



Village of Belmont Water and Sewer Operations

Report of Examination

Period Covered:

June 1, 2012 — February 20, 2014

2014M-101



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2014

Dear Village 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 Village 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 Village of Belmont entitled Water and Sewer 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 Village of Belmont (Village) is located in Allegany County and has approximately 970 residents. The Village provides various services to residents, including street repair, snow plowing, water and sewer, police and fire protection, garbage pickup, recyclable pickup and general government support. Budgeted appropriations for the 2013-14 fiscal year totaled approximately \$1 million, including \$451,000 for the general fund, \$216,000 for the water fund and \$343,000 for the sewer fund.

The Village is governed by an elected four-member Board of Trustees (Board) and an elected Mayor. The Board is responsible for general oversight of Village operations and designing and implementing internal controls to safeguard Village assets from loss or misuse. The Mayor is the Village's chief executive officer and appoints all non-elective officers, subject to Board approval, including the Clerk and Treasurer positions. The Clerk-Treasurer is the Village's chief fiscal officer.

The water operator is responsible for the Village's water operations, and the sewer operator is responsible for the Village's sewer operations. The Village's water and sewer system has approximately 550 water customers and 390 sewer customers who are billed quarterly based on usage. Water meters are read quarterly by Village employees for billing purposes.

Objective

The objective of our audit was to review the Village's water and sewer operations and address the following question:

- Did the Board and Mayor ensure that all water and sewer usage was captured and the money owed to the Village for water and sewer rents was properly billed, collected, accounted for and enforced?

Scope and Methodology

We examined the Village's water and sewer operations, records and reports for the period June 1, 2012 through February 20, 2014.

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 C of this report.

**Comments of
Village Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our recommendations and indicated they have taken corrective action. Appendix B includes our comment on an issue raised in the Village's response letter.

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 Village Clerk-Treasurer's office.

Water and Sewer Operations

Village officials are responsible for controlling the cost of operating the Village's water and wastewater systems. The water operator and the sewer operator are responsible for ensuring usage of the water and wastewater systems is properly captured. The Clerk-Treasurer is responsible for ensuring that water and sewer usage is correctly billed, collected, deposited and recorded. The Board is responsible for authorizing updates to facilities, user rates, adjustments to customer bills and ensuring that overdue bills are enforced.

In 2008, the Village paid for a study that provided Village officials with several options for necessary updates to the Village's wastewater treatment facility. The Village focused on two options. One option would handle current wastewater capacity for \$5.3 million, and the other option would provide enough capacity to handle waste from the Allegany County (County) jail and leachate from the County landfill for \$5.8 million. The Village discussed these options with County officials, and in 2009, the County provided a letter of intent to tie into the system and contribute \$100,000 toward the cost of the increased capacity option.

As of the end of 2013, the County had contributed the \$100,000, but had not tied into the updated facility. This caused Village officials to increase the sewer rates for its customers by 75 percent in 2013. A quarterly minimum¹ inside-village sewer bill increased from \$50 to \$87, to pay for the cost of the updates and increased capacity. When asked why the County has not tied into the system despite making the contribution toward the upgrades and indicating that was its intent, the County Administrator stated that the County must consider all County taxpayers and will not tie into the system just to reduce rates for Village residents. Currently, the Village has not received formal confirmation from the County for tying into the wastewater system. Additionally, the County spent an additional \$26,500 for a study conducted to determine the best option for waste treatment at the County jail.

Adding a large user, such as the County, could reduce sewer rates. Because the Village is still in discussions with the County as to if or when the County will become a sewer customer, we focused our audit efforts on determining whether current water and sewer usage was properly captured, billed, collected and enforced.

¹ Minimum bill includes 900 cubic feet or 6,732 gallons (900 x 7.48)

We found that Village officials have not taken adequate steps to identify and reduce the amount of unaccounted-for water within the Village's system, therefore all water and sewer usage may have not been captured. Generally, the Clerk-Treasurer properly billed, collected and deposited water and sewer rents. However, the Board did not properly segregate the duties of the Clerk-Treasurer or implement compensating controls. As a result, the Clerk-Treasurer calculates estimates and makes billing adjustments with no oversight and all unpaid water and sewer bills are not being enforced by levy on the tax roll. In addition, the Clerk-Treasurer does not maintain accounts receivable control accounts.

