



Village of Sinclairville

Water Operations

Report of Examination

Period Covered:

June 1, 2013 — October 24, 2014

2014M-362



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2015

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 Sinclairville entitled 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 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 Sinclairville (Village) is located within the Towns of Charlotte and Gerry in Chautauqua County (County) and has a population of approximately 600 residents. The Village provides the following services to its residents: street maintenance, water, refuse collection and general government administration. For the 2014-15 fiscal year, general fund appropriations totaled \$399,464 and water fund appropriations totaled \$80,788. Village operations are financed primarily by real property taxes, water rents and State aid.

The Village is governed by the Village Board (Board), which comprises four elected members and an elected Village Mayor (Mayor). The Board is responsible for overseeing the Village's operations, finances and overall management. The Village has an appointed Clerk-Treasurer, who handles the day-to-day office operations, and an appointed Water Superintendent, who oversees water operations. The Village has approximately 200 water customers who are billed quarterly based on usage. Reported water fund revenues totaled \$73,500, with metered sales (water rents) totaling approximately \$69,000, for the 2014 fiscal year.¹

Objective

The objective of our audit was to determine if the Village's water system was operating effectively. Our audit addressed the following question:

- Did the Board ensure that all water usage was captured and that water rents were properly billed, collected, accounted for and enforced?

Scope and Methodology

We examined the Village's records and reports for the period June 1, 2013 through October 24, 2014. We expanded our scope period back to December 2010 to review 49 meters² to determine whether they were functioning properly.

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.

¹ The Village's fiscal year runs June 1 to May 31.

² 36 nonfunctional and 13 nonfunctional but repaired

**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 plan 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-Treasurer's office.

Water Operations

Village officials are responsible for controlling the cost of operating the Village's water system. The Department of Public Works (DPW) is responsible for ensuring that water usage is properly captured. The Clerk-Treasurer is responsible for ensuring that water usage is correctly billed, collected, deposited and recorded. The Board is responsible for authorizing improvements to facilities, user rates, adjustments to customer bills and ensuring that overdue bills are enforced.

Village officials have not taken adequate steps to identify and reduce the significant amount of unaccounted-for water occurring within the Village's system. As a result, unaccounted-for water was 71 percent of water produced. The Board has not established policies for billing and collecting water rents, determining estimated bills, approving and applying adjustments to customers' accounts or enforcing overdue water bills. Generally, the Clerk-Treasurer properly billed, collected and deposited water rents. However, because the Clerk-Treasurer is able to perform virtually all of her duties with minimal Board oversight, the Village has an increased risk that inappropriate transactions could be initiated and hidden and that errors could occur and remain undetected.

Unaccounted-For Water

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.³ 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. Village officials 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 Village officials avoid having to estimate water usage.

Village officials did not periodically compare the amount of water produced with the amount billed and were unaware of the extent of unaccounted-for water. We compared water production reports with

³ 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.

water billing registers for four consecutive quarters⁴ and found that unaccounted-for water was 71 percent of water produced. Water produced for the period June 1, 2013 through June 30, 2014 totaled 38.3 million gallons, of which 11 million gallons was billed⁵ and 27.3 million gallons were unaccounted-for.

The Village does not record water usage at the DPW barn, Village/Town Hall and fire department. Also, Village officials have not estimated what part of the unaccounted-for water was due to other municipal use (e.g., flushing water lines). DPW records indicate that six leaks⁶ occurred in the water system during our audit period. Village officials could not provide estimates for the amount of water lost from these leaks. We estimated that it costs the Village approximately \$0.09 for chemicals to process 1,000 gallons of water during 2013-14. Therefore, had the Village not processed the 27.3 million gallons of unaccounted-for water, it could have saved approximately \$2,500 in chemical costs during our audit period. Village officials told us that a water system project is planned for 2015.⁷

For the quarter ending June 30, 2014, 43 (22 percent) of the Village's approximately 200 water customers did not have operational meters. Of this amount, 36 customers had nonfunctioning meters⁸ and seven did not have a meter.⁹ The Clerk-Treasurer does not estimate water usage for customers with nonfunctioning meters, but instead bills these customers the minimum rate of \$61.50 for each quarter.¹⁰ Because the Village does not have procedures in place for estimating water usage, it is possible that the Village is undercharging these customers for their water usage.

