



Town of Ausable

Water and Sewer District

Financial Operations

Report of Examination

Period Covered:

January 1, 2014 – July 31, 2015

2015M-274



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2016

Dear Town 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 Town 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 Town of Ausable, entitled Water and Sewer District Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the 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*

Introduction

Background

The Town of Ausable (Town) is located in Clinton County and has a population of approximately 3,150 residents. The Town is governed by an elected five-member Town Board (Board), which consists of the Town Supervisor (Supervisor) and four council members. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement and custody of Town moneys, maintaining accounting records and providing financial reports to the Board.

The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, public improvements, planning and zoning, recreation and cultural activities, water and sewer services and general governmental support. The Town's budgeted appropriations for the 2015 fiscal year were approximately \$2.1 million, funded primarily with real property taxes and user charges.

On December 31, 2014, the Village of Keeseville (Village), which was located within both the Town of Ausable and Town of Chesterfield in Essex County, dissolved. Prior to dissolution, the Village was responsible for billing, collecting and enforcing water and sewer charges for water and sewer services that it provided to residents of both towns, including residents inside and outside of the Village. As a result of the Village's dissolution, the Town established Ausable Water District 3 (AWD3) and Ausable Sewer District 1 (ASD1) to continue to provide water and sewer services to former Village residents within the Town.¹ Similarly, the Town of Chesterfield established Chesterfield Water District 2 (CWD2) and Chesterfield Sewer District 1 (CSD1) to continue to provide water and sewer services to former Village residents within Chesterfield.

The Town previously established Ausable Water District 2 (AWD2) to include residents² of the Town who resided outside of the Village and had received water services from the Village. The Town of Chesterfield previously established Chesterfield Water District 1 (CWD1) to include residents of the Town of Chesterfield who resided outside of the Village and had received water services from the Village.

Upon the dissolution of the Village, the towns verbally agreed that the Town of Ausable would be responsible for maintaining the sewer infrastructure for ASD1 and CSD1 and the Town of Chesterfield would be responsible for maintaining the water infrastructure for AWD2, AWD3, CWD1 and CWD2. This decision was made based on the Village's wastewater treatment plant being located in the Town of

¹ AWD3 and ASD1 each consist of approximately 415 customers.

² AWD2 consists of approximately 145 customers.

Ausable and the Village’s water treatment plant being located in the Town of Chesterfield. In addition, the towns agreed that, during the 2015 fiscal year, the Town of Chesterfield would be responsible for billing, collecting and enforcing water and sewer charges³ for all customers within AWD2, AWD3, ASD1, CWD1, CWD2 and CSD1. Furthermore, the towns agreed that the Town of Chesterfield would remit all collections for sewer charges, including ASD1 and CSD1, and all operation and maintenance charges for AWD2 to the Town of Ausable.⁴

Objective

The objective of our audit was to review the financial operations of AWD2, AWD3 and ASD1. Our audit addressed the following related question:

- Did Town officials properly account for and adequately oversee the financial operations of AWD2, AWD3 and ASD1?

Scope and Methodology

We examined the financial operations of AWD2, AWD3 and ASD1 for the period January 1, 2014 through July 31, 2015.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of Town Officials and Corrective Action

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

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

³ Customers of AWD2, AWD3 and ASD1 were billed based on metered water usage. Customers of AWD2 were also billed an annual operation and maintenance charge of \$50.

⁴ The legal propriety of actions previously taken by the towns in connection with the water and sewer districts is not within the scope of this audit.

Water and Sewer District Financial Operations

The Board and Town officials are responsible for providing financial oversight for water and sewer districts located within the Town. The Board should adopt individual budgets for each district and the Supervisor should maintain separate accounting records for each district to properly account for each district's financial transactions. In addition, when towns agree to perform services for one another, the board of each town should enter into a written agreement that defines the rights and responsibilities of each party. Furthermore, an effective system of internal controls over water and sewer charges includes procedures to ensure that customers are properly billed; all moneys received are properly recorded, remitted and deposited; and delinquent accounts are properly enforced.

When the Village dissolved, the Town and the Town of Chesterfield entered into a verbal agreement to provide for the continuation of water and sewer services to residents who previously received these services from the Village. We commend the Town for engaging in intermunicipal cooperation to ensure the continuation of water and sewer services in an efficient manner. However, the verbal agreement entered into by the Town was not sufficient to ensure AWD2, AWD3 and ASD1 were properly managed.

