



Village of Marathon

Financial Condition of the Water Fund and Selected Operations

Report of Examination

Period Covered:

June 1, 2010 — February 3, 2012

2012M-79



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2012

Dear Village 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 Village 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 Village of Marathon, entitled Financial Condition of the Water Fund and Selected Operations. 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 Village of Marathon (Village) is located in the Town of Marathon in Cortland County, and has approximately 900 residents. The Village's annual budget for the 2011-12 fiscal year was \$2.1 million, funded mainly from real property taxes and user fees. The Village is governed by a Mayor and four Trustees who form the Village Board (Board). The Board-appointed Clerk-Treasurer serves as the Village's chief fiscal officer. The Village uses a third party for various information technology (IT) services, including weekly maintenance, server and computer set up, firewall configurations, virus protection, and other services as needed.

Scope and Objective

The objective of our audit was to determine if the Mayor and Board adequately managed certain Village affairs for the period June 1, 2010 to February 3, 2012. We expanded our scope to include June 1, 2007 to February 29, 2012 to analyze financial condition, and reviewed the 2012-13 budget to assess trends. Our audit addressed the following related questions:

- Did the Mayor and Board adequately manage the financial condition of the water fund?
- Did the Mayor ensure that all disbursements were only for approved expenditures?
- Did Village officials ensure that computerized data and assets were properly safeguarded?

Audit Results

The Mayor and Board did not adequately manage the financial condition of the water fund, which has led to a deficit fund balance of over \$172,000 as of May 31, 2011. The Board caused this by adopting budgets that required unexpended surplus funds that were not available and by failing to control expenditures within budgeted amounts. If these practices were to continue, the financial condition of the Village would deteriorate. The Board has begun to address the financial condition of the water fund by increasing water rates and improving its procedures for adopting budgets. The Board must continue to be diligent in its efforts to restore the fiscal health of the water fund.

The Mayor did not ensure that all disbursements were for approved Village purposes. The Mayor allowed the Clerk-Treasurer to perform almost all aspects of the disbursement process including recording disbursements, preparing disbursement checks, signing the checks, mailing the checks, producing reports for the Board and preparing bank reconciliations. Although the Mayor reviewed bank statements, he did not compare checks listed to those authorized by the Board or review canceled

check images to verify the payees. Thus, he did not provide an adequate mitigating control. Even though we did not find any material discrepancies, there is an increased risk that errors or irregularities could occur. For example, an improper payee could be written on a check without detection.

Village officials did not ensure that computerized data and assets were properly safeguarded. Village officials used the services of an IT consultant who had direct access to the Village's data without entering into a written agreement with the consultant detailing security over those services. Also, they did not enforce and monitor the Village's computer use policy or limit administrative access. As a result, employees were able to install coupon-printing programs on two computers in the Treasurer's office. In addition, Village officials did not store backup files offsite or test backup data, and did not develop a disaster recovery plan. As a result, the Village's personal, private and sensitive computer data is at risk of damage and loss.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Village officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Village's response letter.

Introduction

Background

The Village of Marathon (Village) is located in the Town of Marathon in Cortland County. The Village has approximately 900 residents and provides various services, including water distribution, sewage treatment, electricity, road maintenance, snow removal and general government support. The Village's annual budget for the 2011-12 fiscal year was \$2.1 million, funded mainly from real property taxes and user fees.

The Village is governed by a Mayor and four Trustees who form the Village Board (Board). The Board is responsible for the general management and control of the Village's finances and operations and protection of Village assets including computerized data. The Mayor is responsible for budget development and ensuring that resources are allocated in the most prudent and economical manner to fund the cost of Village operations. The annual budget for each operating fund is expected to provide a reasonable estimate of appropriations, revenues, and other financing sources. The Board-appointed Clerk-Treasurer serves as the Village's chief fiscal officer. She is responsible for the custody of all Village moneys, maintaining accounting records, signing checks, and other duties.

The Village uses a third-party consultant for various information technology (IT) services, including weekly maintenance, server and computer set up, firewall configurations, virus protection, and other services as needed.

Objective

The objective of our audit was to determine if the Mayor and Board adequately managed certain Village affairs. Our audit addressed the following related questions:

- Did the Mayor and Board adequately manage the financial condition of the water fund?
- Did the Mayor ensure that all disbursements were only for approved expenditures?
- Did Village officials ensure that computerized data and assets were properly safeguarded?

