



Town of Ballston

Water Fund Financial Operations

Report of Examination

Period Covered:

January 1, 2010 — December 31, 2011

2012M-258



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2013

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 Town of Ballston, entitled Water Fund 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 General Municipal Law.

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Ballston (Town) is located in Saratoga County and has a population of approximately 8,000. The Town provides various services to its residents, including street maintenance, fire protection, lighting, water, park, and general government support. Expenditures incurred in providing these services are accounted for in the general, highway, water, lighting, and park district funds.

For fiscal year 2012, budgeted appropriations totaled \$5.9 million, including appropriations of \$1.1 million in the water funds. Expenditures are funded primarily by sales taxes, real property taxes, user charges, and State aid. The Town purchases its water from the Saratoga County Water Authority and the Town of Glenville.

Scope and Objectives

The objectives of our audit were to assess the water fund's fiscal health and operations for the period January 1, 2010, to December 31, 2011. Our audit addressed the following related questions:

- Did the Town maintain and prepare financial records and reports that provide adequate information to monitor and evaluate the fiscal health of the Town's water district funds?
- Have Town officials established adequate internal controls over the billing and collection of water rents and fees?

Audit Results

We found that the Town's accounting reports and records were not properly maintained. As a result, officials have not received the accurate and timely information necessary to evaluate the water fund's fiscal health and take appropriate corrective action. Specifically, at the end of the fiscal year 2011, the Town reported a fund balance of \$520,771 in its water fund. However, upon reviewing the general ledger trial balance and supporting documentation, we found the water fund balance was overstated by at least \$271,264. The majority of this overstatement was the result of \$242,581 of capital project funds that were recorded in District 2. At the end of 2011, the Town recorded a fund balance of \$285,936 for District 2. However, after all adjustments, the District's fund balance was a deficit of \$209,317.

The Board's action to appropriate \$346,447 in water district fund balance as a revenue source in the 2012 budget further compromised the fiscal health of the water fund because these moneys were not available. Subsequent to fieldwork, we contacted the Town to obtain updated financial information;

however, the Town's financial records are not being maintained in a timely manner and are only complete through March 2012.

In addition, we found weaknesses in internal controls over the billing and collection of water user charges. While our testing only identified concerns over the lack of assessing of fees for estimated billings, which could have generated an additional \$22,500 in revenue for the water districts, the lack of adequate segregation of duties and independent verification or review increase the risk that errors and irregularities could occur and go undetected. As of the end of fieldwork in June 2012, the Board had not taken corrective action to address the deficiencies identified.

Comments of Local Officials

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. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Town's response letter.

Introduction

Background

The Town of Ballston (Town) is located in Saratoga County and has a population of approximately 8,000. The Town Board (Board) is the legislative body responsible for managing Town operations, including establishing internal controls over financial operations and for maintaining sound fiscal health. The Town Supervisor (Supervisor) is a member of the Board and serves as the chief executive officer and chief fiscal officer. The Supervisor is responsible for the disbursement and custody of Town moneys.

The Board is responsible for the general management and control of the Town's financial affairs and has the authority to levy taxes on real property located within the Town, set the rates for water user fees and issue debt. The Supervisor and department heads also share the responsibility for ensuring that internal controls over the Town's financial operations are adequate and working properly.

The Town bookkeeper is responsible for maintaining the Town's accounting records on behalf of and under the direction of the Supervisor. The Town Tax Collector collects taxes, assessments, and relieved water rents payable to the Town. The Water Superintendent is responsible for the general management of the Town's 12 water districts and is assisted by a part-time water clerk. The Town's 12 water districts provide water service to over 2,000 customers.

The Town provides various services to its residents, including street maintenance, fire protection, lighting, water, park, and general government support. Expenditures incurred in providing these services are accounted for in the general, highway, water, lighting, and park district funds. For fiscal year 2012, appropriations totaled \$5.9 million, including appropriations of \$1.1 million for the 12 water districts. Expenditures are funded primarily by sales taxes, real property taxes, user charges, and State aid. The Town purchases its water from the Saratoga County Water Authority and the Town of Glenville.

