



Village of Aurora

Treasurer's Duties and Information Technology

Report of Examination

Period Covered:

June 1, 2012 — October 28, 2013

2014M-107



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2014

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 Board of Trustees 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 Aurora, entitled Treasurer's Duties and Information Technology. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's Authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Village of Aurora (Village), the home of Wells College, is located in the Town of Ledyard in Cayuga County and has approximately 700 residents. The Village provides various services to its residents, including water and sewer, street maintenance, street lighting, snow and brush removal, a summer recreation program and general government support. Budget appropriations for the general, water and sewer funds in 2013-14 were approximately \$651,100 funded primarily by real property taxes, sales tax, State aid, and water and sewer rents.

The Village is governed by a Board of Trustees (Board) which comprises four elected Trustees and an elected Mayor. The Board is responsible for the general oversight of the Village's operations and the design and implementation of internal controls to safeguard Village assets from loss or misuse.

The Mayor is the chief executive officer. The Mayor appoints all non-elected officers, subject to Board approval, including the Treasurer, who is the chief fiscal officer. The Treasurer is responsible for maintaining custody of all Village moneys, depositing cash received, signing checks, making disbursements, maintaining the accounting records, preparing financial reports, preparing bi-weekly payroll and maintaining leave records.

The Clerk serves as the Clerk to the Board and keeps a record of all Village resolutions and local laws. The Clerk has custody of the Village's books and records, as well as all of the Board's official reports and communications. The Clerk is also responsible for collecting all Village moneys and is currently training to become the Deputy Treasurer. As the appointed Deputy Clerk, the Treasurer assumes the role of collecting Village moneys in the Clerk's absence.

Scope and Objectives

The objectives of our audit were to review the Village's financial and information technology (IT) operations for the period June 1, 2012 through October 28, 2013. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of the duties performed by the Treasurer?
- Are controls over information technology (IT) adequately designed to ensure the Village's IT assets and computerized data are safeguarded?

Audit Results

The Board has not implemented adequate compensating controls to address the lack of segregation of duties performed by the Treasurer. The Treasurer performs virtually all of the Village's financial operations without Board oversight and compensating controls. Although the Treasurer performs all aspects of processing payroll including adding and deleting employees, recording hours worked, maintaining leave records, and signing checks, Village officials do not adequately review payroll records, including the Treasurer's timesheet, prior to payroll checks being printed. For 10 of the 35 (29 percent) bi-weekly payroll periods we reviewed, the Treasurer had either over- or under-reported her hours worked. We also found other minor irregularities that we discussed with Village officials. In addition, the Board does not review individual claims during the audit of claims to ensure that the Treasurer is making disbursements for Village purposes.

Further, we were unable to determine if water and sewer deposits were made intact.¹ The Board did not audit the Treasurer's records and reports during our audit period. As a result, there is an increased risk that errors and irregularities may occur and remain undetected and uncorrected.

Internal controls over IT are not appropriately designed. The Village does not have policies and procedures in place to safeguard IT assets, including an appropriate use policy, a breach notification policy and a disaster recovery plan. Additionally, Village officials have not implemented adequate controls and restrictions over user access to the financial system. Lastly, the Board has not adopted comprehensive data back-up policies and procedures. As a result, the Village is at risk of unauthorized access to sensitive data or the loss of sensitive information, and the integrity of information may be compromised.

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. Village officials generally agreed with our findings and recommendations and indicated that they plan to take corrective action. Appendix B includes our response to issues in the Village's response letter.

¹ In the same amount and form as received

Introduction

Background

The Village of Aurora (Village), the home of Wells College, is located in the Town of Ledyard in Cayuga County and has approximately 700 residents. The Village provides various services to its residents, including water and sewer, street maintenance, street lighting, snow and brush removal, a summer recreation program and general government support. Budget appropriations for the general, water and sewer funds in 2013-14 were approximately \$651,100 funded primarily by real property taxes, sales tax, State aid and water and sewer rents.

The Village is governed by a Board of Trustees (Board) which comprises four elected Trustees and an elected Mayor. The Board is responsible for the general oversight of the Village's operations and the design and implementation of internal controls to safeguard Village assets from loss or misuse.

The Mayor is the chief executive officer. The Mayor appoints all non-elected officers, subject to Board approval, including the Treasurer, who is the chief fiscal officer. The Treasurer is responsible for maintaining custody of all Village moneys, depositing cash received, signing checks, making disbursements, maintaining the accounting records, preparing financial reports, preparing bi-weekly payroll and maintaining leave records.

