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# THE BONADIO GROUP

Accounting, Consulting & More

## Town of Marion, New York

### *Independent Internal Control Risk Assessment Report*

*Risk Assessment for the year ended  
December 31, 2024*

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May 1, 2024

Town Supervisor and Town Board  
Town of Marion  
3823 North Main Street  
Marion, NY 14505

Dear Town Supervisor and Town Board Members:

The following is a report of our risk assessment for the Town of Marion, New York (the "Town"). Bonadio & Co., LLP was engaged by the Town Supervisor to perform a risk assessment consulting services on the Town's Internal Controls and Financial Policies.

The purpose of the risk assessment is to provide the Town with a review of internal controls in place to prevent and detect fraud, ensure financial reporting is accurate and that Town assets are safeguarded.

The content of this report is intended to provide the Town with the baseline information necessary to understand the risks and if deemed necessary develop, approve and implement improvements.

In performing our engagement, we relied on the accuracy and reliability of information provided by Town personnel. We have not audited, examined or reviewed the information, and express no assurance on it. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This consulting engagement report is intended solely for the information and use of the Town Supervisor, the Town Board, and other applicable employees within the Town and is not intended to be and should not be used by anyone other than those specified parties.

We appreciate the opportunity to prepare this Independent Risk Assessment for the Town of Marion, New York and are available to assist you in carrying out other any improvements. We are also available to answer your questions anytime.

Very truly yours,

BONADIO & CO., LLP



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Partner

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# Executive Summary

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In 2024, the Town of Marion's Board appointed Bonadio & Co, LLP as the Town's internal audit consultants to perform a risk assessment of its internal controls and financial policies for the year ended December 31, 2024, and, if necessary, to assist in the development and implementation of improvements noted in the report.

This report focuses on the risk assessment of internal controls of the Town's operations, financial reporting policies, procedures and functional activities.

Our interviews with Town personnel were directed toward gaining an understanding of the Town's control environment and related risks in each internal control area, from the perspective of management's responsibility for controlling such risks. Using this information, we assessed the risk (low, moderate or high) present in each area. A summary of this risk assessment by control cycle is included on the pages that follow.

Key findings include;

- The Town has not developed formal documented policies for many of its internal controls.
- The Town has a relatively small staff performing its controls. In many instances, there are segregation of duties conflicts that may be alleviated through a combination of reassignment of tasks or monitoring activities.



# Risk Assessment and Internal Audit Strategy

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## Objective

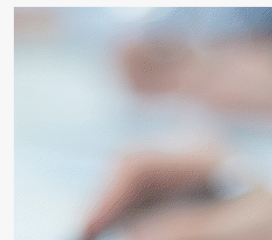
The objective of this risk assessment is to gain an understanding of the internal controls and financial policies of the Town during the year ended December 31, 2024 (the testing period) and assess their overall risk and report on the risk factors noted as well as opportunities for improvements. We relied on interviews with Town personnel, observations, and Town policies and amendments.

## Risk Assessment Performed

We conducted our risk assessment of key areas and transactions in order to assess risk for each of the significant transaction cycles and functional responsibilities. This information will be shared and discussed with the Town Supervisor and Board to identify high-risk areas that may need further review.

Throughout our interviews and testing, we discussed controls as they stand today and what changes have occurred during the testing period. Our testing of those controls included a sample of bank statements that spanned the testing period.

We utilized an interview approach in performing the Town's risk assessment. We identified key risk areas or circumstances that could significantly prevent the Town from effectively achieving its goals. Each risk was evaluated as to whether its potential effect would be **low, moderate, or high**. We obtained an understanding of Administration's and the Town Board's attitude, awareness and actions concerning internal control. We assessed the "tone at the top" regarding internal control and developed our risk assessment accordingly.



## Risk Assessment and Internal Audit Strategy

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### Transaction Cycles and Functions Subject to Risk Assessment

We determined the control objectives, risk, and control activities associated with each of the following transaction cycles or functions identified to determine the nature, timing and extent of internal auditing procedures necessary for conducting the internal audit work.

The following transaction cycles and functional responsibilities were discussed with Town personnel:

- Revenues, billings and receivables
- Cash receipts and banking
- Capital assets
- Payroll and human resources
- Purchasing and cash disbursements
- Information Technology
- Debt Activities
- General ledger and financial reporting

In addition, we assessed the adequacy of accounting policies and governance through audit inquiries, observations and discussions with Administration and other Town personnel.

The concept of materiality is intrinsic to the risk assessment of the Town. The areas of the Town that deal with more significant dollars or a higher volume of transactions may score as higher risk. The scope is primarily risk-based and is organized around the Town's major internal control cycles. Inherent risk relates to the environment both in and around the Town and therefore, the Town has less influence on these risks. Control risk relates to the Town's internal controls and demonstrate the level at which the controls are designed and operating to lower the Town's overall risk, whereby a low control risk demonstrates that the Town's controls are well designed and operating effectively to lower risk.

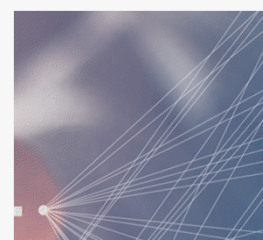


# Risk Assessment Summary

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The pages that follow summarize our evaluation of each of the transaction cycles and functional responsibilities we considered.

