



Town of Wheatfield Recreation Department Cash Receipts and Information Technology

Report of Examination

Period Covered:

February 1, 2009 — June 5, 2013

2013M-200



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2013

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Wheatfield, entitled Recreation Department Cash Receipts and Information Technology. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Wheatfield (Town) is located in Niagara County in western New York State and is governed by the Town Board (Board), which is composed of five elected members, including the Town Supervisor (Supervisor) and four Council members. The Board is responsible for the general management and control of the Town, including the adoption of policies governing the use of Town assets. The Supervisor is the Town's chief fiscal officer and is responsible for managing its daily operations, including maintaining custody of moneys and accounting records. The Town's 2012 operating expenditures totaled approximately \$11 million.

Scope and Objective

The objective of our audit was to evaluate the Town's internal controls over recreation department cash receipts and information technology. Our audit addressed the following related questions:

- Is the recreation department remitting cash receipts to the Supervisor in a timely manner?
- Are Town officials adequately safeguarding information technology assets?

We examined the internal controls over recreation department cash receipts and information technology for the period February 1, 2009, to June 5, 2013.

Audit Results

The Recreation Director did not remit any concession cash receipts to the Supervisor. Additionally, we found that disbursements were made directly out of the concession stand cash drawer or the bank account controlled by the Recreation Director. Therefore, these disbursements were not reviewed and approved by the Board, or recorded in the Supervisor's accounting system. We tested the amounts removed from the cash drawer by the Recreation Director and compared them to bank deposits made by him. We found that cash was removed presumably for deposit 40 times totaling \$11,304. However, only six deposits were made, totaling \$9,665, resulting in a shortage of \$1,639. The Recreation Director was unable to provide us with an explanation for the shortage.

Town officials have not implemented policies and procedures over the information technology system, including a computer use policy and adequate controls over computer inventory. We found that the Town relies on end-users to sanitize their old computers before receiving new computers. During our inventory of information technology equipment, the Town was unable to produce one computer, previously used by the recreation department, for our examination. Also, while an audit log is produced

by the Town's system, no one reviews the logs for inappropriate activity. In addition, the Board has not adopted a comprehensive disaster recovery plan to provide guidance to prevent the loss of equipment and data, and procedures for data recovery.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our findings and recommendations and indicated they planned to initiate corrective action.

Introduction

Background

The Town of Wheatfield (Town) is located in Niagara County in western New York State. The Town, which covers 28 square miles, has a population of approximately 18,000. The Town is governed by the Town Board (Board), which is composed of five elected members, including the Town Supervisor (Supervisor) and four Council members. The Town provides various services to its residents, including sewer and water services, refuse collection, highway maintenance, snow removal, parks, public safety, fire protection, and general government support. The Town's 2012 operating expenditures totaled approximately \$11 million.

The Board is responsible for the general management and control of the Town, including the adoption of policies governing the use of Town assets, including information technology infrastructure. The Supervisor is the Town's chief fiscal officer, who maintains the Town's accounting records and is the custodian of the Town's cash assets.

Objective

The objective of our audit was to evaluate the Town's internal controls over recreation department cash receipts and information technology. Our audit addressed the following related questions:

- Is the recreation department remitting cash receipts to the Supervisor in a timely manner?
- Are Town officials adequately safeguarding information technology assets?

Scope and Methodology

We examined the internal controls over recreation department cash receipts and information technology for the period February 1, 2009, to June 5, 2013.

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

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our findings and recommendations and indicated they planned 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 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 Town to make this plan available for public review in the Town Clerk's office.

Recreation Department Cash Receipts

The Board should develop internal controls to ensure that all cash receipts are properly recorded and deposited in a timely manner. Cash receipts collected at the department level and at smaller venues, such as moneys collected within a concession stand, are required to be remitted to the Supervisor no later than the fifteenth day of the month following the initial receipt of the funds. Duties should be segregated so that one individual is not responsible for multiple cash receipt functions without oversight. Additionally, disbursements should be reviewed and approved by the Board and recorded in the financial system.