The Board did not develop individual budgets and the Supervisor did not maintain separate accounting records for AWD2, AWD3 and ASD1. As a result, Town officials could not monitor each respective district's financial operations or determine if each district was self-sufficient. In addition, the Town designated the responsibility of billing, collecting and enforcing water and sewer charges for AWD2, AWD3 and ASD1 to the Town of Chesterfield but did not enter into a written intermunicipal agreement with the Town of Chesterfield or request or receive adequate supporting documentation from the Town of Chesterfield to allow Town officials to provide proper oversight of the districts' operations. Consequently, the Board did not receive or approve the water and sewer billing registers. Further, the Town of Chesterfield did not assess penalties to delinquent accounts. As a result, the Town did not properly enforce all delinquent accounts. In addition, Town officials were unaware that \$14,914 in collections that were recorded as being received by the Town of Chesterfield had not been remitted to the Town.

Accounting and Budgeting

The Board should develop individual budgets for each water and sewer district that include estimated revenues and appropriations. In addition, the Supervisor is responsible for maintaining accounting records that document the assets, liabilities, fund equity and results

of operations (revenues and expenditures) for each water and sewer district. This will ensure that each district's financial resources remain separate so that its financial condition can be assessed.

The Board did not develop a budget for either AWD2 or AWD3 for the 2015 fiscal year.⁵ Instead, the estimated revenues and appropriations for these districts were included in the Town of Chesterfield's adopted budget.⁶ In addition, the Supervisor did not maintain any accounting records to record AWD3's financial transactions during the 2015 fiscal year. The only financial transactions related to AWD2 that were recorded in the Town's accounting records during the 2015 fiscal year were for operation and maintenance charges. However, these revenues and the corresponding entries to the District's cash balance were not recorded in separate accounting records for AWD2, but instead were recorded in the accounting records that were maintained by the Supervisor for Ausable water district 1.⁷

The Board also did not develop an individual budget for ASD1 for the 2015 fiscal year. Instead, the Board had a budget for sewer operations that contained estimated revenues and appropriations for both ASD1 and CSD1 combined together. Similarly, although the Supervisor maintained accounting records for sewer operations during the 2015 fiscal year, the accounting records combined the assets, liabilities, fund equity and results of operations (revenues and expenditures) for both ASD1 and CSD1.

The Supervisor stated that the Board developed the 2015 budget and she maintained accounting records based on the verbal agreement between the Town and the Town of Chesterfield. Based on this agreement, the Town would realize all revenues⁸ and incur all expenditures related to the sewer operations for ASD1 and CSD1 and the Town of Chesterfield would realize all revenues and incur all expenditures related to the water operations for AWD2, AWD3, CWD1 and CWD2. The Board's failure to develop individual budgets and the Supervisor's failure to maintain separate accounting records for each water and sewer district prevented Town officials from being able to monitor each respective district's financial operations or determine if each district was self-sufficient.

Water and Sewer Charges

When towns agree to perform services for one another, such as the billing, collection and enforcement of water and sewer charges, each town's board should enter into a written agreement (intermunicipal agreement)

⁵ Town budgets must include estimates of revenues and expenditures of each administrative unit. The term "administrative unit" is defined to include a district (Town Law Sections 103[1], 104[1]).

⁶ The Town of Chesterfield's Town Board adopted one combined budget for the financial activity of AWD2, AWD3, CWD1 and CWD2.

⁷ Ausable water district 1 consists of approximately 25 customers and is a separate district from AWD2 and AWD3.

⁸ All revenues with the exception of operation and maintenance charges for AWD2

that contains provisions that address the parties' expectations, roles and responsibilities. The Board is also responsible for establishing rates for all water and sewer charges for districts within the Town and approving all billings to ensure users are billed accordingly. In addition, Town officials should ensure that penalties are assessed to delinquent accounts in accordance with Board policy and that all water and sewer charges that are collected on their behalf are remitted to the Town for deposit.

The Town charges customers for water and sewer services in AWD2, AWD3 and ASD1 based on metered water usage and prepares bills on a quarterly basis. During the 2015 fiscal year, the Town designated the responsibility of billing, collecting and enforcing water and sewer charges for AWD2, AWD3 and ASD1 to the Town of Chesterfield. However, the Town did not enter into a formal intermunicipal agreement with the Town of Chesterfield that addressed the expectations, roles and responsibilities of both parties. Town officials also did not request or receive adequate supporting documentation from the Town of Chesterfield to allow them to provide proper oversight of the districts' operations. Consequently, we found deficiencies with the billing and collection of water and sewer charges, imposition of penalties to delinquent accounts and the remittance of water and sewer charges to the Town.