The attached appendix provides background and definitions to the risk categories used.



## Risk Assessment Summary

Audit Area	Risk Assessment			
	Inherent	Control	Materiality	Overall
Revenues, Billings and Receivables	Moderate	Moderate	High	Moderate

### Contributing factors in our Risk Assessment

#### Factors contributing to our assessment of Inherent Risk

##### Factors that lower Inherent Risk

- Town utilizes a tax-collection software which issues pre-numbered receipts and therefore have a lower susceptibility to error or fraud
- Town will soon outsource the payments received for the water & sewer department.

##### Factors that increase Inherent Risk

- Cash and checks are collected by the Town Clerk and a deputy. The nature of cash transactions present additional risks and therefore have a higher susceptibility to error or fraud

#### Factors contributing to our assessment of Control Risk

##### Factors that lower Control Risk

- No significant factors

##### Factors that increase Control Risk

- During our inquiries relating to the internal controls related to the Town's revenues, billings and receivables activities, we noted that due to the small size of the Town, there is not optimal segregation of duties over the process

## Risk Assessment Summary

Audit Area	Risk Assessment			
	Inherent	Control	Materiality	Overall
Cash Receipts and Banking	Moderate	High	Moderate	Moderate

### Contributing factors in our Risk Assessment

#### Factors contributing to our assessment of Inherent Risk

##### Factors that lower Inherent Risk

- Personnel have been performing the duties for several years
- Limited need for judgement in accounting transactions

##### Factors that increase Inherent Risk

- Cash and checks are collected by the Town Clerk and a deputy. The nature of cash transactions present additional risks and therefore have a higher susceptibility to error or fraud

#### Factors contributing to our assessment of Control Risk

##### Factors that lower Control Risk

- No significant factors

##### Factors that increase Control Risk

- During our inquiries relating to the internal controls related to the Town's cash receipts and banking activities, we noted that due to the small size of the Town, there is not optimal segregation of duties over the process
- Bank reconciliations are not reviewed or signed off before going to the Town Board



## Risk Assessment Summary

Audit Area	Risk Assessment			
	Inherent	Control	Materiality	Overall
Capital Assets	Low	Moderate	High	Moderate

### Contributing factors in our Risk Assessment

#### Factors contributing to our assessment of Inherent Risk

##### Factors that lower Inherent Risk

- The nature of these transactions in a local government tends to be larger amounts that are largely observable and therefore have a lower susceptibility to error or fraud
- No known prior period misstatements
- Limited need for judgement in accounting transactions

##### Factors that increase Inherent Risk

- The Town does not have a fixed asset tracking software and utilizes excel for tracking fixed assets. There is a higher risk of error when utilizing manual spreadsheets

#### Factors contributing to our assessment of Control Risk

##### Factors that lower Control Risk

- No significant factors

##### Factors that increase Control Risk

- During our inquiries relating to the internal controls related to the Town's capital assets, we noted that due to the small size of the Town, there is not optimal segregation of duties over the process
- Fixed Asset controls related to financial reporting and accounting are generally executed at or near year end and are a manual process

## Risk Assessment Summary

Audit Area	Risk Assessment			
	Inherent	Control	Materiality	Overall
Payroll and Human Resources	Moderate	High	Moderate	High

### Contributing factors in our Risk Assessment

#### Factors contributing to our assessment of Inherent Risk

##### Factors that lower Inherent Risk

- There are not a significant number of employees at the Town
- Limited need for judgement in accounting transactions
- Personnel have been performing the duties for several years

##### Factors that increase Inherent Risk

- Timecards are used by Town employees to report time. There is a higher risk of error when utilizing manual processes for time reporting

#### Factors contributing to our assessment of Control Risk

##### Factors that lower Control Risk

- No significant factors

##### Factors that increase Control Risk

- During our inquiries relating to the internal controls that related to the Town's Payroll and human resources activities, we noted that due to the small size of the Town, there is not optimal segregation of duties over the process with the Principal Account Clerk performing all the functions leading up to entering the data in the software. However, the Town Supervisor does sign off on transfer slips and checks.

## Risk Assessment Summary

Audit Area	Risk Assessment			
	Inherent	Control	Materiality	Overall
Purchasing and Cash Disbursements	Low	Moderate	High	Moderate

### Contributing factors in our Risk Assessment

#### Factors contributing to our assessment of Inherent Risk

##### Factors that lower Inherent Risk

- Personnel have been performing the duties for several years
- Limited need for judgement in accounting transactions
- Limited complexity related to the processes and procedures

##### Factors that increase Inherent Risk

- No significant factors

#### Factors contributing to our assessment of Control Risk

##### Factors that lower Control Risk

- Town Board is currently working on updating their RFP process

##### Factors that increase Control Risk

- Based on our discussion with the Town's management, some budget lines appear to change month to month without formal resolution from the Town Board
- During our inquiries relating to the internal controls that related to the Town's purchasing and cash disbursements activities, we noted that due to the small size of the Town, there is not optimal segregation of duties over the process
- The accounting software does not have budget controls to alert or prevent over-expenditure of appropriations as the monitoring of the budget is a manual process after expenditures are incurred and/or paid
- The Town does not have a budget tracking software and utilizes excel for tracking and modifying the budget. There is a higher risk of error when utilizing manual spreadsheets

