



Town of Louisville

Water User Charges

Report of Examination

Period Covered:

January 1, 2013 — July 9, 2014

2015M-44



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2015

Dear Town 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 Town Board 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 Town of Louisville, entitled Water User 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 3 of the New York State General Municipal Law.

This audit's results and recommendations 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 Town of Louisville (Town) is located in St. Lawrence County and has a population of approximately 3,145. The Town Board (Board), which comprises five members, is the legislative body responsible for managing Town operations. The Town Supervisor (Supervisor), who is a member of the Board, serves as chief executive officer and chief fiscal officer. Although the Board is primarily responsible for the effectiveness and proper functioning of the Town's internal controls, department heads also share the responsibility.

The Town provides various services to its residents, including street maintenance, recreation programs, water and general government support. The Town's budgeted appropriations for 2014 were approximately \$2.1 million for all funds. These expenditures were primarily funded with revenues from sales tax, local property taxes, the New York Power Authority, services to other governments and State aid.

The Supervisor is responsible for the general management of the Town's three water districts that provide water service to approximately 1,300 customers. The Supervisor, Town Clerk and Deputy Town Clerk (Deputy Clerk) are also responsible for the Town's water billing and collections. Revenue from water operations consists of water rents billed on a quarterly basis. Billed revenue for 2013 totaled approximately \$450,000.

Objective

The objective of our audit was to review the Town's water user charge activity. Our audit addressed the following related question:

- Did Town officials implement internal controls to ensure that water user charges were properly billed, collected, recorded and deposited?

Scope and Methodology

We examined water user charge activity for the period January 1, 2013 through July 9, 2014.

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.

Comments of Local Officials and Corrective Action

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

generally agreed with our recommendations and indicated they have initiated corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the 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 this plan available for public review in the Town Clerk's office.

Water User Charges

An effective system of internal controls over water charges can help ensure that usage is properly billed and all moneys are collected, recorded, deposited and accounted for. The Board must provide sufficient oversight to ensure there is an adequate segregation of duties over the billing, collecting and recording of user charges. At a minimum, the duties of cash custody and recordkeeping should be separated. Billing adjustments should require a designated official to approve each adjustment; to document the justification, amount and date of approval; and to submit each one to the Town Board for final approval. Town officials should also ensure that a log or change report of adjustments is maintained and reviewed. A receivable control account¹ should be maintained and periodically reconciled to the total of the individual customer account balances to promptly identify any discrepancies, which should be investigated and resolved. Finally, records should be maintained to demonstrate all late penalties have been correctly assessed and charged to the customers.

The Board needs to strengthen internal controls to help ensure that water user charges are properly billed, collected, recorded and deposited. Although water rent revenue totals approximately \$450,000 per year, the Board did not adequately segregate financial duties or provide sufficient oversight of billing, collecting and recording of water payments and adjustments to customer accounts. The Deputy Clerk is responsible for preparing customer water bills, which are reviewed by the Town Clerk. However, the Deputy Clerk is also responsible for receiving and recording customer payments, applying penalties to overdue customer accounts and making adjustments in the computerized billing system. The Town Clerk and Supervisor also collect and post customer water payments. All three have administrative access rights in the computerized water billing system, which allow them to adjust customer accounts, even though the Deputy Clerk is designated to record adjustments. There is no review or prior approval required for adjustments to be made in the system. In addition, although the computerized water billing system can generate an adjustment report (log) of users' transactions to identify any potential improper adjustments, it is not reviewed by anyone at the Town.

¹ A control account is a summary account in the general ledger that supports individual transactions for each customer. The control account should be updated with total amounts, such as total collections for the day, week or month; total billings for the quarter; and any adjustments such as corrections for erroneous billings.

Although the Supervisor reconciles the moneys in the cash drawer to accounting records on a daily basis and prepares the bank deposits, this process would not necessarily detect discrepancies because all three individuals have the ability to collect payments and adjust the records without retaining the funds in the cash drawer for deposit.² Furthermore, the Town does not maintain a proper water receivable control account. The Town Clerk told us she reconciles receivable control totals in the water billing system to the total of the detail customer accounts; however, this comparison is ineffective because both records are generated from the same system. To serve as an effective check on the records, it is important to maintain a receivable control account outside of the water billing system and to update it using billing register totals, daily water receipt register totals which agree with deposits and approved account adjustments. A periodic reconciliation of the receivable control account balance to the total of the detailed customer account balances with an investigation of any differences could help detect unauthorized adjustments to customer accounts or payments recorded in customer accounts that were not deposited.

Due to these internal control weaknesses, we reviewed 87 customer accounts³ and verified water billings for three consecutive quarters totaling \$10,059. We found that all accounts with water usage were billed accurately without any material discrepancies. We also reviewed 188 receipts totaling \$29,145⁴ and traced them to deposits, which were made in a timely manner and into the proper Town bank accounts. We also reviewed customer payments for the 87 accounts to determine if penalties were accurately assessed and charged. We found 27 customer accounts that showed a payment date after the billing due date but were not assessed penalties in either one or more of the quarters, totaling \$335. Town officials explained that the Town does not assess late payment penalties if customers mail their payment before the due date. The Supervisor records the payments when he receives them in the mail, but he could not provide us with support to indicate the postmark dates when the customers mailed the payments in those instances where it appears penalties should have been assessed. He told us he relies on the Deputy Clerk to tell him if payments are made on time or are late, and penalties are charged accordingly. As a result, we were unable to verify if penalties were properly assessed and charged to all customers.

² For example, they could misappropriate a cash payment and either record an adjustment to the customer account or apply the payment against the customer account after the daily reconciliation is performed.

