



Village of Elba

Water Accountability

Report of Examination

Period Covered:

June 1, 2010 — February 29, 2012

2012M-92



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2012

Dear Village 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 Village 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 Village of Elba, entitled Water Accountability. 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 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 Village of Elba (Village) is located in Genesee County and has approximately 700 residents. The Village is governed by an elected three-member Board consisting of the Mayor and two Trustees. The Board provides guidance through the enactment of policies and procedures, adoption of the annual budget,¹ and approval of all contracts. The Mayor is the Village's chief executive officer and is responsible for the implementation of policies established by the Board and the general administration, coordination, and supervision of Village operations.

The Village's water system has approximately 300 metered customers that are billed quarterly for water use. Water meters are periodically read by the Department of Public Works to determine water use for billing purposes. Budgeted appropriations for water operations for the 2011-12 fiscal year totaled \$56,000.

Objective

The objective of our audit was to review water production and water billings. Our audit addressed the following related question:

- Does the Village adequately monitor and reconcile the amount of water produced to the amount billed to customers to properly account for this resource?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Village assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial management, cash receipts and disbursements, purchasing, payroll and personal services, and information technology. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the Village's water operations and, therefore, we examined various records pertaining to the Village's water operations for the period June 1, 2010 through February 29, 2012.

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.

¹ The Village's 2011-12 budget totaled approximately \$420,000.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials agreed with our recommendations and 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 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 Village Clerk's office.

Water Accountability

Unaccounted for water is the difference between the amount of water produced and the amount of water billed to customers and other identifiable users for a given period. Village officials should periodically compare water produced with water billed and then identify whether the difference is caused by recordkeeping errors, leaks, thefts, or malfunctioning meters. The Federal Environmental Protection Agency (EPA) has established an industry goal of 10 percent for unaccounted for water system losses. Water loss results in a production expense for the Village for which no revenue is received. An effective water accounting system provides for the tracking of use throughout the distribution system and the identification of areas that may need attention. This is a first step in minimizing water losses, reducing system costs and increasing system revenue.

Village officials were not aware of the extent of the Village's water loss because they did not compare how much water is produced with how much water is billed to customers. We compared water production reports with water billing registers for seven consecutive quarters² and found that the Village's quarterly water loss over the period averaged 49 percent, which far exceeds the EPA goal. Unaccounted for water loss totaled over 26 million gallons over the seven quarters, or an average of 3.7 million gallons per quarter. This unaccounted for water cost over \$18,200 to produce annually.

It is unclear whether the unaccounted for water was due to leaks in the water system or unmetered use. However, we found that the water billing for the quarter ending December 31, 2011 indicated that there was no water use for 22 accounts, while usage for another 25 accounts was less than 2,000 gallons. This use is well below the average per capita use for New York State. According to the United States Geological Survey, per capita public supplied domestic water use was 97 gallons per day in New York State.³ Furthermore, notes made on the meter reading forms indicated that 10 meters were broken or had slowed. Since sewer billings for the Village are based on water meter readings, unrecorded water usage also would result in lost sewer revenues.

² Starting with the June 30, 2010 billing quarter thru the December 31, 2011 billing quarter

³ See "Estimated Use of Water in the United States in 2005," Circular 1344, pages 19-20, published by the U.S. Geological Survey. Ninety-seven gallons per day for 90 days = 8,730 gallons per person per quarter.

All water operations can benefit from comparing water produced with water billed. This analysis can help Village officials determine the extent to which the Village is incurring costs to produce and treat water that is lost through leaks or consumption that is not being captured and billed. Village officials should determine the causes for and take steps to reduce the amount of unaccounted for water to improve the efficiency of their water distribution system, enhance the financial health of the Village's water fund, and preserve water resources.

Recommendations

1. Village officials should periodically reconcile water produced to the amount of water billed.
2. Village officials should determine and correct the causes of the Village's significant water loss, including repairing or replacing malfunctioning meters.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



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July 16, 2012

To Whom It May Concern:

This correspondence is in response to the Village of Elba Water Accountability report. The members of the Village Board have read and discussed this report and its recommendations.

It has been determined that we will reconcile our water produced and water bill every year. We are also talking with our State Representative and Senator about attaining a grant to replace the Village outdated water meters. We will keep you apprised of the progress of these discussions.

Thank you.

A handwritten signature in black ink that reads "Stephen R. Goff". The signature is written in a cursive style and is positioned above a horizontal line.

Stephen R. Goff

Mayor, Village of Elba

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Village assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial management, cash receipts and disbursements, purchasing, payroll and personal services, and information technology systems.

During the initial assessment, we interviewed appropriate Village officials, performed limited tests of transactions, and reviewed pertinent documents, such as Board minutes, financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected water operations for further audit testing.

To accomplish our objective, we interviewed Village officials, reviewed policies and procedures, and reviewed reports of water produced, meter readings, and billing registers for the period June 1, 2010 through February 29, 2012.

We conducted this performance audit in accordance with generally accepted government auditing standards (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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