The Recreation Director did not remit all cash collected at the concession stand, totaling \$12,229 for the years 2010 through 2012¹ to the Supervisor. Additionally, we found that disbursements were made directly out of the concession stand bank account and were not reviewed and approved by the Board, or recorded in the financial system.

In 2009, the Town's recreation department began operating a concession stand in the Town Park and opened a bank account in the Town's name to deposit concession cash receipts. Town employees work in the concession stand during June, July, and August. At the beginning of each shift, two employees count, document, and initial the beginning cash drawer balance. The same procedure is performed at the end of each shift. After the concession stand closes, the employees bring the cash drawer and the certified daily concession stand report to the recreation building and lock it inside the building. The following day, the Recreation Director counts the cash again to confirm the balance noted by the employees and maintains the cash in a locked drawer in his desk until he makes the bank deposit. The Recreation Director was the only individual with access to the bank account. As such, the Supervisor did not have custody of the funds, as chief fiscal officer, and therefore was not in a position to review the bank account activity. Further, the receipts and disbursements related to the concession stand were not recorded in the Town's accounting records.

We compared the cash drawer totals to bank deposits made by the Recreation Director for the years 2010 through 2012.² We noted that concession stand workers documented cash receipts totaling

¹ This does not include the 2009 cash receipts as the Town could not locate the records for June 2009.

² We were unable to perform a proof of cash for 2009 as the Town was missing the June 2009 daily concession stand reports.

\$12,229. They made food item purchases that were receipted directly from the cash drawer, which totaled \$925,³ leaving \$11,304 available for deposit. We reviewed the bank statements and noted that the Recreation Director only deposited \$9,665, resulting in a shortage of \$1,639. We reviewed the daily concession stand reports and noted that the cash drawer balance rolled forward daily. However, we noted that on 40 occasions the ending balances reported by the workers did not match the following day's beginning balance. The Recreation Director told us that this is because he removed cash from the cash drawer for deposit before a tournament or when he deemed the cash drawer balance to be excessive.

We reviewed the bank statements, noting that the Recreation Director only made six deposits totaling \$9,665.⁴ The Recreation Director was unable to provide us with an explanation for the shortage. The Supervisor shared an email with us dated June 5, 2013, where the Recreation Director took responsibility for the shortage and offered to pay the shortage amount to the Town.

The recreation department is also responsible for collecting all fees for sports programs offered by the Town, as well as fees for sports banquets, pavilion rentals, and other miscellaneous payments. We tested all 2012 cash receipts collected by the recreation department and the youth center, totaling \$34,165. Cash receipts collected by the recreation department were properly recorded, agreed to the duplicate receipt book and registration forms, were properly deposited, and were remitted to the Supervisor in a timely manner.

Recommendations

1. The Board should ensure that all cash receipts are remitted to the Supervisor in a timely manner.
2. The Board should ensure that all concession stand cash receipts and disbursements are accounted for by the Supervisor.
3. The Board should ensure that concession stand disbursements for recreation department supplies are audited and approved by the Board prior to payment.

³ In addition to these purchases made directly from the cash drawer, the Recreation Director made purchases to stock the concession stand by checks totaling \$8,696, without Board audit and approval of claims.

⁴ For the 2010 season, the Recreation Director made deposits in July and November; for the 2011 season, he made deposits in July and December 2011 as well as January 2012; and for 2012, he made a deposit in November, well after the concession stand closed for the season.

Information Technology

Town officials rely on the information technology (IT) system to maintain financial data, process transactions, and report to State and Federal agencies and the general public. The potential consequences of a system failure can range from inconvenient to severe. Computerized personal data can also be a potential liability to the Town if it is lost or improperly disclosed. Accordingly, Town officials (which include the Board, the Supervisor, other elected officials, and department heads) are responsible for establishing policies and procedures and implementing internal controls to safeguard the Town's valuable IT assets, including computer data, equipment, and systems. Policies should include procedures governing the proper methods for sanitizing out-of-service machines, maintenance of old inventory, reviewing audit logs, and procedures to follow in the event of a disaster.