Objectives

The objectives of our audit were to assess the water fund's fiscal health and operations. Our audit addressed the following related questions:

- Did the Town maintain and prepare financial records and reports that provide adequate information to monitor and evaluate the fiscal health of the Town's water districts?
- Have Town officials established adequate internal controls over the billing and collection of water rents and fees?

**Scope and
Methodology**

We examined the fiscal health and records and reports of the water fund for the period January 1, 2010, to December 31, 2011.

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 is included in Appendix C of this report.

**Comments of
Local 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. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Town's response letter.

The Town 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 Town Board to make this plan available for public review in the Town Clerk's office.

Financial Operations

The Board is responsible for the Town's overall financial management and for making sound financial decisions that are in the best interest of the Town and the taxpayers that fund its operations. Although the Supervisor has primary responsibility for managing the Town's day-to-day activities, the entire Board shares responsibility for fiscal oversight and establishing a system of financial reporting. To facilitate this oversight, the Town's financial records must be complete, accurate and up-to-date.

We found that the Town's accounting records and reports were not properly maintained. As a result, officials have not received the accurate and timely financial reports necessary to evaluate the water fund's fiscal health and take appropriate corrective action. Specifically, at the end of the fiscal year 2011, the Town reported a fund balance of \$520,711 in its water fund. However, upon reviewing the general ledger trial balance and supporting documentation, we found the water fund balance was overstated by at least \$271,264. The majority of this overstatement was the result of \$242,581 of capital project funds that were recorded in District 2. At the end of 2011, the Town recorded a fund balance of \$285,936 for District 2. However, after all adjustments, the District's fund balance was a deficit of \$209,317.

The Board's action to appropriate \$346,447 in water district fund balance as a revenue source in the 2012 budget further compromised the fiscal health of the water fund because these moneys were not available. Subsequent to fieldwork, we contacted the Town to obtain updated financial information; however, the Town's financial records are not being maintained in a timely manner and are only complete through March 2012.

Fiscal Health

The Board must adopt structurally balanced budgets for all water districts that provide for sufficient recurring revenues to finance recurring expenditures. The annual budget for each water district is expected to provide a reasonable estimate of appropriations, revenues, and other financing sources for current year operations. Revenues and expenditures for capital projects which are not recurring should be accounted for in a capital fund. Any subsequent annual capital debt and interest payments would then be accounted for in the operating fund.

Sound budgeting practices, together with prudent fund balance management, ensure that sufficient funding will be available to sustain operations, address unexpected occurrences, and satisfy long-

term obligations or future expenditures. Officials must ensure that the level of fund balance is sufficient to provide available cash to pay vendors and employees throughout the year. A deficit fund balance may indicate that a water district is not generating sufficient revenues to pay its operating expenditures, and leaves no funds available for contingencies.

Due to the poor condition of the accounting records, Town officials have not been provided with the necessary accurate and timely information to evaluate the fiscal health of the water fund. Based on the financial information provided in the annual update documents (AUDs)¹ for the years 2010 and 2011, it appears that the Town's water fund balance has increased from \$392,947 to \$520,771.²

However, we found that in the 2011 AUD, total water fund assets were overstated by \$350,286 and liabilities were overstated by approximately \$79,022, resulting in the water fund balance being overstated by at least \$271,264. The actual fund balance as of December 31, 2011 was \$249,507. The overstatement was primarily due to inappropriately recording capital projects in the water districts' operating funds and overstating water rent receivables. Further, when preparing the 2012 budget, the Board appropriated \$346,447 of water fund balance as a financing source. Because only \$249,507 of fund balance was available at the end of fiscal year 2011, the Board created an overall budgetary deficit of \$96,940 in its water districts.

Further, the Town does not maintain a separate and accurate record of the individual water district fund balances in its accounting system. Therefore, Town officials cannot assess the true fiscal health of each water district. Consequently, the Board cannot evaluate whether the current water rate structure³ is sufficient to meet current obligations.