The Clerk serves as the Clerk to the Board and keeps a record of all Village resolutions and local laws. The Clerk has custody of the Village's books and records as well as all of the Board's official reports and communications. The Clerk is also responsible for collecting all Village moneys, and is currently training to become the Deputy Treasurer. As the appointed Deputy Clerk, the Treasurer assumes the role of collecting Village moneys in the Clerk's absence.

Objectives

The objectives of our audit were to review the Village's financial and information technology (IT) operations. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of the duties performed by the Treasurer?
- Are controls over IT adequately designed to ensure the Village's IT assets and computerized data are safeguarded?

**Scope and
Methodology**

We assessed the Board’s oversight of the Treasurer’s duties and the Village’s IT controls for the period June 1, 2012 through October 28, 2013. 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. Village officials generally agreed with our findings and recommendations and indicated that they plan to take corrective action. Appendix B includes our response to issues 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 Village Clerk’s office.

Treasurer's Duties

The Board is primarily responsible for oversight of all of the Village's financial operations to adequately safeguard Village moneys. Oversight becomes particularly important in operations where adequate segregation of duties is not possible. The Board should establish an internal control system which ensures all receipts are properly recorded and deposited and disbursements are properly authorized and documented. The Board also should establish compensating controls when duties performed by Village staff cannot be adequately segregated. In addition, the Board should ensure that all claims are properly audited and authorized prior to payment to ensure that the Treasurer is making payments for Village purposes. Furthermore, the Board must annually audit the Treasurer's records to ensure moneys are properly accounted for and that the accounting records are current and appropriate reconciliations have been completed.

The Board has not implemented sufficient compensating controls to address the lack of segregation of duties for the Treasurer, such as requiring an independent review of bank statements or journal entries. The Treasurer's duties include maintaining custody of all Village moneys, depositing cash received, signing checks, making disbursements, maintaining the accounting records, developing the budget, performing bank reconciliations, receiving cash,² preparing payroll, maintaining leave records and preparing financial reports. She performs all of these duties with limited oversight. The Board also did not conduct a thorough and deliberate audit of the claims presented for payment and, therefore, did not ensure that disbursements made by the Treasurer were for proper Village purposes.

Finally, the Board did not conduct an audit of the Treasurer's records for the fiscal year ended May 31, 2013. The latest audit performed was in 2010 by an independent CPA. As a result of these weaknesses, there is an increased risk that errors or irregularities could occur and go undetected and uncorrected.

Segregation of Duties

The concentration of key duties related to receiving, disbursing and depositing cash, maintaining the accounting records, developing the budget, and completing bank reconciliations with one individual significantly increases the risk that irregularities or inaccuracies might occur and go undetected. Where it is not possible to segregate duties, the Board should institute compensating controls, such as

² The Treasurer as Deputy Clerk collects cash when the Clerk is not available.

requiring multiple signatures on checks; periodically reviewing the records maintained by the Treasurer; reviewing bank statements, reconciliations and journal entries; performing timely and adequate reviews of each payroll prior to the Treasurer preparing pay checks; performing a thorough claims audit and approving the claims before the Treasurer processes the claims for payment.

The Board has not implemented compensating controls to address the lack of segregation of duties performed by the Treasurer. Due to the lack of segregation of duties, we performed tests in the following areas:

Payroll – The Treasurer performs all aspects of the payroll process. Specifically, the Treasurer adds and deletes employees from the payroll system, makes payroll changes, receives time sheets, records the hours worked by employees, maintains leave records, and prints, signs and distributes payroll checks to the employees. The Mayor stated that she reviews and certifies the payroll each bi-weekly pay period. However, based on discussions with the Mayor and initial review of the source documentation, there is no indication that the Mayor reviewed the Treasurer’s time sheets. As such, Village officials cannot be assured that the Treasurer is being paid at the proper rate and for the correct number of hours worked. We reviewed 35 bi-weekly payrolls and found 10 (29 percent) bi-weekly payrolls where the Treasurer had either under- or over-reported her hours worked. While the net effect of these errors was immaterial, the significant number of occurrences which went undetected increases the risk that material errors and deliberate misstatements could occur and go undetected.