Town officials have not implemented policies and procedures over the IT system, including a computer use policy and adequate controls over computer inventory. Also, audit logs are not reviewed for inappropriate activity. Additionally, the Board has not adopted a comprehensive disaster recovery plan.

Computer Inventory

Town officials should have a formal policy governing the disposition of surplus computers. To protect computerized assets and confidential data, computers need to be kept in a secure area and hard drives need to be wiped clean or destroyed prior to disposition. During 2012, the Town upgraded its computer system, which included major changes to the network, including new servers, an upgrade to the wireless network, and several new computers. The Town purchased six new computers, four for the Town Hall and two for the recreation department.

Town officials do not have a formal policy governing the disposition of surplus computers. We found that the Town relies on the end-users to delete data from their old computer before the IT department backs them up and transfers files to new computers. The Management Information System (MIS) Coordinator stores old computers in his IT Department office until the Board decides whether to destroy, donate, or sell the old equipment. However, surplus recreation department computers are not sent to the Town Hall for safekeeping. The Recreation Director indicated that, when the recreation computers were replaced, the back-up and restore procedures were performed by the Town's IT Support vendor and the old computers were rotated throughout the department, resulting in the oldest computers being put out of use first.

We inventoried the new and old computers that were rotated as part of the upgrade. We accounted for all computers involved in the upgrade at the Town Hall. We accounted for the two new computers purchased during the upgrade at the recreation department. However, initially we were only able to locate one of the two old computers. We therefore expanded our inventory to account for all of the computers used by the recreation department, including those used in the Youth and Senior Center. Based on the inventory records maintained by the MIS Coordinator, one additional computer, the “Rec Training” computer, was unaccounted for. The Recreation Director later located the previously unaccounted for old computer in a back storage room; however, the “Rec Training” computer was never produced for our examination.

Without comprehensive policies that explicitly convey disposition procedures of the Town’s electronic assets, the loss or misplacement of surplus computers that may contain sensitive data could result in inappropriate use and compromise network systems.

Audit Log

An audit log is a computer-generated monitoring tool that provides information such as the date and time a user accesses a program, the transaction or activity that occurred, and the time and date of the user’s log-off. Maintaining and regularly reviewing audit logs enables Town officials to determine who is accessing programs and whether the transactions processed are appropriate, and to trace questionable system activity.

Town officials stated that their software creates an audit log. However, no one reviews the logs, and therefore officials are not monitoring whether there are inappropriate transactions occurring and identifying the users responsible.

Disaster Recovery Plan

A formal disaster recovery plan includes policies and procedures to help prevent or minimize the loss of computer equipment and data, and to guide recovery in the event of an actual loss. Even small disruptions in electronic data systems can require extensive effort and cost to evaluate and repair. Therefore, a disaster recovery plan should include precautions to minimize the effects of a disaster so that Town officials can maintain or quickly resume critical functions. The plan may also include a significant focus on disaster prevention.

The Board has not adopted a comprehensive disaster recovery plan. In the event of a disaster, Town personnel have no guidelines to follow to prevent the loss of equipment and data, and no procedures for data recovery. This could lead to the loss of important financial data and serious interruptions to Town operations, such as not being able to process checks to pay vendors or employees.

Recommendations

4. Town officials should develop procedures for sanitizing computers.
5. Town officials should establish policies and procedures for maintaining and controlling IT inventory for all departments.
6. Town officials should ensure that audit logs are maintained and periodically reviewed.
7. Town officials should develop a disaster recovery plan to minimize the interruption of day-to-day operations in the event of a disaster.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF WHEATFIELD

ROBERT B. CLIFFE – SUPERVISOR

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September 9, 2013

Robert E. Meller, Chief Examiner
Division of Local Government and
School Accountability
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

RE: Response to Audit Report
February 1, 2009 to June 5, 2013
2013M-200

Dear Mr. Meller:

Please consider this letter to be the response of the Town of Wheatfield to the draft Audit by your office for the period February 1, 2009 to June 5, 2013.

