



Saratoga County Water Authority Water Charges

Report of Examination

Period Covered:

January 1, 2015 — July 31, 2016

2016M-357



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2016

Dear Authority Officials:

A top priority of the Office of the State Comptroller is to help authority officials manage their authorities efficiently and effectively and, by so doing, provide accountability for dollars spent to support authority operations. The Comptroller oversees the fiscal affairs of authorities statewide, as well as authorities' 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 authority operations and Board governance. Audits also can identify strategies to reduce authority costs and to strengthen controls intended to safeguard authority assets.

Following is a report of our audit of the Saratoga County Water Authority, entitled Water Charges. This audit was conducted pursuant to the Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution.

This audit's results are resources for authority officials to use in effectively managing operations and in meeting the expectations of taxpayers. 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 Saratoga County Water Authority (Authority) is an independent public benefit corporation located in Saratoga County. The Authority was established in 1990 under the New York State Public Authorities Law to acquire, construct, operate and maintain wholesale water supply production and distribution facilities for the benefit of the municipal and commercial customers. The Authority provides wholesale water supply to seven customers, based on individual service agreements, through a system composed of a water treatment facility, a 5-million-gallon tank, a pump station and approximately 28 miles of water main. During 2015 the Authority provided its customers with 2.1 billion gallons of water and the average daily water consumption was 5.8 million gallons.

The Authority's Executive Director and confidential secretary are responsible for the day-to-day management, including billing and collections, of the Authority under the direction of a Board of Directors (Board). The Board is composed of seven members who are appointed to two-year terms by the Chairman of the Board of Supervisors of Saratoga County (Board of Supervisors). The Authority's budgeted appropriations for the 2016 fiscal year were approximately \$5 million, funded primarily with water charges. The Authority recorded revenues for water charges of approximately \$8.2 million during our audit period.

Objective

The objective of our audit was to review the authority's internal controls over water charges. Our audit addressed the following related question:

- Did Authority officials ensure that water fees were properly billed, collected, deposited and recorded?

Scope and Methodology

We examined the Authority's internal controls over water charges for the period January 1, 2015 through July 31, 2016.

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
Authority Officials**

The results of our audit have been discussed with Authority officials and their comments, which appear in Appendix A, have been considered in preparing this report. Authority officials agreed with our findings.

Water Charges

The Board and Authority officials are responsible for establishing effective internal controls over water charges to ensure that customers are properly billed and all moneys received are properly accounted for and deposited intact (i.e., in the same amount and form as collections being deposited) and in a timely manner. The Authority's investment policy requires collections to be deposited within 72 hours of receipt once the collections exceed \$250. Furthermore, the Board must also provide sufficient oversight of administrative staff and employees involved in the billing and collection process.

The Board is also responsible for establishing rates, terms and frequency of payments, and service agreements for water charges. Additionally, there should be a process to ensure that billing adjustments are properly authorized and that the reason, amount and approval date are documented. An individual independent of preparing water bills should review billings to ensure customers are accurately billed. All water charges billed should be posted to a receivable control account which should be reconciled to the amounts billed, the amounts collected and the remaining unpaid bills to ensure accurate recording of water charges.

The Board and Authority officials have established and implemented effective internal controls over the Authority's billing, collecting, depositing and recording of water charges. The controls in place include a formal policy, contractual service agreements and informal procedures. The policy, contracts and procedures provide adequate guidance and oversight to Authority staff involved with generating bills, collecting and recording payments, preparing bank deposits and reconciling customer accounts.

The Authority charges customers for water services based on service agreement terms and metered usage. Each of the seven customers¹ has a 10-year service agreement that establishes the initial water rate with a maximum percentage increase for subsequent years, billing terms and a minimum daily usage that the customer is obligated to purchase. The Board holds an annual public hearing to set the water rates. During the last billing period of each year, the confidential secretary reconciles the actual metered water sales to the minimum contractual obligations for each customer and adjusts the bills if warranted.

¹ The seven customers are composed of three towns, two water authorities, one village and one large commercial client.

On a weekly basis and on the first of each month, Authority employees read the meters and record usage on meter reading forms. The employees record the meter reading data into a spreadsheet for each customer by date and provide a copy to the confidential secretary for preparing the bills. The confidential secretary transfers the meter readings from the first and last days of the billing period to her billing spreadsheets and calculates the total usage and amount due by customer. She then enters the amount due in the customer's account in the financial software that is used to generate bills, and records the amounts as accounts receivable and water revenues. The one commercial customer is billed monthly and the six municipal customers are billed quarterly. On occasion the Authority will provide water through one of its hydrants to commercial customers and generates bills for the month of use. The confidential secretary provides the bills and the supporting spreadsheets to the Executive Director for review and approval. After the approval process the bills are mailed to the customers.

