



Wilton Water and Sewer Authority

Water and Sewer Charges

Report of Examination

Period Covered:

January 1, 2015 – May 31, 2016

2016M-329



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2017

Dear Authority Officials:

A top priority of the Office of the State Comptroller is to help authority officials manage their authorities efficiently and effectively and, by so doing, provide accountability for dollars spent to support authority operations. The Comptroller oversees the fiscal affairs of authorities statewide, as well as authorities' 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 authority operations and Board governance. Audits also can identify strategies to reduce authority costs and to strengthen controls intended to safeguard authority assets.

Following is a report of our audit of the Wilton Water and Sewer Authority, entitled Water and Sewer 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 X, Section 5 of the State Constitution.

This audit's results and recommendations are resources for authority officials to use in effectively managing operations and in meeting the expectations of taxpayers. 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 Wilton Water and Sewer Authority (Authority) is an independent public benefit corporation located in Saratoga County. The Authority was created by the New York State Legislature in 1991 to serve residents and commercial entities with water and sewer services. The Authority produces, distributes and sells domestic water and provides sanitary sewer services to approximately 8,100 residents in the Town of Wilton. In 2015, the Authority produced 377 million gallons of water and sold 320 million gallons to customers.

The Authority has 25 wells on three different sites which serve as a source of underground water. Additionally, the Authority contracts for water services with the Saratoga County Water Authority and the City of Saratoga Springs, which allows the Authority to purchase potable water. Sanitary sewer services are maintained and operated through the Authority and then discharged into the Saratoga County Sewer system. The Authority's recorded revenue for water and sewer charges were approximately \$2.1 million during our audit period.

The Authority is governed by a Board of Directors (Board), which is composed of five members appointed by the Town of Wilton's governing board. The Board is responsible for the general management and control of the Authority's financial affairs. The Board appoints a Director who is the Authority's chief executive officer and is responsible for the Authority's day-to-day management under the Board's direction and a Comptroller who is the Authority's chief financial officer. The Authority also has a full-time administrative clerk (clerk) who assists the Director with his responsibilities. The prior clerk left the Authority in November 2015 and the current clerk began in November 2015.

Objective

The objective of our audit was to review the Authority's process over water and sewer charges. Our audit addressed the following related question:

- Were water and sewer charges properly billed, collected, deposited and posted to customer accounts?

Scope and Methodology

We examined the Authority's process over water and sewer charges for the period January 1, 2015 through May 31, 2016. Authority officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

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. 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.

**Comments of Authority
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with Authority officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Authority officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate corrective action.

Good management practices dictate that the Board has the responsibility to initiate corrective action. As such, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days.

Water and Sewer Charges

The Board and Authority officials are responsible for establishing adequate policies and procedures over water and sewer charges to ensure customers are properly billed and all money received is properly collected, recorded and deposited. The policies and procedures should also address the process for documenting and approving adjustments to customer accounts and the application of late payment fees and penalties. Good business practices also require Authority officials to provide sufficient oversight over employees who receive cash and ensure collections are safeguarded and deposited daily, or as soon as possible, to prevent loss or misuse.

The clerk properly billed, collected, recorded and deposited collections. However, we found that the Authority did not have written policies or procedures governing the application of billing adjustments and late fees and penalties added to customer accounts. As a result, the clerk made billing adjustments and adjusted late fees and penalties to customer accounts without the Board's authorization or adequate oversight and guidance.

The clerk was responsible for billing and collecting water and sewer charges and recording payments into the billing software program (separate from the Authority's central accounting records). The clerk was also responsible for preparing and making the bank deposits. The Authority billed customers for water and sewer charges quarterly. Water charges were primarily based on actual metered water use generated from an electronic meter reading system. Customers were billed estimated water charges if the reading was unsuccessful, meters showed unusually high use or the customers' meters were not converted to the new metered system. Sewer services were billed at a flat rate.

Customers were able to make payments in person at the Authority office, by mail, by telephone or online via credit card or electronic check (eCheck).¹ Customers were also allowed to elect an auto-payment option, which allowed payments to be automatically deducted from customer bank accounts or credit cards.²

We reviewed 22 deposits of water and sewer collections totaling \$19,782 deposited during the audit period and found they were

¹ When customers paid by telephone, the clerk processed the payment via credit card or eCheck through an online payment portal. An eCheck is an electronic version of a paper check used to make online payments funded directly from a customer's checking account.

² The Authority used a third-party processor for all eCheck and credit card payments.

deposited into the Authority's bank account intact in a timely manner.³ We also reviewed 150 water and sewer bills totaling \$18,915 to determine if these customers were accurately billed and if payments made were properly collected and recorded in customer accounts. We found that the clerk accurately billed these customers and accurately recorded associated billings and collections. However, because the Board did not provide sufficient oversight or guidance for account adjustments or when late fees and penalties should be waived, the clerk adjusted customer bills and waived late fees and penalties without prior authorization or Board approved guidance.

