



Clifton Park Water Authority Water Charges

Report of Examination

Period Covered:

January 1, 2014 — June 30, 2015

2015M-247



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2016

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 public dollars spent to support government 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 of Directors 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 Clifton Park Water Authority, entitled Water Charges. This audit was conducted pursuant to 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 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 Clifton Park Water Authority (Authority) is an independent public benefit corporation located in Saratoga County. The Authority was established in 1990 under the New York State Public Authorities Law to acquire, construct, operate and maintain public water supply and distribution facilities for the benefit of the residents of the Towns of Clifton Park and Malta. The Authority provides potable drinking water to 13,280 properties¹ or approximately 31,000 residents through a system composed of 21 wells on 11 different sites, 5.5 million gallons of storage capacity, several pump stations and approximately 180 miles of water main. The Authority produces most of the water that is sold to its customers. However, the Authority also purchases water from the Saratoga County Water Authority and the Town of Glenville, which totaled approximately 140 and 172 million gallons, respectively, during the 2014 fiscal year.

The Authority's Administrator is responsible, along with other administrative staff,² for the day-to-day management of the Authority under the direction of a Board of Directors (Board). The Board is composed of five members who are appointed to five-year terms by the Clifton Park Town Board. The Chairman of the Board is appointed on an annual basis by the Clifton Park Town Supervisor. The Authority's budgeted appropriations for the 2015 fiscal year were approximately \$5.9 million, funded primarily with water charges. The Authority recorded revenues for water charges of approximately \$7.2 million during our audit period.

Objective

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

- Are internal controls over water charges appropriately designed and operating effectively?

Scope and Methodology

We examined the Authority's internal controls over water charges for the period January 1, 2014 through June 30, 2015.

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

¹ The properties total 12,083 in the Town of Clifton Park, 1,178 in the Town of Malta and 19 in the Town of Ballston.

² Administrative staff includes a billing clerk, administrative assistant, customer service representative and Business Manager.

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 Charges

The Board and Authority officials are responsible for establishing effective internal controls over water charges to ensure that customers are properly billed and all moneys received are properly recorded, deposited and accounted for. Authority officials also must provide sufficient oversight over employees who receive cash and grant employees the minimum access rights needed in the billing and collection software to properly complete their job duties.

The Board and Authority officials did not establish an adequate system of internal controls over water charges. For example, no one independent of the billing clerk reviewed the billing registers, and collections in the form of cash were not deposited in a timely manner or properly secured prior to deposit. In addition, Authority officials did not properly limit users' access within the billing and collection software. As a result, there was an increased risk that cash collections could be lost or misused and that unauthorized changes could be made to the financial data or inappropriate transactions could be initiated and remain undetected.

Billing and Collection

The Board is responsible for establishing rates for water charges, and an individual independent of preparing water bills should review billings to ensure customers are billed accordingly. All water charges billed should be posted to a receivable control account.³ The control account should be reconciled monthly to the amounts billed, the amounts collected and the remaining unpaid bills. Furthermore, the Board should designate an official to approve adjustments, where necessary. The official should approve each adjustment and document the reason, amount and date approved. Good business practice requires collections to be deposited daily, or as soon as possible, to prevent loss or misuse.

The Authority charges customers for water services based on metered usage, and bills are prepared by the billing clerk on a quarterly basis. Customers may pay their bills in person at the Authority's office, by mail or online with a credit card or can elect to have payments electronically withdrawn (direct debit) from their bank accounts. Payments in person or by mail are received by the administrative assistant and then remitted to the customer service representative to be deposited and posted to the customers' accounts. Payments made online with a credit card and through direct debit are posted to the customers' accounts by the customer service representative and the

³ This control account, typically referred to as water rents receivable, will contain a balance reflecting the total amount of unpaid water billings owed by customers.

billing clerk, respectively. Payments that are received by check are processed through remote deposit capture,⁴ and online or direct debit payments are deposited directly into the Authority's bank account. As a result, the Authority only has to make deposits at the bank for cash payments.

We found that the Board approved the water rates used to bill customers and that the Business Manager maintained a control account, which she reconciled on a monthly basis to the amounts billed, amounts collected and the remaining unpaid bills. We reviewed three months⁵ of reconciliations and found they were prepared in a timely manner and that the control account and unpaid balance in the billing and collection software agreed at the end of each month.

