



# Town of Ontario

## Information Technology, Financial Management and Procurement

### Report of Examination

Period Covered:

January 1, 2015 – March 2, 2017

2017M-137



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

July 2018

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 Ontario, entitled Information Technology, Financial Management and Procurement. 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 New York State 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

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# EXECUTIVE SUMMARY

The Town of Ontario (Town) is located in Wayne County and serves approximately 10,000 residents. The Town's 2017 budgeted appropriations totaled \$9.3 million funded primarily by real property taxes, payments in lieu of taxes, sales tax, State aid, fees and water/sewer rents.

The Town is governed by an elected Town Board (Board), which is composed of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor, who serves as chief financial officer, is responsible for the Town's day-to-day management under the Board's direction. The Town uses the services of an outside vendor for IT support and technical assistance as needed and had an Information Technology (IT) Coordinator who was employed by the Town until September 2016.

### **Scope and Objective**

We examined the IT controls, financial condition and purchasing practices of the Town for the period January 1, 2015 through March 2, 2017. We expanded the scope back to January 1, 2013 to review fund balance and budgeting trends and water and sewer records and reports. Our audit addressed the following related questions:

- Did the Board and Town officials ensure that the Town's IT assets and computerized data are safeguarded?
- Did the Board adopt multiyear financial and capital plans and adequately monitor the Town's finances?
- Did the Board and Town officials ensure that purchases were a prudent and economical use of public money and in the best interests of residents?

### **Audit Results**

The Board has not adopted IT policies to sufficiently protect its IT assets and did not ensure the adopted computer use and inventory policies were enforced or monitored. Town officials also did not adequately segregate online banking duties and did not dedicate a separate computer for online transactions to limit access to online bank accounts. We also found users were able to make changes, additions, deletions and adjustments without authorization or subsequent review and Town officials did not generate or review audit trail, exception and change reports. The Supervisor also did not sufficiently control the use of his electronic signature. In addition, the Board did not ensure that they had adequate written agreements with the IT service provider or banks used for online banking, and

the Board did not adopt a disaster recovery plan. As a result of these deficiencies, significant errors and irregularities occurred and went undetected and uncorrected. There is also an increased risk that the Town's IT data and components will be lost or misused and that the Town will not be able to resume critical operations in the event of a system failure.

The Board has not adequately monitored the Town's finances. They have not reduced excessive fund balance; adopted a comprehensive multiyear financial or capital plan, or an adequate fund balance policy; or developed policies and procedures to govern budgeting practices. Our previous audit<sup>1</sup> identified these issues and corrective action was insufficient. Lacking established long-term plans and budgetary guidance, the Board continued to adopt budgets that were not based on sound and realistic estimates.

The Board adopted a procurement policy, but it does not require competition for professional services or the submission of documentation with claims to support competition was sought. In addition, the Board adopted a credit card policy, but has not adopted a policy relating to the use of store purchase cards or lines of credit. We calculated that the Town could have saved approximately \$29,780 by not purchasing an unnecessary product and purchasing from other vendors. Also, the Town's code of ethics does not include recommended provisions for purchasing activities or procedures for reporting or identifying outside business interests or private employment. As a result, the Town made 23 payments totaling \$1,422 to a Board member's business without the interest being publicly disclosed.

### **Comments of Town 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 recommendations and indicated they are in the process of implementing corrective action.

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<sup>1</sup> 2013M-105 Board Oversight and Information Technology

# Introduction

## Background

The Town of Ontario (Town) is located in Wayne County and serves approximately 10,000 residents. The Town provides various services to its residents including water, sewer, lighting, street maintenance, snow removal and general government support. The Town's 2017 budgeted appropriations totaled \$9.3 million funded primarily by real property taxes, payments in lieu of taxes, sales tax, State aid, fees and water/sewer rents.

The Town is governed by an elected Town Board (Board) comprised of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor, who serves as chief financial officer, is responsible for the Town's day-to-day management under the Board's direction. The accountant is assisted by a payroll clerk and an accounts payable clerk and performs most financial recordkeeping duties on behalf of the Supervisor. The Town uses the services of an outside vendor for IT support and technical assistance as needed and had an Information Technology (IT) Coordinator, who was employed by the Town until September 2016.

The Town's department heads oversee their individual department operations, including purchasing. The department heads include the Town Clerk (Clerk), Highway Superintendent,<sup>2</sup> Justices, Director of Parks and Recreation, Superintendent of Water Utilities,<sup>3</sup> Code Enforcement Officer<sup>4</sup> and Assessor.

## Objective

The objective of our audit was to evaluate the Town's IT controls, financial condition and purchasing practices. Our audit addressed the following related questions:

- Did the Board and Town officials ensure that the Town's IT assets and computerized data are safeguarded?
- Did the Board adopt multiyear financial plans and adequately monitor the Town's finances?

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<sup>2</sup> The current Highway Superintendent has been in that position since January 2016.

<sup>3</sup> The Superintendent of Water Utilities was suspended in May 2016 and subsequently retired. There was an acting superintendent of water utilities during fieldwork.

<sup>4</sup> The former code enforcement officer was suspended in September 2015 and subsequently retired. The code enforcement officer during fieldwork began in that position in September 2015.

- Did the Board and Town officials ensure that purchases were made in a manner to ensure the prudent and economical use of public money in the best interests of residents?

### **Scope and Methodology**

We examined the IT controls, financial condition and purchasing practices of the Town for the period January 1, 2015 through March 2, 2017. We expanded our scope back to January 1, 2013 to review fund balance and budgeting trends and water and sewer records and reports. Our audit also examined the adequacy of certain IT controls. Because of the sensitivity of some of this information, we did not discuss the results in this report, but instead communicated them confidentially to Town officials.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

### **Comments of Town 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 recommendations and indicated they plan to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of 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.

## Information Technology

Town officials are responsible for establishing, designing and implementing a comprehensive system of internal controls over the Town's IT system. To do that, the Board is responsible for adopting formal policies focused on protecting data and hardware from loss or misuse due to errors, malicious intent or accidents (disasters). Therefore, it is essential that the Board establish policies that include password security, remote access, on-line banking, data backups, sanitation and disposal of electronic media, breach notification, user accounts, access rights, adjustments, inventory, audit trails, exception and change reports, use of electronic signature and acceptance of and refunds for credit card payments. The Board should periodically review and update these policies as necessary to reflect changes in technology or the Town's IT environment. In addition, it is essential to ensure that software controls are in place so that deletions and adjustments cannot be made without authorization and that there is a process in place to review data entered into and changed in the system. Town officials should also obtain detailed written agreements with service providers and ensure sufficient controls are in place to secure assets when using online banking. A disaster recovery plan should be developed to prevent the loss of computerized data and to help Town personnel resume operations in the event of a disaster.

The Board has not adopted IT policies to sufficiently protect its IT assets and did not ensure the adopted computer use and inventory policies were enforced or monitored. Town officials also did not adequately segregate online banking duties and did not dedicate a separate computer for online transactions to limit access to online bank accounts. We found users were able to make changes, additions, deletions and adjustments without authorization or subsequent review and Town officials did not generate or review audit trail, exception and change reports. The Supervisor also did not sufficiently control the use of his electronic signature. In addition, the Board did not ensure that they had adequate written agreements with the IT service provider or banks used for online banking, and the Board did not adopt a disaster recovery plan. As a result of these deficiencies, significant errors and irregularities occurred and went undetected and uncorrected. There is also an increased risk that the Town's IT data and components will be lost or misused and that the Town will not be able to resume critical operations in the event of a system failure.

### IT Policies

IT security policies describe the tools and procedures to protect data and information systems, define appropriate user behavior and explain the consequences of policy violations. Therefore, it is essential for the

Board to establish IT security policies for all IT assets and information. The Board should periodically review these policies, update them as needed and stipulate who is responsible for monitoring the policies.

Although the Board adopted policies for breach notification, password security, acceptable use, inventory and online banking, it has not ensured the policies are enforced or monitored. The Board has not adopted policies addressing data backups, sanitation and disposal of electronic media, adjustments, audit trails, exception and change reports, use of electronic signatures and credit card payments and refunds. Although the password policy discusses password security for remote access and application recognition of individual users, the Board did not adopt policies to sufficiently address remote access, user accounts and access rights.