## Risk Assessment Summary

Audit Area	Risk Assessment			
	Inherent	Control	Materiality	Overall
Information Technology (IT)	High	High	High	High

### Contributing factors in our Risk Assessment

#### Factors contributing to our assessment of Inherent Risk

##### Factors that lower Inherent Risk

- No significant factors

##### Factors that increase Inherent Risk

- There is not an Information Technology specialist on staff or outsourced
- Information Technology laws, regulations and activities are complex in nature

#### Factors contributing to our assessment of Control Risk

##### Factors that lower Control Risk

- No significant factors

##### Factors that increase Control Risk

- Policies and procedures related to Information Technology activities are not formally documented
- During our inquiries relating to the internal controls that related to the Town's Information Technology activities, we noted there is not a network utilized by the Town as each of their computers operate as a standalone. Regular backups of files are either not performed or not performed regularly
- The Town does not regularly perform technical security testing, such as penetration testing, vulnerability assessments, or social engineering

## Risk Assessment Summary

Audit Area	Risk Assessment			
	Inherent	Control	Materiality	Overall
Debt Activities	Low	Low	Moderate	Low

### Contributing factors in our Risk Assessment

#### Factors contributing to our assessment of Inherent Risk

##### Factors that lower Inherent Risk

- The Town only issues debt for the water districts
- Personnel have been performing the duties for several years
- Town receives email reminders from USDA regarding upcoming interest/principal payments

##### Factors that increase Inherent Risk

- Debt payments are tracked manually through a debt book. There is a higher risk of error when utilizing manual processes for debt tracking. Manual records also increase the risk of incomplete or untimely reporting

#### Factors contributing to our assessment of Control Risk

##### Factors that lower Control Risk

- During our inquiries relating to the internal controls that related to the Town's Debt activities, we noted that the Town hasn't issued debt since 2021. The payments of the debt are handled through the A/P process and are tracked through the Town's budget process

##### Factors that increase Control Risk

- No significant factors



## Risk Assessment Summary

Audit Area	Risk Assessment			
	Inherent	Control	Materiality	Overall
Financial Reporting	High	Moderate	Moderate	Moderate

### Contributing factors in our Risk Assessment

#### Factors contributing to our assessment of Inherent Risk

##### Factors that lower Inherent Risk

- No significant factors

##### Factors that increase Inherent Risk

- The Town is not required to have an external audit and does not compile full GAAP financial statements on an annual basis. However, the Town does submit the required annual financial report to NYS each year

#### Factors contributing to our assessment of Control Risk

##### Factors that lower Control Risk

- During our inquiries relating to the internal controls that related to the Town's financial reporting activities, we noted monthly reports are prepared by the Town Clerk, which are reviewed and signed off by the Town Supervisor before going to the Town Board.

##### Factors that increase Control Risk

- No significant factors

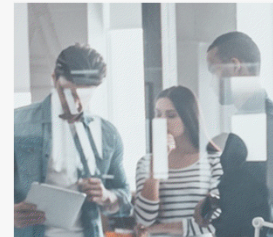
# Internal Audit Work Plan

The internal audit work plan summarized below, illustrates possible audits for the 2024-2026 fiscal years for approval by the Town Board. The results of this assessment will be the basis for identifying possible internal control and financial policy priorities in future years. These priorities should be reviewed by the Town Board and Mayor and readjusted accordingly, if necessary. Included in the summary are identified high-risk areas, and other areas that may be deemed significant.

Business Cycle Area	2024-2025	2025-2026	2026-2027
Payroll, Benefits, Taxes and Related Areas – IRS Compliance			X
Information Technology – Penetration testing, Policy review, training	X		
Policies and procedures review		X	
Revenue, Billings and Receivables		X	
Fixed Inventory Review and Physical Count			X

## Recommendation

We recommend the Town Board and Mayor, select an area or areas from the aforementioned areas for testing in the fiscal year 2024. Additional areas may include department or program specific areas to test in the categories above.



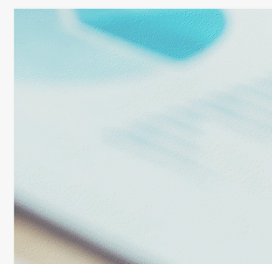
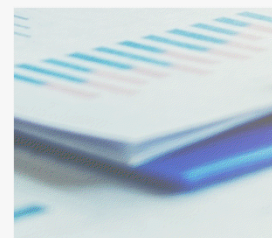
# Findings and Recommendations

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During the current risk assessment update, we identified the following findings and recommendations.

These recommendations represent our observations in connection with the risk assessment services performed.

**Bonadio has the resources and would be happy to assist you with any of these recommendations.**



## Findings and Recommendations

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### Formalized Standard Operating Procedures

#### Observation #001

Based on our discussions with Town management and review of information provided, it was noted that the Town does not have formal documented policies and procedures in place for all key business areas. For areas where there are formal documented policies and procedures, many of them have not been reviewed or updated in many years.