However, we found deficiencies with the billing and collection procedures. For example, no one independent of the billing clerk reviewed the billing registers or exception reports.⁶ Therefore, Authority officials had no means to ensure customers were properly billed. In addition, nobody reviewed the manual receipts issued by the administrative assistant for the payments received in person to ensure the corresponding collections were remitted to the customer service representative and subsequently deposited.

We reviewed a sample of 100 water billings totaling \$7,372 to determine if they were accurate and correctly recorded in the customers' accounts, if the payments equaled the amounts billed plus penalties, if applicable, and if the payments were correctly recorded in the customers' accounts. We did not identify any discrepancies. We also compared 50 parcels⁷ to the customer accounts within the billing and collection software to determine if customers were billed. Except for one discrepancy that we brought to the attention of Authority officials,⁸ all parcels were billed. In addition, we reviewed 35 adjustments⁸ to water accounts totaling \$2,816 and found all adjustments were approved by the Administrator or Business Manager, or both, prior

⁴ Remote deposit capture allows entities to scan checks and transmit the scanned images electronically to their depository, causing their bank account to be credited.

⁵ We used a computerized random number generator to select the three months of January, June and December 2014.

⁶ The exception reports generated from the billing and collection software include exceptions, such as a customer with no reading or a customer with a reading that is 50 percent lower than the reading for the same quarterly billing from the previous year.

⁷ We used a computerized random number generator to select 50 parcels from the Town of Clifton Park's 2015 assessment roll.

⁸ We used a computerized random number generator to select 35 adjustments from an adjustment report containing all adjustments that were made to customers' accounts.

to the administrative assistant making the adjustments and that all adjustments were for appropriate purposes.

We also reviewed three months⁹ of manual receipts issued for cash payments, which included 158 receipts totaling \$15,952, to determine if the recorded payments were deposited in a timely manner and for the same amounts as recorded on the receipts. Except for some minor exceptions that we discussed with Authority officials, the recorded payments were deposited for the same amounts as recorded on the receipts. However, 43 receipts totaling \$4,450 were deposited between six and 12 days after receipt. Authority officials' failure to deposit cash in a timely manner increases the risk that cash could be lost or misused. Furthermore, this risk was increased because cash was not properly secured prior to deposit. Although the cash was stored in a safe prior to deposit, it was accessible to the customer service representative, billing clerk and Business Manager. The cash was also readily accessible to other Authority employees because the safe was unlocked during business hours.

Access Rights

Effective controls over user access to software applications restrict authorizations to only those functions needed for individuals to perform their job duties. Such authorizations should preserve the proper segregation of duties so that the same person is not involved in multiple aspects of a financial transaction. Generally, a designated system administrator has oversight and control of the system, with the ability to add new users, change users' access rights and control and use all aspects of the software. Therefore, this position should not be held by anyone involved in the processing of financial transactions.

The Authority's billing and collection software has access controls that allow Authority officials to restrict the access levels of different users. However, Authority officials did not adequately utilize such controls. Consequently, users had been granted access to functions that they did not need to fulfill their day-to-day job responsibilities. For example, the administrative assistant, Business Manager and Administrator had the ability to change the amounts that customers were being billed, by changing their usage, and the billing clerk, Business Manager and Administrator had the ability to make adjustments to customers' accounts, although they do not need access to these functions to fulfill their job responsibilities. In addition, the administrative assistant, who was involved with the processing of financial transactions, had been granted administrative rights to software, which gave her the capability to make additions, deletions and modifications to individuals' access rights to the software. This

⁹ We used a computerized random number generator to select the three months of April and September 2014 and March 2015.

ability to control and use all aspects of the software creates the opportunity for the manipulation and concealment of transactions.

Although our billing and collection testing did not disclose any discrepancies resulting from employees' access rights, when employees are allowed to have access rights that are not in accordance with their job duties, the Authority has an increased risk that unauthorized changes could be made to the financial data or inappropriate transactions could be initiated and remain undetected.

Recommendations

Authority officials should:

1. Ensure that an individual independent of the billing process reviews the billing registers and exception reports.
2. Routinely compare the amounts collected as recorded on manual receipts to the amounts deposited and investigate and resolve any discrepancies.
3. Ensure that cash is deposited in a timely manner.
4. Ensure that cash is physically secured prior to deposit and that access to cash is limited.
5. Evaluate employees' job descriptions and assign billing and collection software access rights to match their respective job functions.