Claims Processing – We found that the Board did not adequately audit claims prior to the Treasurer paying the claims. The Treasurer prepared the claims and provided the abstract of claims to the Board. The Board approved the abstract of claims prior to the Treasurer making payment. However, there was no indication that the individual claims had been audited by the Board. Village officials³ stated they are not familiar with what constituted an effective claims audit process and are unsure of their roles and responsibilities related to auditing claims.⁴ Therefore, we tested 61 claims totaling \$21,400 and found that all claims were supported and for proper Village purposes. However, seven payments totaling approximately \$980

³ A Village Trustee and the Mayor were individually asked about what the Board’s procedures are for auditing claims. Their responses included questions about best practices for an effective claims audit.

⁴ Board members should refer to our publication entitled *Local Government Management Guide – Improving the Effectiveness of Your Claims Auditing Process* for additional guidance on auditing claims.

were improperly made prior to the Board's approval of the abstract. Although our testing found just minor irregularities, when the Board does not audit and approve individual claims prior to payment, the Village is at risk of the Treasurer making incorrect or inappropriate payments.⁵

Billed Receivables – The Treasurer's ability to receive, record and deposit cash collections for billed receivables does not allow for proper segregation of duties. She also prepares the bills, makes journal entries, adjusts customers' accounts and prepares bank reconciliations without adequate Board oversight. We randomly selected one month of billed receivable transactions from our audit period for testing. Our sample contained 160 water and sewer receipts totaling \$15,022. All amounts collected agreed to the amounts billed. However, we could not determine if water and sewer deposits were made intact⁶ because individual receipts were not listed on the deposit slips prepared by the Treasurer. It is important for deposits to be made intact so Village officials can track cash receipts from the accounting records to the bank statements to ensure that all Village moneys collected are properly deposited.

In small operations, such as the Village, the lack of segregation of duties often cannot be avoided due to the Treasurer being the only person performing the duties of her office. However, the lack of compensating controls increases the risk that errors and irregularities could occur and remain undetected and uncorrected.

Annual Audit

Village Law requires that the Board annually audit the Treasurer's reports and supporting records, or cause them to be audited by a Village officer, employee or certified public accountant. This annual accounting provides an added measure of assurance that public moneys are handled properly (e.g., deposited in a timely manner, accurately reported, and accounted for) and that the financial records and reports contain reliable information on which to base management decisions. It also gives the Board the opportunity to monitor the Treasurer's fiscal procedures and activities. The annual audit is especially important when there is limited or no segregation of duties. When an audit is performed, it should be documented in the Board minutes.

The Board did not audit, or cause to be audited, the Treasurer's reports and supporting records during our audit period. The last completed audit was for the fiscal year ending May 31, 2010. It was performed by

⁵ Village Law does allow the Board, by resolution, to exempt certain claims from audit prior to payment. However, the Board is still required to audit these claims subsequent to their payment.

⁶ Not split or grouped into lump sum amounts, but deposited in the same amounts and composition, or form (check or cash), as received

a certified public accountant hired by the Board. The Board's failure to perform the required annual audit diminishes the Board's ability to effectively monitor the Village's financial operations and could result in errors or irregularities occurring and remaining undetected and uncorrected.

Recommendations

1. The Board should implement compensating controls to reduce the risks associated with the lack of segregation of duties. These controls should include:
 - Periodically reviewing the records maintained by the Treasurer including reviewing bank statements, reconciliations and journal entries,
 - Performing an adequate review and certifying each payroll prior to the Treasurer preparing pay checks, and
 - Performing a thorough claims audit and approving claims before the Treasurer processes them for payment.
2. The Treasurer should maintain deposit composition records and ensure that all collections are deposited intact.
3. The Board should annually audit, or cause to be audited, the Treasurer's financial records.

Information Technology

The Village relies on its IT system to perform a variety of tasks including bookkeeping, word processing, communicating by email, accessing the Internet and reporting to State and Federal agencies. Additionally, large amounts of information and data related to finances, taxes, water and sewer rents, payrolls and personnel are stored on the IT system. The Village's use of IT presents a number of internal controls risks, such as unauthorized access, which can increase the risk that computerized equipment could be damaged or data misused, lost or corrupted without detection. Even small disruptions in the IT system can require extensive time and effort to evaluate and repair.

Village officials are responsible for designing and implementing a comprehensive system of internal controls over IT to protect these assets from unauthorized, inappropriate and wasteful use. Both administrative and information system controls should be part of any IT security system. This is especially important because of the increase in viruses, malware and other malicious methods intended to harm data resources and gain unauthorized access to valuable data.

The Village does not have appropriate policies and procedures to protect its computerized data resources from internal and external threats. The Board has not established policies and procedures related to acceptable use, breach notification and disaster recovery. Additionally, the Treasurer has unlimited access to the software application while performing other aspects of financial transactions. Village officials also did not ensure that copies of back-up data are stored in a secure offsite location.

