



Galen-Clyde Joint Fire District Board Oversight and Information Technology

Report of Examination

Period Covered:

January 1, 2012 — December 31, 2014

2014M-349



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2015

Dear District 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 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 Galen-Clyde Joint Fire District, entitled Board Oversight 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 New York State General Municipal Law.

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Galen-Clyde Joint Fire District (District) is a district corporation of the State, distinct and separate from the Town of Galen (Town) and Village of Clyde (Village), located in Wayne County. The District covers approximately 60 square miles and serves 4,290 residents. The District provides services for fire suppression, motor vehicle accidents, specialty rescue and fire safety education.

The Board of Fire Commissioners (Board) consists of five elected members and is responsible for the District's overall financial management. The Board appoints a Secretary who is responsible for maintaining the records of all District proceedings. The Secretary also acts as the District's chief fiscal officer and is responsible for receiving and maintaining custody of District funds, disbursing and accounting for those funds and preparing monthly and annual financial reports. The District's budgeted appropriations totaled \$156,198 for 2013, \$157,997 for 2014 and \$157,987 for 2015, primarily funded through real property taxes.

The District is responsible for providing fire apparatus and equipment to the Clyde Fire Company Incorporated (Company).¹ The Board works closely with the Company's Chief to determine equipment needs and includes these needs in the District's budget. Further, the District is responsible for acquiring and maintaining information technology (IT) that is shared with the Company. The Board, with the Chairman as its main IT contact, is responsible for overseeing the District's daily IT operations and functions.

Scope and Objectives

The objectives of our audit were to assess the Board's oversight of the District's financial operations for the period January 1, 2012 through December 31, 2014 and to identify any security vulnerabilities within the District's network and public website for the period January 1, 2013 through October 15, 2014. We extended our scope back to January 1, 2011 to review the District's financial operations. Our audit addressed the following related questions:

- Is the Board providing adequate oversight and management of the District's budget?
- Do security vulnerabilities exist in the District's internal network or public website?

¹ The incorporated fire company is distinct and separate from the Town, Village and Galen-Clyde Joint Fire District. The Company provides the manpower to support the services provided by the District.

Audit Results

We found that the Board and District officials have not provided adequate oversight of the District's financial operations. The Board could not appropriately monitor the budget because it did not receive budget status reports. Consequently, when expenditures approached budgeted appropriations, the Board did not increase appropriations, as required by New York State Town Law. We found that the District routinely overspent its budget for the three-year period from 2011 through 2013. We calculate that the District spent \$33,021 (21 percent) more than its budgeted in 2013. In order to continue to pay bills during this period, the Board improperly transferred a net total of \$40,000 from the District's capital reserve, which had not been repaid as of December 31, 2014. The District reported positive operating results for 2014 with revenues of \$164,189 and expenditures of \$141,278, resulting in a surplus of \$22,911 and a cash balance of \$30,362.

In addition, the Board did not implement appropriate policies and procedures to protect the District's IT assets. The Secretary has full administrative privileges in the financial software. Further, the Board did not provide adequate oversight of the Secretary's work, such as reviewing bank statements, bank reconciliations and audit logs² or conducting an annual audit of the Secretary's books and records. As a result, the District's assets are at an increased risk of misuse or misappropriation.

Comments of District Officials

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

² An audit log is a report that shows any adjustments made to the accounting records, including additions, deletions and modifications of accounting transactions.

Introduction

Background

The Galen-Clyde Joint Fire District (District) is a district corporation of the State, distinct and separate from the Town of Galen (Town) and Village of Clyde (Village), located in Wayne County. The District covers approximately 60 square miles and serves 4,290 residents. The District provides services for fire suppression, motor vehicle accidents, specialty rescue and fire safety education.

The Board of Fire Commissioners (Board) consists of five elected members and is responsible for the District's overall financial management. The Board annually appoints a Secretary who is responsible for recording proceedings of all Board meetings and for retaining custody of District records, books and papers. The Secretary also acts as the District's chief fiscal officer (Treasurer) and is responsible for receiving, maintaining custody of, disbursing and accounting for District funds. The Secretary, as Treasurer, also prepares monthly and annual financial reports, including the annual financial report to the Office of State Comptroller (OSC). The District's budgeted appropriations totaled \$156,198 for 2013, \$157,997 for 2014 and \$157,987 for 2015, primarily funded with real property taxes.

The District is responsible for providing fire apparatus and equipment to the Clyde Fire Company Incorporated (Company).³ The Board works closely with the Company's Chief to determine equipment needs and includes the needs in the District's budget. Further, the District is responsible for the acquisition and maintenance of information technology (IT) equipment that is shared with the Company. The Board, with the Chairman as its main IT contact, is responsible for overseeing the District's daily IT operations and functions.