The computer use policy restricts the use of computers and IT resources for Town purposes and states that software and systems that can monitor use will be used. However, Town officials are not using software or other means to monitor use. Additionally, users are not provided with Internet security awareness training or training on the Town's IT policies, and are not required to sign an acknowledgement form stating that they have read the policies. We also found that the inventory policy has not been updated since 1994 and is not being followed because the department heads do not maintain and file inventory records with the Clerk as required by the policy. Therefore, the IT Coordinator was unable to provide a computer inventory list.

While IT policies do not guarantee the safety of the Town's IT assets or electronic information, the lack of policies significantly increases the risk that data from hardware and software systems may be lost or damaged by inappropriate access and use. Without formal policies that explicitly convey practices to safeguard data, officials cannot ensure that employees are aware of their responsibilities.

### **Authorization of Changes**

It is essential that controls are in place to ensure that new accounts are properly setup and adjustments, deletions or other changes to data are appropriate. Adjustment procedures should, at a minimum, require that a designated official, not involved in the collection, disbursement and recording of the transaction, approve each adjustment and adequately document the origination, justification, amount and date it was approved. Town officials should review audit trails and exception and change reports to monitor user activity and changes to data to provide a mechanism for individual accountability, reconstructing events and problem monitoring.

The Town uses various computerized software programs to prepare water bills and building permits, record receipts in the parks and recreation department and Clerk’s office, record Court cases, adjudications and collections and Town financial transactions for all funds. Our review of the various software programs on 15 Town computers<sup>5</sup> located in several departments identified control weaknesses that could allow users to make adjustments, alterations and deletions without approval, review and detection.

**Figure 1: Weaknesses**

Department/Office	Incorrect Billing	Adjust Data Without Approval	Inadequate or No Review or Reconciliation	Insufficient Documents to Support	Numbering Sequence Out of Order
Water and Sewer	X	X	X	X	-
Building	-	X	X	X	X
Clerk	-	X	X	X	-
Parks and Recreation	-	X	X	X	-
Finance	-	X	X	-	-
Justice Court	-	X	-	-	-

Water and Sewer Department – The department uses software to issue quarterly water and sewer bills and maintain accounts for 3,816 customers. The water clerk enters information for new accounts and meters into the software without review. Additionally, the software allows users to adjust data including meter information, meter reads, consumption amounts, bill totals, payments or balances due. We found that water and sewer accounts were incorrectly overbilled a net total of \$360,330 (Figure 2).

**Figure 2: Incorrect Water and Sewer Billing**

Review	Water/ Sewer Overbilled	Water/Sewer Underbilled	Net Water/ Sewer
Incorrectly Calculated Hardship Adjustments		\$5,681	
Sampled Water Accounts	\$516,583	\$1,710	
Water and Sewer Accounts 1/1/15-7/28/16		\$18,241	
Estimated Usage on One Water Account		\$34,200	
Commercial Sewer	\$1,283	\$97,704	
<b>Total</b>	<b>\$517,866</b>	<b>\$157,536</b>	<b>\$360,330</b>

<sup>5</sup> See Appendix B Audit Methodology and Standards, for further details on sample selection.

We reviewed adjustments made to customer water and sewer accounts during the period January 1, 2013 through September 16, 2016 and found that none of the adjustments had documentation to support that they were reviewed or approved.

- There were 2,881 direct dollar value adjustments with a total net reduction of more than \$3.95 million. We determined that 2,390 adjustments with a net reduction of \$3.6 million were appropriate or reasonable. The vast majority of this amount is related to one reduction of \$3.1 million to correct a meter read error on one account. However, the 18 hardship adjustments were appropriate, but were incorrectly calculated, which resulted in the under billing of customers' totaling \$5,681. The remaining 491 adjustments with a net total reduction of \$345,611 had insufficient or no explanations, or were inappropriate.<sup>6</sup>
- There were 108,241 non-direct dollar value adjustments. This includes adjustments from name changes to billing related changes, such as meter read and consumption changes. We determined that 76,987 were appropriate, reasonable or had no direct impact on customer billings. The remaining 31,254 were insufficiently supported or were inappropriate.

Because significant adjustments were made, we performed various reviews of water and sewer customer accounts. The results of our reviews are discussed below:

- We selected 26 water customer accounts to assess the accuracy of the 393 water bills sent for the period January 2013 through July 2016. We identified 20 bills in which the amount of the previous meter read did not equal the prior bill's meter read, 12 bills in which the consumption was not calculated correctly according to the meter reads listed on the bill, seven bills whose listed meter readings were incorrect at the time of meter replacement, five bills that did not use the correct meter reading and one duplicate billing. As a result of these mathematical and consumption inaccuracies, seven accounts were underbilled \$1,710 and 10 accounts were overbilled \$516,583. While our sample included larger users and higher risk accounts, there may be additional discrepancies in the amounts billed to other customers, especially considering the exorbitant number of adjustments identified. Furthermore, these identified billing inaccuracies, as well as any additional

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<sup>6</sup> Of these, 51 (5 percent) with net reductions totaling \$4,823 had insufficient comments to support the adjustment, six with net reductions totaling \$1,006 had comments that indicated the adjustment was not appropriate, and 434 (42 percent) with net reductions totaling \$339,783 did not have any information available to explain the purpose of the adjustments.

undetected errors could negatively impact the water and sewer fund's financial condition.<sup>7</sup>

- We reviewed the total billed to each account for the period of January 1, 2015 through July 28, 2016. We recalculated the total that should have been billed based on the listed consumptions and did not have any variances in 3,317 of the 3,777 accounts (88 percent). The remaining 460 accounts had a total net variance of \$18,241 for a variety of reasons, such as missing bills,<sup>8</sup> incorrect sewer rates, billing errors, proration of minimum bill charges and adjustments. We estimate that by correcting the sewer rates charged to 12 accounts consistently billed the incorrect rates, the Town will receive additional annual revenue of \$3,284.
- One account was billed using estimated usage even though the customer provided accurate monthly meter readings to determine consumption. After replacing the meter on September 19, 2016, officials determined that the customer was underbilled \$34,200.
- At our request, the acting Water Superintendent recalculated the actual number of sewer units for approximately 75 (50 percent) commercial accounts. Using this information, we determined that 12 commercial sewer accounts were not accurately billed during the period January 1, 2013 through the July 2016 because the correct number of sewer units were not charged. As a result, 11 accounts were underbilled \$97,704 and one account was overbilled \$1,283.<sup>9</sup> Correcting sewer bills for these 12 accounts will provide approximately \$25,817 in additional annual revenue.

Building Department – The building department receives permit applications from customers for new construction, additions and alterations, demolition or removals, excavating, plumbing and other construction fees (such as sheds and pools). Once the applications are approved by the code enforcement officer, the building clerk prepares and prints the permits using the software program. After the printed permit is signed by the code enforcement officer, the customer is called to come pick it up and remit permit fees to the Clerk's office.

Prior to September 2015,<sup>10</sup> the automatic consecutive numbering control for building permits was disabled, which allowed for the

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<sup>7</sup> Refer to the Financial Management section of this report for further details.

<sup>8</sup> Accounts that did not receive at least one water or sewer bill during the period reviewed – due mainly to accounts being setup incorrectly in the software.

<sup>9</sup> The overbilled account also was incorrectly listed in Sewer District 2 instead of Sewer District 1.

<sup>10</sup> The code enforcement officer began as interim in that position in September 2015.

issuance of permits out of chronological order and duplicate permit numbers. Because parts of the Board-approved fee schedule are open to interpretation, not all fees have pre-set amounts, and those that do, can be changed. Further, no prior approval is required to delete/void or alter permits. As a result, building department staff could inconsistently charge fees for permits, issue free permits and personally collect fees for unrecorded permits.

According to the building department's issued permit report<sup>11</sup> for the period January 1, 2015 through July 31, 2016 there were 484 issued permits with fees totaling \$84,216. However this report did not accurately reflect the permits actually issued. We identified 55 permit numbers that were not listed on the report. Specifically, 25 permits were not marked as issued when the customers picked them up; six were voided or cancelled; three were recorded using the incorrect permit number;<sup>12</sup> one was identified as issued, but not included on the report; and the remaining 12 were prepared, but not yet picked up. The remaining eight missing permit numbers included seven that had no electronic or paper record and one paper permit copy on file that was not entered into the software. Permit numbers were unaccounted for because the department staff did not need authorization to alter or delete permits and was able to reuse any permit number or change from the number sequence.

