



Town of Virgil

Board Oversight

Report of Examination

Period Covered:

January 1, 2013 – November 3, 2014

2015M-40



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of Local Officials and Corrective Action	2
BOARD OVERSIGHT	4
Water and Sewer Operations	4
Fuel Accountability	7
Recommendations	8
APPENDIX A Response From Local Officials	9
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

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 Virgil, entitled Board Oversight. 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 Virgil (Town) is located in Cortland County and has a population of approximately 2,400 residents. The Town provides various services for its residents, including water and sewer, street maintenance and repair, justice court and general government support. The Town's 2014 budget of \$1.8 million was funded primarily with real property taxes, State aid, sales tax and water and sewer user fees.

The Town is governed by an elected five-member Town Board (Board), which consists of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general oversight of the Town's financial affairs. The Supervisor, as chief fiscal officer, is responsible for receiving, disbursing and maintaining custody of Town moneys, including establishing adequate controls to safeguard resources. The Supervisor hired a bookkeeper whose duties included collecting, depositing and recording water and sewer payments, printing the bills and preparing the re-levy list. The Highway Superintendent is responsible for various functions related to maintaining roads and accounting for fuel.

The Town provides fuel to the Virgil Fire Department using a separate pump on the Town's fuel tanks. Annually, the Highway Superintendent is supposed to read this pump and submit the Fire Department's fuel use to the Town's bookkeeper to prepare the Fire Department's bill.

Objective

The objective of our audit was to assess the Town's internal controls and Board oversight. Our audit addressed the following related question:

- Did the Board provide adequate oversight and Town officials ensure that adequate controls were in place over water and sewer operations and the Town's fuel use?

Scope and Methodology

We assessed the internal controls over Town operations for the period January 1, 2013 through November 3, 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 agreed with our recommendations and indicated they planned to take 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 Clerk's office.

Board Oversight

The Board is responsible for overseeing the Town's financial operations and safeguarding its assets. It fulfills this responsibility by adopting policies that guide Town operations and ensuring that Town officials have procedures in place to safeguard Town assets. The Board also provides oversight by performing an annual audit of the records of officials¹ and employees who receive and disburse cash. As the Town's chief fiscal officer, the Supervisor should implement appropriate internal controls over financial operations, including ensuring that water and sewer receipts are properly billed, collected, deposited and recorded. The Highway Superintendent should ensure that fuel purchases are reasonable and accounted for.

The Board did not provide adequate oversight of the Town's financial operations and Town officials did not ensure that adequate controls were in place over the billing and collecting of water and sewer rents and the Town's fuel use. As a result, the bookkeeper made decisions regarding water and sewer operations without proper authority, including processing water and sewer bills without Board-approved rates, making adjustments to bills without approval, not collecting penalties for payments received after the due date and not re-levying unpaid bills. In addition, the Highway Superintendent did not properly account for Town fuel. Specifically, 6,600 gallons of purchased fuel (valued at \$22,000) was not recorded on the fuel log.

Water and Sewer Operations

The Board should have an approved water and sewer rate schedule as well as policies that specify the penalties for late payments and procedures for billing adjustments and re-levying unpaid bills. The Supervisor is responsible for developing and implementing procedures to meet the expectations provided in the Board-adopted policies and ensuring that moneys received are properly collected, recorded and deposited. Additionally, the Supervisor should ensure that penalties are collected according to the Board-approved penalty schedule and that adjustments are authorized and reasonable. If the Supervisor delegates this responsibility to a Town bookkeeper, the Supervisor is responsible for providing adequate oversight of the bookkeeper to ensure that she is properly performing her duties. Finally, the Board should be auditing the Supervisor's records and reports annually to ensure that its adopted policies are being followed.

The Board and Supervisor did not provide adequate oversight of the billing and collecting of water and sewer rents. The Board did not

¹ Town Supervisor, Town Clerk/Tax Collector and Town Justice

adopt policies and the Supervisor did not institute procedures to ensure that these tasks were completed properly. Specifically, the Board did not establish a rate structure for water and sewer use or penalties for late payments, a policy outlining how to handle adjustments or guidance on the re-levy of unpaid rents. Furthermore, the Supervisor did not properly segregate the bookkeeper's duties or provide any oversight. The bookkeeper performs all aspects of this process, including processing bills, collecting² and depositing payments, applying penalties, adjusting accounts and re-levying unpaid rents with little to no guidance or oversight. As a result, the bookkeeper was making decisions regarding the billing and collection of water and sewer rents on her own and no one ensured that she properly billed, collected, recorded and deposited moneys owed to the Town.

