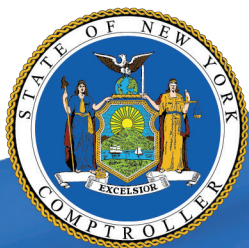


Town of Chazy

Water and Sewer District Financial Operations

MAY 2017



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

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Report Highlights

Town of Chazy

Audit Objective

Determine whether Town officials effectively managed the billing, collection and enforcement of water and sewer charges.

Key Findings

- The Town lacked effective procedures to ensure water and sewer charges were accurately billed, collected and enforced.
- Customers were not billed in accordance with the Board-established rates, resulting in customers being underbilled by \$1,703.
- Delinquent customer accounts did not always include late payment penalties in accordance with Board policy.

Key Recommendations

- Establish comprehensive policies and procedures to provide adequate guidance for water and sewer billing and collection.
- Ensure that all customers are billed the correct Board-established water and sewer rates.
- Ensure that late payment penalties are applied to all delinquent customer accounts in accordance with Board policy.

Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Town of Chazy (Town) is located in Clinton County (County) and has a population of approximately 4,285 residents.

The Town is governed by an elected five member Town Board, which is composed of four Board members and the Town Supervisor (Supervisor). The Board is responsible for the general oversight of the Town's operations and finances.

The Town employs a secretary who works under the Supervisor's direction and is responsible for billing, collecting, adjusting and enforcing water and sewer charges.

Quick Facts

238	Water District Customers
\$220,805	Water revenue recorded during audit period
190	Sewer District Customers
\$198,334	Sewer revenue recorded during audit period

Audit Period

January 1, 2015 – October 31, 2016

Water and Sewer District Financial Operations

How Are Water and Sewer Financial Operations Effectively Managed?

The Board is responsible for effectively managing the Town's water and sewer financial operations. Effective management requires the Board to establish policies and procedures that provide guidance and oversight for employees involved in billing, collecting, adjusting and enforcing water and sewer charges. Additionally, when key duties related to billing and collection are not adequately segregated, the Board should implement compensating controls, such as providing additional managerial oversight, to minimize the risks associated with the lack of segregation. Once policies and procedures are established, the Board should monitor compliance with these policies.

Additionally, the Board is responsible for establishing rates for all water and sewer charges and approving all billings to ensure customer bills are accurate. All individual customer water and sewer charges billed should be recorded in the receivable control accounts. To ensure the receivable control accounts are accurately maintained, these accounts should be reconciled each month with the amounts billed, collected and unpaid. For those situations where billing adjustments are necessary, the Board should establish written procedures to address the approval and documentation process. For example, the Board or a designated official should approve the amount of each adjustment and adequately document its origination, justification and approval date.

The Board is also responsible for ensuring that penalties on customers' delinquent accounts are properly charged and collected. It should review and approve the list of relieved water and sewer accounts by comparing the list to a delinquent customer account report generated from the billing and collection software to ensure that all overdue accounts are properly relieved. Furthermore, good business practices require that water and sewer collections be deposited daily and intact (in the same form as they were received), or as soon as possible, to prevent loss or misuse and reduce the risk of fraud.

Adequate Oversight Procedures Were Not Implemented

The secretary was responsible for performing all duties related to water and sewer operations, which included maintaining the customer master file, setting up the applicable rates each customer would be charged, preparing and printing bills, collecting and recording payments, preparing bank deposits and applying penalties to delinquent accounts. In addition, she made adjustments to customer accounts with limited oversight and prepared the list of unpaid customer accounts to be relieved by the County.

Town officials did not implement adequate compensating controls to reduce the risk involved in concentrating key water and sewer district financial responsibilities with the secretary. Although the Board generally adopted water and sewer rates,

Town officials provided little oversight of the secretary's duties and did not review billing adjustments or the amounts to be relieved.

no one reviewed or approved the quarterly billing registers to ensure all water and sewer customers were properly billed.

In addition, Town officials did not generate and review adjustment reports to verify that billing adjustments were approved before being made and that adjustments were for appropriate purposes, even though the billing and collection software was capable of generating such reports. Furthermore, the Board did not review and approve the relevy list prepared by the secretary before the unpaid amounts were remitted to the County for relevy.

Control Accounts Were Not Reconciled or Properly Maintained

Although receivable control accounts were maintained for water and sewer billings and collections during our audit period, the control accounts were not reconciled each month to the total amount of unpaid water and sewer bills. Further, even if monthly reconciliations had been prepared, the control account totals would not have agreed with the unpaid bills because the control accounts were not properly maintained.

For example, the amounts billed for water and sewer services during the third and fourth quarters of 2016 were not recorded in the water and sewer receivable control accounts. As a result, as of October 31, 2016 the water control account was understated by \$59,990 (\$30,850 in the third quarter and \$29,140 in the fourth quarter) and the sewer control account was understated by \$57,372 (\$29,198 in the third quarter and \$28,174 in the fourth quarter).