Because no reconciliations were performed between the building department's issued permit report and the Clerk's monthly reports, we compared recorded and reported permits and fees in each department. Except for minor differences, we found a corresponding receipt in the Clerk's office for all building department issued permits. However, additional building permits could have been issued and removed from the system without a receipt collected in the Clerk's office.

For the 484 permits on the issued permit report for the period January 1, 2015 through July 31, 2016, we found only minor differences between the permit fees charged by the building department and Board approved fees. However, we were unable to determine if the fees charged for 37 permits (8 percent) totaling \$3,309 were appropriate because the Board did not set fees for all building alterations, or supporting documentation maintained was insufficient.

Finally, we performed a trend analysis by comparing the number of permits issued during January 1, 2015 through July 31, 2015 when the automatic numbering was disabled to the number of permits issued

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<sup>11</sup> Permits are listed on the report once a box is check-marked in the software indicating that a customer picked up the permit.

<sup>12</sup> Two of the three were duplicate permit numbers and one permit number removed a zero in the numbering format.

during the same period for 2016 when the automatic numbering was enabled to indicate irregularities. There were 85 more permits issued during the seven-month 2016 period (252 permits totaling \$38,854) versus the seven-month 2015 period (167 permits totaling \$31,096).<sup>13</sup> Further, there were eight more permits issued for all of 2015 (260 permits totaling \$47,818) than during the seven-month 2016 period.

Clerk's Office – The Clerk's office receives payments for marriage, dog, hunting and fishing licenses, building permits and receipts collected by the parks and recreation department. The Clerk's office software allows for the deletion of receipts without authorization. This control weakness could allow anyone in the office to conceal a theft by issuing a receipt to a customer for the amount received and then deleting that receipt. Furthermore, the Clerk's office does not generate or review reports with receipt numbers listed to ensure that all receipt numbers are accounted for.

We reviewed the individual receipt numbers for August 2015 from a report generated from the software<sup>14</sup> and found five receipt numbers in the sequence that were not listed. Although clerk office staff told us that they maintained documentation for all deleted receipts, the Clerk was unable to provide documentation for three of the five missing receipt numbers. However, she told us that the deletions were likely to fix clerical errors. Most of the receipts in the Clerk's office have other methods of tracking receipt information, such as reconciling issued receipts to dog, hunting or marriage licenses or referenced building permit numbers. However, there is no such reconciliation performed. We also found all issued receipts listed on the Clerk's monthly report totaling \$20,353 were deposited.

Parks and Recreation Department – The Parks and Recreation Department receives payments for the use of the community center, registration in recreation programs and lodge rentals. The department uses a computerized software that sequentially numbers receipts to record detailed information about collections prior to submitting the collections to the Clerk's office for recording in the Clerk's computerized financial software and deposit. The department turns over larger donations directly to the finance office and the credit card receipts are directly deposited into the bank account accessed by the finance office. The Parks and Recreation software allows receipts to be voided without approval and users to change the date of a receipt or refund amount after issuance.

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<sup>13</sup> The dollar value of the 2015 permits includes \$11,000 for a new townhouse development, which was not an ordinary occurrence.

<sup>14</sup> See Appendix B, Audit Methodology and Standards for details on sample selection.

- Out of 11,992 receipt numbers recorded in the parks and recreation software during the period January 1, 2015 through August 16, 2016 we noted less than 50 receipt numbers missing. We traced these receipt numbers to voids or refunds that were recorded using a date prior to January 1, 2015. The assistant recreation director told us that when they changed the way the department processed credit card transactions, a few refunds did not get properly posted to the software. Once she identified this oversight, she manually entered the refunds in the software. She told us that when she recorded the refund, she changed the date to when the refund was issued instead of keeping the date she was making the entry. However, the software allows this capability for transactions and users could change the dates of receipts or refunds for other purposes.
- We randomly selected one month from the period January 2015 through June 2016 for testing. The 532 recorded receipts in the parks and recreation software for the month of August 2015 totaling \$22,639 reconciled to the receipts submitted to, recorded and deposited by the Clerk’s office or finance office. However, due to the ability to change receipt information, we are unable to determine if this is the actual total number of receipts issued.
- There were 50 refunds issued in August 2015 totaling \$2,829. Each of the refunds had an approved refund request slip on file or a note in the software stating the purpose of the refund. Cash and check refunds must be requested by the customer.<sup>15</sup> However, credit card refunds are processed by an individual of the parks and recreation department and do not require authorization. While the director of parks and recreation has limited the users who have the capability to perform refunds, the lack of authorization increases the risk that inappropriate refunds are made.

Finance Office – The finance office records Town financial transactions for each of the Town’s funds, which includes transactions recorded by the accountant, payroll clerk and AP clerk. Each of these individuals have the ability to make changes without prior approval or review. For example, the accountant makes changes to financial data through journal entries, the payroll clerk can add employees and make changes to employee pay rates and the AP clerk can add new vendors and is responsible for printing and mailing checks after Board approval of the abstracts. Finally, all three finance office staff can affix the

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<sup>15</sup> The parks and recreation department will then submit the authorized ‘request for refund’ slip to the finance office who process the refund by check after Board approval.

Supervisor's electronic signature to checks without requiring him to enter a password.

We recognize that some mitigating controls have been implemented to address these weaknesses. For example, the Supervisor reviews and signs off on the monthly journal entry report prepared by the accountant. We found that entries on the May and June 2016 journal entry reports were reasonable. Although the Supervisor reviews monthly bank statements and reconciliations, they do not contain cancelled check images, so his review would not detect if the payee was proper and correct. Therefore, he cannot ascertain if disbursements were for appropriate Town purposes. We reviewed 196 payments totaling \$553,725<sup>16</sup> and found that the supporting documentation contained signatures of department heads indicating these were approved Town expenditures. We found the payees on all 50 cancelled check images reviewed corresponded to the payees listed in the financial records and supporting documentation. We recalculated 12 employees' gross pay for the month of June 2016 and found that they were paid in accordance with Board approved pay rates and union agreements.

Although our tests did not disclose errors or irregularities, the weaknesses identified related to review and approval of disbursements, including access to the electronic check signer, increases the risk that unauthorized disbursements could occur.

Justice Court – The Court has two Court clerks who each record financial and adjudication transactions for both Justices in a computerized software program. The software allows each clerk to make changes, deletions and voids without prior approval. At the end of each month the clerks provide a change report detailing the case number, change, reason for the change and who made the change for the Justices review. We reviewed receipts, deposits and the security report of deletions and changes for August 2015<sup>17</sup> for both Justices. We traced recorded receipts totaling \$11,513 for Justice Sucher and \$12,428 for Justice Higgins to deposits. We also found receipt numbers were issued sequentially and voided and deleted receipt numbers were accounted for.

Although the Town's financial software and various software programs used by the parks and recreation department, water department, building department<sup>18</sup> and Clerk offices have the

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<sup>16</sup> See Procurement section of this report

<sup>17</sup> See Appendix B Audit Methodology and Standards for details on sample selection.

<sup>18</sup> The vendor for the building department software must be contacted to provide the audit trail report. The new building department staff told us that they have not requested this report from the vendor.

capability of producing an audit log,<sup>19</sup> no reports are generated or reviewed. Additionally, these departments do not generate or review exception and change reports. Because Town officials do not generate these reports to monitor activity, errors and irregularities could occur and go undetected and uncorrected. Because of these weaknesses we could not determine if all receipts were properly recorded and deposited.

## **Online Banking**

Online banking provides a means of direct access to funds held in the Town's accounts. Users can review current account balances and information, including recent transactions, and transfer money between bank accounts and to external accounts. Towns are allowed to disburse or transfer funds in their custody by means of electronic or wire transfer. Because wire transfers of funds typically involve significant amounts of money, the Town must control the processing of its wire transfers to help prevent unauthorized transfers from occurring. It is essential that Town officials provide authorization of transfers before they are initiated and establish procedures to ensure that staff are securely accessing banking websites to help reduce the risk of unauthorized transfers from both internal and external sources.

