



Village of Pulaski

Selected Village Operations

Report of Examination

Period Covered:

June 1, 2011 — January 31, 2013

2013M-142



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 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 Pulaski, entitled Selected Village 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 Pulaski (Village) is governed by an elected Board of Trustees (Board) which comprises a Mayor and four Trustees all serving two-year terms. The Mayor serves as the Chief Executive Officer and appoints a Clerk-Treasurer. The Clerk-Treasurer maintains the accounting records, signs checks and prepares annual financial reports. The Board has authorized and empowered the Board of Water Commissioners and Board of Sewer Commissioners to audit and order paid all claims incurred by their respective departments. Village operating expenditures for the fiscal year ending in 2012 were \$877,359 in the general fund, \$369,629 in the water fund and \$583,077 in the sewer fund.

Scope and Objective

The objective of our audit was to review the water system improvement reserve, claims, annual audits and information technology for the period June 1, 2011, to January 31, 2013. Our audit addressed the following related questions:

- Did the Board properly disburse moneys from the water system improvement reserve in regard to the River Street retaining wall project?
- Did the Board fulfill its oversight responsibilities by conducting an effective audit of non-payroll claims and performing an annual audit of the Clerk-Treasurer's records?
- Did the Board design appropriate information technology policies and procedures to adequately safeguard electronic information?

Audit Results

The Board disbursed \$102,275 from the water system improvement reserve to pay for work associated with the River Street retaining wall project. However, because this reserve was set up as a capital reserve for the improvement of the water system, expending moneys from this reserve for other than its intended purpose, such as for the repair of the retaining wall, was an inappropriate use of the reserve. Although we were informed that this amount is to be repaid upon the receipt of State aid, there is no legal authority to temporarily borrow moneys from a capital reserve to be repaid upon the receipt of State aid.

The Board, the Board of Water Commissioners and the Board of Sewer Commissioners are each responsible for auditing and approving all non-payroll claims that are within their jurisdiction prior to

payment.¹ We reviewed 110 claims totaling \$340,271 and found that 36 claims totaling over \$36,600 were paid without any audit or approval by the respective Board, and nine claims totaling \$9,316 were paid prior to the audit and approval of the respective Water or Sewer Boards. Furthermore, when the Village Board did approve its claims, it did so based only on reviews of voucher edit lists,² not on reviews of the underlying claims or supporting documentation. The Village Board approved 100 percent of the general fund claims which totaled \$242,073 in this manner. Although we did not find any inappropriate transactions, the failure to audit and approve claims prior to payment increases the risk of misuse or diversion of Village funds.

In addition, the Board did not audit, or cause to be audited, the annual financial report or supporting records of the Clerk-Treasurer. As a result, the Board's ability to monitor financial operations is diminished and errors or irregularities could occur and remain undetected and uncorrected.

Finally, the Board has not designed appropriate policies and procedures for Village-owned computer systems. As a result, it does not monitor the remote access of software vendors or the Village's information technology consultant who has the ability to modify or destroy financial application data. Further, the Board has not developed a comprehensive disaster recovery plan, backup copies of data are not stored in a secure off-site location, and the Village does not periodically verify that the system can be restored from the backup copies. As a result, there is an increased risk of potential loss, damage or misuse of data, which could result in a serious interruption of Village operations.

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.

¹ Invoices pertaining to the specific fund's business are charged to that particular fund. Invoices pertaining to general Village business are allocated to each of the three funds proportionately – general, water and sewer.

² At the monthly board meetings, the Village Board receives a 'voucher edit list' and the Mayor receives two abstracts for his signature. The 'voucher edit list' includes claims currently awaiting approval for payment. The first abstract includes the current month's regular claims that were just approved by the Board. The second abstract includes prior month's regular claims that were already Board approved and the prepaid claims.

Introduction

Background

The Village of Pulaski is located the Town of Richland, in Oswego County, and has approximately 2,400 residents. The Village is governed by an elected Board of Trustees (Board) which comprises a Mayor and four Trustees all serving two-year terms. The Mayor serves as the Chief Executive Officer and Board Chair, and also appoints a Clerk-Treasurer. The Clerk-Treasurer maintains the Village's accounting records, signs checks and prepares annual financial reports. The Village employs a full-time account clerk³ who is responsible for processing invoices, assembling claim packets, generating the voucher edit lists⁴ and abstracts and printing checks for the Clerk-Treasurer's signature.

