



# Village of Frankfort

## User Charges

### Report of Examination

Period Covered:

June 1, 2012 — January 30, 2014

2014M-117



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

June 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 Frankfort, entitled User Charges. 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 Frankfort (Village) is located in Herkimer County in the Town of Frankfort (Town) and has a population of approximately 2,600. The Village is governed by a five-member elected Board of Trustees (Board) which comprises a Mayor and four Trustees. The Board is the legislative body responsible for the general management and control of Village financial affairs.

The Village provides various services to its residents, including street repair, plowing, police and fire protection, water, sewer and electric services and general government support. The Village provides water services to approximately 1,300 Village and Town residents, sewer services to approximately 800 Village residents and electric services to approximately 1,700 Village and Town residents. For the 2013-14 fiscal year, budgeted appropriations are approximately \$592,000 for the water fund, \$72,000 for the sewer fund and \$2.1 million for the electric fund, all of which are financed by user charges.

The Mayor is the Village's chief executive officer. The Treasurer is the chief fiscal officer, who along with the Deputy Treasurer, is responsible for the Village's daily financial operations. The Board employs three account clerks and one part-time budget officer who are involved in the processing of user charges.

## Objective

The objective of our audit was to review the Village's water, sewer and electric user charge activity. Our audit addressed the following related question:

- Did Village officials ensure that water, sewer and electric user charges were properly billed, collected, recorded and deposited?

## Scope and Methodology

We examined water, sewer and electric user charge activity for the period June 1, 2012 through January 30, 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 B of this report.

## Comments of Local 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 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 Village Clerk's office.

## User Charges

An effective system of internal controls over water, sewer and electric charges can help ensure that usage is properly billed and all moneys are collected, recorded, deposited and accounted for. Village officials must provide sufficient oversight of the officers and employees who are involved in these processes and ensure there is an adequate segregation of duties of the billing, collecting and recording functions for user charges. Billing adjustment procedures should require a designated official to approve each adjustment, and document the justification, amount and date it was approved. Village officials should also ensure that an audit log or change report of the adjustments is maintained and reviewed. Receivable control accounts should be maintained for each type of user charge and periodically reconciled with totals of individual customer account balances. This control activity helps to ensure the accuracy and completeness of transactions that have been posted to the Village's accounts.

Village officials need to improve internal controls to ensure that water, sewer and electric user charges, totaling approximately \$2.7 million annually, are properly billed, collected, recorded and deposited. The duties for billing, collecting and recording payments are not segregated. In addition, customer account adjustments are not independently approved and the computerized billing system does not provide an audit log or change reports to show the adjustments that have been made. Although a control account is maintained for the water and sewer charges, it is separate from the Village's accounting records and cannot be reconciled, with differences ranging from \$5,000 to \$7,000 per month. Furthermore, there is no control account for the electric charges. As a result, there is an increased risk that billings, collections and adjustments could be inaccurate and that discrepancies could go undetected.

### Segregation of Duties

Proper segregation of duties ensures that no one person controls all phases of a transaction. When it is not possible to have an optimal segregation of duties, the associated risk can be reduced by supervisory and Board oversight and regular review of an individual's work. Having the same person perform all the key duties for a transaction (e.g., billing, collecting and recording) with little oversight weakens internal controls and significantly increases the risk that errors and irregularities might occur and go undetected.

Two account clerks bill, collect and record utility usage and charges (one clerk for water and sewer and a second clerk for electric). The

two clerks obtain and review their respective meter reading reports<sup>1</sup> and make adjustments they deem appropriate. Once the two clerks are satisfied that the usage calculated is reasonable based on prior usage, they print and send utility bills to customers. Customer payments are collected by four clerks,<sup>2</sup> however, only the two clerks discussed previously record payments in the billing system and have the ability to adjust meter readings and billings. The water and sewer account clerk reconciles a daily receipt transaction report from the billing system to cash-on-hand and the Village Treasurer makes the deposits. However, because Village officials have not adequately segregated the duties of billing, collecting and recording or provided oversight over the two account clerks, the risk remains that billings could be inaccurate because of improper adjustments and discrepancies could go undetected.

## Account Adjustments

Billing adjustment procedures should require that a designated official approve each adjustment and adequately document the justification, amount and date it was approved. Village officials should ensure that audit logs and/or change reports are generated from the computerized billing system to show all adjustments made to customer accounts and identify who entered the adjustments. Management should periodically review the reports to determine whether only appropriate adjustments are being made to customer accounts. Such reports can also provide a mechanism for individual accountability and for management to reconstruct events.

The account clerks told us that customer account adjustments are necessary to correct errors in meter readings. They review the readings for reasonableness based on prior readings and make adjustments they deem appropriate. However, Village officials did not establish adequate procedures for the account clerks to follow when making billing adjustments. Village officials did not designate someone to approve adjustments and did not ensure that an audit log of the adjustments was maintained. Although the account clerks maintain their own manual logs of the adjustments they make to customer accounts, the Village's vendor-supported computerized billing system does not provide an audit log or change reports to show the adjustments made. Consequently officials cannot determine if all adjustments made were recorded in the account clerk's manual logs. Further, the failure to ensure that all adjustments are formally approved increases the risk that customers may receive account

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<sup>1</sup> The Village contracts with a vendor to read customer meters and provide electronic meter readings for water and sewer and electric usage. The readings are downloaded monthly into the Villages utility billing system and a meter reading report is generated.

<sup>2</sup> The water and sewer account clerk, electric account clerk, an accounting clerk and the part-time budget officer



adjustments to which they are not entitled or that adjustments could be used to cover up fraudulent transactions.