The Town does not have adequate agreements with the two banks that it uses to access online banking. Town officials also did not adequately segregate online banking duties and did not dedicate a separate computer for online transactions to limit access to online bank accounts. Furthermore, the five users who access online banking have not received Internet security awareness training.

Bank Agreement – General Municipal Law (GML) allows Towns to disburse or transfer funds in their custody by means of electronic or wire transfers, provided that the governing board has entered into a written agreement. GML requires that this agreement prescribe the manner in which electronic or wire transfers of funds will be accomplished, identify the names and numbers of the bank accounts from which such transfers may be made, identify the individuals authorized to request the transfer of funds and implement a security procedure that includes verifying that a payment order is that of the initiating entity and detecting errors in transmission or content of the payment order.

The Town has two banks that it uses for online transactions that include electronic and external wire transfers and automated clearing house (ACH) payments. The Town's agreement with one of the

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<sup>19</sup> An audit log maintains a record of activity and should provide information such as the identity of each person who accessed the system, the time and date of the access, what activity occurred.

banks is a general use disclosure and does not contain provisions for how electronic and wire transfers will be performed. The Town's agreement with the other bank included detailed information, such as the accounts designated for Internet access and an exposure limit of \$300,000. However, the agreement does not list all Town officials and employees with online banking access. Without adequate online banking agreements, Town officials cannot be assured that funds are adequately safeguarded during online transactions.

Segregation of Duties – To adequately safeguard Town assets, Town officials must properly segregate the duties of employees granted access to the Town's online banking application. Requiring a second authorization or notification for completed transfers and changes to the established transfer limits provides an added level of security over online transactions. A good detective control would be to require banks to provide emails to Town officials alerting them every time an online transaction occurs. Town officials could also provide for an independent review of bank reconciliations to detect and address unauthorized transfers after they have occurred.

The Board adopted an online banking policy that requires at least two individuals be involved in each transaction and that online transactions must be authorized by the Supervisor. However, we found that two individuals are not involved in each transaction and the Supervisor does not authorize all online transactions.

The accountant has online access to most of the Town's bank accounts, which enables him to make transfers between Town accounts without the review or authorization of another Town official. The bank does not send any notifications to Town officials for these transactions and there is no notification or secondary authorization required for ACH transactions. Additionally, the accountant can increase the daily transfer limit without approval and the bank does not notify another individual when the daily limit has been increased.

The Supervisor told us that he does not know his logon information and does not access online banking. At the end of each month he reviews bank statements, a report of journal entries and a printed transaction journal prepared by the accountant that includes wire and ACH transactions. However, we found that not all transfers are included on the monthly reports reviewed by the Supervisor. Most of the transfers from the clearing account to other Town accounts were not listed on the bank activity sheet and are not recorded journal entries. We identified more than \$343,000 transferred from the clearing account to other Town accounts during the month reviewed. While the Supervisor review would include transfer activity, inappropriate transactions could go undetected for longer than necessary.

Authorized Access – Good management practices would not only limit the users authorized to execute online banking activities, but also limit the computers on which the activity can take place. Authorized online banking users should only access the Town’s bank accounts from a Town computer dedicated for online banking transactions. Other Town computers may not have the same security protections as a dedicated online banking computer, and transactions executed from those computers could be more at risk. Further, computer users who are unaware of potential threats are more likely to unknowingly download unwanted or malicious software or click on links that are part of phishing attacks,<sup>20</sup> which can threaten online bank accounts. Computer users’ visitation of personal or non-business sites heightens this risk. Town officials can purchase computer fraud and funds transfer insurance coverage to help recoup a portion of funds misappropriated through computer fraud.

The Town did not ensure that authorized access to the Town’s online bank accounts was limited because it did not dedicate a separate computer just for these transactions. Further, all five users’ used their Town computers for personal and non-business use. In addition, none of the five users who have access to online banking have received Internet security awareness training. Without this training users could unintentionally expose the Town’s online bank accounts to threats from malicious software which could endanger Town assets. We reviewed one month of online banking and wire transfers and ACH transactions and found that all 86 transactions made during this time were for appropriate Town purposes.

We recognize that Town officials have taken an additional and proactive step to prevent loss by purchasing computer fraud and funds transfer insurance coverage. Although this may not prevent the Town’s initial loss, it will provide some reimbursement from actual losses in accordance with the insurance policy. However, dedicating a computer for online banking and providing Internet security training for those involved in online transactions can help reduce the Town’s risk of funds being misappropriated due to unauthorized access.

## **IT Service Support**

Town officials must ensure that qualified IT personnel manages the Town’s IT environment. This can be accomplished through Town employees, an IT service provider or both. To avoid potential misunderstandings and to protect Town assets, there should be a written agreement with the IT service provider that clearly states the needs and expectations for services. It is essential that the agreement include provisions relating to the confidentiality and protection of personal,

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<sup>20</sup> Phishing attacks use fake email messages pretending to represent a bank. The email requests information such as name, password and account number and provides links to a fake website.

private and sensitive data (PPSI) and specify the level of service to be provided by the vendor. Insufficient or vague agreements can, among other things, contribute to confusion over who has responsibility for various aspects of the IT environment, which puts the Town's data and computer resources at greater risk for unauthorized access, misuse or loss.

The Town's recreation supervisor also served as the Town's IT Coordinator until she left Town employment in September 2016. As the IT Coordinator, she was responsible for network administration and general IT support. The Town has been without a network administrator and does not have sufficient, experienced IT personnel to handle the needs of the Town since her departure. After the IT Coordinator left, the Supervisor's secretary, who had little IT training, has been performing some IT tasks.

The Supervisor also told us that they will be relying more on the IT service provider. However, we found that the 2017 IT service agreement, signed in December 2016, was identical to the 2016 agreement. Further, the agreements with the IT service provider are inadequate because they do not define roles and responsibilities and do not include all services provided. Also, the agreements do not contain any provisions for confidentiality and PPSI.

Without sufficient and adequate IT support, the Town's IT assets and data are significantly at risk for loss and misuse. For example, Town officials have not ensured that monthly maintenance checks are performed and that patches are up to date. In addition to sustaining their IT environment, they will need experienced IT personnel to implement corrective action from our audit recommendations.

## **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 minimize the effects of a disaster and enable the Town to 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 disaster recovery plan started in response to our previous audit is still in its draft form and is not adequate. The plan addressed an event that would make the Town hall nonoperational, but did not address a plan for disaster recovery if the finance office or other departments

located outside the town hall were nonoperational. Although the plan lists the financial software as critical, there is no consideration for how finance office operations will continue other than having a backup available, such as with what equipment the finance office will continue to pay vendors or employees. Further, it was not distributed to essential personnel, including the IT Coordinator and accountant. Additionally, the plan has not been updated or adopted since its drafting in 2013, did not contain any phone numbers for contact information and contained outdated information, including the Town's bank and the list of Town officials and employees.

In the event of a disaster, Town personnel do not have guidelines or a 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 processing checks to pay vendors and employees.

## **Recommendations**

The Board should:

1. Adopt comprehensive IT policies for data backups, sanitation and disposal of electronic media, adjustments, audit trails, exception and change reports, use of electronic signature, acceptance of and refunds for credit card payments, remote access, user accounts and access rights. Ensure adopted IT policies are updated, enforced and monitored.
2. Ensure that officials and employees receive adequate training on Internet security awareness and on the Town's IT policies, and sign an acknowledgement form that they have done so.
3. Revise the agreement with the IT service provider to reflect current service provisions and provisions for confidentiality and PPSI.
4. Ensure the Town has trained IT personnel to implement corrective action and ensure proper safeguards are maintained to protect the Town's IT assets.
5. Ensure that there is a process in place to document the purpose for and approval of adjustments.
6. Bill undercharged and refund the overcharged water and sewer accounts the amounts identified in the report.

7. Ensure a reconciliation is performed between building department issued permits and fees collected in the Clerk's office.
8. Amend the fee schedule to set fees for all work requiring a permit.
9. Ensure that the Town has sufficient written online banking agreements.
10. Enable notifications and other security measures available from the Town's banks, including email notifications that advise the accountant and Supervisor every time an online transaction occurs.
11. Require secondary authorization for increases to daily transfer limits.
12. Designate a computer to be used only for online banking transactions.
13. Monitor computer usage to ensure compliance with the Town's acceptable use policy.
14. Adopt a comprehensive disaster recovery plan and ensure the plan is distributed to all essential personnel.