Billing Adjustments

Best practices require that Authority officials establish written policies or procedures to address the approval and documentation process for billing adjustments. These policies and procedures should provide that each adjustment be approved by the Board or a designated official independent of the billing and collection process before the adjustment is made. The Board should also require that each adjustment is adequately documented, which includes the origination and justification for the adjustment, the amount of the adjustment and the approval date.

The Authority did not have a written policy directing how and when adjustments were to be applied to customer accounts. As a result, the clerk was allowed to make billing adjustments without prior Board authorization or clear guidelines for making those adjustments. The clerk used reports generated from the electronic meter reading system to identify customer accounts that may require an adjustment due to exceptional usage (higher than normal meter readings flagged by the software program) or an unsuccessful meter read.

The clerk prepared and applied billing adjustments to customer accounts for water use estimates, manually read meter fees, adjustments for returned check fees, prorated bills (when customers initiated or terminated service) and actual meter readings for customers billed based on estimates. The clerk then prepared and submitted adjustment reports to the Board for approval after the adjustments were made. The Comptroller reviewed these reports, before they were submitted to the Board for approval, and ensured that all adjustments the clerk made were included. However, there were no procedures in place to ensure the adjustments were appropriate or authorized before they were made.

We reviewed 25 adjustments made to customer accounts during October 2015 and January 2016 (10 adjustments increased the amount billed by \$966 and 15 adjustments decreased the amount

³ Intact means the deposit was for the same amount and in the same form (e.g., check, cash or money order) as the collections being deposited.

billed by \$2,620). We found that all these adjustments were made for appropriate purposes. However, none of these adjustments were approved by the Board before the clerk applied them to the customers' accounts. The Board approved the October 2015 adjustments at the November 2015 Board meeting and the January 2016 adjustments at the March 2016 Board meeting.

While we recognize that these amounts are immaterial, the absence of a written policy governing the application of adjustments to customer accounts and the lack of Board approval and oversight before adjustments are made creates a risk that inappropriate adjustments could be applied to customer accounts.

Late Fees and Penalties

The Board is responsible for establishing policies and procedures to effectively enforce the payment of past due accounts. An effective policy establishes sufficient provisions for late fees and penalties and clearly communicates those late fees and penalties to all affected parties. The entire enforcement process should be formalized and effectively communicated to ensure that late fees and penalties are equally and consistently applied.

Due diligence should be used to enforce payment and track the status of each unpaid bill and any exceptions to the enforcement process should be documented and approved by the Board. The clerk was responsible for ensuring that late fees and penalties were properly and consistently enforced and accurately recorded in the customer accounts. The clerk sent out water and sewer bills quarterly (in April, July, October and January) that were due at the end of the month in which they were sent.

The water and sewer bills clearly communicated that payments were due by the end of the month and late fees would be assessed at 1.5 percent of the outstanding (unpaid) balances. However, the Board did not have a written policy in place to provide guidance for the clerk that specified the procedures to be followed to address enforcing or waiving late fees and penalties.

The clerk told us that she has accepted late payments without late fees and removed the late fees from customer accounts, which were automatically assessed by the billing software program, effectively waiving these late fees. The clerk also told us that if a customer telephoned and asked for a late fee to be removed, she waived the late fee as a customer courtesy if payment was received within approximately five days after the due date. In contrast, when a customer made a late payment within the same time period and appropriately included the late fee, the clerk accepted the full payment and did not remove the late fee. However, if the customer called after their payment was processed and requested a refund of the late fee,

the clerk processed a credit to the customer's account. The clerk also removed late fees for customers who paid online after business hours on the due date but before she completed the month-end close out process, effectively waiving these late fees.⁴

We reviewed 40 collections totaling \$3,370 received on customer accounts that should have been subject to \$51 in late fees for bills due in January 2015 and January 2016 because payments were received within five days after the due date. The clerk waived late fees totaling \$9 for collections on 10 accounts as a customer courtesy. However, the remaining collections on 30 accounts were assessed late fees.

The clerk told us that the online payment system was not working from January 29 through January 31, 2016. As a result, customers could not pay their bills on time and were charged late fees for payments made after January 31, 2016. According to the clerk, customers called to inform her that the system was not working and she removed the late fees for these customers. However, the clerk was unable to provide us with any documentation supporting the customer accounts from which the late fees were waived due to the system outage and we were unable to determine how many customers were affected.