Scope and Methodology

We examined the financial condition of the water fund, cash disbursements and IT controls of the Village for the period June 1, 2010 to February 3, 2012. We expanded our scope to include June 1, 2007 to February 29, 2012 to analyze financial condition, and reviewed the 2012-13 budget to assess trends. Our audit disclosed additional areas

in need of improvement concerning some IT controls. Because of the sensitivity of some of this information, certain vulnerabilities are not discussed in this report, but have been communicated confidentially to Village officials so they could take corrective action.

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

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Village officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Village's response letter.

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

Financial Condition of the Water Fund

The annual budget is a plan, subject to modification, that provides Village officials with the information necessary to control Village spending and ensure that financial projections are met during the year. Village officials must adopt budgets that rely only on those financial resources that are expected to be available during the fiscal year based on their review of the Village's historical results and known current needs. The Board's adoption of the budget in the minutes should include sufficient details to inform the taxpayers of the amount of money that the Board expects to spend and receive during the year. The Board is also responsible for controlling expenditures within budgeted amounts to maintain the financial position of a fund.

The Mayor and Village Board adopted budgets that required unexpended surplus funds that were not available and failed to control expenditures within budgeted amounts. As a result, the financial condition of the water fund deteriorated. The water fund ended the 2010-11 fiscal year with a deficit of \$172,000, which is more than the annual expenditures for the fund. However, the Board has begun to address the financial condition of the water fund. As a result, the water fund will end the 2011-12 fiscal year with a deficit of approximately \$150,000, and the 2012-13 budget plan projects an operating surplus of almost \$10,000, which will further reduce the water fund's deficit.

The Board adopted the 2011-12 budget in the minutes, but did not include any information that showed the total anticipated revenues or expenditures. Due to this lack of information, the Clerk-Treasurer provided us with a report from the Village's accounting software that she told us was the 2011-12 budget that the Board had worked with, discussed, and ultimately adopted. The Clerk-Treasurer then provided us with accounting software printouts for the most recent fiscal years. A summary of the budgets is shown in the following table:

Table 1: Water Fund Budget Summary						
	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Unexpended Surplus Funds ^a Available for the Current Budget	(\$114,547)	(\$155,976)	(\$173,414)	(\$175,646)	(\$172,330)	(\$153,450)
Budgeted Revenues	\$103,815	\$116,284	\$110,951	\$113,000	\$139,350	\$149,720
Budgeted Appropriations	\$154,497	\$127,510	\$124,071	\$113,000	\$129,350	\$139,879
Budget Surplus/(Deficit)	(\$50,682)	(\$11,226)	(\$13,120)	\$0	\$10,000	\$9,841

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

Village officials reported these figures on their Annual Update Documents to the Office of the State Comptroller.

As shown in Table 1, from 2007-08 through 2009-10, the Village had budget gaps that required equal amounts of unexpended surplus funds to cover the shortfalls. However, because the unexpended surplus funds were not positive, there was no possibility to cover the budget gaps unless there were unanticipated favorable variances for revenues or appropriations. As shown in Table 2, this did not occur until 2009-10, but even then, the favorable variance for 2009-10 was not sufficient to cover the budget deficit. Village officials have taken steps to address this issue by adopting a budget for 2010-11 that did not have a budget gap, and the budgets for 2011-12 and 2012-13 project budget surpluses.

Table 2: Revenues and Appropriations					
	FY 2007-08	FY 2008-09^a	FY 2009-10	FY 2010-11	FY 2011-12
Budgeted Revenues	\$103,815	\$116,284	\$110,951	\$113,000	\$139,350
Actual Revenues	\$186,999	\$110,814	\$121,420	\$117,786	\$157,272
Excess/ (Deficit)	\$83,184	(\$5,470)	\$10,469	\$4,786	\$17,922
Budgeted Appropriations	\$154,497	\$127,510	\$124,071	\$113,000	\$129,350
Actual Expenditures	\$228,428	\$128,262	\$123,652	\$114,470	\$138,391
Excess/ (Deficit)	(\$73,931)	(\$752)	\$419	(\$1,470)	(\$9,041)

^a During 2008-09, State aid of \$371,500 was received in the water fund and transferred to the capital fund. For comparison purposes we removed this amount from the revenues and expenditures in this chart.

