



# Village of Cato

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## Water Financial Operations

**2023M-145 | March 2024**

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# Report Highlights

## Village of Cato

### Audit Objective

Determine whether the Village of Cato (Village) Board (Board) and Village officials (officials) effectively managed the financial operations of the water fund.

### Key Findings

The Board and officials did not effectively manage the financial operations of the water fund, establish adequate reserves or develop long-term financial and capital plans until the Cayuga County Health Department forced the Board to submit a plan. In addition:

- \$42,696 in unauthorized billing adjustments were made.
- Of 464 water bills reviewed (totaling \$134,852), 71 bills had calculation errors totaling \$7,903 which included \$6,607 that should have been billed and collected and \$1,296 in overbillings.
- 27 percent of the water produced (at a cost of approximately \$20,000), or 9.4 million gallons, is considered unauthorized non-revenue water or lost water.
- Long-term capital water needs were not appropriately planned for.

### Key Recommendations

- Establish written policies and procedures to provide adequate guidance for billing, collecting and enforcing water charges.
- Ensure all adjustments made to water customer accounts are reviewed and approved.
- Ensure penalties are correctly assessed.
- Regularly reconcile water produced and purchased to water billed to identify any variance.
- Review water rates and assess reserve balances to determine whether they are sufficient for future needs.

Village officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate corrective action.

### Audit Period

June 1, 2021 – July 24, 2023

### Background

The Village is located in the Towns of Cato and Ira in Cayuga County. The Village is governed by an elected five-member Board, which includes the Mayor. The Board is responsible for the general management and control of the Village's finances and operations.

The Board-appointed Clerk-Treasurer is the Village's chief fiscal officer and is responsible for the custody and accounting of all Village money, as well as quarterly water billings, collections and enforcement of water charges. A part-time clerk was hired from March 2023 through June 2023 to assist the Clerk-Treasurer with water billing related functions. The long-time Clerk-Treasurer retired from the position in June 2023.

The Department of Public Works (DPW) Superintendent oversees the water department and is responsible for day-to-day operations.

#### Quick Facts

Water Customers	267
2023-24 Water Fund Appropriations	\$234,027
Total Water Billed June 1, 2021 – April 1, 2023	
Gallons	25 million
Amount	\$392,337

# Water Financial Operations

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The Village provides water services to customers located both inside and outside Village boundaries. The Village bills water customers quarterly, based on gallons used obtained from manual meter readings performed by the DPW Superintendent. Water bills also include flat rate capital and debt charges, which are charged based on a per-unit price structure. The Village produced 13.8 million gallons of water from its own well and purchased 20.6 million gallons of water from a third-party supplier during the audit period.

## How Are Water Financial Operations Effectively Managed?

A board and officials are responsible for effectively managing a village's water financial operations. Effective management requires a board to provide guidance and oversight for employees involved in billing, collecting and enforcing water charges. A board can convey its operational expectations by establishing comprehensive written policies and procedures. These policies and procedures should also provide for proper segregation of duties so that one employee does not control all aspects of a transaction. When segregating duties is not possible, a board should implement compensating controls, such as providing additional managerial oversight. Once established, a board should monitor compliance with its policies and procedures.

A board is responsible for establishing rates for all water charges and overseeing all billing to ensure customer bills are accurate. Good business practices dictate that water collections be deposited as soon as possible to prevent loss or misuse. In addition, New York State Village Law Section 4-408 (Village Law) requires the treasurer to deposit all funds received within 10 days after receipt (timely). Collections should be deposited intact<sup>1</sup> to reduce the risk of fraud and concealment. For those situations when billing adjustments are necessary, a board should establish written procedures to address the approval and documentation process of such adjustments. For example, a board or a designated official should approve the amount of each adjustment and adequately document its origination, justification and approval date.

Officials should ensure penalties on customers' delinquent accounts are accurately calculated, properly assessed and collected. A board should also review and approve the list of relieved water accounts<sup>2</sup> by comparing the list to a delinquent customer account report to ensure delinquent accounts are properly relieved.

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A board is responsible for establishing rates for all water charges and overseeing all billing to ensure customer bills are accurate.

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1 In the same form in which payments were received (cash, check, etc.)

2 Relieved water accounts are those that are unpaid as of a certain date and are to be added to the customers' Village real property tax bills in order to enforce collection.