We calculated⁴ the individual fund balances for each of the 12 water districts as of December 31, 2011. According to the Town's accounting records, the Town's largest district, Water District 2,⁵ had a fund balance of \$285,936. However, after adjusting for unsupported account balances related to water rents and other unclassified revenue (see Table 1), we found that while the other 11 water districts appear to be fiscally sound, Water District 2 actually has a deficit

¹ The AUD is the official report of the Town's financial activity filed annually with the State Comptroller.

² The Town combines its 12 water districts for AUD reporting into a consolidated water fund.

³ The water district rates were last increased over 10 years ago, per Board resolution, on June 4, 2002.

⁴ We calculated the individual water district fund balances from the 2011 general ledger trial balance.

⁵ District 2 is the largest of the 12 districts with over 1,200 customers.

fund balance of \$209,317. Consequently, the unsupported account balances masked the true fiscal health of District 2. Without accurate and timely information on the fiscal health of the water districts, the Board cannot act in a timely manner to address fiscal concerns.

Records and Reports

The Supervisor, as chief fiscal officer, is responsible for performing basic accounting functions, including maintaining accounting records, providing monthly financial reports to the Board, and filing the AUD with OSC. In addition, the Supervisor must perform monthly bank-to-book reconciliations to ensure the timely identification and documentation of differences between the Town's cash account balances and its reconciled bank balances. If the Supervisor assigns these duties to a bookkeeper, he/she should provide sufficient oversight and training to ensure the bookkeeper's records are reliable. The Board also must annually audit, or cause to be audited, the records and reports of officers and employees who receive or disburse moneys on behalf of the Town.

The Supervisor did not maintain complete, accurate and up-to-date accounting records, perform timely monthly bank-to-book reconciliations, or provide complete and accurate monthly financial reports to the Board. As a result, the Board could not properly monitor and manage Town water district operations. Furthermore, at the time of our audit, the Board did not examine, or cause to be examined, the records and reports of officers and employees who received or disbursed moneys on behalf of the Town. The failure to do so diminishes the Board's ability to exercise financial oversight and increases the risk that errors, irregularities, or fraud could occur and not be detected and corrected in a timely manner.

Accounting Records – The Supervisor, with the assistance of the bookkeeper, is responsible for maintaining complete and accurate accounting records. These records should be relevant and useful for the Board to manage and monitor the Town's financial operations.

The Supervisor assigned her accounting duties to the bookkeeper, but did not provide sufficient oversight to ensure that the bookkeeper adequately performed these duties. Further, when the bookkeeper left town employment in November 2011, the Supervisor resumed the bookkeeping function, but was unable to complete the December 31, 2011 bank reconciliation until June 2012,⁶ with the assistance of an accounting firm.

In addition, the Supervisor did not maintain complete, accurate, and up-to-date accounting records for the water fund. Specifically, the

⁶ As of July 13, 2012, the Town's main checking account for January 2012 through June 2012 had not been reconciled.

Supervisor did not ensure that water fund account balances were accurate and supported, apply consistent accounting principles or adequately account for each of the 12 water districts.

We examined the water fund general ledger trial balances and account detail for the 2010 and 2011 fiscal years and found several account balances were inaccurate and/or unsupported including unclassified revenues, water rents receivables and due to other governments. We also found that, while overall water meter sales revenues posted to the general ledger agreed to the water collection and billing system, the revenue amounts posted to the individual water districts did not agree with the billing system.