⁴ September 30, 2013 through June 30, 2014. We chose to review these four quarters because they were the only full billing quarters that were completed and contained within our audit period.

⁵ The gallons billed amount included customers without operational meters (average of 41 per quarter), who were billed at the minimum of 5,000 gallons.

⁶ Village officials told us that the New York Rural Water Association, a membership organization representing small water/wastewater systems, helped the Village identify leaks.

⁷ The Village recently secured \$5 million in funding for upgrades to the water system.

⁸ Seven of the nonfunctioning 36 meters have not been operational since December 2010. In addition, 13 other customers had nonfunctioning meters in December 2010 that had been repaired prior to the beginning of our audit.

⁹ Village officials did not have a consistent answer for why these seven customers (four residential, one business and two churches) did not have meters.

¹⁰ In addition, for those customers whose meters are not easily accessible (e.g., the meter is located inside the property and someone must be onsite to provide access to it), the meter reader will leave a card at the properties for the customers to enter their current meter reading and return to the Village. If these customers do not return the card, the Clerk-Treasurer bills them the minimum rate of \$61.50 for that quarter.

For our audit period, we calculated the average water bill to be \$71 per quarter and determined that an average of 41 customers did not have operational meters during each billing period. Using these estimates, we calculated that the Village may have undercharged these customers by an estimated annual total of \$1,600.

Village officials do not have a formal water meter replacement plan and were not sure if meter replacements would be included within the scope of the water system project. Until the meters are replaced and the Village establishes procedures for estimating usage, it is possible that these customers could be undercharged for water usage.

Board Oversight

The Board is responsible for establishing an internal control system to provide reasonable assurance that all water usage is billed based on accurate metered usage and at Board-adopted rates. Proper segregation of duties ensures that one person is not responsible for the incompatible duties of recordkeeping, billing, collecting and depositing cash receipts without oversight by another person who is independent of these functions. In a water billing system, the individual who is 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. If it is not practical to properly segregate duties, the Board should enhance its monitoring efforts.

The Board has not established policies for billing and collecting water rents, determining estimated bills, or approving and applying adjustments to customers' accounts. The Clerk-Treasurer performs all aspects of water billings and collections, but the Board does not routinely monitor and review the Clerk-Treasurer's work. In addition, the Clerk-Treasurer typically adjusts water bills prior to sending them out (e.g., for erroneous meter readings), but told us that she does not adjust bills for water leaks.

We reviewed a sample of 91 water bills¹¹ totaling \$6,709 and found that the Clerk-Treasurer generally billed, collected and deposited water rents in an adequate manner. We also did not find any indication that the Clerk had made any inappropriate adjustments to water bills or accounts. However, because the Clerk-Treasurer handles all aspects of the water billing process 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.

¹¹ Refer to Appendix B for further information on our sample selection.

Enforcement

New York State Village Law allows the Village to enforce overdue water bills by levying the overdue amounts on the property tax roll, commonly called relevy. This ensures that the Village receives its billed revenues in a timely manner because property tax payments are guaranteed by the County and paid to the Village before the end of the fiscal year. The Board is responsible for developing and adopting policies for the enforcement of unpaid water bills to provide guidance for Village employees when performing these duties.

The Board did not establish policies for the enforcement of unpaid water bills or ensure that all overdue water bills were relevied on the property tax roll. It did not establish when an overdue water account should be relevied. Instead, it relied on the Clerk-Treasurer to prepare the annual relevy list at her discretion.

We found that the Clerk-Treasurer did not relevy all overdue water bills on the property tax roll. We reviewed all 61 accounts totaling \$8,852 that were unpaid as of the December 2013 billing quarter¹² and found that the Clerk-Treasurer did not relevy 35 accounts (57 percent) with overdue payments totaling \$1,026. The Clerk-Treasurer told us that she would not include an account on the relevy if any of the following was true: only one bill out of the four quarters in the year was unpaid, penalties were all that the customer owed or payments were being made on past due amounts.

