



Village of Westfield

Water and Sewer Operations

Report of Examination

Period Covered:

June 1, 2012 — June 17, 2014

2014M-209



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of Local Officials and Corrective Action	3
ENFORCEMENT OF PAYMENTS	4
Relevy	4
Penalties	5
Recommendations	5
APPENDIX A Response From Village Officials	6
APPENDIX B OSC Comment on the Village's Response	8
APPENDIX C Audit Methodology and Standards	9
APPENDIX D How to Obtain Additional Copies of the Report	10
APPENDIX E Local Regional Office Listing	11

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 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 Westfield, 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 New York State 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 Westfield (Village) is located in the Town of Westfield (Town), Chautauqua County (County), in western New York and has a population of approximately 3,200 residents. The Village offers a variety of services to its residents, including police, fire protection, electric, water, sewer and recreation. The Village's 2013-14 budgeted appropriations totaled \$8.5 million, funded primarily with real property taxes, electric and water sales, sewer rents, sales tax and State aid.

The Village is governed by an elected Board of Trustees (Board), which consists of a mayor and four trustees. The Board is responsible for the general management and control of the Village's financial affairs. It also has the authority to levy taxes on real property located within the Village and set user charges for water, sewer and electric usage. The Village appoints a Treasurer to handle certain financial duties including the collection of taxes and user fees.

The Village provides water and sewer services to certain Town¹ residents. The Village bills approximately 1,400 water accounts and 1,300 sewer accounts within the Village and approximately 260 water accounts and 100 sewer accounts in the Town, outside of the Village. The water fund accounts for the production and distribution of water, while the sewer fund accounts for the processing and disposal of sewage. Both funds are financed primarily with charges to customers based upon water usage. The Board sets user rates based on budgeted appropriations and expected water consumption. The 2013-14 budget totaled approximately \$1 million for the water fund and \$1.5 million for the sewer fund.

Objective

The objective of our audit was to examine the financial operations of the water and sewer funds. Our audit addressed the following related question:

- Did the Board ensure the timely collection of water and sewer rents?

Scope and Methodology

We examined financial operations of the water and sewer funds for the period June 1, 2012 through June 17, 2014.

¹ There are approximately 1,700 residents in the area of the Town outside of the Village. The Village services four Town water districts and two Town sewer districts.

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 C 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. Except as specified in Appendix A, Village officials generally agreed with our recommendations and indicated they plan to take 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 New York State General Municipal Law (GML). 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.

Enforcement of Payments

The Village's local law states that overdue water rents must be placed on the tax levy, regardless of whether the accounts are open or closed. New York State General Municipal Law (GML) also allows unpaid sewer rents to be added to the tax levy. The Treasurer relevied only closed overdue accounts. During our audit period, the Village did not relevy \$104,958 in unpaid water and sewer rents. Further, by not charging penalties,² the Village has forgone approximately \$57,000 in potential revenue. By not using these enforcement practices, the Village has negatively impacted its cash flow and the water and sewer funds' operations. The Board should ensure that it complies with local laws and takes advantage of collection enhancement opportunities.

Relevy

According to the Village's local law, water rents remaining 30 or more days overdue at the time Village real property taxes are levied in May are to be added to the annual real property tax roll for the ensuing fiscal year. The Village relevies overdue water and sewer rents on closed accounts in this manner. Any unpaid Village taxes, including these relevied water and sewer rents, are guaranteed by the County and paid to the Village before the ensuing fiscal year-end.

We found that the Village did not relevy all overdue water and sewer rents³ on the tax roll. The Treasurer interpreted the local law to mean that only closed accounts within the Village with outstanding balances as of April 1 are added to the Village tax levy and closed accounts in the Town districts with outstanding balances as of October 1 are added to the Town tax levy. As a result, open accounts that were overdue were not relevied for either the Village or the Town.

We reviewed applicable⁴ accounts receivable aging reports and found that overdue water and sewer Village accounts totaling \$85,615 and Town accounts totaling \$19,343 were not properly relevied.⁵ With Village officials' interpreting the Village's local law to relevy only closed overdue accounts, the Village missed the opportunity to collect \$104,958 in overdue rents in a timely manner, negatively impacting cash flow.

² New York State Village Law and the local law authorize penalties to be charged on past due water payments. GML authorizes penalties to be charged on past due sewer payments.

³ Currently, the Village shuts off water service as a method of enforcement on open accounts that remain unpaid for six months. Once a shut off notice is sent, the resident can prevent shut off by setting up a payment plan.

⁴ See Appendix C for methodology.

⁵ Includes overdue water and sewer balances in closed Village accounts of \$2,631 and closed Town accounts of \$2,167

Penalties

New York State Village Law and GML stipulate that the Board has the power to adopt ordinances, rules and regulations for the operation of the water and sewer districts, including penalties⁶ to be charged upon late payment. The charging of penalties could increase revenues and encourage timely payment.

The Village did not charge penalties for late payment of water and sewer rents and did not adopt ordinances, rules or regulations to encourage the timely collection of these overdue accounts. The Village had overdue accounts of \$275,033 during the fiscal year ending 2013 and \$298,033 in 2014. We found that, if the Village had charged a one-time penalty of 10 percent⁷ the day following the due date, the Village could have recognized related revenue of \$27,000 for 2012-13 and \$30,000 for 2013-14.

