



Town of Westport

Internal Controls Over Water and Sewer Charges

Report of Examination

Period Covered:

January 1, 2014 – March 31, 2015

2015M-128



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 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 Westport, entitled Internal Controls Over Water and Sewer 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 Westport is located in Essex County and has a population of approximately 1,310 residents. The Town is governed by an elected five-member Town Board (Board) which is composed of the Town Supervisor (Supervisor) and four council members. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement and custody of Town moneys; maintaining accounting records; and providing financial reports to the Board.

The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, public improvements, recreation and cultural activities, water and sewer services and general governmental support. The Town's budgeted appropriations for the 2015 fiscal year are approximately \$1.9 million, funded primarily with real property taxes and water and sewer charges.

The Town employs a Clerk to the Supervisor who works under the Supervisor's direction and is responsible for billing and recording water and sewer charges. The Town has two water districts¹ that provide service to approximately 530 customers and three sewer districts² that provide service to approximately 370 customers. The Town recorded revenues for water charges of \$126,039 and sewer charges of \$154,792 during our audit period. With the exception of the Westport Water District,³ the Town charges a flat rate to customers for water and sewer services, who are billed on a quarterly basis.

Objective

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

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

Scope and Methodology

We examined the Town's water and sewer operations for the period January 1, 2014 through March 31, 2015.

¹ The Town's water districts include Water District #1 (Westport Water District) and Water District #3.

² The Town's sewer districts include Sewer District #1, Sewer District #2 and Sewer District #3.

³ The Westport Water District is billed quarterly, based on metered usage and a flat rate charge of \$14.50 per parcel for operation and maintenance.

**Comments of
Local Officials and
Corrective Action**

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.

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 have initiated, or indicated they planned to initiate, 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 New York State 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 and Sewer Charges

The Board and Town officials are responsible for establishing an internal control system for water and sewer billings. An internal control system consists of those activities put in place to provide reasonable assurance that billings are correct, collections are received and deposited in a timely manner and accounting records are accurate. It is also important that the Board provide sufficient oversight of those Town officers and employees who receive these collections on behalf of the Town, particularly if one person performs incompatible duties. One aspect of this oversight is an annual audit of the books and records of those Town officers billing, collecting and accounting for water and sewer charges.

The Town lacked comprehensive policies and procedures over water and sewer charges and, as a result, there were internal control weaknesses over the billing, collection and enforcement of water and sewer charges. The Clerk to the Supervisor performed all duties related to water and sewer charges without adequate oversight. In addition, the Town was not properly billing all parcels in the Westport Water District for operation and maintenance (O&M) charges in accordance with the Board-adopted water code. As a result, the Town did not realize all potential revenues that it was entitled to. Lastly, the Board did not perform an annual audit of the individuals involved with billing, collecting and accounting for water and sewer charges.

Billing and Collection

The Board is responsible for establishing rates for all water and sewer charges and reviewing and approving the billings to ensure customers are billed accordingly. The Board approved the water and sewer rates; however, the Board did not receive or approve the water and sewer billing registers and, therefore, had no means to ensure that customers were being properly billed. Our audit testing disclosed that not all parcels in the water and sewer districts were billed appropriately.

The Clerk to the Supervisor was responsible for performing all duties related to water and sewer charges during our audit period, which included maintaining the master file of customers, setting up the applicable rate that each customer would be charged, preparing and printing bills, collecting and posting payments, preparing bank deposits,⁴ applying penalties to overdue accounts, having the ability to make adjustments with limited to no oversight and relieving unpaid amounts. Town officials attempted to partially segregate duties by assigning the Town Clerk the responsibility of collecting water and

⁴ The Deputy Supervisor makes bank deposits that were prepared by the Clerk.

sewer payments; however, the Clerk to the Supervisor would still collect payments in the Town Clerk's absence. We also found that the Clerk to the Supervisor was solely responsible for collecting new service fees and water turn-on and shut-off payments with no independent reviews. Concentrating key responsibilities with one individual weakens internal controls and increases the risk that errors or irregularities could occur and remain undetected.

Due to the inadequate segregation of duties, we reviewed a random sample of 50 combined water and sewer bills totaling \$12,372⁵ to determine if the bills were correctly prepared. With the exception of two customers that were underbilled by a combined total of \$71,⁶ we found that the billings were correctly prepared. The two discrepancies resulted because the billing rates in the Town's billing and collection system were not in accordance with the Board-adopted rates.

We also randomly selected 25 parcels in the Westport Water District and 25 parcels in Sewer District #1 and compared the 50 parcels to the customer accounts within the billing and collection software to determine if customers were being billed for services on the January 2015 quarterly bills. We did not identify any discrepancies in the sewer district but found that not all of the water district parcels were appropriately billed. Specifically, four of the 25 parcels (16 percent) were not being billed at all, but should have been billed for O&M costs. Each of the four parcels should have been billed \$14.50 per quarter, resulting in lost revenue of \$58 during the sample quarter we reviewed. If our sample results are typical of the population, then the Town could be failing to bill 93 parcels per quarter for O&M in this water district.⁷ As a result, the Town may have lost revenues for O&M charges of about \$5,394 during 2014 and about \$1,349 during the first quarter of 2015. To confirm our results, we compared this district's parcel listing obtained from the county to the Town's quarterly billings during our audit period and found the County's parcel listing had about 100 more parcels than the Town's billings.