The Board has authorized and empowered two other boards, the Board of Water Commissioners and the Board of Sewer Commissioners, to perform duties within their jurisdiction. Each board makes annual budget recommendations, administers its respective budget and audits and orders paid all claims incurred by its respective department. The Board of Water Commissioners comprises five members including the Chair. The Board of Sewer Commissioners comprises three members including the Chair. The Village also employs a Department of Public Works Superintendent who oversees general, street and water department maintenance.

The Village provides various services to its residents, including street maintenance, police, water and sewer services. Operating expenditures for the fiscal year ending in 2012 were \$877,359 in the general fund, \$369,629 in the water fund and \$583,077 in the sewer fund. These expenditures are primarily funded with revenues from real property taxes, user charges, sales taxes and State aid.

Objective

The objective of our audit was to review the water system improvement reserve, claims, annual audits and IT. Our audit addressed the following related questions:

- Did the Board properly disburse moneys from the water system improvement reserve in regard to the River Street retaining wall project?

³ During our audit period, in addition to the Clerk-Treasurer, the Village also employed two full time clerks. One clerk retired in October 2012.

⁴ A list of vouchers the Board reviews for claims approval. This report is similar to the abstract in that it lists claims presented to the Board, but is different because this report does not include the prior month's prepaid claims.

- Did the Board fulfill its oversight responsibilities by conducting an effective audit of non-payroll claims and performing an annual audit of the Clerk-Treasurer’s records?
- Did the Board design appropriate information technology policies and procedures to adequately safeguard electronic information?

Scope and Methodology

We examined the water system improvement reserve, claims approval process, annual auditing, and information technology (IT) policies and procedures for the period June 1, 2011, to January 31, 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 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 Village Board to make this plan available for public review in the Clerk-Treasurer’s office.

Water System Improvement Reserve

Capital reserve funds provide a mechanism for legally accumulating money to finance all or part of the cost of capital improvements or equipment. Once the Board has properly established a reserve fund, moneys contained in that reserve are restricted and may only be expended in accordance with the requirements of law under which the reserve fund was created.

The Board disbursed \$102,275 from the water system improvement reserve to pay for work associated with the River Street retaining wall project. Because this reserve was not set up for this purpose, expending from this reserve for this purpose was inappropriate.

The Board established the water system improvement reserve fund as a capital reserve for the improvement, betterment and large scale repair⁵ of the water system. There was no documentation in the Board minutes or in the reserve resolution to indicate whether the reserve was established for a specific improvement or a “type” of improvement. However, Village officials told us that the reserve was intended to be set up as a “type” reserve because it was for general improvement to the water system. There are no permissive referendum requirements when villages establish a “type” capital reserve; however, generally, permissive referendum requirements apply prior to expenditure.⁶ Moneys in a “type” capital reserve fund may be transferred into another reserve fund for a different “type” of improvement without referendum requirements.

The Village made disbursements for expenditures incurred after Phase 1 of the River Street retaining wall project. Phase I was undertaken after the River Street retaining wall collapsed on October 1, 2010. When this happened, the Mayor declared the collapse an emergency. The Village performed a temporary fix costing over \$7,900, to make the area less dangerous. The Village was awarded up to \$500,000

⁵ Capital reserve funds may not be used for repairs as opposed to capital improvements. Villages may establish separate repair reserve funds under General Municipal Law §6-d; however, capital reserve funds may not be used to fund repairs or transferred into a repair reserve fund. For the purpose of this comment, we assume that the term large scale repairs was intended to refer to capital improvements.

⁶ If an authorization to issue indebtedness for the purchase of such improvement or equipment is subject to either permissive or mandatory referendum, then the expenditure of type capital reserve funds for the same purpose is generally subject to permissive referendum. Permissive referendum requirements include publishing and posting legal notices informing taxpayers of the right to petition for a referendum.

in State grant moneys in December 2011 to help replace the wall. According to the grant requirements, Village officials must perform the repairs, and then submit for reimbursement, which includes documenting the date the goods or services were received and proof of payment to contractors (check copies). The Village had work performed to permanently fix the retaining wall structure in 2012, which they called Phase I. This phase cost \$85,000⁷ and Village officials used general fund moneys to pay the contractors.

