

Memo

To: Board Colleagues
From: Scott F. Lennon
Date: April 13, 2006
Re: Financial Audit Subcommittee Report – March 13, 2006

Members in Attendance: Ald. Lennon, Ald. Linsky, Ald. Parker, Ald. Coletti, Comptroller Dave Wilkinson.

Others Present: Pres. Baker, Ald. Merrill, Ald. Salvucci, Ald. Lipof, Ann Cornaro, ITD

Discussion of the Scope of the Subcommittee:

Alderman Lennon welcomed everyone to the meeting. He asked Comptroller Dave Wilkinson to give a brief description as to why this subcommittee has come about. D. Wilkinson stated that the past few years it has been difficult, with a busy Finance Committee agenda, to take time to address issues raised in the city's Management Letter. Additionally, there are issues, such as the *Financial Policies & Procedures Manual*, that D. Wilkinson would like to have guidance on. Our auditors have also asked if there are areas that we would like to have them address and D. Wilkinson mentioned that the Board should provide this guidance to our auditors. Lastly, this Subcommittee should also be able to instruct D. Wilkinson to look at areas within the city in a quasi-internal audit function. Establishment of the Financial Audit Subcommittee will assist in all of these areas.

Ald. Parker raised the issue of whether this Subcommittee would have actual docket items. President Baker and Ald. Linsky weighed in to say it might be helpful to have an agenda so that the public knows what we are discussing but it might be easier to have agenda 'topics' rather than actual docket items. It was mentioned that the subcommittee agenda was posted on the Aldermanic webpage.

Ald. Lennon mentioned that based on his understanding of D. Wilkinson's needs, that for the time being, the focus should be on addressing all issues of the Management Letter and the development of the policies and procedures manual. We can then start to address areas of interest of members of the Subcommittee.

Discussion of Two Management Letter Issues:

1. *Disaster Recovery Plan (DRP):*

Ann Cornaro joined us for the discussion. Our current DRP is backing up all of our servers each night and storing the DAT tapes off site. They are stored with ITD employees. The DAT tapes are brought back the next day in case something needs to be restored. Of the 30 servers the city has, two of them are heavy duty, high-powered, financial data-related. There are about 400 users that utilize each of these servers and they run 24 hours a day, 7 days a week. These are our Pentamation and MUNIS servers. These two servers are approximately \$20,000 each. The others are about \$2,500 to \$3,500 each. Primarily, our discussion focused around our Pentamation server, which is the conduit for our payroll (including retirees), general ledger, budget, fund accounting and purchasing. MUNIS assists the city in generating billings.

The Pentamation server was purchased about 2 years ago and we are in the second year of our three year warranty. We do not pay maintenance on this and we currently have a four hour response time for maintenance calls. It is relatively new so parts are also not an issue. The end of the warranty is June 30, 2007. We will then be required to pay maintenance but will still have the four hour response time due to the critical nature of the information.

With regard to disaster recovery and our plan, we currently keep our files in a four week rotation. If someone lost something within four weeks, ITD would be able to back it up right away. If it was beyond the four weeks, the information would be available via archived DAT tapes. If something were to happen to the room where the server is located, we would have the backup or archived tape, but nothing to access the information. We would need a server to do so. Our auditors have asked us to address the lack of hardware in our DRP.

A. Cornaro contacted Pentamation and they stated there is basically three ways to handle disaster recovery. The highlights are below:

(1) Purchase a duplicate server & system – It would be a complete backup system. We would have to purchase a server for approximately \$15-20,000 and then purchase a full operating system, applicable licenses and Pentamation software. That would be a cost of approximately \$30,000. This server would be placed in another building and would be an ‘active’ server. Down time for our operation would be 1 to 2 days total. Realistically, the entire option would be about \$43-\$44,000.

(2) Purchase a ‘Cold’ server – We would need to purchase just the server and operating system. No purchase of licenses or Pentamation software. Doesn’t actively need to be up and running. It can be left off and periodically tested to insure it is operational. This option would need a 2 to 3 day turnaround to get back up and running. The approximate cost would be \$25,000.

