



Town of Charlton

Internal Controls Over Billed Receivables for Water Operations

Report of Examination

Period Covered:

January 1, 2012 — August 31, 2013

2014M-28



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2014

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 Charlton, entitled Internal Controls Over Billed Receivables for Water 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*

Introduction

Background

The Town of Charlton (Town) is located in Saratoga County and has approximately 4,100 residents. The Town Board (Board) is the legislative body which comprises an elected Town Supervisor and four elected members, who are responsible for managing Town operations, including establishing internal controls over financial operations. The Supervisor serves as the chief executive officer and chief fiscal officer of the Town.

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 Board and department heads share the responsibility for ensuring that internal controls over the Town's financial operations are adequate and working properly.

The Town provides various services to its residents, including street maintenance, police protection, water and general government support. Expenditures incurred in providing these services are accounted for in the general, highway and water funds. For fiscal year 2012, appropriations totaled \$2 million, including appropriations of \$231,751 for the two water districts. For fiscal year 2013, budgeted appropriations totaled \$2.1 million, including appropriations of approximately \$237,000 for the two water districts. Expenditures are funded primarily by sales taxes, real property taxes, user charges and State aid.

The account clerk is responsible for maintaining the Town's accounting records on behalf of and under the direction of the Supervisor. The water clerk is responsible for entering meter readings, generating water bills, receiving and recording payments and making adjustments to water customer accounts. The water superintendent is responsible for the general management of the Town's two water districts. The Town's two water districts provide water service to approximately 590 customers.

Objective

The objective of our audit was to determine if the Town established effective internal controls over water billing and collections. Our audit addressed the following related question:

- Are internal controls over water billings and collections adequately designed and operating effectively?

**Scope and
Methodology**

We examined the Town’s internal controls over billed receivables for the water operations for the period of January 1, 2012 through August 31, 2013.

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 B 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. Town officials generally agreed with our recommendations and indicated they have initiated or 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 Clerk’s office.

Water Operations

The Board is responsible for establishing internal controls to provide reasonable assurance that Town resources are adequately safeguarded and accounted for and that financial transactions are properly authorized. Town officials are responsible for implementing the Board's control directives by designing and documenting operating policies and procedures and properly delineating employee responsibilities. Such policies and procedures should include providing adequate segregation of financial duties, ensuring that water bills are accurately calculated and ensuring that billing adjustments are properly authorized and documented. It is also important that the Board provide sufficient oversight over those Town officers and employees who collect water payments from customers.

Proper segregation of duties ensures that no one person controls all phases of a transaction and provides for the work of one employee to be verified by another employee in the course of his or her duties. Concentrating key duties with one individual (i.e., accounting records maintenance, cash custody and reconciliations) with little or no oversight weakens internal controls and significantly increases the risk that errors or irregularities might occur and go undetected. If it is not feasible to segregate duties, Town officials must institute compensating controls such as enhanced management oversight.

The Town's water revenue process includes billing and collecting payments. The billing process involves preparing and mailing meter reading cards to water customers by the end of April each year. Water customers are required to fill out the meter reading cards and return them to the Town by May 25.¹ The readings are then manually entered into the water billing software and the annual bills are generated. The Town then has various procedures to review the meter readings for accuracy. For example, if a customer's usage has increased by more than 50 percent, the water superintendent will investigate to ensure that the readings are accurate. Bills are then printed and mailed to customers by July 1 and payments are due back to the Town by July 31. Payments received after that date are assessed a penalty of five percent of the amount due.

In 2013, the Board attempted to improve the segregation of duties. Although there was an improvement, duties were not fully segregated and compensating controls, such as those previously discussed, were not established. The Board established the position of water clerk to

¹ If the card is received after May 25 or not returned at all, there is an \$85 penalty assessed to the water customer.

be responsible for billing and collecting water charges. The water clerk's duties were primarily the same as the former bookkeeper's duties except that the water clerk also collected payments. The Board also appointed an account clerk² to make bank deposits. In addition, the Board approved the water billing rate and all billing adjustments for both years. Although there was a certain level of Board oversight and certain duties were segregated, these compensating controls were not sufficient because the water clerk was responsible for billing, collecting and recording the payments into the accounting records and could make adjustments to the customers' accounts without prior approval from the Board. Having such responsibilities increases the risk that the water clerk could make adjustments to customer accounts and not record all collections turned over to her.

Due to the lack of adequate segregation of duties and compensating controls, we reviewed the billings and collections for a sample of customers. We tested 60 randomly selected water customers³ and four water customers prone to higher risks,⁴ two for 2012 and two for 2013. We verified the usage and the user rate used to calculate the billings and verified the amount billed agreed to the amount collected. We found no discrepancies.