## **Control Account**

An effective system of internal controls should include receivable control accounts for all user charges. A control account is a summary account in the general ledger which is an overall summary of individual transactions for each customer. The control account should be updated with total amounts, such as total collections for the day, week or month; total billings for the month; and total adjustments for erroneous billings and should be periodically reconciled to individual customer account records. Any discrepancies should be promptly investigated and resolved. This process helps to ensure the accuracy and completeness of transactions recorded in the individual customer accounts.

The Treasurer did not ensure that receivable control accounts were maintained in the Village's accounting records for the Village's water, sewer and electric funds. The budget officer did maintain a manual control account for water and sewer separate from the Village's accounting records, but was unable to reconcile the balance with the detail accounts. Monthly differences ranged from approximately \$5,000 to \$7,000. No one maintained a control account for the electric fund.

Due to the lack of controls, we selected 33 accounts to determine whether they were properly billed and payments were recorded. We also selected 21 payments to determine whether they were properly deposited and reviewed one month of billings for adjustments. While our testing did not identify any discrepancies, without properly segregating duties, providing oversight over adjustments or maintaining and reconciling control accounts, the Village has an increased risk that errors and irregularities could occur and remain undetected and corrected.

## **Recommendations**

1. Village officials should segregate the water, sewer and electric duties of billing, collecting and recording to the extent practical. Village officials should provide for oversight and an independent review of work when adequate segregation is not practical.
2. Village officials should require a designated official's prior approval for all billing adjustments and written documentation of the reasons for such adjustments, their amounts and the dates approved.
3. Village officials should work with the vendor that supports the computerized user charge billing system to determine if audit logs or change reports can be generated to show all adjustments



to customer accounts and who entered the adjustments. These reports should be periodically reviewed by management to determine whether adjustments have been authorized.

4. The Treasurer should ensure that water, sewer and electric receivable control accounts are properly maintained and reconciled monthly with the total of the detailed customer accounts. Any discrepancies should be promptly investigated and resolved.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

Mayor: Frank M. Moracco  
Deputy Mayor: Richard D. Adams, Jr.  
Trustee: Anthony C. Fumarola  
Trustee: Mark R. Harris  
Trustee: Michael J. Entwistle



Village Clerk: Karlee M. Tamburro  
Village Treasurer: Doreen A. Fiorentino  
Village Attorney: Cory A. Zennaro  
Chief of Police: Ronald J. Petrie  
Fire Chief: Charles Conigliaro

## Village of Frankfort

June 16, 2014

Office of the State Comptroller  
Rebecca Wilcox, Chief Examiner  
333 East Washington Street  
Syracuse, New York 13202

Re: Village of Frankfort  
Period Covered: June 1, 2012-January 30, 2014  
User Charges  
2014M-117

Dear Chief Examiner Wilcox:

The Village of Frankfort would like to express its appreciation to your office for our recent audit. We are grateful for your recommendations to improve our accountability regarding user charge activity for our water, sewer and electric accounts.

Upon reviewing the audit findings with the local examiner, this board agrees with the findings and has begun corrective measures to have an effective system of internal controls. Please be advised that this audit response is also serving as the Corrective Action Plan.

**Audit Recommendation:**

*1. Village officials should segregate the water, sewer and electric duties of billing, collecting and recording to the extent practical. Village officials should provide for oversight and an independent review of work when adequate segregation is not practical.*

The Village had a personnel change in February of 2014 and has restructured the utility office. The Village is now employing two part time clerks who work different shifts, one full time clerk and an office manager. These clerks are responsible for separate duties and the office manager oversees the work.

*2. Village officials should require a designated official's prior approval for all billing adjustments and written documentation of the reasons for such adjustments, their amounts and the dates approved.*

The Office Manager is authorized to review and document any adjustments that may be needed for the clerks work. A report is now generated that is reviewed and approved by the Office Manager.

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[www.villageoffrankfortny.org](http://www.villageoffrankfortny.org)

*3 Village officials should work with the vendor that supports the computerized user charge billing system to determine if audit logs or change reports can be generated to show all adjustments to customer accounts and who entered the adjustments. These reports should be periodically reviewed by management to determine whether adjustments have been authorized.*

The Village contacted its Vendor and beginning in May 2014 the ability to have a report generated was activated and is now in use.

*4. The Treasurer should ensure that water, sewer and electric receivable control accounts are properly maintained and reconciled monthly with the total of the detailed customer accounts. Any discrepancies should be promptly investigated and resolved.*

The Treasurer will now be able to reconcile these accounts as the issue has been corrected via the Vendor activating a software program.

Thank you for your time to meet with the Village to explain your findings.

Respectfully,

Frank M. Moracco  
Mayor

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

The objective of our audit was to determine whether Village officials ensured that water, sewer and electric user charges were properly billed, collected, recorded and deposited. To accomplish this, we interviewed appropriate Village officials, tested selected records and examined pertinent documents for the period June 1, 2012 through January 30, 2014. Our procedures included the following:

- We interviewed Village officials to gain an understanding of the internal control procedures over the billing, collecting, recording, depositing, and adjusting of water, sewer and electric user charges.
- We obtained and reviewed monthly billing summaries, deposit reports, cash receipt reports, delinquent reports, bank statements, meter readings, rate schedules and Board minutes.
- We reviewed the December 2013 billing period for control account reconciliations.
- We selected 25 customers by selecting the fifth customer from the first 25 pages of the billing reports and eight key officials, if they received utilities. We verified the billed amounts by recalculating the usage charges. We then traced the billed amount to the cash receipts report, or delinquent report when unpaid, to confirm that no subsequent adjustments were made to the billings, including late payment adjustments.
- From our billing test, we traced 12 water/sewer payments and nine electric payments and confirmed that the payments were deposited into the corresponding fund's bank account.
- We reviewed all meter readings from the meter reading reports to the billing reports for the December 2013 billing for usage adjustments and support.

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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