

Town of Marlborough

Water and Sewer Financial Operations

OCTOBER 2018



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

- Report Highlights 1**

- Water and Sewer Financial Operations 2**
 - How Are Water and Sewer Financial Operations Effectively Managed? 2
 - Loans to the Water Fund Were Not Repaid 2
 - The Board Does Not Monitor and Approve Billing Adjustments or Interfund Transfers. 2
 - Water and Sewer Funds Do Not Pay Administrative Fees. 3
 - Late Penalties Were Inaccurately Assessed. 3
 - What Do We Recommend? 4

- Appendix A – Response From Town Officials 5**

- Appendix B – Audit Methodology and Standards 7**

- Appendix C – Resources and Services. 9**

Report Highlights

Town of Marlborough

Audit Objective

Determine whether Town officials properly billed, collected and accounted for water and sewer bills.

Key Findings

- As of December 31, 2017, the water fund owed the general fund \$340,000.
- The Budget Officer made billing adjustments in 2017 totaling \$228,146 without Board approval.
- The water and sewer funds do not pay administrative costs for services they receive from the general fund.
- Customers were overcharged for water and sewer late penalties in 2017 by \$8,654.

Key Recommendations

- Prepare an annual cost analysis to calculate the water and sewer rates to be billed.
- Review and repay all outstanding interfund advances.
- Ensure late penalties are properly computed on overdue customer accounts.

Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Town of Marlborough (Town) is located in Ulster County and has a population of approximately 8,800 residents. The Town is governed by an elected five member Town Board (Board), which is composed of four Board members and the Town Supervisor. The Board is responsible for the general oversight of the Town's operations and finances. The Town has a Budget Officer who is responsible for preparing the tentative/proposed budget and presenting it to the Board.

Quick Facts

Water and Sewer Customer Accounts	1,354
2017 Water Revenue	\$1,151,628
2017 Sewer Revenue	\$177,849

Audit Period

January 1, 2017 – April 5, 2018

Water and Sewer Financial Operations

How Are Water and Sewer Financial Operations Effectively Managed?

The board is responsible for effectively managing water and sewer financial operations. The board must adopt budgets with realistic estimates of revenues and expenditures and appropriate user charges to support operations. General Municipal Law (GML)¹ requires that funds temporarily advanced from one fund to another be repaid as soon as available, but in any event, no later than the close of the fiscal year. In addition, the board should monitor the water and sewer financial operations and preapprove all billing adjustments, write-offs and refunds. The board should also approve all inter-fund transfers. Furthermore, the administrative overhead costs of the water and sewer funds (billings, recording and collections) should be included in the budget and charged to the appropriate funds and penalties on delinquent accounts should be properly computed and collected.

Loans to the Water Fund Were Not Repaid

The amount collected for water operations in 2017 was approximately \$213,000 less than the cost of water services. As a result, the general fund had to advance funds to the water fund to cover its operational costs. This advance and similar advances in prior years occurred because the water fund's collections have historically not been sufficient to sustain operations. As of December 31, 2017, the water fund owed the general fund \$340,000 for accumulated advances that had not been repaid.

The Budget Officer annually calculates the water rates based on the estimated operating costs and usage, and proposes new rates to the Board. In 2011, the Board reduced the rates by 5.4 percent. Although the Budget Officer proposed rate increases during the intervening years, the Board did not change the water rates again until 2017, when it raised them by 80 percent. Because the Board had not acted on the Budget Officer's proposals in a timely manner or raised rates sufficiently in 2017, the water fund was reliant on the general fund to support operations. Also, by not repaying the interfund transfers, the Town is violating GML and the general fund is subsidizing the water fund. This creates an inequity for some property owners in the town-wide district, who are not receiving water services but are helping to pay for those services.

The Board Does Not Monitor and Approve Billing Adjustments or Interfund Transfers

The Board does not review or approve billing adjustments. The Board should approve all adjustments. Further, each adjustment should be documented indicating the origination, justification and approval date.