Unaccounted-For Water

Because sewer usage is billed based on water usage, unaccounted-for water has an impact on both water and sewer operations. Unaccounted-for water is the difference between the amount of water produced and the amount of water billed to customers or used for a municipal purpose over a given period of time. It is essential that officials periodically compare water produced with water billed and used for routine municipal purposes to determine if there is a significant amount of unaccounted-for water.² If Village officials determine that unaccounted-for water is significant, they should attempt to identify whether the difference is caused by recordkeeping errors, leaks, theft, unmetered usage or malfunctioning meters. The Village should monitor water meters to ensure they are recording usage accurately and read them on a regular basis. Also, it is important for the Village to have a replacement plan for faulty water meters, as it can help the Village avoid having to estimate water usage.

Village officials failed to periodically compare the amount of water produced with the amount billed and were not aware of the extent of unaccounted-for water. We compared water production reports with water billing registers for six consecutive quarters³ and found that unaccounted-for water was 41 percent of water produced. Water produced for the period June 1, 2012 through December 31, 2013 totaled 84.8 million gallons, of which 49.8 million gallons was billed and 35 million gallons were unaccounted-for.⁴

² According to the U.S. Environmental Protection Agency, most states set the maximum acceptable amount of unaccounted-for water in the range of 10 to 15 percent of the amount produced. *Control and Mitigation of Drinking Water Losses in Distribution Systems*, November 2010.

³ June 1, 2012 through December 31, 2013

⁴ The Village does not use a flat rate for billing. Because rates vary depending on customers' locations (inside or outside the Village) and whether they are connected to the sewer system, we did not calculate possible revenue loss for the 35 million gallons of unaccounted-for water.

Village officials have not estimated what part of the unaccounted-for water was due to municipal use, and they are unaware of any significant leaks or illegal connections. Of the total 546 water customers, 77 customers (14 percent) do not have operational meters, which causes the Village to estimate their billed usage.⁵

Village officials told us the meters are seven to eight years old, and the Village does not have a formal replacement plan. Although the Village does not have a formal plan, Village officials told us they intend to replace the nonfunctioning meters, but did not indicate when this would occur. Until the meters are replaced, the Village will need to continue estimating these customers' water usage. Because the Village does not have procedures in place for estimating usage and Village officials do not review the estimates established by the Clerk-Treasurer, it is possible that these customers could be significantly over- or undercharged for water usage.

In addition, because sewer charges are based on water usage, it is possible that unaccounted-for water could lead to unaccounted-for sewer usage. If customers are connected to the Village's sewer system and have uncaptured water usage, the Village is losing sewer usage revenue for those customers. The amount of lost revenue would depend on the customers' actual water usage and the rate they would be charged for this usage. For example, the first rate level charge for inside-Village sewer usage is \$87, which is based on the first 900 cubic feet of water used (6,732 gallons). Approximately 390 water customers (71 percent) have sewer connections. Of these 390 customers, 54 have malfunctioning water meters.

Village officials should determine the causes for unaccounted-for water and take steps to reduce the amount to improve the efficiency of the Village's water distribution system, enhance the financial health of the Village's water and sewer operations and preserve water resources.

Billing

The Board is responsible for establishing an internal control system that provides reasonable assurance that all water and sewer usage are billed at Board-adopted rates and based on accurate metered usage. Proper segregation of duties ensures that no one person is responsible for recordkeeping, billing, and collecting and depositing cash receipts without oversight by another person who is independent of this function. In a water and sewer billing system, the individual responsible for generating bills should not have the ability to make adjustments to accounts without supervisory approval and should not be responsible for collecting and recording cash receipts.

⁵ Refer to the Billing section for further information.

The Board has not established policies or procedures for billing and collecting water and sewer rents, determining estimated bills, or determining, approving and applying adjustments to customers' accounts. The Board also did not properly segregate the Clerk-Treasurer's duties related to water and sewer billings and collections or implement compensating controls to routinely monitor and review the Clerk-Treasurer's work. The Clerk-Treasurer handles all aspects of water and sewer billings and collections. Village officials do not monitor or review the Clerk-Treasurer's work, including his calculations for estimating bills or adjusting billed amounts.