The Authority charges a fee of \$32 for returned checks and these fees are applied to both paper checks and eChecks. We reviewed four collections totaling \$1,472 that were received during March 2016 and were subject to returned check fees of \$128. We found that the fees were appropriately enforced and reflected in the accounts for the three collections. The remaining receipt was initially paid incorrectly online by eCheck and then correctly reprocessed for payment. As a result, the clerk removed the returned check fee from the account.

While we recognize that these amounts are immaterial, the absence of a written policy governing the application of late fees and penalties increases the risk that billing practices over the enforcement and waiving of penalties may not be consistently or effectively applied.

While overall the water and sewer rents were billed and accounted for correctly, the Authority could further improve controls with more definitive policies for adjustments and late payment penalties.

Recommendations

The Board should:

1. Adopt a written policy that governs the application of billing adjustments.
2. Adopt a written policy that governs the application of late fees and penalties, including returned check fees.

⁴ Unless the customer called after their payment was processed and requested a refund of the late fee, in which case the clerk processed a credit to the customer's account

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

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

TOWN of WILTON
WATER and SEWER AUTHORITY
20 TRAVER ROAD
GANSEVOORT, NEW YORK 12831
(518)581-8626
Http://water.townofwilton.com

December 19, 2016

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396

RE: WWSA Response to OSC Audit
Wilton Water and Sewer Authority Report of Examination 2016M-329

Mr. Leonard,

We respectfully request that this document serve as our audit response as well as our Corrective Action Plan.

While the Wilton Water and Sewer Authority agrees with your recommendations and has taken appropriate actions to address those recommendations, we would like to respond to a few statements included or not included in your audit report.

1. It is the Office of State Comptroller's assertion that having only an unwritten policy on billing adjustments "creates a risk that inappropriate adjustments could be applied to customer accounts". Since all billing adjustments are reviewed, discussed and ratified retroactively by the Board at their bi-monthly meetings, any adjustments deemed "inappropriate" can be reversed and added back to the customer account. Since any unpaid water charges become a lien to the property, there is no financial risk to the Authority.
2. Pursuant the new policy late fee adjustments are only done "for cause" (due date on a weekend or holiday, customer input error of credit card information, credit card upload problems, etc.)

Corrective Action Plan

1. **Audit Recommendation:**
Adopt written policies which govern the application of billing adjustments.

Implementation Plan of Action:

It is impractical for the Board members to approve billing adjustments prior to posting to customer accounts. For this reason a written policy delegating this

responsibility to the Executive Director, has been approved by the Board of Directors.

Implementation Date:

These policies were implemented on 12/1/2016. The new written policies that cover this issue are the Returned Check Policy adopted by the board on 9/20/2016 and the Billing Adjustment Policy adopted by the board on 12/1/2016.

Person Responsible for Implementation:

The Executive Director is responsible for implementing this procedure.

2. **Audit Recommendation:**

Adopt a written policy that governs the application of late fees and penalties, including returned check fees.

Implementation Plan of Action:

A written policy that covers the application and removal of late fees has been approved by the Board of Directors. A written policy that specifies returned check fees has also been approved by the Board.

Implementation Date:

This policy was implemented on 7/20/2016. The new written Late Charge Policy was adopted by the board on 7/19/2016.

Person Responsible for Implementation:

The Executive Director is responsible for implementing this procedure.

~~Respectfully Submitted~~

R. Jamie Green
Chairman of the Board of Directors

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Authority officials and employees to gain an understanding of the roles and responsibilities being performed and procedures relative to our audit objective.
- We reviewed uploaded reports that contained customer meter readings and billing rate documentation to verify if customers were billed correctly.
- We traced the amounts due from each customer to collection documentation and reviewed the activity in each customer account's audit trail to verify the completeness of the records.
- We reviewed bank statements to identify water and sewer deposits made during the audit period to determine if there were any discrepancies or inaccuracies and whether money was deposited intact and in a timely manner for the 22 deposits we selected.
- We reviewed 150 customers' water and sewer bills to determine if these customers were accurately billed and if payments made were properly collected and recorded in customer accounts. We randomly selected 84 of these accounts and judgmentally selected the remaining 66 customer accounts based on known risk, such as using estimates to calculate water use.
- We reviewed bill adjustments made to customer accounts during October 2015 and January 2016 to determine if they were appropriate and correctly reflected in customer accounts and bills. We arbitrarily selected these months and had no expectation that more or fewer errors would occur in the sample months than in any other month.
- We reviewed 20 collections that should have been subject to late fees and penalties for bills due during January 2015 and January 2016 (these payments were received within five days after the due date) to determine if late fees were waived or appropriately charged to these accounts. We arbitrarily selected these months and had no expectation that more or fewer errors would occur in the sample months than in any other month.
- We reviewed four payments from March 2016 to determine if returned checks fees were appropriately enforced and collected. We reviewed the adjustments report in order to select accounts that were charged for these fees.

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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