Furthermore, good business practice requires collections to be deposited intact⁸ and daily, or as soon as possible, to prevent the loss or misuse of collections. We reviewed five deposits totaling \$9,030 during our audit period⁹ and found that all five deposits contained collections that were deposited intact and, other than two minor

⁵ The 50 bills consisted of \$3,477 in water charges and \$8,895 in sewer charges totaling \$12,372.

⁶ One customer was underbilled by \$37.50 for water services and one customer was underbilled by \$33.75 for sewer services.

⁷ 585 total parcels in this District times 16 percent equals 93 parcels.

⁸ Intact means the deposits are for the same amount and in the same form (cash or checks) as the collections.

⁹ See Audit Methodology and Standards for details on our sample selection.

exceptions that we discussed with Town officials, the deposits were made in a timely manner.

Annual Audit

Town Law requires the Board to annually audit the records and reports of any employee who receives or disburses cash during the fiscal year or to cause them to be audited by an independent public accountant. The purpose of this annual audit is to provide assurance that public money is properly deposited in a timely manner and is accurately recorded and accounted for, to identify conditions that need improvement and to provide oversight of Town financial operations. A thorough annual audit also provides the Board with an added measure of assurance that the financial records and reports contain reliable information on which to base management decisions. Furthermore, an annual audit by the Board is a particularly important function where it may not be practical to completely segregate duties.

The Board did not audit, or cause an audit of, the Clerk to the Supervisor's or Town Clerk's records and reports for the 2013 or 2014 fiscal years. The lack of an annual audit by the Town Board was also a finding in a prior audit report¹⁰ issued by the Office of the State Comptroller.

The Town Supervisor stated that he is aware of the Board's statutory requirement to perform an annual audit of the Supervisor's and Town Clerk's records; however, he did not provide an explanation as to why the requirement is not being met. Had the Board conducted the annual audit, some of the deficiencies found during our audit may have been identified and addressed sooner.

Recommendations

The Board and Town officials should:

1. Establish written policies and procedures to provide adequate guidance and internal controls over the billing, collection and enforcement of water and sewer charges.

Town officials should:

2. Segregate duties over the billing, collection and enforcement of water and sewer charges or, if it is not practical to segregate duties, establish appropriate compensating controls, such as increased management review procedures.
3. Generate billing registers for each water and sewer billing, which should be Board-reviewed and approved.

¹⁰ OSC report entitled *Town of Westport Town Clerk's Office* (2008M-173)

4. Ensure that all customers are correctly billed for water and sewer services.

The Board should:

5. Annually audit, or cause to be audited, the Supervisor's and Town Clerk's financial records and reports.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



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Daniel W. Connell, Supervisor
Russell L. Paquette, Deputy Supervisor
Dennis E. Westover, DPW Superintendent

Daniel J. McCormick, Councilperson
Nancy M. Page, Councilperson
Steven E. Viens, Councilperson

To: Office of State Comptroller
One Broad Street Plaza
Glens Falls, NY, 12801

From: Town of Westport
Daniel W. Connell, Supervisor

RE: Response and Corrective Action Plan for audit covering Jan. 1, 2014 Through March 31, 2015

This response was prepared by the Town Supervisor and then reviewed by the Town Board on September 8, 2015.

The Town Board welcomes this audit and recognizes the timeliness. The incumbent Town Supervisor is not running for re-election. There will be a minimum of one new Councilperson assuming office on January 1, 2016. This audit then gives the new Board actions that will enhance the checks and balances needed to more effectively manage operations.

The Town Supervisor considers this audit a fair and true reflection of the Town's operations.

CORRECTIVE ACTIONS

Recommendations 1-4 Establish written policies and procedures to provide adequate guidance and internal controls over the billing, collection and enforcement of water and sewer charges, etc.

- (1) The Town is purchasing a new software program that will produce reports that will allow the Town Board to monitor quarterly billings. The Board Members will be expected to review these reports for accuracy and completeness and sign off on them.
- (2) The Clerk to the Supervisor will prepare the above named report. The Clerk to the supervisor will also prepare the bills and mail them to the users.
- (3) The Finance Manager will enter the billing report totals into water and sewer control accounts of the accounting software.
- (4) The Town Clerk will collect the user fees and deposit same in the bank account. The deposit tickets will be given to the Clerk to the Supervisor who will then enter it into the accounting program.
- (5) The Finance Manager will verify that the water and sewer control accounts are properly credited and balanced with the water and sewer funds.

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Recommendation 5 The Board should annually audit, or cause to be audited, the Supervisor's and Town Clerk's financial records and reports.

The Town Board will at its organizational meeting in January appoint an audit committee. This committee will before January 20th of each year audit the Supervisor's and Town Clerk's as well as the Town Justice's financial records and reports.

Daniel W. Connell, Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Town officials and employees. We reviewed Town policies, Board minutes and various financial records and reports related to water and sewer charges to gain an understanding of the internal controls in place over the billing, collection and enforcement of those water and sewer charges, and we documented any associated effects of deficiencies found in those controls.
- We reviewed a random sample of 50 combined water and sewer billings to determine if the billings were correctly prepared, the billings were correctly recorded in the customers' accounts, payments equaled the amount billed plus penalties, if applicable, and the collection of payments were properly recorded in the customers' accounts.
- We compared a random sample of 25 water district parcels in the Westport Water District #1 and 25 sewer district parcels in Sewer District #1 to the customer accounts within the billing and collection software to determine if customers were being billed for services.
- We reviewed a judgmental sample of five bank deposits during our audit period to determine if water and sewer charges were deposited timely and intact.
- We reviewed a judgmental sample of 30 delinquent customer accounts at the end of the 2014 fiscal year collection period to verify that they were relieved and for the proper amounts.

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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