a percentage of expenditures for the reported year for better perspective.
- We analyzed interfund activity to determine whether it was properly recorded and in accordance with statute.
- To determine whether controls over computerized data were designed appropriately, we interviewed relevant Town officials and personnel and documented our own professional observations of the computerized data system.
- We reviewed all Town policies (employee manual) relating to computer use, IT, and system security.
- We reviewed user permission reports and compared user access rights to job responsibilities.
- We reviewed available documents and vendor websites and spoke with Town officials regarding vendors supporting the Town’s IT infrastructure and financial software systems.

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

APPENDIX C

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