- **Unclassified Revenue** – The Town does not maintain a separate capital project fund and has accounted for its water district capital projects in the water district operating funds. When preparing the 2011 AUD, the related capital project revenues and expenditures recorded in the operating funds were segregated and reported in the capital fund. However, we found that \$242,581 in shared capital costs reimbursed by the Saratoga County Industrial Development Agency (IDA) and the Clifton Park Water Authority were recorded as unclassified revenues in Water District 2. The Town received these funds as reimbursement for a capital project. Therefore, they should have been credited to the capital project instead of the operating fund.
- **Water Rents Receivable** – The Town reported the same water rent receivable balance of \$107,706 in 2010 and 2011, with no adjustment for activity occurring in 2011. The Supervisor could not provide support for the balance reported.
- **Due to Other Governments** – The Town reported the same amount due to other governments of \$79,022 in 2010 and 2011. The Town changed from a manual system to a computerized accounting system in 2009. The Supervisor could not provide support for the balance and believed this may have been a carryover from the previous accounting system.
- **Revenue from Metered Water Sales** – Metered water sales revenues recorded in the water billing and collection system are not properly posted to the general ledger.⁷ During 2010,

⁷ The water clerk remits a daily collection report, by water district, to the bookkeeper for posting to the general ledger. We did not find any significant differences in the overall revenue recorded in the water billing and collection system to the overall postings in the general ledger.

\$402,272 in metered water sales revenues were recorded to the 12 water districts. However, all revenues for five of the water districts were incorrectly posted in the general ledger to Water District 2, resulting in Water District 2 metered water sales revenue being overstated by \$208,601 and understating the metered water sales revenue for the other five districts. During 2011, we identified similar instances, but the posting errors were not as significant as in 2010.

- Fund Balance – The Town does not maintain accurate fund balances for the water districts. Specifically, revenue and expenditure control accounts are not maintained and closed annually to the fund balance account. At year end, the overall water fund balance is manually calculated for AUD reporting by combining the fund balance of the 12 water districts. Individual district fund balances are not prepared and reported. Consequently, Town officials are not aware of the individual fund balances for the 12 water districts. Without timely information on the fund balances of each district, Town officials do not have sufficient information to evaluate if the current rate structure is sufficient or to evaluate the amount of fund balance available to appropriate as a financing source for the subsequent year's operations.⁸

The various recording and reporting errors have resulted in the water fund balance being overstated by at least \$28,683⁹ for 2010 and by at least \$271,264¹⁰ for 2011. While these errors did not have a significant impact on most of the individual water districts, District 2's fund balance went from a surplus of \$285,936 to an adjusted deficit of \$209,317. This deficit was further compounded by the 2012 Town budget, when the Board appropriated \$300,000 of non-existing Water District 2 fund balance to finance its operations. Because the Water District 2 fund balance was a deficit of over \$209,000 at the end of the 2011 fiscal year, the Board unknowingly created a budgetary accumulated deficit in excess of \$509,000 for Water District 2 for the 2012 fiscal year.

⁸ The Town appropriates fund balance for the individual water funds. However, fund balance is not tracked in the central accounting system.

⁹ The two account balances causing the 2010 overstated fund balance are Water Rent Receivables which was overstated by \$107,706 and Due to other Governments which was overstated by \$79,022. (\$107,706 less \$79,022 equals the overstatement of \$28,683.)

¹⁰ The AUD reported fund balance of \$520,771 less the actual fund balance of \$249,507 equals \$271,264.

Table 1: Water Fund Adjusted Fund Balance			
Description	District 2	Remaining 11 Districts	Totals
Fund Balance per 2011 AUD	\$285,936	\$234,835	\$520,771
Less: Overstated Unclassified Revenue	(\$242,581)		(\$242,581)
Less: Overstated Water Rents Receivable	(\$106,579)	(\$1,127)	(\$107,706)
Less: Overstated 2010 Water Meter Revenue	(\$208,601)		(\$208,601)
Add: Overstated Due to Other Governments	\$62,508	\$16,515	\$79,023
Add: Understated Water Revenue		\$208,601	\$208,601
Adjusted Fund Balance:	(\$209,317)	\$458,824	\$249,507
Less: Appropriated Fund Balance for 2012 Budget	\$300,000	\$46,447	\$346,447
Fund Balance Unappropriated:	(\$509,317)	\$412,377	(\$96,940)

Financial Reports – The Supervisor should be providing periodic financial reports to the Board throughout the year including budget-to-actual reports with revenues and expenditures and account balances by fund. These reports assist the Board in monitoring the balances of revenues and expenditures and in taking action as warranted when revenues are not meeting projections or appropriation balances are almost exhausted. If additional appropriations are necessary, the Board must approve budgetary adjustments before expenditures are charged against the accounts.