Billing – We tested the billed amounts for 23 accounts³ for the October 2013 and July 2014 billing periods. We were not provided any evidence that the Board-approved rates were charged for these accounts. Although we found that the rates were generally applied consistently⁴ for residents, a local ski resort and the Virgil Fire Department were being charged different rates than the residential users and the rates charged were not supported by a contract.⁵ Because Town officials did not provide the bookkeeper with the Board-approved water and sewer rates, she used the rates that were already in the billing system from previous years.

Adjustments – We tested all six adjustments totaling approximately \$48,200 made to the sample of 23 customer bills and found that none of the adjustments had been approved by the Board or Supervisor. We determined two of these adjustments totaling \$44,270 were reasonable because they were clearly applied to correct errors in meter readings and two others totaling \$28 were immaterial. However, neither the bookkeeper nor the Supervisor could provide

² The Town Clerk will collect fees in the bookkeeper's absence. However, the bookkeeper records the payments in the system and deposits the money. The Town Clerk does not perform any follow-up procedures to ensure that the payments she collects are deposited and recorded in the system.

³ Ten accounts were judgmentally selected. The other 13 accounts included the accounts of the former Deputy Clerk (the only Town official with a water/sewer account), the Virgil Fire Department (several Town officials are members of the Fire Department) and the local ski resort (water/sewer billing findings were cited in a previous Office of the State Comptroller audit).

⁴ The information we used for rates was generated from the computer system. We could not confirm the actual amount billed as bill stubs were not available.

⁵ We were not provided with any support for the local ski resort's rates. The support for the Fire Department is a handwritten note from fire officials to the bookkeeper to show how much water they used for their tankers. However, Town officials do not verify this figure.

an explanation or any supporting documentation for the remaining two adjustments totaling approximately \$3,900; one of these was a positive adjustment increasing the amount owed by \$1,000 and the other, a \$2,900 negative adjustment decreasing an amount owed, was made on the same day the bill was created. We reviewed prior billings for these accounts and found that the adjusted bills were within the range of other, a billings in the account history. The bookkeeper made all of these adjustments, using her own discretion, because policies and procedures do not exist requiring prior approval for adjustments and the Supervisor provided no oversight that may have detected these adjustments.

Penalties – We tested 66 payments⁶ received from customers totaling over \$38,600. We found that they were all properly recorded and deposited, based on their date of receipt/recording in the system. However, there was over \$4,800 in penalties that should have been assessed for delinquent payments. Customers were not charged penalties because the bookkeeper was providing a “grace period” for late payments which the Board did not authorize. However, because no support existed to verify the dates payments were received, such as postmarked envelopes, it is possible that some of these payments were received on time and should not have incurred a penalty. Regardless, we found that no one reviews account histories and supporting documentation to check the bookkeeper’s assessment of penalties.

Re-Levy – We found eight properties with unpaid water and sewer billings totaling \$2,100 in our audit scope period⁷ that were not included on the 2013 and 2014 re-levy lists provided to the Board, including one property which was partially re-levied. The bookkeeper told us she left these properties off the re-levy list for several reasons, including her sympathy for a resident unable to pay, issues with property sales and closings, maintenance issues with a resident’s water pipe and an overdue balance being minimal (less than \$16). While the bookkeeper discussed two of the unpaid bills with the Supervisor, the Board was unaware that the proposed re-levy list presented for approval did not include all properties with unpaid balances. In addition, none of the explanations the bookkeeper provided are valid because the Board does not have an adopted policy providing direction on the re-levy of unpaid bills.

⁶ We selected all late payments from the duplicate receipt book by date of receipt and all late payments recorded in the computer system from the July 2013 and January 2014 billing periods.

⁷ In 2014, four properties had overdue water and sewer billings totaling approximately \$1,900. In 2013, four properties had overdue water and sewer billings totaling approximately \$190.

Annual Audit – Although the Board minutes indicated that an annual audit of the Supervisor’s records is performed, all of these errors and irregularities remained undetected because Board members indicated that the audit is more a formality than a detailed review of records. Therefore, the annual audit does not provide sufficient oversight. Without proper oversight and controls, there is an increased risk that errors or irregularities will continue to occur and go undetected.

Fuel Accountability

According to the Highway Superintendent, employees are supposed to document vehicle information on both the daily vehicle tickets and a fuel log, including the number of gallons of fuel dispensed and mileage of the vehicle at time of fill up. The Highway Superintendent is responsible for ensuring that his employees are complying with these procedures and logging all fuel use. In addition, he should periodically assess the fuel use for reasonableness by comparing the amount used per the logs to the amount purchased to ensure that fuel purchased is properly accounted for. Lastly, if another municipality uses the Town’s fuel, the Highway Superintendent is responsible for monitoring that use and ensuring it is billed properly. The Board should periodically assess that this process is operating effectively to ensure that Town funds are spent appropriately for fuel.