The Board should:

6. Designate an individual who is not involved in the processing of financial transactions as the Authority's billing and collection software administrator.

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

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



January 13, 2016

[REDACTED]
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Re: Clifton Park Water Authority Water Charges
Audit Report Number: 2015M-247

Dear [REDACTED]

The Clifton Park Water Authority Board of Directors has reviewed the audit report from your office. We appreciate the comments and suggestions that you have provided and are pleased to see only minor findings and suggestions in the report, all of which have already been addressed, either during the audit process, or immediately following its completion. The following is a list of the recommendations and the corresponding CPWA corrective action:

1. Suggestion: Ensure that an individual independent of the billing process reviews the billing registers and exception reports.

Response: The Business Manager is now reviewing all billing registers and exception reports generated by the Billing Clerk.

2. Suggestion: Routinely compare the amounts collected as recorded on manual receipts to the amounts deposited and investigate and resolve any discrepancies.

Response: The CPWA has replaced its duplicate receipt book with a triplicate book and all cash payments are accompanied by a copy of the receipt for processing by the appropriate employee. Cash deposits are then reconciled to the receipt amounts at the time of deposit. This ensures that all cash payments are recorded and deposited correctly.

3. Suggestion: Ensure that cash is deposited in a timely manner.

Response: Cash is now deposited in the bank no less than twice a week.

4. Suggestion: Ensure that cash is physically secured prior to deposit and that access to cash is limited.

Response: Cash is now kept in a lock box in the office safe.

5. Suggestion: Evaluate employee job descriptions and assign billing and collection software access rights to match their respective job functions.

Response: Software access rights have been reviewed and modified accordingly. The CPWA will reevaluate these access rights any time there is a staffing change or change in job duties.

6. Suggestion: The Board should designate an individual that is not involved in the process of financial transactions as the Authority's billing and collection software administrator.

Response: The Board has designated the Authority Administrator as the billing and collection software administrator and the corresponding change has been made within the software establishing the Authority Administrator as the sole individual with control over employee access rights.

The CPWA would like to acknowledge the professionalism and courtesy shown by the auditors from your office throughout the process. Their suggestions have helped the CPWA to further tighten our internal controls and reduce our exposure to fraudulent activities.

Should you have any further comments or suggestions, please do not hesitate to contact me at your convenience.

Sincerely,

Helmut Gerstenberger
CPWA Board Chairman

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if Authority officials established effective internal controls over water charges for the period January 1, 2014 through June 30, 2015.

To accomplish our audit objective and to obtain valid audit evidence, our procedures included the following:

- We interviewed Authority officials and employees. We reviewed Board minutes and financial records and reports to gain an understanding of the internal controls over the billing, collection and enforcement of water charges. We documented any effects of deficiencies in those controls.
- We reviewed a random sample of three months of reconciliations to determine if reconciliations were prepared in a timely manner and if the control account balance and unpaid balance in the billing and collection software were in agreement at the end of each month.
- We reviewed a sample of 100 water billings to determine if the billings were accurate and correctly recorded in the customers' accounts, if the payments equaled the amounts billed plus penalties, if applicable, and if the payments were correctly recorded in the customers' accounts. We first used a computerized random number generator to select two quarterly billings, which resulted in the selection of the fourth quarterly billing for 2014 and the first quarterly billing for 2015. We then selected 50 water billings from each of the quarterly billings. Our samples consisted of first selecting the billings for the two employees that worked at the Authority's office who received water services. We then used a computerized random number generator to select 48 other billings for each quarter.
- We compared a random sample of 50 parcels to the customer accounts within the billing and collection software to determine if customers were billed for services.
- We reviewed a random sample of 35 adjustments to water accounts to determine if they were approved prior to the adjustments being made and were for appropriate purposes.
- We reviewed three months of manual receipts issued for cash payments to determine if the recorded payments were deposited in a timely manner and for the same amounts as recorded on the receipts.
- We interviewed Authority officials and employees, reviewed user access reports for the billing and collection software and physically inspected employees' computer screens to determine which employees had access to the billing and collection software, each employee's access rights and whether the employees had access to functions that were not required to fulfill their job responsibilities.

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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