The financial condition of the water fund was also affected by the over-expenditure of budgeted appropriations. As shown in Table 2, the water fund spent more money than it received in fiscal years 2007-08 and 2008-09, causing the deficit fund balance of the water fund to grow larger. In addition, in fiscal years 2010-11 and 2011-12, the water fund continued to spend more than was budgeted. Although the Board members received quarterly budget monitoring reports from the Clerk-Treasurer that compared the adopted budgets with the actual financial activity, they did not take action to prevent the appropriations from being overspent by amending the budgets and transferring surplus amounts from other appropriations. Board

members did not respond to our inquiries regarding why they did not sufficiently address the overspent appropriations.

The Mayor and the Clerk-Treasurer told us they intended to use fund balance to finance the additional expenditures. However, they were not aware that there was no fund balance available because they only considered available cash as a source of financing for the budget. They did not consider liabilities, remaining expenditures or other obligations that existed, which lower the fund balance from the cash amount.

Because the Board did not adopt sound budgets and failed to prevent the over-expenditure of appropriations, the water fund had operating deficits for the years 2007-08 through 2009-10. The Clerk-Treasurer had to use moneys from other funds, primarily the electric fund, to finance the water fund's operating deficits. To date, the water fund has borrowed more than \$158,000 from the electric fund. Unless the financial condition of the water fund improves significantly, these advances will not be repaid timely and may not be repaid at all. If this interfund activity increases, the financial condition of lending funds will deteriorate.

Over the last three fiscal years, the Board has begun to address the financial condition the water fund by increasing water rates and adopting budgets that do not have unfunded budget gaps. As a result, the water fund will end 2011-12 with a deficit of approximately \$150,000, and the 2012-13 budget projects a surplus of almost \$10,000. Village officials must continue to be diligent in efforts to restore the fiscal health of the water fund.

Recommendations

1. The Mayor and Board should adopt budgets using historical results and known current needs to develop estimates for revenues and appropriations.
2. The Board's adoption of the budget in the minutes should include information showing the total anticipated revenues and expenditures.
3. If needed, the budget should be amended prior to incurring expenditures in excess of appropriations by transferring surplus amounts from other appropriations.
4. The Mayor and Board should consider all liabilities, remaining expenditures and other obligations that exist when they calculate the amount of fund balance available for budgetary purposes.

5. As the financial condition of the water fund improves, the Board should repay all interfund advances with appropriate interest.¹

¹ General Municipal Law provides that interfund advances temporarily loaned between funds should be repaid to the lender fund as soon as available, but in no event later than the close of the fiscal year in which the loan was made. If the two funds represent different tax bases, the repayment must include a reasonably estimated amount that would have been earned on the investment of moneys if the loan had not been made.

Cash Disbursements

It is the responsibility of the Village Board and the Mayor to ensure that disbursements of Village funds are for approved Village purposes. The Mayor is responsible for establishing adequate internal controls over cash disbursements. Such controls, when implemented effectively, reduce the risk that Village employees will be able to carry out and conceal errors or fraud in the normal course of their duties without being detected.

The Mayor has not ensured that all disbursements were for approved Village purposes. Although the Mayor reviews the Village's bank statements on a monthly basis, this review is not comprehensive enough to detect potential errors or irregularities that may occur. The Mayor has given responsibility for the entire cash disbursement process to the Village Clerk-Treasurer. Specifically, she records disbursements, prepares disbursement checks, and signs the checks. Although her Deputy mails the checks and produces all reports for the Board, these are based on the Clerk-Treasurer's work. The Clerk-Treasurer also prepares the bank reconciliations with little to no oversight.

The Mayor had not established adequate internal controls over the cash disbursement duties. He did not segregate the cash disbursement duties. As a result, the Clerk-Treasurer controlled all aspects of financial transactions. If it was not practical to segregate these duties, the Mayor should have implemented mitigating controls to prevent and detect any errors or irregularities that may occur. Although the Mayor recognized the risk of the Clerk-Treasurer performing all of the duties relating to disbursements, he believed that his review of bank statements would suffice as a mitigating control. However, the Mayor told us that, although he verified, from his memory, larger payments that cleared the bank account, he did not compare the checks listed to those authorized by the Board. In addition, he did not look at the canceled check images to verify the payees. Thus, his review did not provide an adequate mitigating control.

