

Village of Interlaken

Water and Sewer Financial Operations and Information Technology

JUNE 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Village of Interlaken

Audit Objectives

Determine whether:

- The Board provided adequate oversight and management of the Village's water and sewer finances.
- Village officials adequately safeguarded information technology (IT) assets.

Key Findings

- The water and sewer infrastructure are in disrepair and the Board did not develop a comprehensive, written multiyear financial or capital plan to address needed repairs.
- We estimate that, for residents with both water and sewer services, rates would initially increase from a combined \$320 per year to about \$950 per year to finance new debt for infrastructure repairs and continuing operational expenses.
- The Board did not develop proper IT controls.

Key Recommendations

- Develop comprehensive multiyear financial and capital plans that project operating and capital needs and financing sources for a minimum three-to five-year period.
- Review water and sewer rates to ensure they generate sufficient revenues to finance expenditures and pay for maintenance and infrastructure improvement costs.
- Develop and implement written IT policies and procedures.

Village officials agreed with our findings and indicated they plan to initiate corrective action.

Background

The Village of Interlaken (Village) is located in the Town of Covert in Seneca County. The Village is governed by an elected Board of Trustees (Board), composed of four Trustees and the Mayor.

The Board is the legislative body responsible for oversight and general management of financial operations. The Mayor is the chief executive officer responsible for day-to-day management under the Board's direction. The Clerk-Treasurer is the chief fiscal officer responsible for receiving, disbursing and maintaining custody of money, preparing financial reports and maintaining accounting records.

Quick Facts

| | |
|---------------------------------------|-----------|
| Population | 620 |
| Water Customers | 322 |
| Sewer Customers | 279 |
| 2018-19 Budgeted Water Appropriations | \$153,109 |
| 2018-19 Budgeted Sewer Appropriations | \$86,003 |

Audit Period

June 1, 2017 – December 18, 2018.

We extended the scope back to June 1, 2015 to review financial trends of the water and sewer funds.

Water and Sewer Financial Operations

How Should a Village Manage Water and Sewer Financial Operations?

To effectively manage water and sewer operations, village officials are responsible for developing accurate water and sewer budgets to ensure there are enough resources to provide the services that residents require. In addition, officials are responsible for maintaining adequate infrastructure to provide for safe and reliable water and sewer services.

To fulfill this responsibility, village officials should create an effective long-term capital plan spanning a minimum of three to five years for maintaining the water and sewer systems' infrastructure. Long-term capital plans can help the village meet this significant financial responsibility without overburdening taxpayers or disrupting vital services. Furthermore, an effective plan enables village officials to balance capital priorities with fiscal constraints and arrange for sufficient financing for the desired improvements.

Water and Sewer Infrastructure Are in Disrepair and the Board Has Not Adopted a Long-term Capital Plan

The Board has not adopted any long-term plans to address replacement of the water and sewer operations' aging infrastructure. The lack of upkeep resulted in an urgent need to repair the water tower (tower), which was constructed in 1933. In January 2018 the tower began leaking at a rate of 5,000 to 10,000 gallons per day. This resulted in the need for emergency repairs for which the Village received \$261,000 in emergency funding from the New York State Environmental Facilities Corporation (EFC).

The Village completed a water infrastructure study in 2012 and updated it in 2018. Between 2012 and 2018, the Village increased customers' water rates by \$10 per quarter for the minimum cost (March 2013), increased the cost for gallons consumed over the minimum by up to \$1.37 per 1,000 (July 2015) and added a per customer fee of \$10 per quarter for a water tank reserve (July 2016). However, Board members stated these increases were based on what they felt residents would be willing to pay for water services rather than the amount necessary to keep the infrastructure operational. The updated 2018 infrastructure study estimated the water infrastructure requires \$6.4 million in improvements; however, the final costs were estimated as \$6.3 million.¹

Furthermore, the Village's sewer plant also requires significant upgrades to comply with environmental regulations. The sewer plant was built in the 1950s. Cost estimates for the necessary sewer infrastructure upgrades total approximately \$5 million.