The Supervisor should:

15. Ensure his electronic signature is used by him or under his supervision and monitor disbursements by reviewing cancelled check images and maintaining a log of check numbers.

Town officials should:

16. Periodically generate and review audit logs, exception reports and change reports.

The Water Superintendent should:

17. Review the existing customer accounts and any new customer accounts to ensure the correct billing units and rates are charged.
18. Approve all water and sewer adjustments.

19. Ensure water bills are not estimated when actual consumption information is available.

The Clerk should:

20. Ensure that documentation is maintained for all deleted receipts.

The Parks and Recreation Director should:

21. Ensure that users do not have the ability to change the date of payment or refunds in the software.
22. Develop procedures to ensure credit card refunds are authorized.

## Financial Management

It is important for the Board to adopt long-term plans that set forth the Town's financial objectives and goals, and to have written policies and procedures to govern budgeting practices and the level of fund balance to be maintained in each fund, including established reserves. The Board should adopt budgets that include realistic estimates of revenues and expenditures, are based on actual financial results from prior years along with other relevant available data and use unexpended surplus funds as a funding source, when appropriate. The Board may retain a reasonable portion of unexpended surplus funds to be used as a funding source in the event of unforeseen circumstances. The Board may also establish and place money into reserve funds to finance the future costs of a variety of purposes.

The Board did not fully implement corrective action from our previous audit and have not reduced excessive fund balance, adopted a comprehensive multiyear financial or capital plan, adopted an adequate fund balance policy or developed policies and procedures to govern budgeting practices. Lacking established long-term plans and budgetary guidance, the Board continued to adopt budgets that were not based on sound and realistic estimates.

### Fund Balance and Budgeting

In preparing the budget, it is important for the Board to develop realistic revenue and expenditure estimates, along with an estimate of available fund balance at fiscal year-end. Surplus funds represent money accumulated from prior fiscal years. The Town may retain a reasonable level of unexpended surplus funds to provide cash flow and as a financial cushion in the event of unforeseen financial events.

Town officials can legally set aside fund balance to finance all or part of future capital outlays and other allowable purposes and may designate a portion of fund balance in each fund as a financing source for the next year's budget or to be retained for future use. It is not a sound practice to routinely appropriate fund balance that will not actually be used, due to budgetary surpluses built in to revenue and expenditure estimates. This practice misleads taxpayers and, instead of decreasing excessive fund balance, further increases surplus fund balance and can cause excessive tax levies. Further, expenditure estimates that are more than necessary do not serve as a management tool to help keep expenditures in check. The Town needs to assess what is a reasonable fund balance for its particular situation by considering various factors such as timing of receipts and disbursements, volatility of revenues and expenditures and contingency appropriations.

Although the Board partially implemented corrective action following our previous audit by adopting a fund balance policy in December 2013, the policy is inadequate. The policy states that the Town shall strive to maintain in each of the funds at fiscal year-end a minimum fund balance of 25-50 percent of the adopted budgeted appropriations, without any justification for why this high percentage is deemed an appropriate amount. Further, the policy does not designate the composition of the retained fund balance, such as amounts placed in reserves, unassigned or appropriated to balance budgets. Also, the Board continually overestimates budget appropriations, which inflates the amount of fund balance that may be retained. Finally, in 2015, the Town changed the accounting method of the water and sewer funds to an enterprise basis, which uses a different method for determining fund balance, but the Board did not update their fund balance policy to reflect this change.

The Supervisor told us that he does not prepare a calculation to determine the percent of fund balance at year-end or any report on fund balance levels for the Board.

As a result, previously identified excessive unrestricted fund balances in the general and water funds increased and the highway fund balance now, also is excessive. Because the Board continually appropriated fund balance that was not needed to finance operations, while also increasing the tax levy the last four years, the Board has levied more taxes than necessary to sustain operations.

General Fund – Because the Board significantly overestimated appropriations (10-12 percent each year) and underestimated revenues (4-6 percent each year), it appeared that the Town needed to both increase its tax levy and use fund balance to close projected budget gaps. The Board increased the tax levy \$123,158 (17 percent) from 2013 to 2017. However, because the Town realized operating surpluses totaling approximately \$131,500 from 2013 through 2015, it raised more taxes than necessary and appropriated fund balance totaling approximately \$1.17 million that was not needed to fund operations for the same period. Further, Town officials reported an operating surplus totaling \$265,551 for 2016, which was twice as much as the previous three years' combined surpluses.<sup>21</sup> As a result, the general fund's fund balance not only remained excessive, but has increased immensely (Figure 3). Total Fund balance was at least 75 percent of ensuing year appropriations the last four years, which significantly exceeded the needs of the Town and the Board's fund balance policy.

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<sup>21</sup> The 2016 amounts were updated for year-end totals after fieldwork and were not reviewed.

**Figure 3: General Fund - Operating Results and Fund Balance**

	2013	2014	2015	2016
Beginning Fund Balance	\$2,300,604	\$2,310,795	\$2,355,751	\$2,432,060
Operating Surplus (Deficit)	\$10,191	\$44,956	\$76,309	\$265,551
Ending Fund Balance	\$2,310,795	\$2,355,751	\$2,432,060	\$2,697,611
Ending Fund Balance as a Percentage of Ensuing Year's Appropriations	75%	75%	79%	88%
Less: Restricted Funds	\$405,340	\$345,628	\$345,794	\$302,649
Less: Nonspendable Funds	\$48,410	\$44,055	\$45,758	\$32,493
Less: Appropriated Funds	\$400,007	\$360,617	\$365,628	\$364,839
Total Unrestricted Funds	\$1,457,038	\$1,605,451	\$1,674,880	\$1,997,630
Ensuing Year's Budgeted Appropriations	\$3,064,838	\$3,122,073	\$3,097,959	\$3,146,462
Unrestricted Funds as a Percentage of the Ensuing Year's Appropriations	48%	51%	54%	63%

The Board's practice of appropriating fund balance that was not needed to finance operations was, in effect, an understatement of unrestricted fund balance. Further, due to significant appropriation overestimates, a more accurate way to look at unrestricted fund balance is as a percent of actual expenditures. At the end of 2015, the general fund's fund balance was 60 percent of current year expenditures. When unused appropriated fund balance was added back, the Town's recalculated unrestricted fund balance was 73 percent of expenditures.

**Figure 4: General Fund - Unused Fund Balance**

	2013	2014	2015
Unrestricted Funds at Year End	\$1,457,038	\$1,605,451	\$1,674,880
Unrestricted Funds as a Percentage of Actual Expenditures	54%	58%	60%
Add: Unused Appropriated Funds	\$400,007	\$360,617	\$365,628
Recalculated Unrestricted Funds	\$1,857,045	\$1,966,068	\$2,040,508
Recalculated Unrestricted Funds as a Percentage of Actual Expenditures	68%	71%	73%

At the end of 2016, the general fund had an operating surplus of approximately \$265,550. Therefore, unrestricted fund balance further increased at the end of 2016 to 63 percent of the ensuing year's budget appropriations. Additionally, the Board increased appropriations in

the 2017 budget even though prior year actual expenditures have continually been less than estimated. Consequently, the trend will likely continue for 2017.

Highway Fund – The Board’s poor general fund budgeting practices carried through to the highway fund budgets. Specifically, appropriations were significantly overestimated in 2013 and 2015 (17 and 21 percent) and the tax levy increased \$286,016 (43 percent) from 2013 to 2017, due in part to a decrease in appropriated fund balance. However, because the Town realized unplanned operating surpluses totaling \$257,957 in 2013 and 2015, it raised more taxes than necessary and appropriated fund balance totaling \$215,854 (74 percent) that was not needed to fund operations. As a result, the Town’s highway fund balance at the end of 2015 was 68 percent of ensuing year appropriations, exceeding the needs of the Town’s residents and the Board’s fund balance policy threshold.