Using electronic data analysis, we compared 1,896 checks totaling over \$2.7 million that cleared the bank for the general, water, sewer, trust and agency, and electric funds to electronic disbursement information extracted from the Village's accounting system. Although we found no material discrepancies, due to the lack of sufficient controls, there is an increased risk that errors and irregularities could occur and remain undetected and uncorrected. For example, an improper payee could be written on a check and the current process would not identify the inappropriate disbursement.

Recommendation

6. The Mayor should assign duties so that the Clerk-Treasurer does not perform all aspects of the cash disbursement process. If this is not practicable, the Mayor should implement mitigating controls such as having someone else:
 - Compare checks listed on bank statements to abstracts authorized by the Board
 - Review canceled check images to verify that the payees are appropriate.

Information Technology

The Village's information technology (IT) system is a valuable and essential part of its operations. It is used for accessing the Internet, communicating by email, processing and storing data, maintaining financial records, and reporting to State and Federal agencies. Therefore, it is imperative that Village officials ensure that computerized data is properly safeguarded. It is essential for Village officials to establish and monitor procedures to oversee the work of any consultants, help ensure appropriate computer use, implement effective procedures for data backups and secure storage of backup media, and develop a disaster recovery plan to prevent the loss of computerized data and resume operations in the event of a disaster.

Village officials used the services of an IT consultant who had direct access to the Village's data without entering into a written agreement with the consultant detailing security over those services. Also, they did not monitor computer use or limit administrative access. As a result, employees installed coupon-printing programs on two computers in the Treasurer's office. In addition, Village officials did not store backup files offsite or test backup data, and did not develop a disaster recovery plan. As a result, the Village's computer data is at risk of damage and loss.

Consultant Contract

As with most Village contracts, the Board is responsible for approving any service agreements with vendors, including IT services. A written agreement for technology services should clearly define the services to be provided and the related security. It is important that the Clerk-Treasurer retain a copy of all signed agreements, along with supporting details, to ensure that providers are performing services as indicated in the agreements.

The Village uses a third party for various IT services, including weekly maintenance, server and computer set up, firewall configurations, virus protection, and other services as needed. However, the Board does not have a written agreement with this consultant to detail any related security over these services. The consultant has direct access to the Village's data with a user account and has the firewall password. Therefore, any personal, private or sensitive information is at risk.

Due to the lack of a detailed written agreement, it would be difficult for the Board to determine whether the consultant is providing the agreed upon services and has adequate security over the services provided to the Village. In addition, there is an increased risk that unauthorized individuals could inappropriately gain access to the Village's network

and sensitive data could become compromised, especially since the user account remains active.

Computer Use Policy

Computer usage should be restricted by limiting user access and monitoring activity. This can be done through the adoption of specific procedures that detail the acceptable use of computers, the Internet, email and allowable software programs. Administrative access should be limited to restrict the number of users that can avoid enforcement of the policy.

The Board has adopted a written policy dictating the use of Village computers, Internet, and email; however, no one is enforcing or monitoring this policy. In fact, current user access makes the policy unenforceable because the users are administrators on their own computers. Therefore, they do not need the IT consultant or a system administrator to authorize the installation of software, which is not allowed.²

We used a computer-auditing program to obtain inventories of the installed software on all four computers in the Treasurer's office. Two computers had programs installed that are not typically used to transact village business:

- Computer 1: There were several programs installed to provide personal screen savers. This machine also had a coupon-printing program that allowed users to print coupons for typical household items.
- Computer 2: This machine also had two coupon printing programs. Both programs allowed users to print coupons for typical household items.

Allowing users to install non-business related software increases the risk that their systems could become comprised and allow for inappropriate access to Village data.

Backups

A strong system of internal controls includes a system to back up (i.e., create a copy of) computer-processed data. Good business practices require Village officials to run daily backups to keep the backup data as current as possible, and to store the backup data at an environmentally and physically secure offsite location for retrieval in case of an emergency. It is also important that Village officials routinely test the backups to ensure that the data could actually be restored in the event of a problem with the server.

² Page two of the Village policy contains a section indicating what is considered inappropriate use of Village computers. Subsection G states, "Using or installing any software or peripheral not approved in advance by the System Administrator."