¹ Inclusive of the \$261,000 in emergency funding provided to temporarily fix the water tower.

Water and Sewer Fund Finances Are Not Sufficient to Fund Needed Repairs and Operations

During fiscal years 2015-16 through 2017-18, the Board developed water fund budgets to fund a water capital reserve and also start funding a water tower reserve that was established in 2016. The water capital reserve and the water tower reserve currently have balances of approximately \$52,000 each. During the same years, officials added an additional \$5,000 to the sewer capital reserve, increasing the balance to approximately \$33,000.

Village officials also sought grant assistance from the EFC to help fund the projects. In November 2018, the State awarded \$3 million to assist with the Village's water infrastructure improvements and \$1.2 million for sewer infrastructure, leaving \$7 million to be funded with local funds.² The Village's water system covers 322 customers and the sewer system covers 279 customers. Therefore, we estimate that, in the best case scenario (the Village receives interest-free financing for a 38-year term from EFC³ to finance the remaining balance), residents having both water and sewer services would see their rates increase initially from a combined \$320 per year to about \$950 per year to finance the new debt and continuing operational expenses.⁴ If the Village does not qualify for an interest-free loan from EFC, these rates will be even higher due to interest costs and likely a shorter-term loan. Therefore, due to the lack of planning and maintenance, current water and sewer rates will need to be increased approximately 300 percent to fund operational expenses and debt service for the necessary infrastructure upgrades.

What Do We Recommend?

The Board should:

1. Develop comprehensive multiyear financial and capital plans that project operating and capital needs and financing sources for a minimum three-to five-year period.
2. Review water and sewer rates to ensure they generate sufficient revenues to finance expenditures and pay for maintenance and infrastructure improvement costs.

² At the end of audit field work, the Village was still exploring other financing sources.

³ The United States Department of Agriculture's longest term offered is 38 years. The loan repayment shall not exceed the useful life of the project or 40 years from the date of the bond. We use 38 years because the project is typically on a bond anticipation note for two years before the loan closes.

⁴ Increases in operational costs over time should also be factored in.

Information Technology

A village's IT system is a valuable and essential part of operations, used for accessing the Internet, communicating by email, processing and storing data, maintaining financial records and reporting to State and federal agencies. Therefore, it is imperative that computerized data is properly safeguarded.

How Should IT Data Be Safeguarded?

The board should adopt and officials should implement and monitor suitable IT policies and procedures to ensure village assets are protected against waste, loss and misuse. Effective IT controls include policies and procedures to address acceptable use, password security management, unique user accounts, remote access, wireless technology and mobile devices. New York State Technology Law⁵ requires a village to have a breach notification policy or local law that requires certain individuals to be notified when there is a system security breach involving personal, private and sensitive information (PPSI).⁶

The board should also adopt a comprehensive disaster recovery plan or backup procedures to prevent the loss of computerized data and assets and ensure that operations can resume in the event of a power outage or disaster. In addition, officials should provide security awareness training to all village staff. All IT policies and procedures should be periodically reviewed and updated to reflect changes in technology and the village's computing environment.

The Board Did Not Adopt IT Policies and Procedures

The Board did not adopt IT policies addressing acceptable use, password security management, remote access, wireless technology, mobile devices and breach notification because it was unaware it should have them. Without formal policies that set the standards and expectations for the responsible use of Village computer resources, there is an increased risk that resources could be misused or that data could be lost or corrupted. Further, the Board and Village officials said they were not aware of the requirement to adopt a breach notification policy or local law. As a result, if PPSI is compromised, officials may not understand or fulfill the Village's legal obligation for notifying affected individuals.

User Accounts Were Not Unique

Officials did not assign unique login credentials to each financial application user. Two employees use the financial application by sharing a single user account.

⁵ New York State Technology Law Section 208

⁶ PPSI is defined as information that, if lost, compromised or disclosed, could result in substantial harm, embarrassment, inconvenience or unfairness to an individual. PPSI includes Social Security numbers, bank account numbers, healthcare information, credit and debit card numbers and driver's license information.