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Officials are responsible for controlling the cost of operating the water system by ensuring water purchased/produced is accounted for. Officials can do so by comparing water billed to water purchased or produced. Any water that cannot be accounted for, and is unbilled, is considered non-revenue water. A large volume of non-revenue water could be a warning sign of significant infrastructure problems, such as malfunctioning meters or leaking pipes. Procedures should be in place to monitor and identify the causes of water loss.<sup>3</sup>

Furthermore, officials are responsible for maintaining an adequate water system infrastructure to provide for safe and reliable water to customers. To fulfill this responsibility, officials should create an effective long-term capital plan spanning a minimum of three to five years. Long-term capital plans can help a village meet this significant financial responsibility without overburdening taxpayers or disrupting vital services. An effective plan enables officials to balance capital priorities with fiscal constraints and arrange for sufficient financing for the desired improvements.

### **Bills Were Inaccurate and Collections Were Not Always Deposited in Accordance With Village Law**

The Village's water meters were read manually by the DPW Superintendent. Meter reads were manually documented in a ledger, which was brought to the Clerk-Treasurer or part-time clerk to enter into the water billing system. Once meter reads were entered into the system, if any exceptions were noted, e.g., high or low reads, or no reads, then the DPW Superintendent would perform re-reads of these accounts. After re-reads were performed, the Clerk-Treasurer or part-time clerk would update these accounts and generate and mail the water bills to all customers. Village officials stated that in the past there have been issues with the manual meter read and system entry processes, which resulted in billing issues.

Therefore, because of the primarily manual processes and overall inadequate segregation of duties or oversight of water billing processes, we reviewed the water bills of 58 customers for all eight quarterly billings during our audit period, a total of 464 bills totaling \$134,852, to determine whether the bills were accurate and correctly recorded in customer accounts, and whether payments were appropriately collected and recorded, including penalties as applicable. We determined that there were billing inaccuracies with 71 bills reviewed, resulting in 55 customers being underbilled a total of \$6,607 and 16 customers being overbilled a total of \$1,296 (Figure 1).

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<sup>3</sup> The United States Environmental Protection Agency provides guidance for this area, <https://www.epa.gov/sites/default/files/2015-04/documents/epa816f13002.pdf>

**Figure 1: Water Billing Inaccuracies**

Billing Quarter	Billings Calculations		Variance
	Village	OSC	
June 2021	\$18,097	\$19,630	(\$1,533)
September 2021	14,456	14,891	(435)
December 2021	17,107	16,894	213
March 2022	17,530	17,875	(345)
June 2022	16,734	17,136	(402)
September 2022	15,183	16,086	(903)
December 2022	19,386	21,043	(1,657)
March 2023	16,360	16,609	(249)
<b>Totals</b>	<b>\$134,853</b>	<b>\$140,164</b>	<b>(\$5,311)</b>

...[P]ayments totaling \$9,628 were not deposited within the 10 days required by Village Law.

Three customer accounts (24 bills) had equivalent dwelling units (EDUs)<sup>4</sup> entered incorrectly into the billing system, while the remaining 47 bills had meter readings which were entered incorrectly into the billing system. The Clerk-Treasurer and DPW Superintendent stated that these issues occurred due to inaccurate meter reads or data entry errors.

In addition, we were unable to determine whether cash payments for two water bills totaling \$172 were deposited and the Clerk-Treasurer was unable to explain why 10 water payments totaling \$2,331 were recorded as \$2,449. Additionally, 19 payments totaling \$9,628 were not deposited within the 10 days required by Village Law.

### Adjustments Were Not Formally Reviewed and Approved

Village officials did not have a formal process for authorizing, reviewing and approving water billing adjustments and the Clerk-Treasurer had the ability to unilaterally make certain adjustments to customer accounts. The Board did not receive any reports of water billing adjustments prior to or after the Clerk-Treasurer made adjustments.

We reviewed all 83 billing adjustments totaling \$42,696 made to customer accounts during our audit period to determine whether adjustments were supported or had evidence of approval. While we determined that all adjustments contained explanations to support the adjustments, officials were unable to provide us with documentation supporting that any of these adjustments were approved.

<sup>4</sup> EDUs are a measurement of demand on municipal utilities typical to a single-family dwelling. EDUs are commonly used in water and sewer billing as an equitable means of billing customers.