¹ General Municipal Law Section 9-a

The Budget Officer made billing adjustments in 2017 for water for \$184,025 and for sewer for \$44,121 due to inaccurate beginning meter readings. Although we did not find any invalid adjustments, without Board monitoring and approval there is an increased risk for unauthorized adjustments, such as invalid refunds to cover the theft of cash or reductions in billings to cover nonpayment of bills. In addition, the Board did not properly authorize budget transfers. The Budget Officer makes interfund transfers from the general fund to the water and sewer funds without Board approval. As a result, there is an increased risk that the general fund will not have the funds available for operational expenses and the Board may not be aware of cash flow shortages in the water and sewer funds.

Water and Sewer Funds Do Not Pay Administrative Fees

Three town employees perform administrative duties (billing, recording and collecting) for the water and sewer funds. The Town Clerk receives the collections from the water and sewer bills and deposits the funds into the general fund. The Town Supervisor's secretary bills customers and records the payments to the customers' accounts. The Budget Officer transfers the funds from the general fund to the water and sewer funds. However, none of these employees' salaries or related benefits are charged to the water or sewer funds. As a result, the water and sewer funds do not pay administrative costs for services they receive from the general fund. The Town has not determined the amount of time these employees dedicate to these funds. The Budget Officer told us that back in 1997 there was an allocation of these services but she was unaware of how it was calculated. Town officials do not know the amount of time these employees spend on the various funds; however, if these employees were to spend between 10 to 30 percent of their time working on the water and sewer funds, it could be between \$21,000 and \$63,000 that the general fund is subsidizing these funds.²

Without conducting a time study based on a trimester of activity and determining the amount of administrative costs that should be allocated to the water and sewer funds, the general fund is supporting the costs for these services. As a result, resident who do not use the Town's water and sewer service are paying for services they do not receive.

Late Penalties Were Inaccurately Assessed

The Town bills for water and sewer usage three times each year. If these bills are not paid by September, they are relieved on the resident's tax bills with a 10 percent penalty added for outstanding bills not paid by the due date listed on the bill or within 30 days, whichever is the latter.

² We discussed the ranges of time and expenses for the three employees with Town officials. There were no objections.

We reviewed 50³ water and sewer account bills and payments totaling \$35,572 (\$23,881 in water charges, \$9,942 in sewer charges and \$1,749 in penalties). We found that 17 of the 50 bills had late penalties assessed; eight of these (47 percent) were overcharged a total of \$257. The rate was mistakenly set at 20 percent rather than the correct amount of 10 percent. We then reviewed all customers for 2017 and determined that customers were overcharged for water and sewer penalties in 2017 by \$8,654.⁴ Because Town officials had never realized the error in the penalty rate, this error went undetected and customers were overcharged.

What Do We Recommend?

The Board should:

1. Review or prepare an annual cost analysis to calculate the water and sewer rates to be billed. The Board should review the rates annually and revise them, if necessary, to generate sufficient revenue to cover appropriations.
2. Review all outstanding interfund advances and repay them.
3. Approve all adjustments to customer's bills and interfund transfers.
4. Conduct a time study based on a trimester of activity for the three employees that perform administrative duties (billing, recording and collecting) and ensure their costs are properly allocated to the different funds based on the time spent.
5. Ensure that water and sewer late penalties are properly computed on overdue customer accounts.
6. Consult with legal counsel to determine how to address the late penalty overcharges that have occurred.

³ These 50 accounts were from a total population of 1,354 accounts totaling \$484,823 in billing balances due.

⁴ The overcharges occurred in the accounting system the Town used from 2014 through October 2017. Town officials no longer have computer access to that system. We cannot determine the amount of penalties attributed to water or sewer separately because the Town's accounting system does not segregate the collections of penalties from the rent charges.

Appendix A: Response From Town Officials

AL LANZETTA
Supervisor

HOWARD BAKER
Deputy Supervisor



TOWN OF MARLBOROUGH

SUPERVISOR'S OFFICE
21 MILTON PIKE
MILTON, NEW YORK 12547
Tel. (845) 795-5100 x2
Fax (845) 795-2031
HEARING IMPAIRED
1-800-828-1140
www.townofmarlborony.org

October 4, 2018

Office of the New York State Comptroller
Division of Local Government & School Accountability
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear Tenneh Blamah,

In response to the Town of Marlborough's Water and Sewer Financial Operations, Report of Examination 2018M-160, the Town has agreed with your findings and will make the following corrective actions or plans.