³ See Appendix B for Methodology

⁴ Including bill payments for water usage, debt and repair reserves

We also reviewed a sample of ten adjustments to customer accounts totaling \$466⁵ and found none of the adjustments were approved by the Board. However, the Town Clerk and Deputy Clerk provided adequate supporting documentation for all but one of the adjustments totaling \$120. The Town Clerk and Deputy Clerk told us this adjustment was to remove an inaccurate charge, but they did not have sufficient evidence to support this. Lastly, we reviewed all delinquent customer accounts as of October 31, 2013, to ensure that the delinquent water charges were properly re-levied to the 2014 real property tax roll. We found no significant exceptions. In the absence of proper segregation of duties, oversight of adjustments and assessed penalties, and maintenance and reconciliation of a proper control account, the Town has an increased risk that errors and irregularities could occur and go undetected and uncorrected.

Recommendations

The Board should:

1. Segregate the water duties of billing, collecting and recording. The Board should provide for oversight and an independent review of work when adequate segregation is not practical.
2. Review computer user access rights and strengthen internal controls to ensure that individuals are assigned only those access rights needed to perform their job duties.
3. Review and approve all water account adjustments and require written documentation of the reasons, amounts and dates of approval and it should periodically review adjustment reports (logs) to determine whether adjustments have been authorized.
4. Ensure that a water receivable control account is maintained and periodically reconciled to the individual customer accounts. Any differences should be promptly investigated and resolved.
5. Require Town officials to retain documentation related to mailed payments to verify that payments are received timely.

⁵ \$437 in adjustments to decrease customer account balances and \$29 in adjustments to increase customer account balances

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

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Patrick Carroll, Councilperson
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Roy Beshaw, Councilperson
Joanne Cameron, Town Clerk
Vern Fenlong, Hwy Supt.
Lisa Orosz, Tax Collector

May 26, 2015

Office of the State Comptroller
Division of Local Government
110 State Street 12th Floor
Albany, NY 12236

Dear Sir or Madam,

We have completed our review of the draft audit of the water user charges for the Town of Louisville. We have implemented the following action plan according to the NYS Comptroller recommendations :

Segregate the water duties of billing, collecting and recording: The Water Clerk performs the water billing, the Town Clerk collects the water payments from the mail and at the front counter- runs a calculator tape, dates, signs and copies the tape and the Town Supervisor records the deposit and delivers it to the bank. Another employee verifies that the amount collected by the Town Clerk has been applied to the Water Accounting System and deposited in its entirety.

Review Computer Access rights and strengthen internal controls: The computer access codes have been updated in each software system.

Review and approve all water account adjustments: The Town Board reviews all water adjustments at the regular monthly board meetings. They also review the water accounts during the annual audit.

Ensure that a water receivable control account is maintained and periodically reconciled to the individual customer accounts: The water clerk that verifies the deposits maintains a separate control account that becomes part of the Supervisor's report which is reviewed by the Town Board monthly. Any differences are resolved before the report is final each month.

Require Town Officials to retain documentation to mailed payments to verify that payments are received timely: The water bills are considered "on time" if postmarked by the due date. The Town Clerk dates the calculator tape that is printed when opening the mail. The envelopes will be kept from payments received after the actual due date to prove the postmark was timely and no interest should be charged.

The NYS Comptroller's audit was conducted while we were undergoing a \$9 million dollar water expansion project which included new accounting software. The water department implemented the ideas and comments of the auditors as they arose throughout the process.

If there are any further questions, please call my office at 315-764-7473.

Best Regards,

Larry L gault
Town Supervisor

The Town of Louisville is an Equal Opportunity Employer and Provider. To file a complaint of discrimination, write: USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD)

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine whether Town officials ensured that water user charges were properly billed, collected, recorded and deposited for the period January 1, 2013 through July 9, 2014. Our procedures included the following:

- We interviewed Town officials and reviewed Board minutes to gain an understanding of the internal control procedures over the billing, collecting, recording, depositing and adjusting of water user charges.
- We selected a random sample of 75 total parcels from a property list, 25 from each of the three water districts. We also selected 12 parcels of property owned by key officials within any of the three water districts. We reviewed activity for October through December 2013, January through March 2014 and April through June 2014. We chose the three consecutive billing quarters with no known or expected outcome.
- We reviewed the 87 parcels in the three quarters to determine if the parcels were billed correctly for water usage. We reviewed the customer accounts of the 87 parcels to assess if customer accounts were or were not included in the billing registers. We also verified the accuracy of billed amounts for water usage, using quarterly billing summaries, meter readings and rate schedules and traced the billed amounts to the cash receipts reports and the individual account histories to confirm that no subsequent adjustments were made to the billings, including late payment adjustments.
- We traced 188 customer payments (i.e., water usage, debt and repair reserve) in the three quarters from the individual customer accounts to water payment journals, cash receipts, deposits and bank statements to confirm that the payments were posted and deposited into the water fund's bank account.
- We reviewed the 87 customer accounts in the three quarters to determine which accounts should have penalty charges assessed and recalculated the penalty charges for those unpaid accounts to verify the accuracy of the amounts charged.
- We obtained a list of individual water customer account adjustments from January 1, 2013 through September 15, 2013 and randomly selected a sample of five adjustments. We also selected a judgmental sample of five adjustments to the multiple accounts of the Supervisor. We then traced our sample of adjustments to the accounting records and other supporting documentation, as necessary.
- We obtained a list of 115 delinquent customer accounts at October 31, 2013 totaling \$65,778 and compared it to the accounts receivable aging list for accuracy and completeness. We then compared the delinquent accounts with balances to the 2014 real property tax roll to ensure that the amounts were re-levied and traced a sample of eleven accounts to supporting documentation

to verify the amounts re-levied. The eleven accounts were re-levied at amounts different from the amounts shown on the October 31, 2013 list.

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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