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## **Delinquent Accounts Were Not Always Appropriately Enforced**

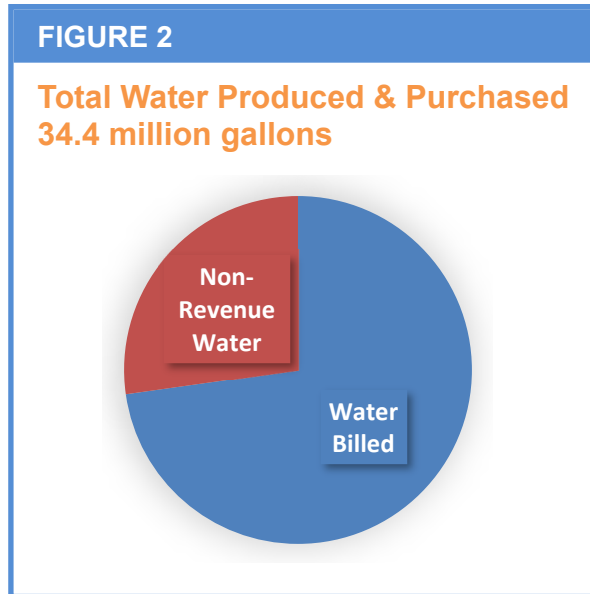
The Board established penalties on delinquent accounts of 15 percent (prior to December 2022) or 20 percent (December 2022 or later), which is assessed after the due date on the bill as a one-time, non-compounding fee. Additionally, delinquent accounts were to be relieved onto the customer's next Village real property tax bill.

Of the 464 water bills reviewed for accuracy of calculation and timeliness of payment deposit, we determined that 120 of these bills (totaling \$40,556) were delinquent and subject to penalties. Because the Board-established rates and penalties state only that a late fee will be assessed, we calculated this fee on the entire water bill. Officials assessed a total of \$3,060 in penalties, when \$4,448 should have been assessed. Officials did not assess penalties totaling \$1,388 because the penalties were only applied to the water consumption portion of bills and not the entire water bill. Upon discussing the penalty calculations with the Clerk-Treasurer and Mayor, they agreed with this interpretation and stated that the Board will need to clarify the established penalties going forward (if it is not the Board's intent for the penalties to be calculated on the entire bill). Otherwise, penalties will be assessed on the entire unpaid portion.

We also reviewed water customer accounts that were relieved on the 2022 Village tax roll, which included five customer accounts (totaling \$5,602 in unpaid water charges). While we determined that these accounts were appropriately relieved, the Board does not receive a detailed report of the accounts to be relieved to review. Without reviewing and approving the annual relevy listing, the Board cannot ensure delinquent accounts are relieved.

## **Non-Revenue Water Was Not Monitored**

Officials and the third-party water supplier monitored the amount of water produced daily and the third-party water supplier billed the Village on a monthly basis. However, Village officials did not compare the water purchased and produced to water billed. From June 2021 through April 2023, the Village purchased and produced a total of 34.4 million gallons of water. However, total water sold for this same period totaled 25 million gallons, resulting in non-revenue water (or unaccounted-for water) of 9.4 million gallons (27 percent) (Figure 2) at a cost to the Village of \$19,949.



The Clerk-Treasurer and DPW Superintendent stated that issues with malfunctioning meters have occurred, and the process of manually reading water meters has resulted in errors with either incorrect meter reads and/or errors when inputting data into the billing system. In addition, they and the Mayor said that a major water leak occurred in November 2022 resulting in the 175,000-gallon water tower completely draining.<sup>5</sup>

### **Officials Did Not Adequately Plan for System Repairs and Upgrades**

Historically, Village officials did not develop long-term financial and capital plans related to water operations, which would also include plans for reserve funding and determining appropriate balances. As a result of the significant water leak that occurred in November 2022, the Village was required by the Cayuga County Health Department to submit a plan to its office that included the following projects:

- Locating and repairing pervasive leaks in the water distribution system,
- Identifying vulnerable sections of the system that should be replaced, and
- Outlining an ongoing maintenance program to keep water loss at a minimum.