Additionally, we noted that the Town does not have a whistleblower policy and currently has a conflict-of-interest policy drafted.

#### Observation #002

During interviews with the Town Clerk, it was noted that cash collections had previously occurred outside of the Town Clerk's office, specifically while attending Town Board meetings. On one occasion, cash collected in this manner was lost and could not be located, requiring the Clerk to personally reimburse the Town for the missing funds, amounting to \$184. Although the Clerk stated that she no longer collects cash outside the Clerk's office, there is currently no formal policy prohibiting or controlling such practices, creating risk exposure for future incidents of loss or misappropriation.

#### Recommendations

The Town should document all internal control processes and procedures that are currently in place. The Town should then formalize the identified policies and procedures into a standard operating procedure manual. This is important to inform the employees of the Town what the expectations of their role is and to provide guidance in the case of employee turnover. The policy should include:

- Objective (i.e. what is the purpose of the policy?)
- Description of the process covered in the policy
- Risks that the policy addresses
- Clearly identify roles and responsibilities within the policy (including, who is responsible to execute the controls related to the policy, who is responsible to review and approve that the process was properly and accurately performed, how the review and approval should be documented and evidenced, and the timeliness of which these control processes should be executed.)

The Town should develop and formally adopt a written policy requiring that all cash collections occur only within the designated Town Clerk's office or other approved secured locations. The policy should outline acceptable practices for handling, recording, and safeguarding cash, and prohibit informal or ad hoc cash handling activities at offsite locations. Additionally, staff should be trained on the new policy to ensure consistent compliance and reduce the risk of loss, theft, or mismanagement of Town funds.

## Findings and Recommendations

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### Organization and Structure

#### Observation #003

Based on our discussions with Town management and review of information provided, it appears as though the Highway Department operates in isolation from the overall management structure, with minimal oversight from the Supervisor's office. The lack of centralized management increases the risk of control gaps, inefficiencies and inconsistencies.

#### Recommendations

To enhance oversight, accountability, and efficiency, the Town Supervisor's office should collaborate with the Highway Department to consolidate budgeting, internal control, and financial reporting processes. This integration will improve resource allocation, strengthen financial management, strengthen the internal control environment and minimize risk. A detailed implementation plan should be developed, including timelines and responsibilities, to achieve these objectives. A detailed implementation plan could include:

- Form a cross-functional committee to focus on this review
- Conduct an analysis of existing budgeting, internal control, and financial reporting to identify similarities, differences and potential areas for consolidation
- Assess the compatibility of existing financial systems in both departments and identify opportunities for consolidation of activities
- Consider opportunities for upgrading or implementing new systems.
- Update, align and consolidate standard operating procedure documents
- Develop an on-going training plan for employees to ensure understanding of the current and newly designed processes, systems and policies.
- Develop a communication plan to keep all stakeholders informed
- Establish a monitoring process to ensure that the controls and consolidated activities are operating effectively



## Findings and Recommendations

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### Budgeting

#### Observation #004

The Town's current budget development process lacks structure, strategic planning, and meaningful participation from department heads. Budgets are prepared without the use of historical spending data or strategic forecasts, and department heads have limited involvement in shaping their departmental budgets. As a result, the proposed budgets often do not accurately reflect operational needs or spending patterns. Furthermore, there is a heavy reliance on an account clerk to control and manage the majority of budgetary and accounting functions, creating an overconcentration of duties and increasing the risk of errors or mismanagement. This fragmented approach contributes to unrealistic budgeting, weakens departmental accountability, and hinders the Town's ability to effectively plan and manage its resources.

#### Observation #005

The Town underestimates property tax revenues in its budget by as much as 50–70%. This practice restricts the available budget capacity unnecessarily and gives the appearance of lower revenues than are actually realized. It also artificially constrains the Town's ability to adjust its tax cap growth in future years under New York State regulations. The failure to accurately estimate and record expected revenues not only distorts the Town's fiscal health but also limits the ability to plan effectively for capital needs, operational expansions, and financial resilience.

#### Observation #006

Oversight of day-to-day spending is insufficient. Although the Town Supervisor serves as the budget officer during the budget development process, the Supervisor has limited visibility into spending decisions once the budget is adopted. Board members and committee chairs approve invoices directly, and the Supervisor typically does not review expenditures until they are processed into the abstract. In many cases, spending occurs across departmental lines without formal budget transfers or documentation, making it difficult to monitor and control spending at the departmental level. The Town rarely processes budget amendments to reflect these changes, further obscuring the actual financial activity and creating risks of budget overruns and misallocations. Additionally, the Town's practice of allowing individual Board members to authorize spending up to \$1,000 without centralized oversight further undermines internal controls.

#### Observation #007

Efforts to improve budgetary discipline and enforce spending within appropriated departmental limits are often met with resistance from Town officials and Board members. A common sentiment that "the budget is just a guideline" diminishes the perceived importance of adhering to budgeted appropriations and maintaining financial accountability. Additionally, the exclusion of the Supervisor from key spending discussions further weakens financial governance. This cultural environment not only discourages good financial practices but also increases the risk of mismanagement, inefficient use of public funds, and greater fiscal stress than is currently recognized.