This occurred because the secretary did not record water and sewer charges to the control accounts during these quarters and because she was solely responsible for maintaining the accounting records. Additionally, because Town officials provided the secretary with little oversight, these errors went unnoticed. Further, officials did not implement any procedures for reconciling the water and sewer receivable accounts with the unpaid customer bills each month or reviewing and approving such reconciliations. Instead, at year-end the secretary adjusted the control account balances to agree with the list of delinquent water and sewer accounts to be relevied by the County. As a result, there is an increased risk that errors and omissions could occur and remain undetected.

Bills Were Inaccurate and Customer Accounts Were Not Properly Maintained

We reviewed 50 water and sewer bills¹ and related payments totaling \$17,199 (\$9,016 in water charges and \$8,183 in sewer charges) to determine whether the bills were accurate, payments were correctly recorded in the customers'

Water and sewer rents receivable accounts were understated and adjusted at year-end to agree with the amounts relevied.

¹ See Appendix B for information on our sampling methodology.

accounts and the payments agreed with the amount billed (including penalties), if applicable.

We found that 15 of these bills (30 percent) were inaccurate due to customers being charged an incorrect rate. As a result, these customers were underbilled by a combined total of \$1,703 (water charges were underbilled by \$870 and sewer charges were underbilled by \$833).

These bills were for commercial and rental properties that were incorrectly billed at the Board-adopted residential water and sewer rates. As a result, customers were underbilled between \$28 and \$300 when compared to the Board-established commercial and rental property rates.

The Town was paid for 42 of the 50 bills we reviewed. Fourteen customers who paid were underbilled a total of \$1,628 and two of these customers were not assessed \$12 in late payment penalties on payments that were received after the due date. Further, we traced four of the eight² unpaid bills to the 2015 fiscal year relevy list and found that none of the amounts were correct because \$54 in late payment penalties were not applied to these accounts before being relevied.

To determine whether customers were actually being billed for services received, we compared 25 water district parcels³ and 25 sewer district parcels with customer accounts in the water and sewer billing and collecting software. Other than a few minor exceptions, which we discussed with Town officials, all these parcels were being billed. We also reviewed 20 deposits totaling \$62,675 made during our audit period to determine whether these funds were deposited intact in a timely manner. We found that all 20 deposits were deposited intact, and other than minor exceptions, which we discussed with Town officials, these deposits were made in a timely manner.

How Should Delinquent Accounts Be Enforced?

The Town's water and sewer codes and an adopted Board resolution state that a 5 percent late payment penalty should be assessed on all water and sewer charges that are not paid by the due date indicated on each quarterly bill. Town officials are responsible for ensuring that penalties on delinquent customer accounts are properly charged and collected.

In addition, the Town's water and sewer codes specify that if payments are not received by the end of the collection period, all delinquent amounts will be relevied on the customer's next year's real property tax bill. The Board, or a designated official, should review and approve the list of relevied water and sewer

Customers
were not
always
charged
the Board-
approved
rates.

² Four bills were related to 2015 charges and four bills were related to 2016 charges.

³ See Appendix B for information on our sampling methodology.

accounts by comparing it to a delinquent customer account report from the billing and collection software to ensure that all accounts remitted to the County are for the proper amounts.

Delinquent Accounts Were Not Always Enforced In Accordance with Board Policy

The Town's water and sewer billing and collection software does not automatically assess late payment penalties to delinquent customer accounts. Instead, the secretary must manually apply penalties to the unpaid bills, which is usually performed when the next quarter's bills are generated.

We reviewed 25 unpaid customer accounts⁴ as of the billing due dates during our audit period and found that late payment penalties were not assessed to 10 customers (40 percent) in accordance with Board policy. In addition, the Board, or other Town officials, did not review and approve the list of relieved water and sewer accounts prepared by the secretary and sent to the County at the end of the 2015 collection period. Therefore, the Board could not ensure that all unpaid accounts were properly relieved.

We reviewed 30 delinquent customer accounts totaling \$27,325 at the end of the 2015 collection period and found that all these accounts were relieved. However, none of these accounts were remitted to the County for the proper relevy amount because these accounts were not assessed late payment penalties, resulting in lost revenue to the Town totaling \$413.

These discrepancies occurred because the secretary did not apply late payment penalties to all unpaid customer accounts in the billing and collection software, and Town officials did not implement any oversight procedures to ensure delinquent accounts were enforced in accordance with Board policy. We found that penalties were not applied to any delinquent accounts for the fourth quarter of 2015 and the third quarter of 2016.

Although the amounts of these discrepancies were minor, the rate at which the Town made these errors was significant. In addition, the Board's failure to ensure that all delinquent accounts were accurately relieved resulted in the Town not realizing all appropriate revenues because of the lack of proper charges for late payments.

Unpaid
customer
accounts
were not
always
assessed
late payment
penalties.

⁴ Ibid.

What Do We Recommend?