Because one of the two users does not routinely use the application,⁷ officials thought it was acceptable for them to share one account. When shared accounts are used, accountability is diminished and system activity may not be able to be tracked back to a single user.

The Board Did Not Adopt a Disaster Recovery Plan or Backup Procedures

The Board and Village officials have not developed, adopted and implemented a disaster recovery plan or formal backup procedures. The Village has backup procedures in place but they are not documented. Therefore, in the event of a disaster, Village officials and employees have no guidelines or plan to follow to prevent the loss of equipment and data or appropriately recover data. Further, Village officials do not have procedures in place for testing backups. Without a formal written plan, all responsible parties may not be aware of where they should go, or how they will continue to do their jobs, to resume business after a disruptive event.

Why Should the Board Provide IT Security Awareness Training?

To minimize the risk of unauthorized access and misuse or loss of data and PPSI, the board should provide periodic IT security awareness training that explains the proper rules of behavior for using the Internet and IT systems and data and communicates related policies and procedures to all employees. The training should center on emerging trends such as information theft, social engineering attacks⁸ and computer viruses and other types of malicious software, all of which may result in PPSI compromise. Training programs should be directed at the specific audience (e.g., system users or administrators) and include everything that attendees need to perform their jobs.

The training should also cover key security concepts such as the dangers of downloading files and programs from the Internet or portable devices such as thumb drives; the importance of selecting strong passwords; any requirements related to protecting PPSI; the risks involved with using unsecured Wi-Fi connections; or how to respond if a virus or an information security breach is detected.

The Board Did Not Provide IT Security Awareness Training

The Board did not provide employees with IT security awareness training to ensure they understand security measures needed to protect the network because they did not realize its importance.

⁷ The Village has one financial computer.

⁸ Social engineering attacks are methods used to deceive users into revealing confidential or sensitive information.

The IT cybersecurity community identifies people as the weakest link in the chain to secure data and IT systems. The Board cannot protect the confidentiality, integrity and availability of data and computer systems without ensuring that users, or those who manage IT, understand the IT security policies and procedures and their roles and responsibilities related to IT and data security. Without IT security awareness training, users may not understand their responsibilities and are more likely to be unaware of a situation that could compromise IT assets. As a result, data and PPSI could be at a greater risk for unauthorized access, misuse or loss.

What Do We Recommend?

The Board should:

3. Adopt written IT policies and procedures to address acceptable computer use, password security management, remote access, wireless technology, mobile devices, breach notification, disaster recovery and security management.
4. Provide employees with IT security awareness training.
5. Periodically review and update all IT policies and procedures to reflect changes in technology and the Village's computing environment.

Village officials should:

6. Assign unique user accounts to employees and ensure that the assigned access rights are required to perform their job functions.

Appendix A: Response From Village Officials



May 23, 2019

Office of the State Comptroller
Division of Local Government
and School Authority

RE: Village of Interlaken Water and Sewer Financial Operations and Information Technology Report of Examination - 2019M-74

Dear Sirs,

The Village of Interlaken is in receipt of the above draft audit report. The Village finds no disagreement with the examiner's findings. We appreciate your office's thorough review and will be using the audit's findings to develop a Corrective Action Plan (CAP).

The village will submit a CAP within 90 days of the final report.

Thank you for your hard work and attention to these matters.

Respectfully,

Mayor Richard Richardson
Village of Interlaken

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials and employees and reviewed Board minutes, policies and procedures to gain an understanding of the Village's operations, IT controls and the IT environment.
- We reviewed bank reconciliations for fiscal year-end May 31, 2018. We also traced transfers to other Village accounts.
- We reviewed fund balances, including reserves, and calculated the Village's unrestricted fund balance as a percent of the ensuing year's appropriations.
- We reviewed documentation including budget-to-actual reports and general ledger reports to determine the causes of variances from budget estimates to actual results.
- We reviewed the Village water and sewer cost studies to understand the Village's needs.
- We calculated what it would cost the Village for its water, sewer and flood projects based on 38 and 30-year bonds at 0 percent and 2.5 percent financing.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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