<b>Figure 5: Highway Fund - Operating Results and Fund Balance</b>				
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Beginning Fund Balance	\$921,155	\$994,123	\$919,977	\$1,104,966
Operating Surplus (Deficit)	\$72,968	(\$74,146)	\$184,989	\$415,380
Ending Fund Balance	\$994,123	\$919,977	\$1,104,966	\$1,520,346
Ending Fund Balance as a Percentage of Ensuing Year's Appropriations	68%	59%	68%	94%
Less: Restricted Funds	\$479,937	\$324,381	\$324,543	\$396,837
Less: Nonspendable Funds	\$23,510	\$23,837	\$26,607	\$17,953
Less: Appropriated Funds	\$75,000	\$75,000	\$55,000	\$70,900
Total Unrestricted Funds	\$415,676	\$496,759	\$698,816	\$1,034,656
Ensuing Year's Budgeted Appropriations	\$1,463,337	\$1,561,569	\$1,636,677	\$1,614,174
Unrestricted Funds as a Percentage of Ensuing Year's Appropriations	28%	32%	43%	64%

The Board’s practice of significantly overestimating appropriations made it appear necessary to appropriate fund balance that was not needed to finance operations. In addition, it inflated the amount of fund balance allowed per the Board’s fund balance policy. Therefore, a more accurate way to look at unrestricted fund balance is as a percent of actual expenditures. At the end of 2015, the highway fund’s

unrestricted fund balance is 54 percent of current year expenditures. When unused appropriated fund balance was added back, the Town's recalculated unrestricted fund balance was 58 percent of expenditures.

<b>Figure 6: Highway Fund - Unused Fund Balance</b>			
	<b>2013</b>	<b>2014</b>	<b>2015</b>
Unrestricted Funds at Year End	\$415,676	\$496,759	\$698,816
Unrestricted Funds as a Percentage of Actual Expenditures	35%	32%	54%
Add: Unused Appropriated Funds	\$854	\$75,000	\$55,000
Recalculated Unrestricted Funds	\$416,530	\$571,759	\$753,816
Recalculated Unrestricted Funds as a Percentage of Actual Expenditures	36%	36%	58%

At the end of 2016, the highway fund had an operating surplus of approximately \$415,380, so unrestricted fund balance further increased at the end of 2016 to 64 percent of the ensuing year's budget. The Board decreased appropriations \$22,000 and increased appropriated fund balance \$15,900 in the 2017 budget. These minimal changes are not likely to correct the deficiencies and, the trend will likely continue for 2017.

Water Fund – The Board's adopted budgets overestimated revenues each year (5-10 percent), overestimated appropriations in 2013 (12 percent) and 2014 (18 percent) and underestimated appropriations in 2015 (1 percent). As a result, the water fund had unplanned operating surpluses totaling \$339,023 in 2013 and 2014 and a partially planned operating deficit totaling \$141,443 in 2015. Before changing accounting methods<sup>22</sup> in 2015, at the end of 2014 unrestricted fund balance was 92 percent of the ensuing year's appropriations (Figure 7). Further, total fund balance significantly exceeded needs and the amount requiring Board review.

<sup>22</sup> Changed from treating the water fund as a governmental fund to treating it as an enterprise fund. Given the numerous accounting and budgeting issues included in this report, the Town may wish to re-think this change since it is a somewhat more complicated accounting treatment.

<b>Figure 7: Water Fund - Operating Results and Fund Balance</b>				
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Beginning Fund Balance	\$1,317,065	\$1,442,836	\$4,170,507	\$4,029,064
Prior Period Adjustment	\$0	\$0	\$0	\$31,126
Operating Surplus (Deficit)	\$125,771	\$213,252	(\$141,443)	(\$150,795)
Ending Fund Balance	\$1,442,836	\$1,656,088	\$4,029,064	\$3,847,143
Ending Fund Balance as a Percentage of Ensuing Year's Appropriations	69%	96%	230%	215%
Less: Nonspendable Funds	\$30,215	\$31,126	\$0	\$0
Less: Appropriated Funds	\$0	\$37,561	\$0	\$0
Unrestricted Funds /Net Assets	\$1,412,621	\$1,587,401	\$1,606,401	\$1,374,333
Ensuing Year's Budgeted Appropriations	\$2,088,158	\$1,731,511	\$1,754,963	\$1,790,341
Unrestricted Funds /Net Assets as a Percentage of Ensuing Year's Appropriations	68%	92%	92%	77%
Unrestricted Funds /Net Assets as a Percentage of Actual Expenditures	83%	94%	92%	68%

Due to significant appropriation overestimates in two years, the budget does not reflect an accurate depiction of expenditures. A more accurate way to look at unrestricted fund balance is as a percent of actual expenditures. At the end of 2014, the water fund's unrestricted fund balance is 94 percent of current year expenditures. The water fund also experienced an operating deficit for 2016.

As noted in the IT section of the report, we identified \$514,836 overbilled to customers with the possibility for the Town to identify further inaccurate billings from their own review. Because the water fund's available cash at the end of 2016 was \$1.01 million, these errors will have a significant impact on the current financial condition of the water fund. This error should also be taken into consideration when developing future budgets based on historical trends.

Sewer Fund – The Town has two sewer districts and the financial information for both are consolidated when reported in the Town's AUD. The combined financial information obscures the very different financial condition of the two districts with district #1's deficit being offset by district #2's surplus.

The Board adopted budgets that significantly overestimated revenues (26 percent - 29 percent) in 2013 and 2014 for both districts and conservatively overestimated revenues (2 percent - 7 percent) in 2015 and 2016. Part of these variances were attributed to the improper billing of the number of units and sewer rates (see IT section). Appropriations were also overestimated in 2013-2015 for both districts. However, appropriations were grossly overestimated in sewer district #2 (172 percent - 355 percent) for 2013-2015.

Although the adopted budgets for sewer district #1 anticipated operating surpluses in the last four years, the district experienced operating deficits because revenue overestimations were much larger than appropriation overestimations. As a result of these ineffective budget practices, the district exhausted their fund balance and the general fund had to loan \$112,333 in 2014 and \$187,165 in 2015 to the district to finance operations.

Conversely, sewer district #2 experienced larger than expected operating surpluses. As a result, the district's fund balance has increased at least \$50,000 each year, which is just over half of each year's actual revenues (\$97,155 - \$100,104). Therefore, the customers of the district paid more than twice as much as necessary for services.

Although the Supervisor provides the Board with a monthly report of bank balances, monthly receipts and disbursements and budget to actual amounts, other Board members told us that they were not aware they received budget to actual reports. Therefore, the Board was missing a key tool needed to appropriately monitor the budget throughout the year. Without sufficient, accurate financial reports the Board's ability to effectively monitor financial operations is diminished.

## **Multiyear Financial and Capital Planning**

It is important for the Board to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and help identify revenue and expenditure trends, set long-term priorities and goals, consider the impact of budgeting decisions on future fiscal years and avoid large fluctuations in tax rates. Multiyear planning also allows Town officials to assess the impact and merits of alternative approaches to address financial issues, such as the use of 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. Any long-term financial plan must be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board has not implemented corrective action from our previous audit because they have not developed or adopted a comprehensive multiyear financial or capital plan, or a plan for reserves. Even though Town officials told us that they were aware of the possibility of the local nuclear power plant closing, they did not have any formal long-term financial plans to aid in determining how such as closure could impact the Town. Additionally, although Town officials told us about plans for future capital improvements, such as a water tower rehabilitation, there is no documented multiyear capital plan that details the financial impact this improvement will have on the Town's finances. Further, while both the highway and parks and recreation departments had equipment replacement plans for at least a five-year period with some cost estimates, the plans did not include what resources would be used to acquire the equipment and were not reviewed or approved by the Board. Finally, the Board has not developed a plan for reserves and the Board-adopted fund balance policy does not address them.

Because the Board has not developed comprehensive multiyear plans, its ability to effectively manage the Town's finances is limited. In the event of adverse economic or environmental change, the lack of plans inhibits the Board's ability to effectively manage the Town's finances and address Town needs without overburdening residents.

## **Recommendations**

The Board should:

23. Initiate timely corrective action to audit findings.
24. Amend and adopt policies and procedures to govern budget development and monitoring practices and explanations for the level of unexpended surplus funds to maintain. Include the current accounting method for the water and sewer funds.
25. Adopt budgets with realistic estimates of revenues, expenditures and the amount of fund balance to be used to fund operations.
26. Develop and adopt comprehensive multiyear financial and capital plans and plan for reserves. These plans should be monitored and updated on an ongoing basis.
27. Monitor the budget by reviewing the provided budget to actual reports.
28. Develop a plan for the use of the excess fund balance in a manner that benefits the Town. Such uses could include, but are not limited to:

- Funding one-time expenditures;
- Funding needed reserves; and
- Reducing property taxes.