Disbursements totaling \$102,275 were incurred after Phase 2 began in July 2012. The Mayor told us that because Village officials saved a substantial⁸ amount of money for the retaining wall, they were advised by their engineers that they should perform additional phases which included increasing public amenities such as landscaping and fencing. The decision to conduct the additional phases of work was made with the belief that the State grant would cover the cost. Contractors performed the work and requested payment and the Board⁹ authorized the Mayor to borrow \$102,275 from the water system improvement reserve to pay for the project.¹⁰ The authorization to expend reserve moneys was inappropriate because the reserve was set up for capital repairs or improvements to the water system and the work performed was not for work related to the water system. The Board did not take action to first establish a new reserve fund for non-water related capital improvements, such as the retaining wall improvements, and transfer moneys from the water capital reserve fund into the new capital reserve fund. Moreover, there is no authority to temporarily borrow moneys from a capital reserve fund, to be repaid upon the receipt of State aid.¹¹ Furthermore, permissive referendum requirements were not complied with prior to the expenditure.

The Mayor told us he believed he was within his authority to use the reserve as a source of funding for the project because of the costs associated with the issuance of debt, the fact that the Village expected reimbursement from the State, and the fact that he did not want to incur debt. In addition, he told us that the reserve had a substantial amount of money available to pay for the work completed. However, because this reserve was set up as a capital reserve for the improvement of

⁷ Engineering cost \$5,000 and contractual cost to replace wall structure \$80,000

⁸ Initial estimate for wall structure only was \$469,000 from the engineering firm hired by the Village to fix the wall, total actual cost of wall structure \$80,000 – a \$389,000 savings.

⁹ Two trustees and the Mayor in attendance

¹⁰ The total requested for payment was \$144,427; approximately \$42,000 was paid with general fund moneys.

¹¹ General Municipal Law §9-a authorizes certain interfund advances, which must be repaid by the close of fiscal year in which the advance is made. However, moneys which, by law, may only be used for a stated purpose, such as moneys in a capital reserve fund, may not be advanced under section 9-a.

the water system, expending from the reserve for other than the intended purpose, such as for this project, was an inappropriate use of the reserve. In addition, the failure to comply with permissive referendum requirements when expending moneys from this reserve precluded the public from exercising its statutory rights to be heard with respect to the disbursement of reserve moneys.

Recommendations

1. The Board should ensure that due care is taken to adhere to all statutory requirements as they pertain to establishing and expending from a reserve fund. This includes expending moneys from the reserve only for the purpose for which the reserve was established or properly transferring moneys into other reserve funds.
2. The Board should ensure that the water reserve fund is made whole, upon receiving reimbursement from the State grant.

Financial Management

One of the Board's most significant oversight responsibilities is the requirement to conduct audits. The audit process should be an integral part of the Village's system of checks and balances. Board members should receive claims for audit and conduct a deliberate and thorough audit of these claims before the disbursement of Village moneys. The Board should also conduct a proper annual audit of the Clerk-Treasurer's annual financial report and supporting records. These audits can help determine whether public money is being spent and handled properly, identify conditions in need of improvement, and provide oversight and review of Village financial operations.

The Village Board, the Board of Water Commissioners and the Board of Sewer Commissioners are each responsible for auditing and approving all non-payroll claims that are within their jurisdiction prior to payment. However, 36 claims totaling over \$36,600 were paid without any audit or approval by the respective Board, and nine claims totaling \$9,316 were paid prior to audit and approval by the respective Water or Sewer Boards. Furthermore, when the Village Board did approve claims, it did so based only on reviews of voucher edit lists,¹² not the underlying claims. As a result, there is an increased risk of misuse of Village funds. In addition, the Village Board did not audit, or cause to be audited, the annual financial report or supporting records of the Clerk-Treasurer. As a result, there is an increased risk of errors or irregularities occurring and remaining undetected.

