



Southern Cayuga Lake Intermunicipal Water Commission

Financial Operations

Report of Examination

Period Covered:

January 1, 2014 – May 7, 2015

2015M-149



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2015

Dear Commission 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 Board of Commissioner 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 Southern Cayuga Lake Intermunicipal Water Commission, entitled Financial 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 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 Southern Cayuga Lake Intermunicipal Water Commission (Commission), also known as Bolton Point, is a joint entity made up of five member municipalities (the Towns of Dryden, Ithaca, and Lansing and the Villages of Cayuga Heights and Lansing) located in Tompkins County.

The Commission was established by an intermunicipal agreement in 1974 to provide high-quality water to the approximately 30,000 customers of its member municipalities. Per this agreement, the Commission is made up of a 10-member Board of Commissioners (Board), with each member municipality being entitled to two seats. One seat must be filled by an elected member of the member municipality's Board; the other seat is appointed by the member municipality from its own Board or a citizen of its community.

Officers of the Board are elected annually by the Commission's Board with the Supervisor of the Town of Ithaca historically being appointed as the treasurer of the Commission. The Town of Ithaca, the largest member municipality, serves as the employer of record, maintains the fiduciary trust and agency funds and approves the Commission's budget. Each member municipality's Board approves the Commission's water rate and its own respective rates. Any debt of the Commission is also a debt of the member municipalities.

The Board has the overall responsibility for the operation, maintenance and management of the Commission. The Board fulfills this responsibility by establishing policies that management and staff use to guide the day-to-day operations. The day-to-day operations are the responsibility of the general manager and three Department heads that oversee finance, distribution and production (collectively, the managers).

Objective

The objective of our audit was to assess the financial operations of the Commission. Our audit addressed the following related question:

- Are Commission officials effectively managing financial operations?

Scope and Methodology

We examined the Commission's financial operations from January 1, 2014 through May 7, 2015. We extended our audit period back to January 1, 2012 for budgeting.

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
Local Officials**

The results of our audit have been discussed with Commission officials, and their comments, which appear in Appendix A, have been considered in preparing this report.

Financial Operations

The Board is primarily responsible for setting internal control expectations through the deliberate development and establishment of policies. Once those policies are established, the Board should provide oversight and monitoring of operations to ensure that those policies are followed. The managers are responsible for designing a system of internal controls to ensure that the Board's directives are properly implemented. The system of internal controls should include the five key systems of budgeting, billing, cash receipts, purchasing and cash disbursements (including payroll) to provide reasonable assurance that Commission assets are used efficiently and are protected against loss, waste and abuse. Included in such a system is a proper segregation of duties to ensure that no one person controls all phases of a transaction. A properly designed and operating system of internal controls provides assurance that a Board's goal of effectively managing financial operations is being achieved.

Commission officials are effectively managing financial operations. The Board and managers have developed a framework for the five key systems to effectively manage financial operations.

Budgeting

Adopted budgets should be structurally balanced, whereby recurring expenditures are paid for with recurring revenues. If a Board so desires, budgets could also include funding for capital expenditures. Once adopted, budgets should be monitored throughout the year.

The Board has established a budget and finance committee that works with the managers to develop preliminary budgets based on historical data and anticipated expenditures. The sale of water is the largest revenue source and provides approximately 98 percent of the funding for the operation. The Board recognizes the significance of having accurate projections and the budget and finance committee uses historical sales information¹ to develop the rates charged to the member municipalities. After the Board adopts the budget, it is also reviewed and approved by the Town of Ithaca Board.