While the Supervisor provided budget-to-actual reports to the Board through October 2011, this reporting stopped when the bookkeeper left town employment in November 2011. The Town hired a new bookkeeper¹¹ and an accounting firm to complete the 2011 records, which were not completed until June 2012. During this period, the only financial reporting provided to the Board was the Supervisor's monthly report, listing the receipts and disbursements for all funds. While Board members did not receive periodic detailed financial information from the Supervisor due to the lack of adequate accounting records, they also have not established fiscal policies to address the frequency and content of interim financial reporting.

The lack of adequate monthly reporting diminishes the Board's ability to monitor and manage the water fund's fiscal health and increases the risk that errors and irregularities may occur and go undetected and uncorrected. Had the Board received adequate reports, it could have evaluated the fiscal health of the water districts and taken corrective action as necessary. Further, they would have also seen that District 2's fiscal health was deteriorating and at risk of not meeting its financial obligations. As a result, the Board did not propose and approve budget amendments or increase water rates to

¹¹ The Town hired a new bookkeeper February 6, 2012; however, she later resigned in April 2012.

prevent District 2's deficit fund balance and further compounded the fiscal stress in District 2, by appropriating \$300,000 in fund balance in the 2012 budget that was not available.

Annual Audit – Town Law requires the Board to conduct or obtain an annual audit of the records and reports of any Town officer or employee who received or disbursed moneys on behalf of the Town in the preceding year. The Board does not conduct an annual audit of departments handling cash receipts or disbursements. Consequently, the Board has no assurance that public moneys are accounted for properly (e.g., timely deposit of moneys received, transactions recorded properly, and accountability maintained). Further, the lack of an annual audit could delay the identification of conditions that need improvement.

Recommendations

1. The Board should develop a plan to eliminate the fund balance deficit in Water District 2 and improve the District's fiscal health within a reasonable period of time.
2. The Board should periodically monitor water district fund balance and take appropriate action as necessary.
3. The Board should evaluate the availability of each water district's available fund balance prior to appropriating it as a funding source.
4. The Board should develop a plan to address the condition of the Town's accounting records. Such a plan should include the creation of a capital fund to track the revenue and expenditures of capital projects.
5. The Board should ensure that the Supervisor properly maintains the Town's financial recordkeeping system to provide for the timely and accurate recording of all financial transactions and any year-end adjusting entries.
6. The Board should ensure that complete and accurate monthly bank reconciliations are performed, and ensure that any differences disclosed by the reconciliation process are promptly identified and resolved.
7. The Board should establish fiscal policies to address the frequency and content of interim financial reporting. Supervisor should prepare and provide the Board with complete and accurate monthly financial reports. The Board should use these monthly reports to monitor and manage the Town's financial operations.

8. The Board should ensure that the required audits of the financial records and reports of applicable Town officers and employees are performed annually.

Billing and Collection

The Board and Water Superintendent are responsible for establishing internal controls to ensure that there is an appropriate segregation of duties. When it is not practical to segregate duties because of limited staff resources, compensating controls should be used to reduce the risk of errors and/or irregularities occurring without being detected. Such compensating controls could include the Board or management periodically reviewing the work in question and the rotation of duties amongst employees. In addition, all applicable fees related to water billing should be enforced.

Segregation of Duties – The water clerk is responsible for all water billing and collection duties including adding, modifying and deleting customer accounts; preparing and mailing customer bills; collecting cash; preparing and making deposits; opening mail; recording collections and remitting daily collection reports to the bookkeeper. We found no indication compensating controls were implemented to mitigate the control weaknesses of having the water clerk perform all of the functions related to the water billing and collections. The lack of mitigating controls creates an increased risk of errors or irregularities with water rents occurring and not being detected in a timely manner.