Claims Audit

Village Law requires the Board to audit all claims against the Village before the Clerk-Treasurer pays them unless it authorizes and empowers a Board of Commissioners to audit claims within its jurisdiction. In this Village, the Boards of Water Commissioners and Sewer Commissioners are each expected to audit the claims within their jurisdiction prior to payment. The Boards must require that all claims contain sufficient documentation to determine the nature of the purchase, that the amounts represent actual and necessary Village expenses, that the goods or services were authorized as approved and documented as received, and that the purchases comply with statutory requirements and Village policies. Village Law provides limited exceptions for making payments prior to audit for items such as public utility services, postage, and freight. All such claims should be presented on the next abstract for audit.

¹² The 'voucher edit list' includes only those claims currently awaiting approval for payment; it does not include any pre-paid claims.

Invoices pertaining to the specific fund's business are charged to that particular fund. However, invoices pertaining to general Village business are allocated to each of the three funds proportionately – general, water and sewer. At each regular meeting, the Clerk-Treasurer provides each of the three Boards with a voucher edit list that identifies the claims under its respective jurisdiction that are scheduled to be paid.

The Village Board did not effectively audit all claims under its jurisdiction because it only reviewed the voucher edit lists and did not review each related claim.¹³ The Village Board approved 100 percent of the claims totaling \$242,073 without a specific review of the underlying claims and supporting documentation. Although the Water and Sewer Boards reviewed each respective claim, they did not review the majority of prepaid claims (except for utility bills).¹⁴ We also found that certain claims were paid in advance of audit that were not the type that are allowed by law to be paid prior to audit.

We reviewed 61 check payments totaling \$340,271 to determine whether the related 110¹⁵ claims were for appropriate Village purposes, properly supported, authorized, and paid as authorized:

- Thirty-six claims totaling over \$36,600 were paid without the approval of the respective Board. These claims were primarily for garbage service, fuel purchases charged to a Village gas card, legal services, consulting services, auditor services and website maintenance. These claims were paid before the Board meetings but they were not presented to the respective Boards for audit. Thirteen of these claims totaling \$25,500 were not included on the voucher edit lists given to the Village Board for its review and approval.
- Nine claims totaling \$9,316 were improperly paid prior to audit and approval. Eight claims totaling \$4,810 were sewer fund claims and one claim totaling \$4,506 was a water fund claim. Even though these claims were approved after the checks were mailed, they were for items that are not allowed by law to be paid prior to audit. Village officials told us that because the Sewer Board did not meet regularly to approve

¹³ Claims scheduled to be paid are available at the Village, Water and Sewer Board meetings, but the Village Board does not review the claims. Prepaid utility claims are reviewed at the Water and Sewer Board meetings, but other prepaid claims are not generally present at the meetings of the Village, Water or Sewer Boards.

¹⁴ Except utilities which the Sewer and Water Boards request to review – the Village Board never reviews the utility claims.

¹⁵ Forty-one general fund claims, 32 water fund claims, 37 sewer fund claims.

its portion of the invoices, they disbursed the checks from the sewer fund prior to audit to avoid late fees.

Although we did not find any inappropriate payments, because the Board does not properly audit and approve all claims before payment, it does not have adequate assurance that the purchases are for valid Village purposes which increases the risk of misuse of Village funds.

In addition, our sample included payments totaling over \$216,000 to 10 professional service providers that were made without soliciting competition. The services were primarily for the sewage treatment plant service (\$128,581), landscape architecture (\$28,832), legal services (\$23,242), information technology (\$13,289), auditor services (\$6,850) and engineering (\$5,000).

Though the Village's purchasing policy does not require the solicitation of competition for the acquisition of professional services, it should provide guidance for procuring professional services in a manner that assures the prudent and economical use of public moneys in the best interests of the taxpayers. The solicitation of competition such as through a request for proposal process is an effective means to procure services at the best value and document how the selection was made.

Annual Audit

Village Law requires the Board to annually audit, or have a Village officer, employee, or an independent public accountant audit the financial records of the Clerk-Treasurer. This annual audit provides an independent verification that transactions have been properly recorded and that cash has been accounted for properly. It also provides the Board with assurance that the financial records and reports contain reliable information on which to base financial decisions.