The Supervisor should:

29. Prepare monthly cash flow and fund balance projections and provide them to the Board to assist in making informed financial decisions.

# Procurement

Seeking competition in the procurement of goods and services is not just a matter of ensuring compliance with laws and local policy. One of the goals of seeking competition is to obtain quality goods and services at the lowest possible cost. Seeking competition also guards against favoritism, extravagance and fraud, while allowing interested vendors a fair and equal opportunity to compete.

GML requires the Board to adopt a code of ethics and written procurement policies and procedures that provide guidance for obtaining goods and services that are not legally required to be competitively bid. The code of ethics sets forth standards of conduct relating to several specific areas and may also contain provisions addressing ethical behavior in the procurement process. In addition to the legally required procurement policy, the Board should adopt policies to guide procurement with and handling of credit cards and store purchase cards or lines of credit.

The Board adopted a procurement policy, but it does not require competition for professional services or the submission of documentation with claims to support that competition was sought. In addition, the Board adopted a credit card policy, but has not adopted a policy relating to the use of store purchase cards or lines of credit. We calculated that the Town could have saved approximately \$29,780 by not purchasing unnecessary products and purchasing from other vendors with lower prices. Also, the Town's code of ethics does not include recommended provisions for purchasing activities or procedures for reporting or identifying outside business interests or private employment. As a result, the Town made 23 payments totaling \$1,422 to a Board member's business without publicly disclosing the interest.

## Policy Guidance

GML stipulates that goods and services that are not required by law to be procured pursuant to competitive bidding must be procured in a manner to ensure the prudent and economical use of public money, in the best interest of residents. Therefore, Town officials must facilitate the acquisition of goods and services of maximum quality at the lowest possible cost under the circumstances, and guard against favoritism, improvidence, extravagance, fraud and abuse.

The Board adopted a procurement policy that provides provisions for the purchase of goods and services not required to be competitively bid. The policy requires quotes and secondary approvals through purchase orders for purchases of \$2,500 or more, but does not

require the submission of this documentation with claims for review. Additionally, the policy states that professional services are exempt from the regular procurement procedures, so it does not require competition when procuring professional services.

To assess whether purchases were reasonable, had appropriate supporting documentation, complied with the law and Town policy requirements and were purchased in a prudent and economical manner, we reviewed 196 payments totaling \$553,725 made from January 1, 2015 through July 26, 2016. We found 46 payments (23 percent) totaling \$45,914 that could have been made in a more prudent and economical manner. Specifically, we found the former Water Superintendent made 37 purchases totaling \$37,774 to four water department vendors that included nine unnecessary purchases of degreaser for the lift station totaling \$25,960; significant overpayments for items such as shovels, cleaning supplies and tools totaling \$3,820 that could have been purchased at lower prices from other vendors; and shipping costs of \$1,363 for products that could have been purchased locally or from comparable vendors who provided free shipping.<sup>23</sup> The Board continued to approve and pay for these items even though they had concerns about the necessity of certain water department purchases. For example, on March 29, 2016 the Supervisor approved a purchase order totaling \$4,720 for the unnecessary product. We also identified eight payments totaling \$3,200 to two vendors for telecommunication services<sup>24</sup> and one payment totaling \$4,940 for legal services for which competition was not sought.<sup>25</sup>

Finally, we found that 13 payments (7 percent) totaling \$149,909 were not in compliance with the Town's procurement policy because 12 totaling \$147,305 had purchase orders issued after the purchase was invoiced and one payment totaling \$2,604 did not have a purchase order as required. Further, because the Town's policy does not require the attachment of quotes to the claims, quotes were generally maintained in the departments, or not at all.

Due to policy weaknesses and resulting lack of competition, combined with the circumvention of the purchase order system, the Town and taxpayers have no assurance that goods and services are procured in the most economical way and in the best interests of residents. In

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<sup>23</sup> We used cost comparisons based on the exact same products, or products with the same exact specifications (size, active ingredients, composition, etc.). It is possible that similar high quality products were available for even less than our cost comparison examples. In addition, these comparison prices were from November 2016, not at the time the items were actually purchased.

<sup>24</sup> The Town paid these two vendors \$61,748 during the period. Our sample did not include all payments.

<sup>25</sup> The Town paid the attorney \$68,361 during the period. Our sample did not include all payments.

addition, without proper documentation supporting these efforts, the Board cannot effectively audit the related claims.

## Code of Ethics

Local government officials are responsible for acting in the best interests of their constituents without undue personal influences, and should have a formal system in place to ensure compliance with the conflict of interest provisions of GML.<sup>26</sup> A local government should require that officials and employees who are involved in the procurement process file annual financial disclosure forms that can help identify occurrences of or potential conflicts of interest.<sup>27</sup> It is essential that the Board, or Board of Ethics, then review the information on the forms to identify potential interests in contracts and verify that officials and employees are impartial in fulfilling their public responsibilities. As a rule, a Town official or employee must disclose interests, in actual or proposed Town contracts, in writing to his or her immediate supervisor and to the Board. This disclosure should also be included in the official minutes of Board proceedings.

The Town's code of ethics does not include recommended provisions for purchasing activities, such as ensuring these activities are conducted in accordance with law and in the best interest of the Town (avoiding favoritism, wastefulness, extravagance and fraud and fostering honest competition), insisting on honesty in sales representatives either verbally or in writing, and requiring that all vendors and potential vendors are treated equally. Further, there are no procedures for reporting or identifying outside business interests or private employment of Town officials and employees.

We collected and reviewed documentation pertaining to the outside business interests from judgmentally selected Town officials and employees. One of the Board members indicated that he owned a company that did business with the Town. We also compared the collected information with Town vendor lists and payment history for January 1, 2015 through September 1, 2016 to determine if there were any other potential conflicts of interest. As noted previously,

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<sup>26</sup> Article 18 of GML limits the ability of municipal officers or employees to enter into contracts (any claim, account, demand against or agreement) in which both their personal financial interests and their public powers and duties conflict unless a statutory exception applies. A local official or employee has an interest in a contract when he or she (or his or her spouse) receives a direct or indirect monetary or material benefit as a result of a Town contract with a business or association of which he or she is a member, owner or employee.

<sup>27</sup> While GML requires only municipalities with populations of 50,000 or more to require certain officers and employees to file annual financial disclosure statements, smaller local governments may require such disclosure by local action, to obtain information pertinent to officers' or employees' financial involvement in businesses or organizations that may impair their ability to fairly and impartially perform their duties.

the Town made 23 payments totaling \$1,422 to the Board member's company. While these payments appear to be for legitimate Town purposes, the Board member's interest was not publicly disclosed in the Board minutes. Further, we found that the Board member did not abstain from voting on approving payment to his company. We did not identify any other concerns.

Town officials did not properly address the Board member's interest. Additionally, the Town is at an increased risk that other potential, perceived or prohibited conflicts will not be identified without having proper procedures in place to collect and review information on outside business interests.

## Recommendations

The Board should:

30. Revise the Town's procurement policy to provide guidance as to how competition should be solicited for professional services, including the appropriate use of written RFPs, when to use written and verbal quotes, the required submission of quotes and other documentation with claims and a method for ensuring Town purchases are considered in aggregate.
31. Monitor for compliance with the procurement policy as part of the audit and approval of vouchers for payment.
32. Update the code of ethics to require information on outside business interests and review the information for potential, perceived or prohibited conflicts.

Town officials and employees should:

33. Obtain approved purchase orders prior to making purchases and make every effort to purchase economically.

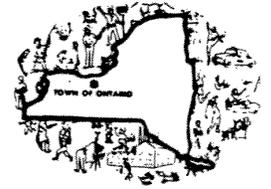
## **APPENDIX A**

### **RESPONSE FROM TOWN OFFICIALS**

The Town officials' response to this audit can be found on the following page.

# TOWN OF ONTARIO

WAYNE COUNTY'S "COMMUNITY OF GOOD NEIGHBORS"



June 26, 2018

The Town of Ontario has acknowledged receipt of the draft audit report for our Town for the period of January 1, 2013 through March 2, 2017.