The municipal and one-time commercial customers pay their bills by mail with checks and the main commercial customer pays its bill through an electronic funds transfer into the Authority's bank account. During 2015, the Authority's former Treasurer was responsible for collecting payments, preparing and making deposits and providing the supporting documentation, including the check stub, duplicate deposit slip and deposit receipt, to the confidential secretary for recording.

Due to turnover in the Treasurer position in 2016, the duties of collecting and depositing water charges were assigned to the confidential secretary and Executive Director. The confidential secretary obtains the mail and places the unopened payments in the safe, and the Executive Director opens the mail. After the Executive Director reviews the checks, he provides them to the confidential secretary for processing. The confidential secretary records the collections in the cash ledgers, and the accounts receivable balance is reduced. The collections are also recorded in the individual customer accounts. After recording the collections, the confidential secretary completes a duplicate deposit slip and either the Executive Director or the confidential secretary makes the deposit. On a monthly basis the Executive Director reports all revenues earned to the Board.

We reviewed all 58 bills issued for water charges and two Board-approved billing adjustments during our audit period, totaling \$8.4 million for 3.2 billion gallons of water, to determine whether the water charges were properly billed. The Board properly approved the two billing adjustments. Based on our review of the bills, meter

readings and approved adjustments, the customers' water charges were properly billed at the Board-approved rate.

We also traced the 48 collections recorded in the cash ledger during the audit period, totaling \$7.3 million, to determine whether they were deposited intact and in a timely manner. Except for minor discrepancies that we discussed with Authority officials and administrative staff, the deposits were made intact and in a timely manner (i.e., in accordance with the Authority's 72-hour policy). Additionally, for the same 48 collections, we compared the amounts due on the customers' bills to the amounts recorded in the customer accounts and to the amounts received to determine whether the payments made were in the correct amounts. All customer payments made were in the correct account and were properly recorded.

We reviewed the accounts receivable and water revenue balances in the financial software as of December 31, 2015 and July 31, 2016 to determine if the accounting records were accurate and whether both accounts were supported by the customer bills. Both accounts were accurate; the recorded accounts receivable balances were properly supported by the outstanding customer bills, and the water revenues were supported by the water bills issued.

We commend Authority officials for developing and implementing effective internal controls over the billing, collecting, depositing and recording of water charges.

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

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



SARATOGA COUNTY WATER AUTHORITY

JOHN E. LAWLER, CHAIRMAN
ED M. HERNANDEZ, P.E., EXECUTIVE DIRECTOR

260 BUTLER ROAD, GANSEVOORT, NY 12831
TELEPHONE: (518) 761-2058
FACSIMILE: (518) 792-4942
www.saratogacountywaterauthority.com

THOMAS K. CUMM
ANITA M. DALY
ARTHUR J. JOHNSON
DARREN O'CONNOR
JAMES M. SMITH
TIMOTHY SZCZEPANIAK

December 9, 2016

Jeffrey P. Leonard, Chief Examiner
NYS Office of the State Comptroller
Division of Local Government & School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

RE: 2016 Report of Examination Response

Dear Mr. Leonard:

I am writing in response to the preliminary draft report entitled, "Saratoga County Water Authority – Water Charges – Report of Examination – Period Covered: January 1, 2015 – July 31, 2016" issued by the Office of the State Comptroller Division of Local Government and School Accountability.

The Board of Directors and management are very pleased with the results of this audit and would like to thank the staff of the Office of the State Comptroller who were professional and cordial throughout the audit process. We would also like to thank your staff for providing input to aid us in improving the overall financial operation of the Water Authority.

Please feel free to contact me or Ed Hernandez, Executive Director should you have any questions or desire any additional information regarding this response.

Sincerely yours,

John E. Lawler, Chairman
Saratoga County Water Authority
Board of Directors

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Authority officials and employees. We reviewed Board minutes and financial records and reports to gain an understanding of the internal controls over the billing, depositing and recording of water fees. We documented any effects of deficiencies in those controls.
- We reviewed all customer billings to determine whether the charges were supported by meter readings, accurately calculated and based on service agreements. We verified that all adjustments to the bills were properly authorized by the Board.
- We reviewed all customer payments to determine whether they agreed with the amount billed; were properly collected and recorded in the cash account in the financial software; were deposited intact and in a timely manner; and were supported by duplicate deposit slips, deposit receipts and check stubs.
- We reviewed the accounts receivable and water fee revenues recorded in the accounting records to determine whether they were supported by billing and payment records to verify the accuracy of the recorded accounts receivable and water fee revenues.

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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