We reviewed a random sample of 78 water and sewer bills and found that the Clerk-Treasurer generally billed, collected and deposited water and sewer rents in an adequate manner. Of these, we reviewed all 14 bills totaling \$648 that the Clerk-Treasurer had estimated water usage for and found that none had documentation to support the calculations of the estimates. The Clerk-Treasurer told us he used various methods to calculate estimated bills, including charging for minimum usage, using prior actual readings and estimating usage based on the number of people in the household.

We also found that the Clerk-Treasurer had made adjustments totaling \$5,819 to nine bills⁶ within our sample. The Clerk-Treasurer calculated and applied eight adjustments totaling \$5,428 to the customers' accounts without Board review or approval. Three adjustments totaling \$623 did not have sufficient supporting documentation to provide reasoning for the necessity of the adjustments.

Also, one of the three adjustments appeared to be an error. The Clerk-Treasurer reduced a customer's bill by \$249 when he should have increased the bill by \$21. We reviewed that customer's quarterly bills for January 1, 2013 through January 1, 2014 and found that the Clerk-Treasurer underbilled that customer by \$1,773.

Because the Clerk-Treasurer handles all aspects of the water and sewer billing process and estimates bills and adjusts accounts without Board supervision, the Village has an increased risk that inappropriate transactions could be initiated and hidden and that errors could occur and remain undetected.

Enforcement

General Municipal Law allows the Village to enforce overdue water and sewer bills by relevying the overdue amounts on the property tax roll. This ensures the Village receives its billed revenues in a timely manner.

⁶ Billing adjustments can be made for various reasons, such as correcting clerical mistakes, incorrect meter readings or as a result of customers disputing billed amounts.

As of May 5, 2013, the Village had 127 overdue accounts totaling \$20,962. We found that two accounts for \$238 were being relieved on the tax roll. The Clerk-Treasurer told us that the remaining 125 accounts had not been relieved because the Mayor was attempting to enforce payment by sending shut-off notices to these customers with overdue amounts, instead of relieving the unpaid amounts on the customers' property taxes. Also, the Board did not know which accounts were overdue and did not know which accounts were sent to the County for relief.

Because of the Village's lack of timely enforcement for these overdue amounts, it has lost the timely use of more than \$20,000 in water and sewer revenue. Also, delaying the receipt of water and sewer revenue could have an impact on the fiscal health of the water and sewer funds.

Accounts Receivable

It is important that the Clerk-Treasurer maintain water and sewer accounts receivable control accounts to ensure that all activity in individual customer accounts is summarized and captured for recording purposes within the operating funds. The Clerk-Treasurer should periodically reconcile control accounts to individual customer account records and investigate and promptly address any differences. The Board should review and approve all adjustments to the control accounts.

The Clerk-Treasurer does not maintain control receivable accounts for water and sewer rents. Also, the Clerk-Treasurer does not enter billed amounts and penalties in the accounting records as a revenue and a receivable when he sends the bills to customers. Rather, the Clerk-Treasurer records these revenues when he collects them. Also, the unpaid balances are not reflected on the Village's general ledger.

Because the Village does not have complete records that include accounts receivable control accounts, the Board is relying on inadequate information to make management decisions.

Recommendations

Village officials should do the following:

1. Implement procedures to determine the causes of water loss and take steps to address the possible causes as they are identified,
2. Periodically reconcile water produced to the amount of water billed and otherwise accounted for to determine if significant losses are occurring, and
3. Estimate water consumption for municipal usage, such as for hydrant flushing and firefighting.

The Board should do the following:

4. Develop and adopt policies and procedures for the water and sewer billing process, including the calculation, review and approval of estimates for usage and adjustments to customer accounts,
5. Ensure that unpaid water and sewer bills are relevied on the tax roll to enforce payment, and
6. Ensure that the Clerk-Treasurer properly maintains water and sewer accounts receivable control accounts.