The Board and Town officials should:

1. Establish comprehensive policies and procedures to provide adequate guidance for the billing, collecting, adjustment and enforcement of water and sewer charges.
2. Rebill the water and sewer customers identified in this report who were underbilled.
3. Ensure that penalties are correctly assessed on all delinquent accounts in accordance with the Town's water code, sewer code, or Board resolution.

Town officials should:

4. Segregate duties over billing, collecting, adjusting and enforcing water and sewer charges. If it is not practical to segregate duties, officials should establish appropriate compensating controls, such as increased management review procedures.
5. Generate billing registers for each water and sewer billing, which should be Board-reviewed and approved to ensure customers are charged the proper Board-established rate.

The Supervisor should:

6. Ensure that the secretary properly maintains water and sewer receivable control accounts in the Town's accounting records and Town officials prepare monthly reconciliations of these accounts with the supporting detailed records.

The Board should:

7. Review and approve all adjustments made to customer accounts and ensure that they are adequately documented or designate someone independent of the billing and collecting process to perform these functions.
8. Review and approve the list of relieved water and sewer accounts by comparing it to a delinquent customer account report from the billing and collecting software to ensure that all delinquent accounts are properly relieved.

Appendix A: Response From Town Officials

TOWN CLERK

HEATHER M. GIULIANO
TOWN ASSESSOR

JEREMIAH CROSS
CODES/ZONING ENFORCEMENT
OFFICER

MICHAEL TETREAULT
HIGHWAY SUPERINTENDENT

TIMOTHY S. LAMICA

TOWN OF CHAZY

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518-846-7544
FAX: 518-846-8981

MARK HENRY, SUPERVISOR

**SUSAN M. PATNODE, SECRETARY TO
THE SUPERVISOR**

TOWN COUNCIL MEMBERS

JERRY J. DENO

CATHY A. DEVINS

WILLIE GIROUX

DANIEL VESCO

April 20, 2017

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396

RE: Town of Chazy Water and Sewer District, Report of Examination 2017M-42

Dear Mr. Leonard,

This letter is in response to the Preliminary Draft Audit findings of your recent audit of the Town of Chazy Water and Sewer District Financial Operations.

The Town of Chazy acknowledges receipt of the above referenced draft report. We have reviewed the report and agree with its findings. The Town participated in a comprehensive audit which took several weeks to complete and covered 15 distinct areas of town operations. As a result, the auditor made recommendations for correction in one of these audited areas.

While a Corrective Action Plan will be submitted to the Chazy Town Board for final approval before it is forwarded to the Office of the State Comptroller, please note that the Town of Chazy has already instituted almost all of the recommendations suggested by the auditor.

We would also like to thank the auditor for his invaluable insight and guidance. He was professional and cordial throughout the entire audit process.

Respectfully,

Mark R. Henry
Supervisor
Town of Chazy

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials and employees. We reviewed Town policies, the water code, the sewer code, Board minutes and various water and sewer financial records and reports to gain an understanding of the process for billing, collecting, adjusting, depositing, enforcing and reconciling water and sewer charges. We documented any associated effects of deficiencies found.
- We reviewed the Town's accounting records during our audit period to determine if the water and sewer receivable control accounts were properly maintained.
- We reviewed a randomly selected sample of 50 combined water and sewer bills (25 bills from the first quarterly billing register for 2015 and 25 from the first quarterly billing register for 2016, from the 1,847 bills listed on the billing registers) to determine whether the rates charged agreed with the Board established rates, bills were correctly recorded in the customers' accounts, payments agreed with the amounts billed (plus penalties, if applicable) and payment collections were properly recorded in the customers' accounts.
- We compared a randomly selected sample of 25 water district parcels (from the 234 water district parcels) and 25 sewer district parcels (from the 186 sewer district parcels) with the customer accounts within the billing and collecting software to determine if customers were being billed for services received.
- We reviewed all billing adjustments made to water and sewer accounts during our audit period to determine if they were pre-approved by the Board and for appropriate purposes.
- We reviewed a judgmentally selected sample of 20 bank deposits during our audit period to determine if water and sewer receipts were deposited intact in a timely manner.
- We reviewed a judgmentally selected sample of 25 delinquent customer accounts with due dates occurring during our audit period to determine if the Town was properly assessing late payment penalties in compliance with Board policy.
- We reviewed a judgmentally selected sample of 30 delinquent customer accounts at the end of the 2015 collection period to determine if these accounts were relieved and if the amounts relieved were accurate.

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

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.

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

Appendix C: Resources and Services

Regional Office Directory

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

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

<http://www.osc.state.ny.us/localgov/costsavings/index.htm>

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

<http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm>

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

<http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg>

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

<http://www.osc.state.ny.us/localgov/planbudget/index.htm>

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

<http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf>

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

<http://www.osc.state.ny.us/localgov/finreporting/index.htm>

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

<http://www.osc.state.ny.us/localgov/researchpubs/index.htm>

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

<http://www.osc.state.ny.us/localgov/academy/index.htm>

Contact

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