We reviewed the estimates from the last three fiscal years and found that revenues from actual water sales have been within 2 percent of the budget estimates. We also compared total budgeted appropriations to total actual expenditures and the difference between budgeted water sales and actual water sales to verify budget accuracy. Moreover,

¹ The budget and finance committee uses the gallons of water sold for the last three years and then counts the lowest year of sales twice to develop a four-year average of water sold.

the results of operations ended in intended conservative surpluses as part of a long-term capital plan. Members of the Board told us the infrastructure is aging and they wanted to make improvements incrementally in the upcoming years. The budgetary surpluses will allow the Board to begin funding these capital improvements. Furthermore, while all members of the Board receive budget-to-actual reports, the budget and finance committee more closely reviews these reports during its monthly meeting and will bring any significant variances and recommendations for corrective action to the Board as a whole.

Billing and Cash Receipts

Water bills are prepared at the Commission on behalf of the five member municipalities for their individual customers' water usage while the cash receipts for the customers' bills are collected by the member municipalities. The Commission then charges the member municipalities for the total amount of water billed and sold plus any additional overhead charges and fees on a quarterly basis. The Commission also collects permit fees for renovation or new construction projects requiring water service.

Managers should ensure that the customers' water bills are calculated based on usage and in accordance with approved rate structures of the member municipalities and that the quarterly billings are based on the Commission's rate structure. Additionally, managers need to ensure that all moneys payable to the Commission are properly collected, safeguarded and accounted for.

The bills for water usage to customers and quarterly billings to the member municipalities are properly calculated. We also found there is an adequate segregation of duties for the collection of quarterly billing fees and permit fees to ensure they are being properly recorded and deposited into Commission bank accounts.

Purchasing and Disbursements

Managers should acquire goods and services at the lowest or most reasonable price and in accordance with Board policies. The Board and managers should ensure that Commission expenditures, including payroll, are paid properly. The general manager serves as the purchasing agent and reviews and approves all purchase orders prior to purchase.

Each Department manager is responsible for ensuring that Commission purchasing procedures are followed prior to submitting purchase orders to the purchasing agent and attesting that those procedures were followed by signing the purchase order form developed by the Commission, except for purchases of chemicals needed in the water plant. The chemicals are purchased from vendors who are selected as the lowest bidders through a request for proposals process. The

budget and finance committee reviews and approves all claims, after which the Town of Ithaca Board reviews and approves the claims. The Commission then issues the checks, which are manually signed by the Commission treasurer (or the general manager in his absence). The payroll is processed separately by the Town of Ithaca.

We reviewed 159 paid claim vouchers totaling \$241,653 and found that all were approved by the purchasing agent prior to purchase. We also reviewed the list of all vendors paid from January 1, 2014 through May 31, 2015 and found that only the lowest bidders were used to supply chemicals. We also traced check numbers to the Town of Ithaca Board minutes; reviewed claims, bank statements, and canceled check images; and compared payroll amounts to payroll reports to verify that Commission expenditures were proper.

We commend Commission officials for implementing adequate controls over budgeting, billing, cash receipts, purchasing and cash disbursements to provide for the effective management of the Commission's financial operations.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



SOUTHERN CAYUGA LAKE INTERMUNICIPAL WATER COMMISSION

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September 4, 2015

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Dear Mr. Eames:

On August 28, 2015, the Commissioners of the Southern Cayuga Lake Intermunicipal Water Commission received the draft audit report entitled "Financial Operations" from your office. The audit examined the Commission's financial operations from January 1, 2014 through May 7, 2015 and extended back to January 1, 2012 for budgeting. The objective was to verify that Commission officials are effectively managing the Commission's financial operations in the five key areas of budgeting, billing, cash receipts, purchasing, and cash disbursements.

After an extremely detailed and painstaking examination, your examiners determined that the Commission and Staff of the Bolton Point Water System are indeed effectively managing the financial operations of the Commission in all five key areas. They expressed appreciation for the level of detail they were provided for their testing as well as the strong internal controls in place. The examiners noted the high level of cooperation they both received and observed between board members, committees, member municipalities, employees and managers. During our "exit conference" on September 1, 2015, one of the examiners went so far as to characterize the degree of intermunicipal cooperation that she had observed among our five member municipalities as "amazing."