## Findings and Recommendations

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### Budgeting Continued

#### Recommendations

The Town should adopt a formal, documented budget development process that includes clear timelines, expectations, and required input from all department heads. Department heads should be responsible for submitting proposed budgets supported by historical data and operational needs, and should participate in budget workshops. A standardized template should be used to ensure consistency and accuracy across departments. Additionally, key financial duties should be reassigned or supplemented to reduce the Town's overreliance on a single individual for both budget development and account management. Consideration should be given to cross-training or hiring part-time support staff to enhance financial capacity and establish a more resilient system of controls.

The Town should develop a more accurate and transparent methodology for estimating revenues, particularly property tax receipts, during the budget development process. Actual historical collections should be analyzed annually and used as the basis for setting revenue projections. Understating revenues by wide margins not only misrepresents the Town's fiscal condition but also artificially suppresses future growth of the tax levy under the State's tax cap law. Accurate revenue estimation will enhance financial planning, enable better service delivery, and improve the Town's ability to meet its long-term obligations.

The Town should establish and adopt a formal budget policy that defines the budget as a legally binding financial plan, not a flexible guideline. This policy should outline the roles and responsibilities of elected officials, department heads, and the finance office in managing the budget. Additionally, the Town Board and relevant staff should participate in training on municipal financial management, budget monitoring, and internal controls—ideally through programs offered by the NYS Comptroller's Office or Association of Towns. Reinforcing a culture of accountability, transparency, and collaboration will improve both governance and financial performance.

## Findings and Recommendations

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### Financial Reporting

#### Observation #008

Our review of the Town's financial reporting processes identified several internal control weaknesses that increase the risk of errors, misstatements, or unauthorized financial activity. These weaknesses are primarily attributable to limited segregation of duties due to staffing constraints and a lack of formalized review and documentation procedures throughout the financial reporting cycle.

Key issues noted include:

- Limited segregation of duties: Core financial functions are often concentrated in the hands of a few individuals. While this may be expected in a small-town environment, it heightens the need for compensating or mitigating controls to reduce the risk of error or fraud.
- Bank reconciliations are not subject to supervisory review or sign-off prior to presentation to the Town Board. Additionally, reconciliations lack documentation of preparer and reviewer names or completion dates, weakening accountability.
- Debt payments are tracked manually in a debt book, without automated reminders, validation checks, or system-based audit trails.
- Fixed asset tracking is performed in Excel without a dedicated software solution, and the associated financial controls are primarily manual and executed only at year-end, increasing the risk of incomplete or inaccurate reporting.
- Parks and Recreation cash collections are not reconciled against attendance records or registration logs. Funds are delivered to the Town Clerk by program coordinators (e.g., Baseball or Basketball Directors), with no independent verification of the amounts collected.
- Town credit card statements are not subject to supervisory review by the Town Supervisor or another independent party, which reduces oversight of discretionary spending.
- Absence of written policies outlining responsibilities, review requirements, and reconciliation protocols for key financial activities further compounds these risks.

Collectively, these gaps increase the Town's exposure to operational inefficiencies, financial misstatements, and potential misappropriation of assets.

## Findings and Recommendations

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### Financial Reporting

#### Recommendations

To strengthen the integrity of its financial reporting process, the Town should implement additional mitigating controls and formalize its financial procedures. Key actions include:

- Establishing a review and sign-off protocol for all key reconciliations (bank accounts, credit card statements, Parks and Recreation receipts, etc.), including the preparer and reviewer names and completion dates. This will help ensure accountability and oversight, even in a small-staff environment.
- Developing written procedures and policies that clearly assign responsibility for core financial tasks, outline required documentation standards and define the frequency and review expectations for each activity. These policies should be shared with all relevant staff and reviewed annually.
- Instituting a formal supervisory review of the Town credit card transactions on a monthly basis, with documented acknowledgment by the Supervisor or designee.
- Implementing or evaluating financial software tools for debt service and fixed asset tracking. Even a basic fixed asset system can provide automated depreciation calculations, tagging capabilities, and consistent reporting standards. Similarly, software for debt tracking can improve accuracy, enable reminders for due dates, and ensure consistent payment reconciliation.
- Introducing a cash reconciliation process for program revenues, whereby attendance rosters or participant counts are reconciled to cash collected by Parks and Recreation program directors before being submitted to the Town Clerk.

By adopting these measures, the Town will significantly reduce the risk of undetected errors or irregularities, improve compliance with financial best practices, and strengthen the reliability of its financial reporting.

## Findings and Recommendations

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### Information Technology

#### Observation #009

The Town currently does not have a clearly defined data backup and a formal IT Disaster Recovery Plan. While some data may be stored in cloud-based applications, there is no evidence of a comprehensive backup strategy for locally stored data or on-premises servers, if any exist. It is also unclear whether any backup data is encrypted or stored offsite. Furthermore, there are no documented procedures in place to guide the recovery of critical systems and data following unexpected disruptions such as cyberattacks, hardware failures, or natural disasters. This absence exposes the Town to significant risk, as it may not be adequately prepared to respond to or recover from such incidents, leading to prolonged service outages, data loss, or the inability to provide essential services to residents.