Billings and Collections – The Board did not approve any of the water and sewer rates that were used for the districts within the Town. Instead, customers continued to be billed for their usage based on the water and sewer rates⁹ that were in effect when the Village dissolved. In addition, the Town did not receive water and sewer billing registers from the Town of Chesterfield. Therefore, Town officials had no means to ensure that all customers were being properly billed. The Board also did not approve the penalties to be assessed to delinquent accounts. Instead, the Supervisor stated that the penalties that were in effect when the Village dissolved were still applicable, which provided for a 10 percent penalty to be assessed to all current water and sewer charges outstanding after 30 days of billing.

We reviewed a random sample of 50 water and sewer billings¹⁰ totaling \$7,233 to determine if the billings were accurate¹¹ and if the payments equaled the amount billed plus penalties, if applicable.¹² We found that all 50 billings were accurate. However, for six of the 45 billings for

⁹ According to the water and sewer rate schedule adopted by the Village Board of Trustees on March 14, 2013

¹⁰ We used a computerized random number generator to select 25 water and sewer billings from the second quarterly billing register for the 2015 fiscal year and 25 water and sewer billings from the third quarterly billing register for the 2015 fiscal year.

¹¹ Because the Board did not formally approve the rates charged to customers for water and sewer services, we used the rates that were in effect when the Village dissolved.

¹² A 10 percent penalty should be assessed on bills that are not paid within 30 days.

which a payment was received, the payments were not received until after the due date and late payment penalties were not assessed.

We also reviewed a sample of 30 delinquent customer accounts¹³ at the due dates and found that penalties were not assessed to any of these customers. Five of these customers were not assessed a penalty and their payments only included the amount that they were billed, resulting in lost revenues of \$106. The remaining 25 customers' payments included the amounts that they were billed and the penalty amount. However, because the customers were not assessed a penalty in the billing and collection software, their accounts were credited with an overpayment in the amount of the penalty that should have been assessed. The overpayments for 12 of these 25 customers were later voided in the billing and collection software, resulting in the credit in the customer accounts being removed.¹⁴ However, the overpayments for the 13 remaining customers had not been voided in the billing and collection software. As a result, when the next quarterly bills are prepared for these customers, they will receive a credit for the amount of their overpayment, resulting in additional lost revenues of \$266. Although the lost revenue to the Town is minor, when penalties are not assessed, there is no incentive for customers to make payments when due, which could create cash flow issues for the districts.

Remittances to the Town – The Town verbally agreed with the Town of Chesterfield that the Town of Chesterfield would remit all collections for sewer charges from ASD1 and CSD1 and operation and maintenance charges for AWD2 to the Town. However, this verbal agreement was not sufficient to clearly establish the rights and obligations of the towns. The Town should receive and recognize revenues associated with its own water and sewer districts (AWD2, AWD3 and ASD1) and should recognize revenues associated with CSD1 only as payment for services rendered.

Furthermore, Town officials did not request or receive adequate supporting documentation from the Town of Chesterfield to support amounts remitted to the Town. Consequently, the Town of Chesterfield billed residents for and collected water and sewer charges for AWD2, AWD3 and ASD1, but only remitted collections for ASD1 and operation and maintenance charges for AWD2 to the Town.¹⁵

¹³ Our sample consisted of selecting, without any known bias, 30 delinquent accounts throughout the 2015 fiscal year.

¹⁴ When customers paid penalties, they were recorded in the accounting records as water and sewer rent revenues but were recorded in the billing and collection software as overpayments because the penalties were not assessed in the software. When overpayments were voided in the billing and collection software, the previously recorded revenue in the accounting records was not adjusted.

In addition, in accordance with the verbal agreement, the Town of Chesterfield also remitted collections for CSD1 to the Town.

We reviewed all collections that were recorded as being received by the Town of Chesterfield during the 2015 fiscal year for sewer charges for ASD1 and CSD1 and operation and maintenance charges for AWD2 to determine if they were remitted to the Town based on the verbal agreement. The Town of Chesterfield recorded collections of \$106,707 for sewer charges but remitted only \$92,186 to the Town, resulting in \$14,521 in recorded collections not being remitted to the Town. Similarly, \$6,300 in operation and maintenance charges were recorded as being received but only \$5,907 was remitted to the Town, resulting in \$393 in recorded collections not being remitted to the Town. Because Town officials did not request or receive adequate supporting documentation from the Town of Chesterfield, they were unaware that \$14,914 in collections had not been remitted to the Town.