The Board did not audit, or cause to be audited, the annual financial report or records of the Clerk-Treasurer. The Board hired a certified public accountant (CPA) to compile the Village's annual financial report for the fiscal year ending in 2012. In addition, the Mayor and one Trustee told us that they thought the compilation was the annual audit. However, the engagement letter from the CPA specifically states that the compilation significantly differs from a review or an audit of financial statements. For example, an audit would require obtaining an understanding of the Village's internal controls, assessing fraud risk, testing accounting records by obtaining sufficient appropriate audit evidence to conclude on a stated objective. The Clerk-Treasurer told us that she provided the CPA with an annual financial report in the format prescribed by the State Comptroller's Office and that Village

employees made copies of the types of records¹⁶ that the former CPA used. Although CPA firm members asked questions based on the reported numbers they received, they did not make an on-site visit. They performed the review remotely and corresponded with the Village mainly through email. They were not onsite to perform any reviews of bank statements, cancelled checks, testing of cash receipts and disbursements or to ask questions about Village processes.

As a result, we conclude that the Board did not contract with the CPA firm to perform an annual audit. In addition, we found no documentation or evidence in the Board minutes that an audit had taken place. The Board's failure to perform an annual audit diminishes its ability to monitor the Village's financial operations and could result in errors or irregularities occurring and remaining undetected and uncorrected.

Recommendations

3. The Village Board and the Water and Sewer Boards of Commissioners should conduct a thorough and deliberate audit of claims under their jurisdiction before authorizing them for payment.
4. The Clerk-Treasurer should include all claims on the abstracts to be audited and approved for payment. Any claims that are allowed by law to be prepaid should be included on the subsequent abstract to be audited by the Board.
5. The Clerk-Treasurer should ensure that applicable claims are audited by each of the three Boards prior to disbursement, unless otherwise allowed by law.
6. The Board should consider amending its procurement policy to require the solicitation of competition when procuring professional services.
7. The Board should gain an understanding of the annual audit process¹⁷ and effectively audit, or cause to be audited, the financial records of the Clerk-Treasurer.

¹⁶ May (of the current year) and June (next budgeted year) checking and savings reconciliations, trial balances, general ledger accounts with supporting documentation, fixed asset changes, accruals, changes in fund balance and capital project records

¹⁷ For guidance on conducting annual audits, Village officials should refer to our publication entitled, *Local Government Management Guide – Fiscal Oversight Responsibilities of the Governing Board*.

Information Technology

The Board is responsible for designing internal controls over information technology (IT) resources including policies and procedures that protect software and data from loss due to errors, malicious intent or accidents. It is important that the Board establish up-to-date guidelines for the use of Village-owned computer systems and to monitor and control remote access of any outside vendors or consultants to the Village's IT system and data. Also, the Board must develop a disaster recovery plan that addresses the roles of key individuals and the actions that are necessary to prevent the loss of or recover data.

The Board has not designed policies and procedures for Village-owned computer systems. As a result, it does not monitor the remote access of software vendors or the Village's IT consultant who has the ability to modify or destroy financial application data. Further, the Board has not developed a disaster recovery plan, backup copies of data are not stored in a secured off-site location, and the Village does not periodically verify that the system can be restored from the backup copies. As a result, there is an increased risk of loss or misuse of data, or a serious interruption of Village operations.

Policies and Procedures

Policies and procedures should define appropriate behavior and describe the tools and procedures needed to protect data and information systems. Policies should address such issues as acceptable computer use, remote access, disaster recovery and backups.

The Village's employee handbook does not provide any guidance for the use of Village-owned computer systems. The Clerk-Treasurer told us that it has been the practice of the Village to rely on outside vendors¹⁸ and the IT consultant for such guidance. While policies and procedures do not guarantee the safety of the Village's computer system, the lack of policies and procedures significantly increases the risk that data, hardware and software systems may be lost or damaged by inappropriate access and use.

Remote Access

Remote access (from any source) must be controlled and monitored so that only authorized individuals can use the Village's computer system or retrieve data. It is essential that policies and procedures address how remote access is granted, who is given remote access, and how remote access will be monitored and controlled. If remote access users are not Village officials or employees, but are instead

¹⁸ Financial system, water program and tax program vendors

IT consultants, it is important to establish agreements regarding expectation and consequences for violating such expectations.