#### Observation #010

The Town does not have a formalized process for tracking IT assets, including computers, mobile devices, and other equipment. Asset tracking appears to be managed manually, if at all, with no centralized inventory system in place. This creates the risk of hardware loss, underutilization, or security breaches due to unaccounted-for devices.

In addition, there is no documented protocol for the assignment or reassignment of devices to staff. When employees leave or transition roles, devices are not consistently wiped or reconfigured, and data from prior users may remain accessible. This lack of secure data handling poses a risk of unauthorized access to sensitive municipal information and may violate data protection best practices.

#### Observation #011

There is no designated individual or team responsible for monitoring antivirus software or ensuring all devices have up-to-date endpoint protection. This leaves the Town exposed to cybersecurity threats such as malware, ransomware, or unauthorized access, especially as operating systems and antivirus definitions become outdated.

Additionally, the Town has not implemented cybersecurity awareness training for staff. Employees have not been trained to identify phishing attempts, suspicious links, or other common social engineering tactics. In today's digital environment, end-user behavior is a critical component of cybersecurity defense.



## Findings and Recommendations

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### Information Technology

#### Recommendations

Although towns in New York State are not legally required to have an IT disaster recovery plan, it is strongly recommended as a best practice. The Town should establish a documented data backup and recovery plan. This plan should identify all systems and data requiring backup, and implement routine, automated backups for both local and cloud-based applications. Backup data should be encrypted and stored offsite or in the cloud to protect against physical loss or damage. A responsible staff member should be designated to monitor the backup process, verify the integrity of backups, and conduct periodic recovery tests to confirm data can be successfully restored when needed. If internal expertise is limited, the Town should consider engaging a third-party IT provider to assist with developing and managing a secure, effective backup strategy.

To improve IT asset management and reduce the risk of unauthorized data access, the Town should develop and implement a formal policy for tracking and managing all IT equipment. This policy should include the creation of a centralized inventory that is regularly updated to reflect the status, location, and assigned user of each asset. Clear procedures should be established for issuing, returning, and retiring devices, including the secure wiping and reimaging of equipment before reassignment. A specific staff member should be assigned responsibility for maintaining the inventory and ensuring compliance with these procedures. For a small municipal office, a spreadsheet-based system or low-cost asset management tool can provide sufficient control when combined with basic staff training.

To enhance cybersecurity, the Town should assign responsibility for managing antivirus and endpoint protection to a designated individual, who will ensure that all devices have current and active security software installed and regularly updated. In addition, the Town should implement a cybersecurity awareness program for all employees. This should include initial and recurring training on identifying phishing attempts, practicing good password hygiene, and recognizing common cyber threats. Periodic phishing simulations can reinforce this training and help identify areas for improvement. Together, these measures will significantly reduce the risk of a security breach caused by malware or human error.

## Findings and Recommendations

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### Payroll and Human Resources

#### Observation #012

During our review, we noted that former employees remain in the Town's payroll system even after termination. While these individuals are marked as "deactivated," their records have not been formally removed or archived from the system. Retaining inactive employee profiles indefinitely increases the risk of accidental reactivation, unauthorized payroll activity, or data integrity issues. It also contributes to unnecessary system clutter and may complicate reporting or audit processes.

#### Observation #013

The Town currently does not utilize any reports to identify anomalies in payroll disbursements, such as duplicate payments, significant pay increases, or other irregularities. The absence of such reports means there is no systematic review.

#### Recommendations

The Town should implement a formal policy for managing former employee records in the payroll system. This policy should define when and how inactive employee profiles should be archived or removed after a defined retention period, consistent with applicable recordkeeping regulations. Access to deactivated profiles should be limited to appropriate personnel, and controls should be in place to prevent unintended reactivation or changes. Regular system audits should be performed to ensure that only active employees are eligible for payroll processing. This will enhance system integrity, reduce the risk of payroll errors or fraud, and streamline system management.

The Town should implement routine payroll monitoring procedures to identify potential anomalies such as duplicate payments, unexpected pay increases, or irregular compensation activity. This can be achieved by generating and reviewing exception reports on a regular basis—either through the existing payroll system or by exporting payroll data for analysis. At a minimum, reports should highlight changes in gross pay, duplicate employee IDs or bank account numbers, and manual adjustments. These reports should be reviewed by someone independent of payroll processing, and documentation of the review should be retained. Establishing this layer of oversight will help detect errors or unauthorized changes in a timely manner and strengthen overall payroll integrity.

## Findings and Recommendations

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### Limited Access to Accounting Software and Lack of Cross-Training

#### Observation #014

During our review, we noted that former employees remain in the Town's payroll system even after termination. While these individuals are marked as "deactivated," their records have not been formally removed or archived from the system. Retaining inactive employee profiles indefinitely increases the risk of accidental reactivation, unauthorized payroll activity, or data integrity issues. It also contributes to unnecessary system clutter and may complicate reporting or audit processes.