(3) Application Service Provider (ASP) – Pentamation will store a server, which we purchase, in their offices in Pennsylvania. In addition to the server, at a cost of approximately \$20,000, we would need to pay a monthly administration fee to Pentamation of \$1,600 per month. Each night they backup the system onto this server. We can then download our information, through

ction, to our system from the server in PA if something were to happen to the server here. One other drawback of this option is that we can only let 10 people at a time access the system. While we can definitely get a payroll out, we could not conduct our business operation. Additionally, if something were to happen to the server here, another server would have to be purchased. This option ends up being the most expensive. A reasonable first year cost would be \$40,000 (2 servers) plus the \$1,600/month. The \$1,600/month would also increase over time as would upgrades to the server.

Ald. Parker also discussed a fourth option called *Tiered Usage*. This includes the purchase of a server and extra hard drives for computers. A. Cornaro said this is an option to be explored. She also explained a fifth option/scenario that could assist in our DRP hardware efforts.

Recently, the Assessor's Department purchased a new server to upgrade to their new 'Vision' software. Their old server, (Cama [sp?]) which is 2 years old, can be made available to ITD. It can be utilized for Pentamation but there will be associated costs for the operating system, software, etc. This server could be made available as early as July or as late as September. This would be good to cover for Pentamation but we would still be without a backup server for MUNIS, which as mentioned earlier, assists in our billings for real estate, water and excise taxes, posts payments, etc.

The Subcommittee asked A. Cornaro to lay out in writing / spreadsheet form what scenarios we would be facing if we lose one or both of the mission critical servers discussed above. Additionally, we wanted to see all of the options available for hardware, software and their associated costs. We asked this be prepared for our next meeting. This is partly needed to articulate to the Executive Office the need for requesting the funds necessary to do accomplish compliance with the Management Letter Recommendation and our Management Response. It is our intention to discuss this issue with Sandy Pooler at a future meeting. We also asked A. Cornaro to provide the Subcommittee what we currently have for a documented DRP for our review.

2. *Financial Policies and Procedures Manual*

Ald. Lennon stressed this is a highly critical area that needs to be addressed to insure that the city's financial operations continue as 'low risk.' Formal, written policies and procedures are essential to insure the effectiveness of the day-to-day operation, as well as, sound management.

D. Wilkinson described that currently we have a series of procedure 'guides' but no formal policies and procedures. Examples of these guides include how to manage petty cash, cash receipts and preparation of payables. Our auditors recommend a comprehensive, documented procedures manual. Additionally, they recommend defining the objectives, responsibilities and authorizations for all employees & job positions. As another example, D. Wilkinson explained that when Ann Marie Daley left, D. Wilkinson knew her responsibilities and she knew everyone else's, but none of this was documented. Not only does it need to be documented, it needs to be annually reviewed and critiqued.

Ald. Parker suggested an outline of critical areas and job functions. Ald. Lennon suggested we also review any internal control questionnaires or risk assessments completed by our auditors

audit. D. Wilkinson also mentioned he has reviewed a good policies & procedures manual developed by New York State that we could potentially review and use as a guide.

The Subcommittee asked D. Wilkinson to provide what we have in terms of a completed internal control questionnaire, risk assessment and the procedure guides we have. The Subcommittee also suggested the development of a rough outline of critical areas & job functions prior to the next meeting for review and discussion.

The Subcommittee also agreed to keep these two Management Letter issues as our focus for now.

There was also a motion made by Ald. Linsky, seconded by Ald. Parker, to create a formal docket item of the Finance Committee agenda, to refer to the Financial Audit Subcommittee, which reads: "Finance Committee Requesting Review of Comments and Recommendations of the City's Management Letter For the Period Ending June 30, 2005." This motion carried 4-0-0-1 (Lennon, Coletti, Parker, Linsky in favor, Gentile Absent).

Topics for future meetings, including areas of interest from members of the Subcommittee:

Due to time constraints, this item was not discussed in length but we will be taking this up at a future meeting. Alderman Parker did mention an area of focus for audit that he would like to see would be an audit of our infrastructure and applicable maintenance of buildings.

The meeting was adjourned at 7:50 p.m.

Respectfully Submitted,

Scott F. Lennon, Chair