The Board hired an outside consultant to perform IT related duties for the Village including administering network services for all hardware, network and computers; administering and maintaining the system updates; and acting as a liaison between the Village and software companies. These services are not supported by a service level agreement (SLA) which is typically entered into with third-party IT vendors to capture organizational needs and expectations, and establish who (Village officials or the outside consultant) has responsibility for the various aspects of the Village's IT environment. An SLA should clearly stipulate the contract period, the services to be provided, measurable targets of performance and the basis for compensation. In addition to the IT consultant, the software vendors also have access to the Village programs but need Village authentication¹⁹ prior to logging into the software programs. However, the Village has not developed policies and procedures for remote access or entered into an SLA with the consultant to address the consultant's remote access rights and how they would be monitored by Village officials. Furthermore, this consultant has been granted remote access to the Village server on which the financial application data is stored and backed up. The consultant has continuous access to the server because the server is always kept on, along with the ability modify or destroy financial application data. The Clerk-Treasurer told us that it has been the historical practice of the Village to use this consultant because the consultant helped set up the Village's network and would be the one most familiar with the network and its IT needs.

The Board's failure to develop policies and procedures for remote access or to enter into an SLA with its IT consultant contributes to the lack of accountability for who (Village officials or the IT consultant) has responsibility for the various aspects of the Village's IT environment. The lack of oversight could result in potential loss, damage or misuse of the data.

Data Recovery

A disaster recovery plan describes how Village officials plan to deal with potential disasters. Such disasters may include any sudden catastrophic event that compromises the availability or integrity of the IT system and data. The Board must develop a plan that addresses the roles of key individuals and the precautions that are necessary to prevent the loss of data, and to recover data. Village officials should distribute the plan to all responsible parties, periodically test the plan, and update the plan as needed. Village officials must also back up

¹⁹ Village employees log into an online program, obtain a password and provide the password to vendors to obtain access to the Village's software program for required maintenance.

computer-processed data on a routine basis, and store the backup in an environmentally and physically secure off-site location for retrieval. The data should be periodically tested to verify that it is capable of restoring the Village's computerized system.

The Board has not developed a comprehensive disaster recovery plan. In addition, although the Village performs daily backups of its computer processed data, the Village has not developed a backup policy. Backups are not stored in a secured off-site location. Instead, data on computers and the server is backed up to the server which is located in the Village office. Therefore, the backups are exposed to the same hazards as the original data and would be damaged or destroyed with the original data if a disaster were to occur. In addition, the Village does not periodically verify that the system can be restored from the back-up copies. The lack of a disaster recovery plan and effective back-up procedures could lead to the loss of important data along with a serious interruption to Village operations.

Recommendations

8. The Board should develop and regularly review technology policies and procedures to provide guidance for the use of the Village-owned computer system.
9. The Board should enter into an SLA with the IT provider to clearly stipulate the contract period, the services to be provided, measurable targets of performance and the basis for compensation.
10. The Board should develop policies and procedures addressing how remote access is granted, who is given remote access, and how remote access will be monitored and controlled.
11. The Board should develop and implement a formal disaster recovery plan to prevent the loss of equipment and data, and to recover data. Village officials should distribute the plan to all responsible parties, periodically test the plan, and update the plan as needed.
12. The Board should store backups of Village electronic data in an environmentally and physically secure off-site location. Village officials should periodically test this data to verify it can be used to restore the Village's computerized system.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Village of Pulaski
4917 N. Jefferson Street
Pulaski, NY 13142
Phone (315)298-2622
Fax (315)298-5274

August 28, 2013

In Response to 2013 Audit for Period Covering June 1, 2011 – January 31, 2013:

Addressing the money disbursed from the Reserves for Water Improvements Fund:

The River Street retaining wall collapsed in October of 2010 and was declared an emergency situation by the Village Board. Repairs needed to be made in order to protect the Village Pump Station and sewer systems. Shortly after this, the Office of the State Comptroller was contacted to see if it was acceptable to borrow money from the Reserves for Water Improvements Fund. The Comptroller's Office stated that it was within our scope to borrow and later repay monies from this fund. They would not issue a written statement but gave verbal approval.