The audit addressed the following three questions:

1. Did the Board and Town officials ensure that the Town's IT assets and computerized data are safeguarded?

We currently are reviewing our IT policies and will make the appropriate adjustments to safeguard the Town's IT assets. We have recently implemented changes regarding IT. In today's day and age, we have to always be challenging ourselves to do a better job of protecting our IT assets.

2. Did the Board adopt multiyear financial and capital plans and adequately monitor the Town's finances?

We agree that as a Town we need to adopt multiyear financial and a capital plan. We have held departments responsible to hold their expenses while maintaining outstanding services to residents. This is a challenge because we have to balance revenues, expenses, resources to meet our every changing needs. As a board we feel our Fund balances are appropriate, and will be reviewing our policy accordingly. We will detail this more in our corrective action plan.

3. Did the Board and Town officials ensure that purchases were a prudent and economical use of public money and in the best interest of residents?

Policies have been changed since this audit was requested by the Town of Ontario. We were proactive in requesting this audit and will continue to strive working in a proactive, transparent manner. We having been reviewing our policies to guarantee the residents are getting the best value for their dollar.

While we have areas and items that we need to improve, we will address them in the corrective action plan. The goal is to improve what we do for the taxpayers/residents while reducing liabilities to them. We are constantly striving to work for the best interest of our taxpayer, realizing we have finite assets and personal.

Frank Robusto

Town of Ontario Supervisor

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## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objectives and obtain valid evidence, we performed the following procedures:

- We interviewed Town officials to determine the controls and processes in place and gain an understanding of the IT environment, financial condition and purchasing procedures.
- We reviewed Board minutes, policies, employee handbook, Town code, written agreements, department multiyear plans, insurance policies and fee schedule.
- We compared findings to our previous audit to assess if the Board implemented adequate corrective action.
- We reviewed a sample of 15 computers. We selected all five computers used for online banking and 10 computers from various departments. Because the Town does not have a computer inventory report, we were unable to randomly select a sample from an inventory list by department.
- We reviewed electronic data, records and reports for various departments to identify if receipts and permits were issued in sequential order and how deletions, adjustments and other changes to data were handled.
- We compared permit data recorded in the building department to permit data recorded in the Clerk's office for the period January 1, 2015 through July 31, 2016. We recalculated fees charged for permits to assess if the correct fees were charged. We also compared the number and types of permits issued in the first seven months of 2015 to the same period of 2016.
- We recalculated the amount that should have been billed to each account and compared it to the total billed to each account for the period of January 1, 2015 through July 28, 2016, which encompassed seven billings. We reviewed variances to identify causes of differences, such as those not billed and incorrect sewer rates billed.
- We reviewed, analyzed and summarized direct dollar value adjustments and other adjustments (such as changes to reads and consumption amounts) to water and sewer data for the period January 1, 2013 through September 16, 2016. This included analyzing the number of adjustments and the user account used to make adjustments. We also reviewed account comments and reviewed any explanations and documentation available to assess if adjustments were reasonable or inappropriate.
- We recalculated what the hardship reductions should have been for the 18 hardship reductions during the period January 1, 2013 through September 16, 2016 and compared our calculations to the reductions made to accounts.
- We used the acting water superintendent's corrected sewer units to be charged to calculate

revenue lost during the period January 1, 2013 through September 16, 2016 and the estimated additional revenue to be received annually in the future from billing these accounts the updated number of sewer units.

- We recalculated a refund and additional amount owed for two accounts whose consumption were significantly over and underestimated while they were awaiting meter replacement.
- We selected a sample of 26 accounts to recalculate the mathematical accuracy of billings and to obtain meter profile reports. We selected our sample from all six Ginna water accounts, 10 accounts with the highest number of non-direct dollar adjustments and 10 accounts with the highest consumption additions as identified from consumption on bill history for the period January 1, 2013 through September 16, 2016. We compared the reads on the meter profile reports to the reads billed.<sup>28</sup> The meter profile data was not available for the entire billing period reviewed. We also compared the reads at the time of meter replacement to reads billed for previous meters.
- We selected a judgmental sample of 13 accounts that included current and former Town officials and relatives of the former water superintendent. We reviewed the bill history of these accounts for mathematical accuracy. We also identified the number of adjustments for these accounts and assessed whether the adjustments on these accounts were a reasonable number compared to the number of adjustments on other accounts.
- We recalculated 12 employees' gross pay for the month of June 2016.
- We reviewed all online banking transactions for one month to determine whether they were appropriate Town expenditures. We selected the month two months prior to fieldwork for testing (May 2016) to have a recently completed month prior to audit notification. We reviewed journal entry reports for May and June 2016.
- For the randomly selected month of August 2015, we compared recorded receipts to deposits for Clerk, water and Justice Court receipts. We compared Parks and Rec receipts to receipts turned over to the Clerk and reviewed refunds issued. Due to the limited months for tax collection, we judgmentally selected the sample month of February 2016 to compare receipts to deposits to determine if interest was charged for late payments.
- We reviewed total annual revenues and expenditures to determine the operating deficits or surpluses for each fund and determine the impact of the deficit or surplus on fund balance.
- We analyzed fund balance and compared budgeted revenues and expenditures to actual operating results for fiscal years 2013 through 2016 and with the 2017 budget.
- We reviewed individual line item budget-to-actual results for 2013 through December 13, 2016.

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<sup>28</sup> We were unable to obtain meter profile reports for all 26 accounts. The customers of four accounts did not respond to our requests to schedule appointments with water employees to profile their meters, two accounts had new meters so we could not get previous meter data and 1 account no longer has a meter at the location.

- We reviewed the appropriation of fund balance and compared the appropriation to actual use.
- We reviewed interfund advances to determine if they were appropriate and Board approved.
- We reviewed reserve use, funding and balances.
- We inquired with Board members regarding their involvement in financial monitoring and the reports they receive. We also reviewed the monthly budget to actual reports provided to the Board.
- We performed testing on an initial random sample of all non-credit card disbursements and then expanded our testing based on these results. The total population for the period January 1, 2015 through July 26, 2016 included 4,034 payments totaling more than \$6.2 million. We reviewed these purchases for reasonableness, appropriate supporting documentation, adherence to legal requirements and Town policy and if they were purchased in a prudent and economical manner. We identified purchases for which the costs appeared excessive and performed cost comparisons of these purchases. We expanded our sample to include all purchases from four vendors used primarily by the water department that we identified the most significant excessively purchased items. We obtained costs comparisons of like products from two other vendors, noting the price differences and averaging the possible savings to get an estimated total possible savings.
  - o Initial Random Sample: We reviewed 40 random payments totaling \$62,260. We compared payees listed on cancelled checks to payees listed in financial records and supporting documentation.
  - o Credit Card Sample: From the credit card abstracts containing 622 payments totaling \$273,824, we reviewed 36 credit card payments totaling \$20,481 (23 totaling \$14,475 from the randomly selected month of July 2015 and 13 non-utility payments judgmentally selected from other months totaling \$5,906).
  - o Store Purchase Cards/Lines-of-Credit Sample: We reviewed 30 payments totaling \$13,412 (29 totaling \$12,484 from every 10th payment with payments grouped by vendor and the largest payment, in the amount of \$929, from the only vendor missed in the every 10th selection).
  - o Random Above \$20,000 Sample: We reviewed 18 payments totaling \$188,747 to five randomly selected vendors (the payments were either individually over the \$20,000 GML bidding threshold or were included in the payments for a vendor with an aggregate total over \$20,000).
  - o Judgmental Above \$20,000 Sample: For the five vendors judgmentally selected, we reviewed 29 payments totaling \$198,061 (the payments were either individually more than the \$20,000 GML bidding threshold or were included in the payments for a vendor with an aggregate total more than \$20,000).
  - o Between \$2,500-\$20,000 Sample: We reviewed five random payments between the

\$2,500 and \$20,000 thresholds totaling \$25,310.

- o Judgmental Sample Testing: We reviewed all 40 payments totaling \$48,088 to four judgmentally selected vendors identified as concerns in prior testing and through information gathered from officials during our audit.

We conducted this performance audit in accordance with 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 objectives.

## APPENDIX C

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