The board will review the annual calculated rates based on operating costs and usage that is presented from the budget officer during budget season. The board will revise rates to the water and sewer billing based on the proposed rates. This should eliminate the general fund subsidizing the water/sewer funds, and current loans from the general fund will be paid back. In the future the Budget Officer will receive board approval for all interfund transfers.

The Secretary to the water department is currently sending all billing adjustment or refunds to the Town Board for review and approval. Each adjustment or refund comes with a full explanation on why the adjustment or refund is needed. Documentation is sent via email to all board members. Once the board members have reviewed the adjustment, an acceptance or denial is sent back to the Secretary before she moves forward. The Town changed water/sewer billing software in 2014 then again in 2017. Much of the adjustments are made due to the lack of meter reading software and billing software compatibility. Now that most of the issues are corrected there should be a decrease in adjustments made.

The Secretary to the water department has started a time study on water and sewer billing on September 1st and will continue with the study until December 31st, when the full billing cycle is complete. This will give the Town an accurate time accounting to bill the water/sewer funds. The Budget Officer will start her time study on her first water/sewer receipt that is received in October and will end in December after year end is balanced. The Town Clerk will start her time

study in October when receipts start to come in and will end the study in December. Once all time is calculated from the three departments, we can then determine the amount of administrative costs that should be allocated to the water and sewer funds, and will make the necessary budget adjustments to the personnel line items.

The board has consulted with legal to determine how to address the late penalty overcharges that have occurred during our use with Springbrook software. The Secretary and superintendent are currently working with [REDACTED] (our current software) on the best way to credit those users back. Currently the water Superintendent, budget officer and a board member will review penalties to ensure penalties are properly computed in the future.

Thank you,

Al Lanzetta
Town of Marlborough
Supervisor

Appendix B: Audit Methodology and Standards

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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials and employees and reviewed Town policies, the water code, the sewer code, Board minutes and water and sewer financial records and reports to gain an understanding of billing, collecting, adjusting, depositing, enforcing and reconciling water and sewer charges. We documented any associated effects of deficiencies found.
- We reviewed the taxes, special assessments, debt and operation and maintenance contributions for each fund to assess whether the appropriate funds were raised to cover their costs. This included reviewing debt schedules and taxes, special assessments and operation and maintenance charges. We reviewed the Town's intermunicipal agreements with neighboring towns and evaluated the related expenditures. We reviewed annual revenues and expenditures to determine the operating deficits or surpluses for each fund and the impact in relation to the water and sewer revenues raised.
- We reviewed individual line item budget-to-actual results for 2016 through 2017 for the water and sewer funds.
- We reviewed the 2017 water and sewer funds interfund activity and interfund loan reconciliation.
- We reviewed all billing adjustments to water and sewer accounts during 2017 to determine if they were preapproved by the Board and for appropriate purposes.
- We inquired as to authorizations for interfund transfers and the allocation of administrative costs to the water and sewer funds.
- We reviewed a randomly selected sample of 50 water and sewer account bills and payments from the June 2017 billing to determine whether the bills were accurate, payments were correctly recorded in the customers' accounts and the payments agreed with the amounts billed (including penalties). These 50 accounts were from a total population of 1,354 accounts totaling \$484,823 in billing balances due. We determined whether penalties were properly assessed and complied with code. We recalculated late penalties assessed on water and sewer payments and compared our calculations to penalties charged. We expanded our penalty test to all customers in 2017.
- We calculated the total amount paid for the October 2016, February 2017 and June 2017 billings and the amount of unpaid water and sewer rents to be relieved by comparing the amounts paid with the amounts billed and outstanding as of September 2017.

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

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's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/localgov/index.htm

Local Government and School Accountability Help Line: (866) 321-8503

NEWBURGH REGIONAL OFFICE –Tenneh Blamah, Chief Examiner

33 Airport Center Drive, Suite 103 • New Windsor, New York 12553-4725

Tel (845) 567-0858 • Fax (845) 567-0080 • Email: [Email:Muni-Newburgh@osc.ny.gov](mailto:Muni-Newburgh@osc.ny.gov)

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



Like us on Facebook at facebook.com/nyscomptroller

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)