Due to the lack of controls, we tested a sample of 50 customer accounts during the four billing cycles in 2010 and 2011. While we found that the customer billings and collections agreed with the customer meter cards and user rates, and deposits were made timely and intact, estimation fees were not always assessed when meter cards were not returned in a timely manner.

Estimation Fee – According to the billing information provided by the Water Department and posted on the Town website, residents are required to submit meter readings to the Water Department¹² and the failure to submit a meter reading will result in a \$100 fee for estimating the customer's bill.

We extended our review to the most recent billing cycle at the time of our audit (fall of 2011) and found that of the 1,964 water customers billed, 227 (11.6 percent) did not return their meter cards resulting in their water bills being estimated. However, only two of these accounts were assessed the \$100 estimation fee during the 2011 fall billing cycle. According to the Water Superintendent, while the fee has been in place for years, the Water Department did not actively assess this

¹² Meter cards are mailed out on February 1 and August 1 and are due back in 10 days.

fee. Had the Water Department assessed the fee, they would have generated an additional \$22,500 in revenues. Furthermore, by not assessing the fee, customers are not encouraged to submit their meter cards in a timely manner, resulting in potentially delayed collections for the Town.

As of the end of fieldwork in June 2012, the Board had not taken corrective action to address the deficiencies identified.

Recommendations

9. Town officials should reassign duties in the Water Department so that incompatible duties are not performed by the same employee. If complete segregation is not practical, Town officials should implement compensating controls through periodic management review.
10. The Water Department should develop a procedure to determine when to assess or waive the \$100 estimation fee.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following pages.

TOWN OF BALLSTON

PO BOX 67

Burnt Hills, NY 12027

"An Equal Opportunity Employer"

Patricia A. Southworth, Town Supervisor

April 15, 2013

[REDACTED]

[REDACTED]

Office of the State Comptroller

Division of Local Government and School Accountability

One Broad Street Plaza

Glens Falls, NY 12801-4396

Dear [REDACTED],

I am the Supervisor and Chief Financial Officer and responsible for performing basic accounting functions, including maintaining accounting records, providing monthly financial reports to the Board, and filing the AUD with the OSC. In addition, the Supervisor must perform monthly bank-to-book reconciliations to ensure the timely identification and documentation of differences between the Town's cash account balances and its reconciled bank balances. If the Supervisor assigns these duties to a bookkeeper, she should provide oversight and training to ensure the bookkeeper's records are reliable. The Board must annually audit, or cause to be audited, the records and reports of officers and employees who receive or disburse moneys on behalf of the Town.

It is important to note that all taxpayer money has been accounted for and there was no fraud or misappropriation of funds. It is also important to be on record that the Town Board received all required reports through October 2011. Let it be noted that upon taking office in January of 2008 the water department personnel and bookkeeper remained the same as the previous administration and past practices were followed. It is the Supervisors understanding that on past audits by the Comptroller's Office the practices the Town was operating on when she took office. This included the commingling of fund monies. It is this commingling of funds that resulted in confusion. Water funds need to be separate in a bank account of their own. In January 2008 the Supervisor spoke with the Glens Falls Office of the

State Comptroller requesting an audit. She was told unless she had evidence of wrongdoing there would not be an audit. At that time the Supervisor had no access to the accounting software and does not to this day. Therefore no independent verification of the bookkeepers work is possible. The Town Board would not approve the additional expense thus blocking independent verification by the supervisor, even when new software was purchased in 2009. In the end of the first quarter of 2009 the staff began interviewing and viewing software providers to ensure all department needs could be met. In mid 2009 the software was installed, staff began training and account information was loaded into new software. Over 2009 and 2010, under the supervision of the supervisor, utility software was purchased and programs altered to meet the needs of the town. Prior to this time there was limited ability to segregate out revenue by district extension. Although this was standard operating procedure long before 2008 the Supervisor repeatedly attempted to rectify the practice by recommending water district consolidation. The request was not acted upon until 2013.