The water fund had operating deficits⁸ of approximately \$145,000 in 2012-13 and \$35,000 in 2013-14, as well as a negative trend of liquid⁹ assets. If the Village had charged penalties, these deficits could have been reduced by a combined total of \$32,000, with an approximate reduction of \$15,000 or 10 percent in 2012-13 and \$17,000 or 49 percent in 2013-14. In addition, the sewer fund had an operating surplus of approximately \$209,000 in 2012-13 and an operating deficit of approximately \$145,000 in 2013-14. The sewer fund could have increased the 2012-13 operating surplus by over \$12,000 and reduced the 2013-14 operating deficit by almost \$13,000.

Had the Board adopted an ordinance that imposes a penalty for late payment of water and sewer rents, users would be encouraged to pay their bills on time and the Village could have received revenues it needed to finance water and sewer operations in a timely manner.

Recommendations

The Board should:

1. Ensure that the Treasurer includes all overdue water and sewer accounts for relevy on the tax roll.
2. Consider adopting an ordinance and imposing a penalty for late payment of water and sewer bills to encourage prompt payment and enhance revenue.

⁶ The local law allows the Village to impose penalties for late payment of water rents. It does not address penalties regarding sewer rents.

⁷ Penalties are based on 10 percent of the original bill after no payment was received 20 days past the due date for the period June 1, 2012 through May 31, 2014. We used 10 percent and 20 days for our evaluation as a similar penalty is charged by a neighboring town.

⁸ Operating deficits occur when expenditures exceed revenues.

⁹ Liquid assets include cash and receivables.

APPENDIX A

RESPONSE FROM VILLAGE OFFICIALS

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

Eason Hall • 23 Elm Street
Westfield, New York 14787
Phone: 716.326.4961
TDD 1 800 662-1220



Fax: 716.326.4987
Email: info@villageofwestfield.org
Web: www.villageofwestfield.org

October 1, 2014

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

Dear Mr. Mazula,

The Village of Westfield greatly appreciates the opportunity to work with the Office of the State Comptroller. We feel audits of this type can benefit the village and further our relationship with the Comptroller's office.

The main objective of the Comptroller's Office was to examine the financial operations of the water and sewer funds to ensure that the Village Board was collecting water and sewer rents in a timely manner.

The findings of the audit contain two main points as follows:

- the village failed to follow a local law to relevy water and sewer rents past 30 days due;
- the village missed out on additional revenue by not charging a penalty for overdue water and sewer rents

The Village understands that the local law states any water and sewer rents remaining 30 days or more overdue are to be added to the real property tax roll. However, we believe that past practice has shown that the best way to collect past due rents on active accounts is by following shut off procedures throughout the year and allowing for payment plans. This allows the Village to collect on past due accounts in a much quicker manner than the tax levy thus increasing cash flows for the Water and Sewer funds. While the taxes are guaranteed by the County, the village does not receive this payment until the following spring, nearly a year later. Furthermore, by adding active accounts to the tax levy, landlords would inevitably be saddled with past due rents that their tenants are really responsible for.

See
Note 1
Page 8

We agree that imposing a penalty for late payment would encourage prompt payment and increase revenue. The Village Board will discuss adopting an ordinance to allow for this at a Board meeting in the near future.

Once again, thank you for your insights.

The village will respond with a Corrective Action Plan within 90 days of the final audit.

Sincerely, *M. V. V.*

Michael VandeVelde
Mayor – Village of Westfield

cc: Village Board
Rebecca Betts-Paternosh

This Institution is an Equal Opportunity Provider and Employer

APPENDIX B

OSC COMMENT ON THE VILLAGE'S RESPONSE

Note 1

As stated in our report, the Village's local law requires overdue water rents, and GML allows overdue sewer rents, to be relieved in this manner. The Village shuts off water service as a method of enforcement on open accounts that remain unpaid for six months. Once a shut off notice is sent, the resident can prevent shut off by setting up a payment plan. As a result, the Village actually shuts off a limited number of accounts annually. Therefore, unpaid open accounts may span fiscal years and ultimately are at risk of not being paid in full. The Village's enforcement procedures on these open unpaid accounts are not effective as seen by the dollar amounts noted in unpaid active accounts in our report, whereas unpaid rents levied on the tax roll will either be paid by the property owner or be paid and enforced by the County.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine whether the Village was properly enforcing unpaid water and sewer rents. To accomplish our objective, we interviewed appropriate Village officials and employees, tested selected records and examined pertinent documents for the period June 1, 2012 through June 17, 2014. Our testing included the following steps:

- We interviewed appropriate Village officials and employees regarding enforcement policies and procedures. These discussions allowed us to analyze these processes.
- We reviewed account status reports, relevel lists and tax rolls to determine which accounts were not being properly enforced.
- We reviewed the April 2013 and 2014 accounts receivable aging reports for Village accounts and the October 2012 and 2013 reports for Town accounts to determine if overdue water and sewer accounts were properly relevelled.
- We calculated an estimated amount of penalty charges to determine the amount of revenues the Village could have realized.
- We used financial statements and annual update documents to determine the financial effect the forgone revenue had on the water and sewer funds.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX E
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313