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September 2025

Dorothy Kraebel, Mayor
Members of the Board of Trustees
Village of Cato
2564 Millard Ave
Cato, NY 13033

Report Number: 2023M-145-F

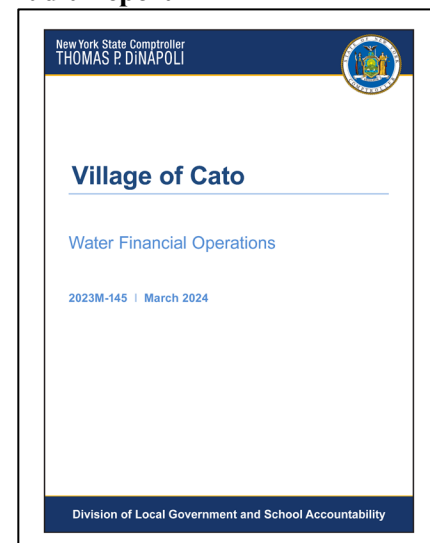
Dear Mayor Kraebel and Members of the Board of Trustees:

One of the Office of the State Comptroller's (OSC's) primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. OSC also works to develop and promote short-term and long-term strategies to enable and encourage village officials to reduce costs, improve service delivery and to account for and protect their village's assets.

In accordance with these objectives, we conducted an audit of the Village of Cato (Village) to assess its water financial operations. As a result of our audit, we issued a report, dated March 22, 2024, identifying certain conditions and opportunities for Village management's review and consideration (Figure 1).

To further our policy of providing assistance to local governments, we revisited the Village on June 10, 2025 to review progress in implementing our recommendations. Our follow-up review was limited to interviews with Village personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, of the 11 audit recommendations, the Board of Trustees (Board) and Village officials partially implemented three recommendations and did not implement eight recommendations. While the Mayor, along with most of the Board and Village officials responsible for corrective action, were newly elected or appointed after the release of our audit report, the current Mayor, a member of the Board, and the Village Clerk (Clerk), who was at the initial audit's exit conference, were aware of the audit and findings but did not ensure the Board took appropriate corrective actions. Other than as noted below, the Board took no corrective

Figure 1: Village of Cato 2023 OSC Audit Report



<https://www.osc.ny.gov/files/local-government/audits/2024/pdf/cato-village-2023-145.pdf>

actions and could not provide reasonable explanations for their lack of corrective action. As a result, the Board and officials continue to not effectively manage the water fund's financial operations.

Recommendation 1 – Written Policies and Procedures

The Board should establish written policies and procedures to provide adequate guidance for billing, collecting and enforcing water charges.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board did not develop or implement policies and procedures to provide adequate guidance for billing, collecting and enforcing water charges. Without written policies and procedures, the Board could not help ensure that water billings totaling \$219,577 from June 1, 2023 through May 31, 2025 were accurately billed, collected and enforced. Additionally, because the Board did not develop a policy or procedure for addressing delinquent accounts for customers located outside the Village where relevy¹ is not an option, the Village's ability to enforce water charges for non-resident customers is limited.

Recommendation 2 – Review and Approve all Adjustments to Customer Accounts

The Board should 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.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board did not review or approve adjustments made to customer accounts or designate someone independent of the billing and collecting process to perform these functions. We determined that 193 water charges and fee adjustments were made between January 1, 2023 through June 10, 2025 that decreased 87 customer accounts by a total of \$614,327 without independent review and Board approval. Although officials stated that eight adjustments that decreased five accounts by \$572,034 were made due to incorrect meter readings, faulty meters or to correct previous unauthorized adjustments made in error, they did not have documentation to support these adjustments or their assertions. Without adequate adjustment reports and supporting documentation the ability for the Board to provide managerial oversight is limited.

Recommendation 3 – Review and Approve Relevied Water Accounts

The Board should review and approve a list of relevied 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 relevied.

Status of Corrective Action: Not Implemented

¹ Relevied 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.

Observations/Findings: The Board did not take corrective action to ensure all eligible delinquent accounts were properly relieved. In addition, because the Board did not ensure proper records were maintained, we were unable to determine whether the July 1, 2023 through May 31, 2025 delinquent accounts totaling \$7,746 were relieved accurately or that all delinquent accounts were relieved. Without reviewing and approving the annual relevy listing, the Board cannot ensure delinquent accounts are relieved.