The Board contracted with an engineering firm to develop a preliminary plan, which was adopted in July 2023. The plan includes installation of shut-off valves, replacement of fire hydrants and old pipes and annual maintenance requirements at an approximate cost of \$853,000. As of May 31, 2022,<sup>6</sup> the Village did not have

<sup>5</sup> Due primarily to a lack of adequate shut off valves within the distribution system.

<sup>6</sup> As of the end of audit fieldwork, Village officials had not completed accounting entries for fiscal year 2022-23. Therefore, the ending fund balance and reserve levels for this year were not available.



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adequate reserves to finance these repairs and upgrades, as water fund reserve balances totaled \$88,291. In addition, the water fund has historically generated operating deficits or minimal operating surpluses.

## **What Do We Recommend?**

The Board should:

1. Establish written policies and procedures to provide adequate guidance for billing, collecting and enforcing water charges.
2. Review and approve all adjustments made to customer accounts and ensure they are adequately documented or designate someone independent of the billing and collecting process to perform these functions.
3. Review and approve a list of relieved water accounts by comparing it to a delinquent customer account report from the billing and collection software to ensure all eligible delinquent accounts are properly relieved.

The Board and Village officials should:

4. Segregate duties over billing, collecting, depositing and enforcing water charges. If it is not practical to segregate duties, officials should establish appropriate compensating controls, such as increased management review procedures.
5. Ensure billing registers are reviewed regularly for accuracy.
6. Review and adjust water bills for inaccuracies identified in the audit report.
7. Ensure penalties are correctly assessed on all delinquent accounts in accordance with the Board-adopted rate schedule.
8. Regularly reconcile water produced and purchased to water billed to determine any variance.
9. Develop comprehensive written multiyear financial and capital plans that project operating and capital needs and financing sources for a minimum three- to five-year period.
10. Review water rates to ensure sufficient revenues are generated to finance expenditures and pay for maintenance and infrastructure improvement costs.
11. Assess reserve balances and/or establish reserves for future capital needs.

# Appendix A: Response From Village Officials

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The Village of Cato is in agreement with the audit findings from 2023. The Village Board of Trustees will begin to put together a plan per your findings and suggestions, such as implementing certain policies and/or updating others. The Village of Cato is also pursuing avenues to upgrade our water infrastructure.

Thank you,

Mayor Anna Owen

*“This institution is an equal opportunity employer and provider.”*

## Appendix B: Audit Methodology and Standards

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We conducted this audit 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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed Village officials and reviewed Village policies, Board meeting minutes and relevant water reports and correspondence to gain an understanding of the Village's procedures related to billing, collecting, enforcing and accounting for water charges.
- We reviewed the Village's accounting records for the water fund during the audit period to determine overall financial activity within the fund, including reserves and the amount of fund balance maintained.
- We selected a sample of 58 customer accounts to review quarterly billings based on the following criteria:
  - We documented all water customers that were billed for April 2023, and confirmed with prior water billing summaries that the number of customers billed (267) was consistent from quarter to quarter. We then determined that we would select a random sample of 20 percent of resident accounts, 20 percent of non-resident accounts and 100 percent of customer accounts operating under the intermunicipal agreement. Based on this, we selected 44 resident accounts, nine non-resident accounts and three intermunicipal agreement accounts. For resident accounts, we selected every fifth account. For non-resident accounts, we selected the first customer account, plus every fifth account after.
  - We used our professional judgment to select two additional accounts which were not already included in our sample based on known information about these accounts historically having billing issues.
- Of the 58 water customer accounts selected, we reviewed all quarterly billings for these accounts during our audit period, which included eight quarterly billings and a total of 464 water bills. We documented water consumption and amount billed from the billing summaries for each quarter and compared this information to the manual meter reading books and adopted water rates. We also reviewed payments made and determined whether payments were recorded and deposited timely and accurately. If payments were untimely, we determined whether penalties were assessed and paid in accordance with the adopted rate schedule.
- We reviewed water billing adjustments made during the audit period to determine whether they were appropriate, and if adjustments were reviewed and approved.

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- We compared water produced and purchased to water billed (consumption) for the audit period to calculate non-revenue water.
  - We reviewed the Village's preliminary long-term plan for water operations to determine the upgrades and maintenance included, as well as the anticipated costs and potential funding.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 provided to our office within 90 days, pursuant to Section 35 of 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 the CAP available for public review in the Clerk-Treasurer's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

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