Although Village officials perform daily backups of data files, they do not store the data backups in a secure offsite location. Instead, they are stored on Village premises. Storing the backup media onsite still subjects them to many of the same risks (disasters) as the original data and defeats the purpose of a backup control procedure. Further, the Village does not have a formal process to periodically test whether it could restore system data from the backups. Therefore, it has no assurance that backup tapes will work if the system is compromised, and the Village risks losing computer-processed data if backup files are not able to restore normal operations.

Disaster Recovery Plan

A disaster recovery plan is intended to identify and describe how the Village plans to deal with potential disasters. Such disasters may include any sudden, catastrophic event (e.g., fire, computer virus, power outage, or inadvertent employee action) that compromises the integrity of the IT system and data. Contingency planning to prevent loss of computer equipment and data, and procedures for recovery in the event of an actual loss, are crucial to an organization. An effective plan includes precautions to minimize the effects of a disaster and to enable the Village to either maintain or quickly resume its critical functions.

The Board has not developed a comprehensive disaster recovery plan. Consequently, in the event of a disaster, Village personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data, or guidance on how to implement data recovery and resume operations as efficiently as possible. The lack of a disaster recovery plan could lead to loss of important financial data along with a serious interruption to Village operations, such as not being able to process checks to pay vendors or employees.

Recommendations

7. The Board should ensure that it has an approved, formal, written agreement between the Village and the third party IT consultant that clearly defines the services and the related security provided to the Village.
8. Village officials should enforce and monitor the computer use policy and limit the number of users that have administrative access.
9. Village officials should evaluate the usefulness of the personal screensavers and coupon-printing programs installed on Village computers and uninstall any programs that will likely not be used to transact Village business.
10. The Board should develop procedures to ensure that officials store backup copies of data in a secure offsite location and periodically test the backup data to ensure the system can be restored.

11. The Board should adopt a written disaster recovery plan to help minimize or prevent the loss of equipment and data, and recover data and resume operations as efficiently as possible.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Village Office
18 Tannery Street
P.O. Box 519
Marathon, NY 13803
Phone: 607-849-3812
Fax: 607-849-4233



Electric Dept.
Phone: 607-849-6795
Water/Wastewater Dept.
Phone: 607-849-3958
Street Dept.
Phone: 607-849-6988

Audit Response and Corrective Action Plan

The Village Board reviewed the findings of the OSC audit report at a regularly scheduled meeting and submits the following in response to the recommendations:

Financial Condition of the Water Fund

Water fund deficits were caused not by “failure to control expenses” but rather by emergency spending necessitated by the contamination and abandonment of 4 water wells prior to the audit period. \$158,000 was borrowed from other village funds in order to maintain water in the Village. Since these borrowings took place several years ago and under a different administration, on February 15, 2012, by decision of the Board of Trustees, the debt was forgiven. Within the audit period all borrowing in the water department has been either repaid or financed.

See
Note 1
Page 20

CAP -

1. Future budgets will have the benefit of historical data provided by the Treasurer. Increased water rates and better metering will give better revenue data and appropriations should stabilize with current equipment.
2. The totals of the finalized adopted budgets will be reflected in the minutes, as well as, copies attached
3. Appropriation transfer forms for Board approval will be noted in the minutes, copied and filed
4. Better management and understanding of the water well long term expenses will be used by the Board and the superintendent to anticipate additional expenses and budget for long term maintenance.
5. All interfund borrowings by the water department will be repaid by the close of the 2013 budget year.

Cash Disbursements

The report fails to give credit for the Deputy Clerks involvement in the disbursement process. She prepares abstracts; records check numbers and mails payments. The Mayor also reviews and signs off on all abstracts; allowing him to monitor expenses. Conversations take place on a regular basis between the Mayor and Treasurer to discuss expenditures. Any “out of the ordinary” expenses are also discussed at board meetings. *The Mayor is a signatory on the bank accounts and does sign some of the disbursement checks.*

See
Note 2
Page 20

CAP -

6. As noted there is a segregation of duties as much as is practicable in a 2-person office as outlined above. Through the on-line banking program, it is now possible to view images of any canceled check. Each month the Mayor will choose 5 checks per fund to view and compare to the bank statement.