See
Note 1
Page 22

See
Note 2
Page 22

During her employment under the new Supervisor the bookkeeper was resistant to change and often uncooperative. In an attempt to address the issues a meeting was held in which the bookkeeper brought in a long standing Board member to inform the Supervisor that she was doing a wonderful job as she had in the past and the Supervisor would not be allowed to make a change in personnel. It was made clear if change was to take place the Supervisor would have no bookkeeper. The bookkeeper was terminated with cause November 17, 2011 and after 30 years of a bookkeeper to the Supervisor position; the position was abolished December 6, 2011 with a 4 to 1 vote of the Town Board. Abolishing the position also removed any possibility of segregation of duties. This was purely punitive and an effort to overwhelm the Supervisor forcing a resignation. The Supervisor having no authority to hire a bookkeeper had to pick up the duties of the bookkeeper for the first time since taking office. The Supervisor had no training on the accounting software, or municipal accounting or prior access to the system. As CFO prioritizing of the tasks was essential. Payroll was met; state and federal taxes paid and W2's were issued on time. During her employment the bookkeeper refused to attend training through the NYS Comptroller's Office. After several months, at the urging of the Supervisor, the Town Board relented and retained the services of a professional accounting firm to close the 2011 books and prepare the AUD. A request of the Comptroller's Auditor to reschedule the audit was denied. During the time period the Comptroller's audit was being performed the Supervisor was not only handling the request of the comptroller's auditor but also doing the duties of bookkeeper, Supervisor, converting to an outside payroll company and assisting with the CPA (who were not contracted with until April 21, 2012) to close the books on 2011. At the continued insistence of the Supervisor and taxpayers, the Town Board contracted with a local accounting firm in July 2012 and bookkeeping services are now performed by a Certified Public Account.

See
Note 3
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In account A1320.4, \$10,000, \$17,500 and 22,800 was appropriated in 2008, 2009, and 2012 respectively. Despite the appropriation no other audit action was taken other than hiring the same CPA as the previous Town Board to prepare and file the AUD.

Let it be noted that this report repeatedly refers to 12 water districts which is incorrect. It appears the auditor may have been confused between districts and extensions. At the time the audit was conducted the Town had five water districts and seven water extensions. Six extensions are off of District 2. Since

See
Note 4
Page 22

2008 the Supervisor has appointed a Water Committee to facilitate the needs of the Water Department. Repeatedly in 2010 and 2011 they were asked to review water rates and the overall health of the districts. Numerous times the Water Superintendent requested extension consolidation, but it fell on deaf ears. It is the Supervisor's understanding that prior to taking office all expenditures except debt payments were being paid out on Water District 2 and that is why metered sales were recorded in Water District 2. All necessary upgrades to software have been completed and this process was been changed in 2012. The bookkeeper inappropriately applied funds to the operating account that should have even applied to Capitol accounts. Without access to the accounting program the Supervisor could not have known about the comingling of funds which appears to have caused that imbalance. This has been corrected.

See
Note 5
Page 22

Regarding the failure to collect failure to read meter fees, there was a problem with the billing cards being destroyed by a machine at the post office. It was impossible to know which properties received cards, therefore the Water Superintendent made the decision to waive the fee. A new postcard system was put in place and the Town has plans to move to remote reading in the near future.

See
Note 6
Page 22

Segregation of duties is difficult with the limited staff of a small town. We have instituted changes to standard operating procedure that provides additional check and balances.

Numerous discussions were held during water budget workshops regarding expenditures and revenues. At the same time the water district took on substantial debt for an additional pump station and water tower rehabilitation. The discussions always can back to the majority wanting to keep the tax levy flat. The budget for 2012 passed with a vote of 4:1 along party lines with the supervisor being the only dissenting vote.

The Town Board has consistently failed to provide the Supervisor with the authority to obtain necessary staffing and tools to perform the responsibilities of the position.