Had the Board adopted policies regarding the relevy of taxes, these accounts could have been relevied and collected in a timelier manner. Because the Clerk-Treasurer handles all aspects of the water billing, collection and enforcement processes 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.

Recommendations

Village officials should:

1. Implement procedures to determine the causes of unaccounted for water 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 unaccounted-for water is occurring.
3. Estimate water consumption for municipal usage, such as for hydrant flushing and firefighting.

¹² The Clerk-Treasurer told us that she uses the December billing quarter when preparing the relevy.

The Board should:

4. Develop and adopt policies for the water billing and collection process, including the calculation and approval of estimates for nonfunctioning meters and unmetered use.
5. Develop and adopt policies for the enforcement of unpaid water bills.
6. Routinely monitor water bills, collections and the annual relevy of unpaid water bills to ensure the Clerk-Treasurer is acting in accordance with Board policies.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

VILLAGE OF SINCLAIRVILLE



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April 14, 2015

NYS Controllars office

Re: Audit Response of the Village of Sinclairville Water Operations

The Village of Sinclairville has reviewed the draft of the audit of Village of Sinclairville prepared by the State of New York Office of the Comptroller entitled "Village of Sinclairville, Water Operations, Report of Examination" conducted for the period June 1, 2013 to October 24, 2014. The Village has reviewed this report and is in agreement with the recommendations contained therein. Many of the recommendations cited are previously known to the Village and are the primary reason that the Village has undertaken the current water project for which we have obtained \$5 million in funding. This is an aged system that has none of the features of a more modern system making it difficult to manage the unaccounted for water. There are simply leaks in the system that take us weeks (or more) to find and many of the older pipes are not easily traceable. The project renovations will streamline our ability as a Village to maintain the proper controls over the system and to monitor water usage well. We appreciate the effort on the Comptroller's office that has resulted in the recommendations provided in this regard. Your office has come to the same conclusion as the Village; that this information shows the great need for the upcoming water project that the Village has taken on. The Village also agrees that additional policies can and should be developed relative to billing and enforcement of unpaid water bills and collections, along with monitoring by the Board of those activities by the Village Clerk.

Once we receive the official audit report, the Village will provide a corrective action plan for the elements described in the "Recommendations" section of the audit. As described above, we firmly believe that the water project we have undertaken will be the corrective action for many of the findings in this audit.

Thank you

Sincerely,

Tami Berg
Mayor

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine whether the Village's water system was operating effectively. To accomplish this, we interviewed appropriate Village officials, tested records and examined pertinent documents for the period June 1, 2013 through October 24, 2014. We expanded our review of 49 meters to determine if they were functioning properly back to December 2010. Our procedures included the following:

- We interviewed Village officials to gain an understanding of water operations.
- We determined how the Village established its water rates and the rates that were in effect during our audit period.
- We compared water production reports with water billing registers for the four consecutive billing quarters during our audit period (September 30, 2013 through June 30, 2014) to determine the amount of processed water that was unaccounted-for.
- We reviewed DPW weekly reports to determine the number of leaks recorded during our audit period.
- We reviewed meter books and billing summaries to determine how many meters were not operational and the number of properties that were unmetered.
- We calculated the dollar amount of an average water bill and applied this amount to accounts with nonfunctioning meters or unmetered services to determine how much these customers may have been undercharged.
- We recalculated a sample of 91 customer water accounts to determine if they were billed correctly. We randomly selected 80 bills or 10 percent of the estimated 800 bills that were sent during our audit period. We also judgmentally selected to review 11 Village employee or employee relatives water accounts from June 2014.
- We selected five of a possible 20 deposits from May through July 2014 to determine if deposits were made intact. Five deposits were selected at random and, if a deposit did not contain a water receipt, we instead selected the next deposit.
- We reviewed water bill adjustments to determine if they were reasonable and supported.
- We reviewed the relevy list for the 2015 fiscal year property tax roll and compared it to the December 2013 billing summary to determine if all customers with unpaid water bills were relevied. We also compared the relevy list to the tax warrant and Village's accounts receivable account.

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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