Information Technology

Although it is true that the Village does not have a contract with the IT consultant, he is a long time Village resident who often volunteers his time and service. He is a Federal Government Contractor with high levels of security clearance so his access to data contained in village files was deemed to be safe. Further in a series of e-mails he did outline the daily and weekly backups, restoration, [REDACTED]

See
Note 3
Page 20

See
Note 4
Page 20

*“This institution is an equal opportunity provider, and employer. To file a complaint of discrimination, write:
USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W.,
Washington, D. C. 20250-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD)”*

CAP –

7. The Village will enter into a contract with our current IT consultant for services and monitoring of the computer system. Based on your report he has made recommendation for a new computer hardware and upgraded software for better protection. [REDACTED]
8. [REDACTED]
9. All personal use programs have been deleted from the PCs in the Village Office.
10. The Village will purchase two USB removable hard disks which will be rotated off-site on a weekly basis. [REDACTED]
11. The Board of Trustees in conjunction with the department superintendents will form an IT Catastrophic Recovery Plan for the critical information in each department within the next 6 – 12 months. The above mentioned removable disks will have a capacity of 1TB and will therefore have capacity for all of the critical data. Also, all purchased software, after being installed, will be stored in the safe for easy retrieval if necessary.

See
Note 4
Page 20

See
Note 4
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See
Note 4
Page 20

Each member of the Village Board of Trustees recognizes and take seriously their responsibilities. I believe that recent changes in the water department will continue to strengthen the financial position. Your recommendations for stronger fiscal and IT security are appreciated and are already being implemented.

Respectfully submitted

John Pitman, Mayor
Village of Marathon

APPENDIX B

OSC COMMENTS ON THE VILLAGE'S RESPONSE

Note 1

The 2007-08 fiscal year does have exceptionally high expenditures when compared to other fiscal years. However, expenditures for both the 2010-11 and 2011-12 also exceeded the budgeted appropriations. Fortunately, additional revenues were received in 2010-11 and 2011-12 to offset the overspent appropriations and avoid overall operational deficits.

Note 2

The report has been updated to reflect the Deputy Clerk's involvement in the disbursement process; however, her involvement does not fully mitigate the risks identified because her duties only further process information provided by the Clerk-Treasurer, thereby supporting the Clerk-Treasurer's duties rather than providing any oversight that may detect errors and irregularities. In addition, the Mayor's review of the abstracts would not identify inappropriate checks if they were written but not listed on those abstracts.

Note 3

The Board should have a written agreement with any vendor regardless of that vendor's qualifications. This contract should outline services provided by and work performed by the vendor in exchange for payment from the Village. A contract for information technology (IT) services should also address any necessary assurances related to the security of the Village's electronic information.

Note 4

This information was redacted since it referred to confidential IT weaknesses that should not be included in a public report.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

During this audit, we examined the financial condition of the water fund, cash disbursements and information technology (IT). To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We conducted in-person interviews with Village officials and employees to gain an understanding of the budget process, cash disbursements and controls over IT.
- We obtained an understanding of the Village's internal control environment and specific controls that are significant to the Village's budget process, including monitoring the budget performance during the year by reviewing Board minutes and discussing internal controls with Village officials.
- We compared actual revenues to actual expenditures, taking into account fund balance appropriations, to determine the operational results from 2007-08 through 2010-11.
- We compared the actual results of operations for the water fund for 2010-11 to the amounts budgeted for 2011-12 to determine if estimated revenues and appropriations in the adopted budget were realistic. We also compared budgeted amounts for 2012-13 to actual amounts to date, as of February 29, 2012, to determine if they were realistic.
- We reviewed the Village's trial balances for the water fund as of February 29, 2012 to evaluate financial performance as compared to budget.
- We analyzed the use of unappropriated fund balance from 2007-08 through 2010-11 to determine if the Board members were using fund balance as a funding source in their budgets. If they were, we determined if fund balance was available for appropriation.
- We used bank statements from the entire audit period to create an electronic list of all checks that cleared the bank. Using electronic data analysis, we compared our list to the corresponding electronic disbursement information extracted from the Village's accounting system. Our analysis compared check numbers, dates and amounts between the two sources to determine if there were checks presented at the bank that were not created in the Village's accounting software.
- We interviewed the Village's IT consultant about the duties he performs, and any existing internal controls or Board policies over the Village's IT system.
- Using an IT audit tool, we reviewed all four computers in the Treasurer's office that were connected to the administrative network. We inventoried the software, hardware, and configurations for these computers. We reviewed the results to identify inappropriately installed software.

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

APPENDIX D

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