Sincerely,

Patricia A. Southworth

Cc: Hon. Thomas P. DiNapoli

Steven J. Hancox, Deputy Comptroller

Peter Grannis, First Deputy Comptroller

*Town of Ballston
323 Charlton Road
Ballston Spa, NY 12020
518-885-8502*

April 21, 2013



NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear ,

The town board of the Town of Ballston has received the draft audit report entitled "Town of Ballston Water Fund Financial Operations" for the period of January 1, 2010 – December 31, 2011. The board has completed a preliminary review of the report and agrees with the findings and recommendations. We have discussed the report with our water superintendent who also agrees with the findings and recommendations.

Currently we are working on the following:

- Completing a thorough review of the report.
- Determining what corrective actions have already been completed.
- Creating a list of actions required by the town.
- Prioritizing remaining action items.

We will be submitting a proposed Corrective Action Plan (CAP) upon receipt of the Final Audit Plan in accordance with the 90 day requirement. We would like to thank your office for the time and effort required to perform this audit. We look forward to working to implement these recommendations.

Patricia Southworth Supervisor _____

William Goslin Councilman _____

Mary Beth Hynes Councilwoman _____

Kelly Stewart Councilwoman _____

Tim Szczepaniak Councilman _____

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

Our office receives numerous requests for audits from local officials on a regular basis. In order to determine how to best allocate our limited audit resources, we use a risk-based approach for selecting which local governments to audit and take any such requests, among other things, into account when making our decisions. We do not require local officials to provide evidence of wrong doing in order for us to determine if an audit is warranted.

Note 2

The Supervisor indicated in her response that she had no access to the accounting software in January 2008 and still does not to this day. As the Supervisor correctly points out in the beginning of her response to our audit, she is the CFO of the Town and is responsible for maintaining accounting records, providing monthly financial reports to the Board, and filing the AUD with OSC. The Supervisor, as CFO, should have gained access to the accounting software at some point during the past five years in order to fulfill her responsibilities as CFO. The Supervisor is not relieved of the duties and responsibilities as the Town's CFO when there is an appointed bookkeeper.

Note 3

There was no request made to reschedule the audit.

Note 4

The distinction between districts and extensions is not relevant; the total of 12 water districts/extensions referred to in our report are separate and distinct from one another and are budgeted and accounted for separately. This distinction also does not change the fact that one District (District 2) ended 2011 with a significant deficit fund balance that the Town was not aware of due to the lack of adequate accounting records and reports maintained by the Supervisor.

Note 5

The Supervisor, as CFO, is responsible for maintaining the accounting records for the Town. If a bookkeeper is appointed to maintain the records, it is still the Supervisor's responsibility to review the records and ensure that they are properly maintained. The Supervisor should have ensured that she had access to the accounting records to provide adequate oversight.

Note 6

The Town should formalize the process of waiving of fees and ensure that the process is adequately documented and authorized by the Board.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the Town's water fund records and reports. To accomplish this, we performed an initial assessment of the condition of the Town's accounting records and reports, so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed Town officials, performed limited tests of transactions, and reviewed pertinent documents such as Town policies and procedures, Board minutes, and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected for further testing fiscal health and the records and reports of the water fund for further testing.

During this audit, we examined the Town's water fund records and reports for the period January 1, 2010, to December 31, 2011. To accomplish the objectives of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed Town officials responsible for financial oversight and maintaining accounting records to obtain an understanding of the Town's policies and procedures for the water fund.
- We reviewed Board minutes for resolutions pertaining to the water districts.
- We reviewed unaudited financial information and, on a test basis, reviewed the available accounting records including the general ledger, trial balance, journal entries, bank reconciliations and budget reports for the water districts.
- We reviewed reports generated from the water billing system and, on a tested basis, we reviewed the customer water meter cards, billings, collections and deposits. We also traced the collections recorded in the water billing system to the posting to the general ledger.
- We interviewed the Supervisor and reviewed the annual financial reports filed with the Office of the State Comptroller to determine if they were accurate and complete.
- We assessed the financial information provided to the Board and the Board's procedures to provide oversight of Town finances.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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