Recommendation 4 – Segregate Duties

The Board and Village officials should 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.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board did not develop or implement any policies or procedures to ensure that billing, collecting, depositing and enforcing water charges were adequately segregated or implement mitigating controls. The Clerk generated water bills, made adjustments in the computerized financial software, received customer water payments and can make deposits. While the Village currently employs an interim Treasurer, her duties are limited to assisting with bank reconciliations, making deposits, filing reports with the State and recording water billings as receivables in the computerized financial software using reports generated by the Clerk from the software. The interim Treasurer's limited duties were not effective compensating controls. Furthermore, the Clerk does not generate or provide any reports to the Board to review as a compensating control to ensure bills are generated accurately or adjustments are supported and correct. According to the Clerk, she was not aware she should provide these reports to the Board. However, the Clerk attended the exit conference for the audit, during which we went over each of the audit findings and recommendations.

Recommendation 5 – Review Billing Registers

The Board and Village officials should ensure billing registers are reviewed regularly for accuracy.

Status of Corrective Action: Partially Implemented

Observations/Findings: Village officials did not regularly review billing registers for accuracy and the Board did not develop and adopt a formal review process to ensure water bills were accurate and adjustments were supported and authorized. The Clerk stated that she will do a cursory review of water billings on a quarterly basis. If she notices anomalies in the bills, she will have the Department of Public Works (DPW) Supervisor reread the meters and then make an adjustment. However, because the Board could not ensure that total water billings of \$304,251 from June 1, 2023 through May 31, 2025 were accurate, we reviewed five water bills totaling \$5,508 and identified billing errors. Specifically, one account was underbilled by \$168 and one account was overbilled by \$1.

Recommendation 6 – Review and Adjust Water Bills

The Board and Village officials should review and adjust water bills for inaccuracies identified in the audit report.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board and Village officials did not address the inaccuracies identified in the audit and did not correct \$1,296 in overbillings or recover \$6,607 in unbilled water usage. Furthermore, the Board did not take steps to ensure that water bills are accurately calculated (see Recommendation 5). Officials did not provide a reasonable explanation for their lack of corrective action.

Recommendation 7 – Penalties Assessed on Delinquent Accounts

The Board and Village officials should ensure penalties are correctly assessed on all delinquent accounts in accordance with the Board-adopted rate schedule.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board and Village officials did not ensure penalties were correctly assessed on all delinquent accounts in accordance with the Board-adopted rate schedule. Per the Village water rates schedule, water penalties are assessed at 20 percent of the water bill and are automatically applied in the computerized financial software. However, the penalty is only assessed on water usage for the quarter. We reviewed five water bills, with water penalties totaling \$354, and determined that the Village underbilled water penalties for these five bills by \$43 (12 percent). This occurred because penalties were automatically assessed in the computerized financial software on water usage and not on the total water bill, which includes a debt service component, and the software was not updated to correctly calculate the penalties.

Recommendation 8 – Water Reconciliation

The Board and Village officials should regularly reconcile water produced and purchased to water billed to determine any variance.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board and Village officials did not reconcile water produced and purchased to water billed. As a result, the Board cannot confirm whether the \$15,198 of water purchased in the 2023-24 fiscal year was billed accurately. Although the DPW Supervisor tracked the metered water usage from the Village's well, he did not verify the readings provided by the third-party vendor (vendor) that supplies the balance of the Village's water needs. Furthermore, the Clerk did not provide the Board with water usage reports to compare total water billed to what was purchased and produced from the well.

We reviewed the invoices for water purchased from the vendor for the period of June 1, 2023 through May 31, 2024 totaling \$15,198. Although we determined the monthly invoices were calculated correctly, we could not verify the accuracy of the number of gallons the Village was billed by the vendor because the DPW Supervisor did not perform his own independent meter readings of the vendor's water supplied and usage.² The DPW Supervisor stated he has not had a reason to verify the vendor's meter readings. However, an independent meter reading can help ensure that the Village is only billed for water used.

Recommendation 9 – Written Multiyear Financial and Capital Plans

The Board and Village officials should 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.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Board and Village officials did not develop a comprehensive written multiyear financial and capital plan to project the Village's operating and capital needs. The Board hired an engineering firm in May 2025 to assist with assessing the condition of the water infrastructure throughout the Village, and a grant writer/municipal-consultant (Consultant) in December 2024 to assist with applying for grants to finance infrastructure updates. As of the time of our revisit to the Village, the engineering firm was in the study and report phase of the contract, and the Consultant had prepared a letter requesting funding of \$100,000 to support water engineering expenditures in the Village. Long-term capital plans could help the Village meet financial responsibilities without overburdening taxpayers or disrupting vital services.

Recommendation 10 – Review Water Rates

The Board and Village officials should review water rates to ensure sufficient revenues are generated to finance expenditures and pay for maintenance and infrastructure improvement costs.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Board and Mayor began discussing raising rates and associated fees during the May 13, 2025 and June 10, 2025 Board meetings. During the July 8, 2025 Board meeting, the Board approved an increase to the base water rate by 6 percent and the per 1,000 gallon rate by 10 percent. The Mayor explained the Board's basis for the percentage increases was to keep in line with the previous rate increase in 2022; forecasted needs to finance expenditures and pay for maintenance and infrastructure improvement costs were not factored.