Objectives

The objectives of our audit were to assess the Board's oversight of the District's financial operations and identify any security vulnerabilities within the District's network and public website. Our audit addressed the following related questions:

- Is the Board providing adequate oversight and management of the District's budget?
- Do security vulnerabilities exist in the District's internal network or public website?

³ The incorporated fire company is distinct and separate from the Town, Village and Galen-Clyde Joint Fire District. The Company provides the manpower to support the services provided by the District.

**Scope and
Methodology**

We examined the District's financial records and reports for the period January 1, 2012 through December 31, 2014. We extended our scope back to January 1, 2011 to review the District's financial operations.

We also examined the District's internal controls relating to its computerized data and assets for the period January 1, 2013 through October 15, 2014. Due to the potential sensitivity of this information, we have communicated our audit results in this area confidentially to District 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 B of this report.

**Comments of
District Officials and
Corrective Action**

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of Town Law, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. 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. The Board should make the CAP available for public review in the Secretary's office.

Board Oversight

The Board is responsible for promoting fiscal stability and safeguarding District resources by developing and implementing an effective system of internal controls over financial operations. In particular, by establishing good budget controls and by properly establishing and expending from capital reserves, the Board can help to promote an environment of fiscal stability.

Budgetary controls are intended to guard against the expenditure of funds in excess of available appropriations. Reviewing monthly budget status reports, containing up-to-date budget-versus-actual figures, and other financial reports are good budgetary controls to monitor the budget and ensure that appropriations are available before expenditures are made. The Treasurer must notify the Board if it appears probable that available appropriations will be insufficient to meet expenditures. The Board may, by resolution, modify the budget to increase appropriations from other funding sources.⁴ Additionally, reserve funds may be established by Board action, pursuant to various laws,⁵ and used as a budgeting tool to finance all or part of future capital outlays or other allowable purposes. Reserve funds can provide a degree of financial stability by reducing reliance on indebtedness or unassigned fund balance to finance fire apparatus and equipment.

We found that the Board did not provide adequate oversight of the District's financial operations. The District routinely overspent their budget for the three-year period from 2011 through 2013. These deficits occurred primarily due to a lack of budgetary controls. The Board did not adequately monitor the budget to ensure that sufficient appropriations were available to meet expenditures resulting in the District exceeding its budgetary appropriations for the fiscal years 2011 through 2013. For 2014, expenditures did not exceed appropriations.

⁴ The Board may transfer between appropriations, increase appropriated fund balance or issue budget notes.

⁵ Fire districts may establish a number of different kinds of reserves in accordance with New York State General Municipal Law (GML). To establish a capital reserve fund, the Board must adopt a resolution for either a "specific" or "type" capital reserve. Such resolution shall not take effect until approved by the affirmative vote of a majority of the electors of such fire district affected. A permissive referendum is required prior to expenditure of a "type" capital reserve. Expenditures from reserve funds must also be authorized by Board resolution.

Figure 1: General Fund Expenditures – Budget-to-Versus

Year	2011	2012	2013	2014
Budgeted Appropriations	\$153,891	\$153,891	\$156,198	\$157,997
Total Expenditures	\$169,999	\$179,727	\$189,219	\$141,278
Amount (Overspent)/Underspent	(\$16,108)	(\$25,836)	(\$33,021)	\$16,719
Percentage of Expenditures Over/(Under) Budget	11%	17%	21%	(11%)

The significant overspending occurred in part because the District did not have policies and procedures in place to effectively monitor the budget throughout the year. The Secretary, as Treasurer, did not create and provide the Board with budget status reports during our audit period. Therefore, the minutes did not contain any Board resolutions to properly amend the budget to increase appropriations, as required by law. The Board's failure to limit expenditures to available appropriations indicates that it is not adequately monitoring the budget and resulted in funds not being available for necessary and authorized expenditures.

During the fiscal years 2011 through 2013, to help offset the cash shortfalls in the general fund, the Board improperly transferred a total of \$70,000 from the capital reserve fund to the general fund. The District did a better job of monitoring their budget in 2014 and reported positive operating results for 2014 with general fund revenues of \$164,189 and expenditures of \$141,278, resulting in a surplus of \$22,911 and ending the fiscal year with a cash balance of \$30,362. However, as of December 31, 2014, the District's general fund still owed the capital reserve fund \$40,000 from the improper transfers made between 2011 and 2013.

Lastly, the Board did not conduct an annual audit of the Secretary's records for the years 2011 through 2013. Without an audit of the financial records, District officials cannot be assured that all financial information is accurate.

Recommendations

The Board should:

1. Develop policies and procedures to assist in budgetary control, including:
 - Board review of budget status reports as a tool to monitor the budget.
 - Timely budget amendments to increase appropriations by Board resolution before being overspent.

2. Ensure that funds are expended from reserves for the purposes for which the reserve was established, or as otherwise provided by law. Return the \$40,000 to the reserve fund.
3. Conduct an annual audit of the Secretary's records.