See
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The borrowing of funds from our Water Reserves was done to save money on bonding, interest and borrowing costs, and to pay small independent contractors in a timely manner. The Village did not receive money from the NYS Senate as a member item until at least 6 months after the contractors had completed their work. If the money had been appropriated in a timely manner, the Reserves for Water Improvements Fund would have been reimbursed much earlier.

The Village and Water boards borrowed money from the Water Reserves with only the best interest of the taxpayers in mind. Their attempt to save on interest and borrowing costs only took place after receiving the verbal approval from the NYS Comptroller's Office.

Regarding Financial Management:

The audit states that over \$36,000 in claims were paid without any board approval, and that 9 claims totaling over \$9,300 were paid prior to approval by their respective boards. All boards meet once a month, at which time claims and bills are submitted for approval. Some bills are due on a monthly basis or within a 30 day timeframe. Insurance, electric, phone, cable, internet, and equipment rentals are utilities used in the course of business every month and are approved when boards convene. Either Comptroller or State Laws need to be made more flexible to allow monthly expenses to be paid in a timely manner and be reviewed at monthly board meetings.

The Village has paid for an independent audit of our Village Clerk/Treasurer each year for over 29 years. One company has been reviewing our books yearly without any problem or inconsistency. Due to an illness with the main auditor of this independent company, the audit was not completed on time for the fiscal year ending in 2012. All previous audits have consistently occurred in a timely manner.

See
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In conclusion, the Village of Pulaski will do its best to follow and implement the changes and procedures recommended by the Office of the Comptroller.

I do believe that a 3month audit on site, and many more hours spent off site, by 2 employees of the Comptroller's Office for a village the size of Pulaski seems to be a big expenditure. I would like the Comptroller's Office to include the cost of their audits for all entities they have reviewed throughout the year in their Table of Contents in each report.

See Note 3 Page 20

Respectfully Submitted

Karl W. Hax, Mayor
Village of Pulaski

APPENDIX B

OSC COMMENTS ON THE LOCAL OFFICIALS' RESPONSE

Note 1

We often receive questions about interfund transfers and we generally advise that interfund transfers are allowed per section 9-a of General Municipal Law with certain restrictions, such as the loans between funds with different tax bases must be repaid with interest and all loans must be repaid by the close of the fiscal year. The use of the water system improvement reserve money for the emergency repair of the retaining wall did not qualify as an interfund transfer. Had Village officials provided all the facts regarding the proposed transfer from the water system improvement reserve, which we discovered upon our audit, we would have advised Village officials not to expend moneys from this reserve for other than its intended purpose.

Note 2

Village officials contract with an independent auditor for a compilation to assist them in presenting financial information. The engagement letter, addressed to the Mayor, specifically states a compilation differs significantly from a review or an audit of financial statements.

Note 3

Our audits are intended to provide an in depth analysis of local government operations to assist local officials in improving operations. It is unfortunate that the Mayor does not appreciate the effort that we have expended to try to help Village officials make needed improvements.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of this audit was to review the Board's financial management of the water system improvement reserve, claims approval process, annual auditing and controls over information technology (IT) access and data recovery. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed Board minutes and documentation and made inquiries of Village officials and employees to obtain an understanding of their processes regarding the water system reserve, claims audit and annual audit.
- We analyzed the Village's computer-processed and manual data for our audit period to verify completeness, consistency and reliability.
- We inquired about the establishment and intended use of the water system improvement capital reserve. In addition, we reviewed all expenditures made out of the reserve and all expenditures for the River Street retaining wall project.
- We used a random number generator to select a sample of 25 check payments (55 claims) totaling \$24,200. We excluded all payments and claims of the Library fund because it is a separate entity from the Village.
- We selected 36 check payments (55 claims) totaling \$316,070 based on high-risk factors including payments to unrecognizable vendors, payments for higher dollar amounts, and payments for the retaining wall capital project.
- We tested 110 claims to determine whether they contained approval, sufficient backup documentation such as invoices and price quotes, and included goods/services that appeared to be legitimate and necessary.
- We reviewed and evaluated IT access controls and assessed the recovery protocols and procedures for data (e.g., remote access, disaster recovery and backups).

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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