² The supplier withdraws water from the Village tower and bills the Village for the net of the two readings.

Recommendation 11 – Reserves Balances

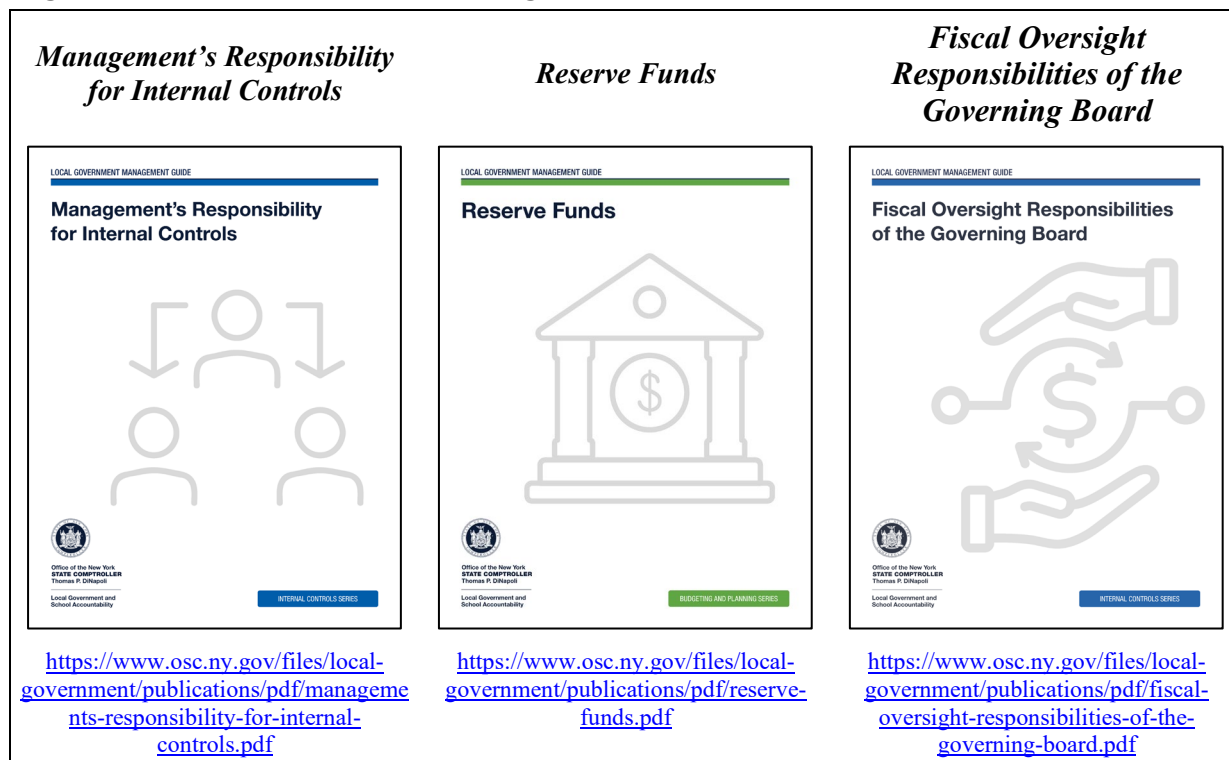
The Board and Village officials should assess reserve balances and/or establish reserves for future capital needs.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board and Village officials have not assessed reserve balances. The Mayor explained that she started reviewing the total reserves with the Treasurer but has not assessed future capital needs and therefore the Board has not yet established a capital reserve. According to a trial balance, the Village had a total fund balance of \$166,415 as of May 31, 2024, which included an unreserved fund balance totaling \$73,988, a \$47,340 reserve for repairs and a \$45,087 debt reserve. Properly funding reserves could help officials to balance capital priorities with fiscal constraints and arrange for sufficient financing for the desired improvements.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage the Board and Village officials to continue their efforts to fully implement our recommended improvements. For additional guidance, the Board and Village officials should refer to OSC's *Local Government Management Guide* publications available on our website, including *Management's Responsibility for Internal Controls*, *Reserve Funds* and *Fiscal Oversight Responsibilities of the Governing Board* (Figure 2).

Figure 2: OSC Local Government Management Guides



Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact Stephanie Howes, Chief of Municipal Audits of our Rochester Regional Office at (585) 454-2460.

Sincerely,

Robin L. Lois, CPA
Deputy Comptroller