We compared the fuel purchased per the invoices to the fuel logs for calendar years 2013 and 2014. We found that more fuel was purchased than was accounted for on the logs, totaling approximately \$15,780 (4,513 gallons) for 2013 and \$6,160 (2,097 gallons) for 2014.

Figure 1: Highway Department Fuel Discrepancy (in gallons)

Year	Unleaded			Diesel			Total Difference
	Purchased	Logged	Difference	Purchased	Logged	Difference	
2013	6,795	5,721	1,074	20,619	17,180	3,439	4,513
2014	6,649	5,109	1,540	17,692	17,135	557	2,097
Total	13,444	10,830	2,614	38,311	34,315	3,996	6,610

The Highway Superintendent is not reconciling the fuel purchased to the fuel logged and, therefore, these discrepancies were not caught. Moreover, the Highway Superintendent did not do an analysis of the fuel used to determine if it was reasonable. As a result, we attempted to do an analysis of the fuel used. We were unable to draw any conclusions on the reasonableness of fuel used because the Town lacked mile-per-gallon information for its vehicles and equipment and did not provide us with information on the Fire Department’s use. In addition, the Highway Superintendent informed us that he reads the meter on the separate pump dedicated to the Fire Department at the end of each year in order to prepare the annual bill. However, he could not provide us with support to show how much fuel was used from the separate pump. In addition, Town officials were not able to provide us with a bill for 2014 to verify the Fire Department’s use or whether it was billed properly.

The Board did not ensure that the Highway Superintendent was properly accounting for fuel use because it relied on him to account for fuel and did not follow up with him to ensure he was performing this duty. Without proper controls and recordkeeping over fuel inventories, Town officials cannot be assured that the fuel purchased is properly used in Town vehicles, billed appropriately for other municipalities using Town fuel and not being abused or lost due to leakage.

Recommendations

The Board should:

1. Establish policies that provide guidance for the water and sewer billing and collecting process, including:
 - An annual Board-approved rate schedule for all types of customers.
 - When it is appropriate to make adjustments and who should be approving them.
 - When to prepare the re-levy of unpaid water and sewer bills and any situations where a re-levy may not be required.
 - When penalties should be assessed, at what rate or dollar amount and whether there should be any acceptable grace periods.
2. Ensure the re-levy list it approves is a complete list of unpaid bills.
3. Establish policies for accountability over fuel purchases and use to ensure that all fuel purchased is accounted for on Highway Department fuel use logs and fuel used by the Highway Department is reasonable.
4. Perform a sufficient annual audit of the Supervisor's records.

The Supervisor should:

5. Establish procedures to ensure the water and sewer billing and collecting process has adequate controls to safeguard funds, such as segregating the billing, collecting and depositing duties as practicable.

The Highway Superintendent should:

6. Develop procedures that ensure accountability over all fuel purchased.
7. Ensure that other municipalities are properly billed for fuel use.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF VIRGIL



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13045

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May 26th, 2015

Thomas P. DiNapoli, Comm.
Office of the State Comptroller
State Office Building, Room 1702
Binghamton, NY 13901-4417

RE: Town of Virgil
Report of Examination,

Dear Sir:

We would like to express our appreciation to the Office of the State Comptroller for performing an audit of the Town of Virgil. The board intends to take appropriate actions to correct all deficiencies. This will include implementation of strong internal controls and strengthening oversight of all contractual operations. Towards that end, the Town Board has already made improvements. The Board intends to review your information very carefully and to prepare a detailed corrective action plan.

Thank you for your assistance.

Very truly yours,

John Kaminski
Town Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the Town's internal controls and Board oversight of water and sewer operations and fuel accountability for the period January 1, 2013 through November 3, 2014. To accomplish our objective, we interviewed appropriate Town officials, tested selected records and examined pertinent documents. Our examination included the following:

- We reviewed water and sewer bills for 23 accounts for the October 2013 and July 2014 billing periods to verify if the correct rate was being charged.
- We reviewed a sample of 66 late payments and traced them to the account ledger to verify if the payment amounts were recorded properly and to the deposit slips and bank statements to verify if the payments were deposited. We also verified if penalties were properly charged.
- We reviewed adjustments for 23 accounts to determine if they were properly supported and approved.
- We reviewed all unpaid balances for calendar years 2013 and 2014 to verify whether they were properly re-levied on the real property tax bills.
- We compared the fuel (unleaded and diesel) purchased to the fuel logged by Highway Department employees for 2013 and 2014.

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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AND SCHOOL ACCOUNTABILITY

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Nathalie N. Carey, Assistant Comptroller

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