#### Recommendations

The Town should immediately begin cross-training at least one additional staff member on the use of the accounting software to ensure continuity of operations in the event of planned or unplanned absences. This backup user should have read/write access, with appropriate controls and permissions based on their responsibilities. In addition, the Town should explore transitioning to a cloud-based accounting system, which would allow for secure access by multiple authorized users from different devices or locations. A cloud-based system would also support more efficient collaboration, improve data backup and disaster recovery capabilities, and reduce dependency on a single workstation. Finally, access rights and responsibilities should be documented in the Town's standard operating procedures, and reviewed periodically to reflect changes in personnel or duties.

# Appendix

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- Definition of Internal Control
- Risk Assessment
- Internal Audit Process

## Appendix

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### Definition of Internal Control

Internal control is a management process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.
- This definition reflects certain fundamental concepts:

Internal control is an ongoing process.

- Internal control is performed and maintained by the actions of the organization's personnel. It is not merely policy manuals and forms, but people functioning at every level of the organization.
- Internal control is geared to achieve objectives in several overlapping categories- Operations, Finance, and Compliance.
- Internal control can be expected to provide only reasonable assurance to the organization's administration and governing board regarding achievement of operational, financial reporting, and compliance objectives.

Effective administration of a strong internal control environment involves proper planning, execution, and ongoing monitoring of activities. Internal control is a tool used to protect the organization's assets from intentional or unintentional loss.





## Appendix

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### Risk Assessment

Risk assessment is defined as the identification and analysis of relevant risks in the achievement of the objectives, forming the basis for determining how the risks should be managed. Risk assessment is one of the five elements of internal control, which are described in the appendix of this report. The other components include control environment, control activities, information and communication, and monitoring. Objective setting is necessary for assessment.

Control activities are closely related to the risks in the organization. Examples of control activities are policies, authorization, financial information reconciliations, asset verifications, and appropriate segregation and delegation of duties within the business operations of the organization. Control activities are either preventive or detective in nature and need to be evaluated as to benefits to the organization and/or associated costs to the organization.

Risk arises out of uncertainty, from either internal or external sources. As a result of pursuing or not pursuing a particular course of action, there is the possibility of economic/financial loss or gain, physical damage, injury or delay. Risk is defined as the chance of something happening that will have an adverse impact upon the achievement of objectives.

There will always be some risk involved in anything an individual chooses. The choice is between the actions we dare to take, given the level of risk we will accept and the level of remediation we will attempt to treat.

Risk has two key elements: the likelihood of something happening and the consequences if it happens. The level of risk is the relationship between the likelihood of something happening and the consequences if it does. Action taken to address the level of risk must address the likelihood of the event occurring, or the consequences if it does occur, or both.

## Appendix

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### Internal Audit Process

Although every audit and each organization is unique, the internal audit development process is similar for most engagements and normally consists of five stages:

1. Planning
2. Survey
3. Fieldwork
4. Reporting
5. Ongoing monitoring, follow-up and corrective action

These stages are described in more detail further in Section III. The active involvement of the organization's personnel is critical at each stage of the process and involves a collaborative effort from departmental personnel. We realize a certain amount of time is diverted from regular routines as a result of Internal Audit activities. Therefore, one of our key objectives is to minimize the disruption of operations by performing the internal audit in a timely and efficient manner.



## Appendix

### Internal Audit Process (Continued)

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the organization's operations, policies, procedures and internal controls. Internal auditing is a critical element of assisting in accomplishing the organization's objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

An internal audit is generated within the organization, including all departments, at the direction of the organization's board of governance for the purpose of appraising, examining, or evaluating:

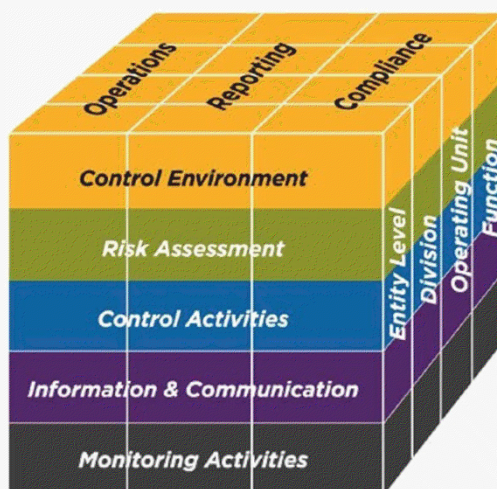
1. Financial transactions for accuracy and compliance with the organization's policies
2. Financial and operational procedures for adequate internal controls
3. Timeliness, reliability and appropriateness of the organization's records and reports
4. The level of compliance with required internal policies and procedures, state and federal laws and government regulations

Management or program reviews designed to improve departmental operations and procedures

#### A) Five Elements of Internal Control

This report focuses on the internal audit function and risk assessment of the organization. For purposes of reporting on internal controls, we must understand the following elements:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring



## Appendix

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### Internal Audit Process (Continued)

#### B) Control Environment

The control environment sets the cultural tone of compliance for the organization, influencing the control consciousness of its personnel. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the organization's personnel; management's philosophy and operating style; the way management assigns authority and responsibility and organizes and develops its personnel; and the attention and direction provided by the board of governance.