Acceptable Use Policy

An acceptable use policy defines the Board's intended use of equipment and computing software, and the security measures that are designed to protect the Village's system and confidential information. The policy should address, but not necessarily be limited to, the acceptable use of the Internet and email, password security, access to and use of confidential information, and the installation and maintenance of software on Village computers.

The Village has not established an acceptable use policy. Without comprehensive policies that explicitly convey the appropriate use of the Village's electronic equipment, Village officials cannot be assured that users are aware of their responsibilities. In addition, no consistent standards have been established for which users can be held accountable. The lack of an acceptable use policy increases the risk of inappropriate computer use (either intentional or accidental)

which could potentially expose the Village to malicious attacks or compromise systems and data, including key financial and confidential information.

Breach Notification Policy

New York State Technology Law requires local governments to establish an information breach notification policy. The policy should detail how employees would notify Village residents whose private information was, or is reasonably believed to have been, acquired by a person without valid authorization. The disclosure should be made in the most expedient time possible and without unreasonable delay, consistent with the legitimate needs of law enforcement or any measures necessary to determine the scope of the breach and restore the reasonable integrity of the data system.

The Board has not adopted a breach notification policy. By failing to adopt an information breach notification policy, in the event that private information is compromised, Village officials and employees may not understand or be prepared to fulfill their legal obligation to notify affected individuals.

Disaster Recovery Plan

It is essential that Village officials develop a formal disaster recovery plan that addresses the range of threats to the computerized system. The plan should focus on sustaining the entity's critical business functions during and after service disruption. It is important that Village officials analyze data and operations to determine which are the most critical and what resources are needed to recover and support these operations in the event of an emergency. Once the disaster recovery plan is finalized, Village officials should distribute it to all responsible parties, periodically test procedures to make sure they work as intended and update the plan as needed.

The Board has not adopted a disaster recovery plan that addresses IT. Therefore, in the event of a disaster, Village personnel have no guidelines or plan to help minimize or prevent the loss of equipment and data, or to provide guidance for implementing data recovery procedures. As a result, the Village's IT assets are at an increased risk of loss or damage, and there could potentially be costly disruptions to operations.

Financial Application User Access

Effective controls over access rights to a financial software application should allow users access to only those computerized functions that are consistent with their job responsibilities and should prevent users from being involved in multiple aspects of financial transactions. An individual who has financial system administrative rights can add new users, create and change user access rights, configure certain system settings and override management controls. Accordingly, the financial system administrator should not be involved in the Village's

financial operations. If this is not feasible, then system activity should be periodically reviewed.

Village officials have not developed policies and procedures to safeguard against unauthorized access to the Village's financial data. We interviewed Village officials regarding the access rights and found that the Treasurer had administrative rights to the financial software even though she performs a majority of accounting transactions. With administrative rights, the Treasurer has the ability to view, add, delete and modify records in all functions in the financial software. In addition, she can grant user access, override controls and make changes to the system which may enable her to make intentional or unintentional changes that could be detrimental to the Village.

Data Backup

Sound business practices require that the Village backs up (makes a duplicate copy of) the data stored on its computers and servers on a daily basis so that it can be restored in the event of loss. Back-up data should be kept at a secure alternate location to protect it from loss in the event of a disaster at the server location.

The Board has not adopted comprehensive data back-up policies and procedures. Village staff did not regularly perform daily backups of data files, and when a backup was performed, these files were left in the Village Hall. Storing the back-up media onsite subjects the back-up data to the same risks (disasters) as the original data and defeats part of the purpose of the back-up control procedure. As a result, the Village's financial information and other critical data are at an increased risk of loss in the event of a disaster.

Recommendations

4. The Village should adopt policies and procedures governing IT, including an acceptable use policy, a breach notification policy, and a disaster recovery plan.
5. Village officials should ensure that administrative rights to the financial software are not given to someone involved in financial operations.
6. Village officials should ensure that backups are performed daily, and copies of data are stored at a secure off-site location for retrieval in case of an emergency.