Recommendations

The Board should:

1. Develop individual budgets for each of the Town's water and sewer districts.
2. Enter into a written intermunicipal agreement with the Town of Chesterfield that contains provisions that address the expectations, roles and responsibilities of the parties in regards to the billing and collection of water and sewer charges.
3. Establish and approve a schedule of water and sewer rates to be charged for water and sewer services in Town districts and the penalties to be assessed to delinquent accounts.
4. Review and approve billing registers for each water and sewer billing.

The Supervisor should:

5. Establish and maintain a separate set of accounting records for each of the Town's water and sewer districts, including assets, liabilities, fund equity and results of operations (revenues and expenditures).

¹⁵ The Town of Chesterfield collected \$33,341 for water rents from AWD2 customers and \$6,300 for operation and maintenance charges from AWD2 customers. We could not determine the amounts that were collected for water and sewer charges related to AWD3 and ASD1, respectively, because the customer accounts for these districts were combined in the billing and collection software with customer accounts for CWD2 and CSD1.

Town officials should:

6. Obtain adequate supporting documentation from the Town of Chesterfield to ensure that all collections received for the Town's water and sewer districts are remitted to the Town.

The Board and Town officials should:

7. Ensure that penalties are correctly assessed on all delinquent accounts in accordance with Board policy.

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

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

**TOWN OF AUSABLE
111 AUSABLE STREET
KEESEVILLE NY 12944
(518) 834-9052 - Phone
(518) 834-9519 - Fax**

Sandra Senecal, Supervisor

**Bonnie Hopkins, Town Clerk
Tim Kennedy, Superintendent**

Steve Sucharski, Councilman
Darcy Pray, Councilman
Scot Zmijewski, Councilman
Jim King, Councilman

January 13, 2016

[REDACTED]
NYS Division of Local Government and
School of Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear [REDACTED]

This letter is in response to the recent Audit conducted by your office of the Town of AuSable financial documents concerning Water and Sewer districts in the Town.

The exit conference for the Audit was held on the 18th day of December 2015. The Auditor clearly explained the findings and I understand the direction we must follow to keep accurate records for the districts. The dissolution of the Village of Keeseville brought many unexpected situations a lot of learning occurred this year. I feel we made the best of a difficult situation, timing, personnel, and money were major factors.

The Auditor(s) were professional, patient and helpful, we learned a great deal from them and appreciate the time they spent here.

I understand a corrective action plan is required following the finalization of this audit, one will be prepared and presented to the Town Board for approval.

Sincerely,

Sandra Senecal, Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to review the financial operations of AWD2, AWD3 and ASD1 for the period January 1, 2014 through July 31, 2015.

To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed the Supervisor to gain an understanding of the Town's budgeting practices and accounting procedures for AWD2, AWD3 and ASD1.
- We reviewed the Board-adopted budget for the 2015 fiscal year to determine if individual budgets were developed for AWD2, AWD3 and ASD1.
- We reviewed the Town's accounting records for the 2015 fiscal year to determine if appropriate accounting records were maintained for AWD2, AWD3 and ASD1.
- We interviewed Town and Town of Chesterfield officials and employees. We reviewed Board minutes and various financial records and reports related to water and sewer charges for AWD2, AWD3 and ASD1 to gain an understanding of the internal controls over billing, collecting and enforcing water and sewer charges. We documented any associated effects of deficiencies found in those controls.
- We reviewed a random sample of 50 water and sewer billings to determine if the billings were accurate and if the payments equaled the amount billed plus penalties, if applicable.
- We reviewed a sample of 30 delinquent customer accounts at the due dates during the 2015 fiscal year to determine if penalties were being properly assessed.
- We attempted to review all collections that were recorded as being received by the Town of Chesterfield during the 2015 fiscal year for water and sewer charges related to AWD2, AWD3 and ASD1 to determine if they were remitted to the Town. We also reviewed all collections that were recorded as being received by the Town of Chesterfield during the 2015 fiscal year for sewer charges for ASD1 and CSD1 and operation and maintenance charges for AWD2 to determine if they were remitted to the Town.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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