#### C) Risk Assessment

Every organization faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

## Appendix

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### Internal Audit Process (Continued)

#### D) Control Activities

Control activities are the policies and procedures that help ensure that the administrative directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the organization's objectives for compliant activities. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

#### E) Information and Communication

Pertinent information must be identified, captured and communicated in a form and timeframe that enable the personnel to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the programs of the organization. They deal not only with internally generated data, but also information about external events, activities and conditions necessary for informed program decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up to the organization's levels. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information to the oversight body. There also needs to be effective communication with external parties, such as the general public, vendors and suppliers, regulators and others.

## Appendix

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### Internal Audit Process (Continued)

#### F) Monitoring

Internal control systems need to be monitored, a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Known internal control deficiencies should be reported, with serious matters reported to the administration and the board of governance.

There is both synergy and linkage among these five components, forming an integrated system that reacts dynamically to changing conditions. The internal control system is intertwined with the organization's operating activities and exists for fundamental educational reasons. Internal control is most effective when controls are built into the infrastructure and are a part of the essence of the organization. "Built in" controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions. There is a direct relationship between the objectives, which are what an organization strives to achieve, and components, which represent what is needed to achieve the objectives of its educational programs. All components are relevant to each objectives category. When looking at any one category, the effectiveness and efficiency of operations, for instance, all five components must be present and functioning effectively to conclude that internal control over operations is effective.

The internal control definition, with its underlying fundamental concepts of a process, affected by people, providing reasonable assurance, together with the categorization of objectives and the components and criteria for effectiveness, and the associated discussions, constitute this internal control framework.

## Appendix

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### Internal Audit Process (Continued)

#### Management Responsibility

All levels of management are responsible for accomplishing and adhering to the organization's Mission Statement by achieving the organization's goals and objectives through effective and efficient use of resources and compliance with applicable laws, regulations and policies.

- Specific areas of responsibility include:
- Maintaining a high ethical tone throughout the organization.
- Assessing and managing the organization's business operation risks.
- Developing cost effective internal controls over all operations.

The internal audit process and function can assist management in discharging these responsibilities by providing an independent and objective evaluation of existing internal controls over the business operations. The internal audit can also help management develop improved controls and processes over operations. However, management always retains control over their own operations and ultimate responsibility for their performance.

#### Employee Responsibility

Internal controls are the responsibility of all of the organization's employees. Individual employees of the organization have the responsibility for maintaining work performance in a productive and conscientious manner. In the normal course of work, employees should be aware and alert for activities or situations, which pose actual or potential risks of loss, harm or misuse of assets, or obstruction to the attainment of the organization's goals.

Individuals and department heads should commit to the principles of internal controls and support programs and activities, which strengthen systems and practices and implement any corrective action determined necessary. Individuals and department heads are responsible for development, maintenance, documentation, and supervision of internal controls.

## Appendix

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### Internal Audit Process (Continued)

#### Role of the Internal Auditor

The key role of internal audit is to provide the board of governance, audit committee, and administration with an independent and objective evaluation of internal controls over key business activities. This means we put a priority on reviewing the validity of financial and other management information, compliance with applicable laws, regulations and policies, and how organization operations can be more effective and efficient.

The internal audit function can provide a variety of management assistance services to both administration and the board of governance. It is important to understand the services and roles of the internal auditor. Assistance services include:

- **Financial Reviews (normally done in conjunction with external auditors)** — These are "traditional" audits of financial records, such as accounts receivable or payable. The objective is to determine the accuracy of financial records and adherence to appropriate internal control procedures. Results will be communicated to administration and the board of governance and usually incorporated in the external auditor's report on the financial statements.
- **Operational or Compliance Reviews** — These are projects directed by the organization's administration and the internal auditors, based on perceived business and operational risks. The focus is on assessing specific processes and identifying cost effective ways to improve internal controls, efficiency, and effectiveness. Examples would be reviewing a capital project for compliance with contract terms bidding process or evaluating the internal controls over a purchasing process. Written audit reports are prepared, discussed with the organization's administration and staff, presented to the Audit Committee, if applicable and then submitted to the board of governance for approval.



## Appendix

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### Internal Audit Process (Continued)

#### Role of the Internal Auditor (Continued)

- **Management Assistance** — For projects with organization-wide impact or of high importance to the organization, consulting assistance may be provided to help design plans and achieve effective implementation. Assistance might take the form of facilitating problem solving techniques, flow charting processes, or performing program-based costing analyses and financial budgetary and actual comparisons. Status reports, in various formats, depending on the project, would be provided to the management and the board of governance. “Best practices” may be discussed and implemented.
- **Technical Research** — Internal auditors can assist with questions dealing with the organization’s policies, Federal, State and Local laws, regulations and policies, accounting and internal controls, and general practices.
- **Investigations** — At the direction of the board of governance or the request of management, the internal auditor may investigate suspected cases of unethical behavior, including fraud, theft, and abuse of position. Depending on the facts uncovered, such cases may be referred to management, an Audit Committee, the Board, or legal authorities for further action.

Our focus is on the processes and how to make them best work to achieve the board of governance’s and the administration’s strategic goals and objectives. If there are issues, we identify the business risks and their roots causes and work with the organization’s administration, Audit Committee and Board to develop and implement cost effective solutions.

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