We also tested the same 64 customers' accounts to determine if the payments on those accounts were deposited timely and intact.⁵ We reviewed the 11 deposits related to the collections from the 32 accounts selected for 2012 and found deposits were made intact but not timely.⁶ We found 19 out of the 32 customer payments were deposited 10 to 20 days after the date of collection. We also reviewed the five deposits associated with the 32 accounts for 2013 and found that all customer payments were made intact and timely. We also tested 10 bills in 2012 and 10 bills in 2013 that were collected after the July 31 due date to determine if penalties were properly calculated and collected. We found that penalties were properly calculated and collected in both years.

The lack of adequate segregation of duties and compensating controls such as increased oversight and review by the Board increases the risk that errors or irregularities can occur and go undetected with the billing and processing of collections for water services.

² This position replaces the position of bookkeeper.

³ Thirty water customers from 2012 and 30 water customers from 2013

⁴ The judgmental selection included the Town Clerk and water department superintendent because of their involvement in the billing/collection process for 2012 and 2013.

⁵ Moneys collected must be deposited intact; that is, in the same order and form (cash or check) in which they were received.

⁶ Generally, moneys should be deposited in a Town bank account within 10 days.

Recommendations

The Board should:

1. Determine if water billing and collection duties can be further segregated between the water clerk and account clerk,
2. Approve all adjustments to the water customer accounts before the water clerk records the adjustments and
3. Implement compensating controls to mitigate the risks associated with the lack of segregation of duties between the water clerk and account clerk. The controls, at a minimum, should provide for reconciliations between the amounts billed, collected, recorded and deposited.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



Town of Charlton
784 Charlton Road
Charlton, New York 12019
Telephone: 518-384-0152
Fax: 518-384-0385 ext. 207
Supervisor@townofcharlton.org

Town Board Response and Corrective Action Plan

SUPERVISOR
Alan R. Grattidge

The Town Board has received and reviewed the report entitled;

TOWN BOARD
Joe Grasso
Mark Hodgkins
Robert Lippiello
Sandra Verola

Town of Charlton Internal Controls over Billed Receivables for Water Operations

TOWN CLERK
Brenda Mills

Over the last 8 years the Town Board has implemented many polices for effective internal controls to insure the Town's financial operations are adequate and working properly. We agree with the findings of the audit and have implemented many corrective actions and will follow the recommendations in this report.

The Water Clerk will generate monthly reports to the Town Board showing meter readings entered for each customer as the cards are returned to the Town. The Water Clerk will keep a journal of all meter reading adjustments as to their nature of adjustment and create a report of meter readings for the Town Board.

The preliminary report will advise the Town Board of those customers who will be receiving an \$85.00 late fee for not returning their meter cards by the due date. A final report of meter readings and late fees will be presented to the Town Board by May 25th for their approval. Any waiving of late fees will be set by written Town Board policies and can only be done by Town Board Resolution.

Once the bills are generated from the meter readings, there is a report and trial balance of monies due that can be generated on a weekly basis for the Town Board and Account Clerk.

A report of monies received each shift is generated and provided to the Account Clerk with the checks and or cash payments. Each check received is photocopied and attached to the report as well as any monies received are photocopied and attached to the report given to the Account Clerk. Timely deposits will be made according to the Town Board policy on monies received. Copies will be given to the Town Board on a weekly basis.

The Town Board believes these actions will address the concerns that were raised in the report. We want to thank the Comptrollers representatives for their professional manner and guidance during this audit. We appreciate their recommendations to help us improve our internal controls.

Alan R. Grattidge
Supervisor

April 28, 2014

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash management, cash receipts and disbursements, purchasing, claims processing, tax collections, billed receivables for water operations, payroll and personnel services and information technology.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents, such as Town policies and procedures, Board minutes and financial records and reports. In addition, we reviewed the Town's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

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 or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected billed receivables for water operations for further audit testing.

To accomplish the objective of this audit, our procedures included the following:

- We reviewed the written procedures developed by the water clerk to obtain an understanding of how the water bills are processed and collected.
- We interviewed the Town Clerk to gain an understanding of the collection process in 2012.
- We interviewed the water clerk, Town Supervisor and account clerk to gain an understanding of the billing and collection for water usage.
- We interviewed appropriate Town officials to gain an understanding of water district operations.
- We randomly selected 30 user accounts in 2012 and 30 in 2013; we also judgmentally selected four user accounts prone to higher risks,⁷ two for 2012 and two for 2013. We reviewed the water bills along with the corresponding meter reading cards and payments reports to determine if bills were calculated correctly, billed correctly, and if payments were received in the correct amount.
- For the 64 user accounts discussed previously, we reviewed the payment reports, cash receipts, deposit slips and bank statements within our scope period to determine if deposits were intact and timely.

⁷ The judgmental selection included the Town Clerk and water department superintendent for 2012 and 2013.

- We selected a sample of 10 bills from 2012 and 10 bills from 2013 that were collected after the July 31 due date to determine if penalties were properly calculated and included in the amount due.

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.

APPENDIX C

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