APPENDIX A

RESPONSE FROM VILLAGE OFFICIALS

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

VILLAGE OF AURORA

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July 17, 2014

Edward V. Grant, Jr.
Chief Examiner
The Powers Building
16 W. Main Street, Suite 522
Rochester, NY 14614-1608

Re: Village of Aurora
Treasurer's Duties and Information Technology
Report of Examination
2014M-107

Dear Mr. Grant:

The Village of Aurora was last audited by the state twenty years ago, so we are especially grateful for your help in bringing village government into line with current state practices regarding the treasurer's duties and information technology. Although we thought we had adequate oversight and compensating controls on the Village's financial operations, we understand the need for more rigid ones, and have been instituting them since last August as they were brought to our attention. We have addressed all oversight and recording issues raised by the financial audit and have become more efficient in taking advantage of the variety of data recording possibilities afforded by our Williamson Law Book programs. We adopted an IT policy in February, as well as a breach notification policy and disaster recovery policy, and have addressed issues concerning data backup and secure storage, user access, system administration and passwords. Details of these changes will be in the CAP report.

We find no errors in the draft report, but several statements concerning the examiners' findings seem to leave the reader with the impression that the treasurer is mishandling funds, since no explanation for her actions is given. For instance, concerning payroll on page 9, the report discusses the "errors" in reporting hours, when in fact the time spent on duties as treasurer or as deputy clerk, positions with two different hourly rates, was accurately reported but has to be rounded to a quarter hour for entry into the data system. Terming this action "errors" without explanation is misleading. This is also true of the statement that it could not be determined if the water and sewer deposits were made intact; these can be easily audited by deposits noted by journal receipts, which match

See
Note 1
Page 17

See
Note 2
Page 17

detailed journal entries by account. We are now following your advice by copying the list given to the bank, but your statement seems to indicate that we otherwise would have no paper trail of deposits. We are grateful that you understand the issues involved with a limited staff in such a small village and we have been working toward the clerk's being able to become deputy treasurer. In that regard, we also feel that the description of Aurora, as a village of 700 residents, should be clarified. We have approximately 300 residents, the other 400 being students at Wells College.

See
Note 3
Page 17

Thank you again for the consideration the examiners showed our small staff, their willingness to answer questions and offer suggestions, and the reassurance that Aurora's government is running reasonably well.

Sincerely, ✍

Bonnie Apgar^d Bennett
Mayor

APPENDIX B

OSC COMMENTS ON THE VILLAGE'S RESPONSE

Note 1

Our review of the total hours worked by the Treasurer each day indicated several differences of up to one hour between what the examiners calculated and what was reported by the Treasurer. Our audit work leads us to believe that these differences are attributed to causes other than rounding.

Note 2

While we found that all deposits reconciled with the accounting records, we could not determine if moneys were deposited in the same form as collected. Without this detail, there is an increased risk of Village moneys being misappropriated through various means such as substitution and kiting.

Note 3

The population figure in our report is from the 2010 United States Census. We added wording to the report to indicate that Wells College is located in the Village.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Village assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition, cash management, cash receipts, cash disbursements, billed receivables, purchasing (including consumable inventories), asset management, payroll and personnel services and information technology.

During the initial assessment, we interviewed appropriate Village officials, performed limited tests of transactions and reviewed pertinent documents, such as Village policies, Board minutes and financial records and reports. Further, we reviewed the Village's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and professional misconduct. We then decided on the reported objectives and scope by selecting for audit the areas most at risk. We selected Treasurer's duties and IT for further audit testing. Our audit included the following procedures:

- We reviewed Village policies and procedures, annual financial reports, monthly financial reports and the adopted budgets for 2012-13 and 2013-14.
- We examined water and sewer bills, receipt documentation and bank statements.
- We examined payroll registers, leave records and supporting documentation, paid bills, bank statements, deposit records, receipt summary reports, and paid claim documentation and abstracts.
- Except where otherwise noted, our selections of payroll, claims processing, and billed receivables were made using the random number generator in a spreadsheet application.
 - o We selected a month of payroll, and from that month, we tested 14 employees for a total of \$22,300 gross payroll tested, to see if they were paid correctly and if payroll records were adequately supported by timesheets and leave records. Based on our findings, we judgmentally selected the Treasurer's payroll records within our audit scope to see if the hours reported on the timesheets correctly reflected the shifts worked, and if she was paid correctly.
 - o We tested 61 claims totaling \$21,400 for evidence of board audit, authorization, support and reasonableness.

- o We tested 160 water and sewer receipts, totaling \$15,022, to determine if the receipts were paid as billed, supported and deposited in a timely manner. We spoke with Village officials familiar with operations when necessary.
- We reviewed policies and procedures, observed computer screens and made inquiry of officials familiar with the Village's IT system regarding user access to the Village's system and financial software.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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