APPENDIX A

RESPONSE FROM VILLAGE OFFICIALS

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

Village of Belmont
1 Schuyler Street, Belmont, NY 14813
Phone 585-268-5522 Fax 585-268-7005

Mayor: Terrance E. Schmelzer

Clerk: Richard J. Hoshal

July 23, 2014

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Mazula:

Thank you for your report on the Village of Belmont Water and Sewer billing procedures. We found the audit to be informational and we gleaned some important procedures that we have already implemented. In addition, please note the auditor on site, [REDACTED], was very helpful and offered some specific suggestions, which were immediately implemented (i.e.: levying unpaid water and sewer bills onto County taxes).

Concerning the report itself, we find only one area of concern and disagreement. On page 9, Enforcement Section, Paragraph 2, it states "...the remaining 125 accounts had not be (sic) relieved because the Mayor was attempting to enforce payment by sending shut-off notices to these customers with overdue accounts, instead of relevying ... on the customer property taxes." This statement is just not true. The Village implemented, years before I was Mayor, a reminder letter to unpaid customers one month after billing, followed by an orange tag a month after that, all in an attempt to keep as many bills up to date as possible. I continued this same policy and was never aware of the relevying option until [REDACTED] told us during the audit. We immediately implemented this policy and in May 2014 sent unpaid water and sewer bills to the County. As a Board, we feel strongly that the implication that the Mayor chose sending notices out instead of relevying is unfair and the above noted section should be removed.

See
Note 1
Page 13

As noted above, beyond our one objection we agree with the report and have already begun implementing polices and a follow up letter regarding our steps will be forthcoming within the 90-day period.

Thank you for your attention to this matter.

Sincerely,

Terrance Schmelzer, Mayor
Village of Belmont Board of Trustees

APPENDIX B

OSC COMMENT ON THE VILLAGE'S RESPONSE

Note 1

Village officials told us they relevied the two properties mentioned in the report because the individuals had moved and officials thought that was the only time they could collect water bills with a relevy on taxes. Because our fieldwork had been completed before the 2014-15 real property tax roll was prepared, we did not audit, and therefore cannot comment on, the inclusion of the overdue amounts on the tax roll.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Village 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: financial condition, cash receipts and disbursements, utility billing, payroll and personal services, and Clerk-Treasurer and Justice Court activities.

During our initial assessment, we interviewed Village officials, performed limited tests of transactions and reviewed pertinent documents, such as Village policies and financial records and reports. We interviewed Village officials and reviewed the minutes of the Board's proceedings to obtain an understanding of the internal controls over the Village's financial operations.

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 professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected the water and sewer operations for further audit testing. To accomplish our objective and obtain valid and relevant audit evidence, our procedures included the following:

- We determined how the Village established its water and sewer rates, when the rates were last amended and what they were currently.
- We compared water production reports with water billing registers for the six consecutive billing quarters that occurred during our audit period (June 1, 2012 through December 31, 2013). We subtracted the number of gallons billed from the gallons produced to determine the amount that was unaccounted-for.
- We selected a random sample of 78 water and sewer customers and verified whether the billed amounts were correct and reflected updated balances regarding payments, penalties and new billing cycles. We selected these 78 customers by randomly selecting a sample representing approximately 15 percent of the 546 accounts and choosing every seventh account.
- We examined the 78 accounts to verify that receipts match deposits and reports by comparing payment information on bill stubs to duplicate deposit slips and to information in the accounting system for amount and form of payment. We also selected a judgmental sample of days with unusual or large transactions and obtained the composition of deposits for those days and compared them to recorded amounts to ensure collections were deposited as recorded.
- We compared overdue water and sewer receivable balances to a list certified by the Board to ensure all overdue amounts were added to property taxes in agreement with a Board resolution. We compared the list to the property tax roll to ensure all overdue amounts were relieved correctly. We determined whether the overdue amounts that were not relieved had been paid, thereby reducing the accounts receivable amounts.

- We reviewed all usage estimates and billing adjustments in our sample of 78 bills and verified whether they were made for a valid reason and authorized. We reviewed the supporting documentation for billing adjustments and determined who authorized the adjustments and who made them.
- We determined whether all water and sewer users had meters. If users did not have meters, we determined why they did not have them.
- We determined how many meters were not operational.

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 D

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