On behalf of the Commissioners, Managers, and Staff, we thank you for the opportunity we have had to work with your examiners [REDACTED] and [REDACTED] during the audit period. We appreciate that their "positive report" affirms that our policies, procedures, practices, and staff efforts are effective in the management of our financial operations. We also appreciate their offer of assistance should questions concerning such operations arise in the future.

Thank you.

Sincerely,

H. Michael Newman, Chairman
Southern Cayuga Lake Intermunicipal Water Commission

◆◆◆Excellence in water quality and customer service◆◆◆

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate Commission officials and tested selected records from January 1, 2014 through May 7, 2015. To analyze the Commission's historical financial operations, we extended our audit scope back to January 1, 2012. Our examination included the following procedures:

- We interviewed Board members and management to gain an understanding of the processes and controls for the five key operations: budgeting, billing, cash receipts, purchasing and disbursements.
- We reviewed documents including the Commission's intermunicipal agreement, Board policies, minutes, financial records and reports.
- We reviewed budgeted revenues and appropriations and actual revenues and expenditures from 2012 through fiscal year end 2014 to determine how well the original budgets compared to the actual results.
- We compared the differences between budgeted water sales and actual water sales to determine if the formula used by Commission officials to budget for this revenue source was reasonable.
- We calculated the results of operations over the last three years by comparing actual revenues to actual expenditures.
- We obtained Board-adopted billing rates for all member municipalities and the Commission and compared them to rates entered into the Commission's computerized billing system to ensure that rates used to compute bills were based on rates adopted by the respective Boards.
- We obtained computerized records of bills sent to member municipalities, residents and recalculated 25 randomly selected bills to ensure bills were calculated correctly based on the rate structures for the municipalities.
- We reviewed one bill for each member municipality, comparing the amount of total water billed and sold to the Commission's rates to ensure bills were calculated correctly. We traced the subsequent payments from the bills to the deposit slips and bank statements to ensure moneys were collected and deposited into Commission bank accounts.
- We traced 14 permits totaling \$3,754 issued in July 2014 and 20 permits totaling \$5,519 issued in March 2015 from departmental reports to permit applications, deposit slips and bank statements to ensure permit fees were deposited into Commission bank accounts. We judgmentally selected a sample of July 2014 as we anticipated that most of the plumbing work would be done in warmer summer months and March 2015 as we anticipated that repair work would have to be done due to freezing.

- We reviewed 159 claims vouchers totaling \$241,653 from the months of December 2014, February 2015 and April of 2015 to ensure purchases were approved by the purchasing agent. We judgmentally selected a sample of December of 2014 due to end of year expenses and February and April of 2015 because of the potential purchases being made due to repair work from freezing.
- We compared an electronic list of all vendors paid in 2014 and 2015 from the Commission's computerized accounting system to the list of selected vendors for treatment chemicals and verified that only those vendors that were selected as the lowest bidders were used.
- We traced all check numbers listed on the Commission's check log to approved check numbers recorded in the Town of Ithaca Board minutes to ensure that all disbursement checks written were for Commission expenditures.
- We reviewed all 218 claims vouchers totaling \$380,964 for the months of May 2014, August 2014, February 2015 and April 2015 to determine if all were approved and for legitimate Commission expenditures. We randomly selected the above four months to perform our testing.
- We reviewed all bank statements from January 1, 2014 through April 30, 2015 to ensure no cash withdrawals or transfers to non-Commission bank accounts occurred. We also scanned all check images for the same period to ensure no checks were made out to cash and that all checks were signed by either the Commission treasurer or general manager.
- We compared the total payroll amounts recorded in the Commission's records for the months of December 2014 and March 2015 to amounts reported in the Town of Ithaca's payroll reports to ensure that amounts were reported and recorded correctly in the Commission's records. We judgmentally selected a sample of December 2014 because it is the fiscal year end and March 2015 as it was the last month closed prior to the start of our audit.

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.

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