The Secretary should:

4. Create and provide monthly budget status reports to the Board.

Information Technology

The Board is 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 to safeguard District data. This is especially important when using a personal laptop for District purposes.

The Board did not implement appropriate policies and procedures, such as adopting a breach notification policy or establishing a disaster recovery plan, to protect the District's IT assets. Further, the Secretary has full administrative privileges in the financial software. Finally, the Board did not provide adequate oversight of the Secretary's work, such as reviewing bank statements, bank reconciliations and audit logs.⁶ As a result, the District's IT assets are at an increased risk of misuse or misappropriation.

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 District 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 without unreasonable delay, consistent with the legitimate needs of law enforcement or any measure 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, District officials may not understand or be prepared to fulfill their legal obligation to notify affected individuals.

Disaster Recovery Plan

It is essential that District 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 and emergency notification functions during and after the disruption. It is important that District 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, District officials should

⁶ An audit log is a report that shows any adjustments made to the accounting records, including additions, deletions and modifications of accounting transactions.

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, District officials may 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 District's IT assets are at an increased risk of loss or damage, and the District's response to emergency calls may be impeded.

Secretary's Use of Personal Laptop

The Board is responsible to safeguard District data by providing adequate oversight of IT operations. However, the use of personal laptops for District purposes presents a challenge because the Board may not have direct oversight of a non-District owned laptop. As such, the implementation of adequate policies and procedures is necessary to reduce the risk of potential loss or misuse of District data on personally-owned devices. Requirements for timely system and antivirus updates and backups are 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.

When the Secretary, as Treasurer, uses a personal laptop to maintain the District's records with administrative privileges in the financial software, it is important that the Board implements mitigating controls such as reviewing bank statements, bank reconciliations and audit logs to ensure that all transactions are complete, accurate and for appropriate District purposes.

The Board has not adopted policies and procedures to address the risk of using personal laptops for District purposes. The Secretary uses her personal laptop to maintain the District's accounting records using District-provided financial software and to maintain the Board minutes. The Secretary informed us that both her operating system and antivirus software automatically update, and she performs backups regularly. However, without policies and procedures in place, the Board cannot be assured that the Secretary is taking appropriate measures to safeguard District assets.

Further, the Secretary has administrative privileges such that she can view, add, delete and modify records in all functions of 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 District. The Board does not provide adequate oversight of the Secretary to mitigate the increased risk that comes with her administrative rights. The Board does not review bank statements and bank reconciliations.

The Board also does not ask for an audit log to be generated. Without these essential mitigating controls, there is an increased risk that accounting errors and irregularities may occur and remain undetected.

Recommendations

The Board should:

5. Adopt policies and procedures governing IT, including a breach notification policy, a disaster recovery plan and security requirements for the use of personal laptops for District purposes.
6. Regularly review bank statements, bank reconciliations and audit logs to mitigate the increased risk of the Secretary's administrative rights within the financial software.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

GALEN CLYDE JOINT FIRE DISTRICT
15 Ford Street
PO Box 19
Clyde, New York 14433

Edward V. Grant Jr., Chief Examiner
Office of the State Comptroller
Rochester Regional Office
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614

Re: Report of Examination 2014M-349

July 22, 2015

Dear Mr. Grant,

This letter is in response to the preliminary draft findings and recommendations of your office's recent examination and exit interview of the Galen Clyde Joint Fire District.

We agree with your findings and recommendations. The Board will file the appropriate Corrective Action Plans based on the reports findings. The District has already is working on steps to correct some of your recommendations as follows:

- The District Secretary submits monthly budget status reports monthly to the Board.
- The District has retained an IT Consultant to assist the District to create security procedures and protocols.
- Currently working on revised and/or new policies in regards to budgets, reserves and IT.

The Galen Clyde Joint Fire District will continue to provide the residents with the highest quality of fire and emergency services while remaining fiscally responsible.

Sincerely,

Joseph Tavano Sr., Chairman
Galen Clyde Joint Fire District

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objectives of our audit were to assess the Board's oversight of the District's financial operations for the period January 1, 2012 through December 31, 2014 and identify any security vulnerabilities within the District's network and public website for the period January 1, 2013 through October 15, 2014. To accomplish the objectives of the audit and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed pertinent documents such as the Board minutes and the 2011 through 2014 annual update documents submitted to OSC to gain an understanding of the District's financial operations.
- We performed financial analyses for fiscal years 2011 through 2014 to analyze trends for fund balance levels, operating surpluses or deficits, budget-to-actual variances and year-end cash balances.
- We interviewed District and Company officials to gain an understanding of the District's policies and procedures for budgeting, for cash disbursements, for funding and using the capital reserve and for IT, including the use of personal laptops for District purposes.
- We reviewed 2011 through 2014 cash transfers to determine how much money was transferred to and from the capital reserve.
- We reviewed the Board minutes for evidence of budget monitoring such as budget transfers and appropriation of fund balance.

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 C

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