First, the Town of Wheatfield is in much better financial condition than it was as of the date of your office's previous audit. We are very pleased that your auditor's review determined that it was not necessary to perform a detailed audit of primary Town funds, or the manner in which funds and budgets are now handled. This shows that the New York State Comptroller's Office now has confidence that the Town of Wheatfield is properly managing our financial affairs.

Our detailed response to the issues raised in your draft audit is as follows:

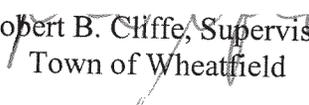
Recreation Department Cash Receipts - The Wheatfield Town Board agrees with the findings contained in the audit report. In 2012, the Town retained an independent auditing firm, Drescher & Malecki, to review the financial operation of the Recreation Department. Drescher & Malecki did not advise the Town Board of the issues raised in the New York State Comptroller's audit, which is disappointing, even though they were not specifically directed to do a forensic audit of snack bar revenues. The Town Board is also disappointed in the lack of oversight by the Recreation Director. The Town has commenced a Civil Service Article 75 Disciplinary Proceeding against the Recreation Director, and he has been suspended pending an Article 75 hearing. The Town Board has closed the snack bar and does not intend to reopen it as a Town function. By resolution, the Town has also instituted a formal policy that requires that whenever cash receipts exceed \$100.00, the excess must be deposited with the Town Clerk within three days.

(2)

Information Technology - The Town does not totally agree with your findings regarding information technology, except as it pertains to the Recreation Department, although we agree that there is some room for improvement. One computer from the Recreation Department has not been accounted for. The Town of Wheatfield does maintain a log of all Town computers. Under the direction of a Councilman who is an IT professional, the Town has followed accepted practices for decommissioning computer systems, practices which include the removal of hard disc drives and all information therein. These hard disc drives have remained in semi-secure storage in the possession of the Town's in-house IT specialist. The Board is presently reviewing procedures and, using the auditor's comments, working toward a written policy which will formalize and assure that such procedures will be followed in the future. A formal policy will be in place within the next 90 days.

I would like to thank the auditor for the cooperation and courtesy that was provided while conducting their examination.

Very truly yours,


Robert B. Cliffe, Supervisor
Town of Wheatfield

cc: Honorable Town Board
Robert O'Toole, Town Attorney

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by Town officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on the area most at risk. Our initial assessment included evaluations of the following areas: financial condition, IT, water and sewer billings, Supervisor's records and reports, recreation department cash receipts and disbursements, and procurement.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions, and reviewed pertinent documents such as Board minutes, bank statements, and available financial records. 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/or professional misconduct. We then decided on the reported objective and scope by selecting for audit the areas most at risk. We selected recreation department cash receipts and IT for further testing.

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

- We interviewed Town officials to gain an understanding of the internal controls over the collection, recording and deposit of recreation department cash receipts.
- We obtained and reviewed recreation department cash receipt journals, registration forms, bank statements, and daily concession stand reports.
- We obtained the concession stand bank account from February 1, 2009, to May 31, 2013, and compared the amounts deposited per the bank statements to amounts removed from the cash drawer per the daily concession stand reports.
- We reviewed the other cash collections by the recreation department, by comparing registration forms, spreadsheets, cash receipts journals, and bank statements for any variances.
- We reviewed the recreation department concession stand purchases for review, approval, and posting to the financial software.
- We reviewed the Town's policies and procedures relating to IT.
- We interviewed IT staff to determine what internal controls were in place.
- We interviewed users to determine their knowledge of IT controls.
- We performed an inventory to account for the new computers purchased during the recent upgrade, the computers that were replaced, and all of the computers used by the recreation department.

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 C

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AND SCHOOL ACCOUNTABILITY

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Nathalie N. Carey, Assistant Comptroller

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