



Village of Hammondsport

Water Billings and Collections

Report of Examination

Period Covered:

March 1, 2010 — September 30, 2011

2012M-19



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 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 Board of Trustees 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 Hammondsport, entitled Water Billings and Collections. 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 Hammondsport (Village) is located in the Town of Urbana, Steuben County and has approximately 730 residents. The Village is governed by the Village Board of Trustees (Board) comprising five elected members. The Village's budget for the 2011-12 fiscal year is \$876,141, which is primarily funded by real property and sales tax, and water rents.

The Village provides water to 398 residential and commercial customers in the Village, as well as 85 consumers in the Town of Urbana. Water customers are charged for actual water use based on quarterly meter readings collected by Village employees. The meter readings are downloaded into the billing software by the Clerk-Treasurer, who is responsible for all aspects of billing, collecting, and recording water rents. The Village reported revenue from water rents (user charges) totaling \$226,603¹ in the 2010-11 fiscal year.

Objective

The objective of our audit was to determine whether the Village accurately billed and collected water rents from customers. Our audit addressed the following related question:

- Has the Village accurately billed and collected rents from water customers?

Scope and Methodology

Our overall goal was to assess whether Village officials safeguarded Village assets. To accomplish this, we performed an initial assessment of Village operations 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 oversight, 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 water rents receivable area and, therefore, we examined billing and collecting of water rents for the period March 1, 2010 to September 30, 2011.

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 Approximately \$1,500 was attributed to late fees.

**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 generally 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 of Trustees to make this plan available for public review in the Clerk's office.

Water Billings and Collections

The Board and Village officials are responsible for ensuring that water user charges are properly billed, collected, and recorded in a timely manner. To determine whether water billings were accurately billed and collected, we used the billing rates and delinquent fees established by the Board, and Village Code (Code) as criteria. The Village charges customers a one-time late fee when an account goes 30-days past due.² The Code allows for the shut off of water to delinquent customers after 60 days in arrears. The Board also adopted shut off and reconnect fees.³

We conducted various tests of water billings charged to customers located within the Village and the Town of Urbana. We randomly selected and reviewed the water billings and collections for 46 accounts per quarter, for the quarters June 2010 and September 2011,⁴ for accuracy and completeness. We did not find material exceptions. We also reviewed the delinquent customer reports for July 2010 and April 2011, and randomly selected 20 customers to determine if the customers were appropriately charged the one-time late fees and if these fees were collected. All customers in arrears were appropriately charged these late fees. These fees produced approximately \$1,500 in revenue for the Village for the 2010-11 fiscal year.

We found that the Village continued to provide water service to delinquent water customers and did not shut them off for non-payment after 60 days. For example, as of September 14, 2011 (six months into the fiscal year), the Village had 45 (12 percent) delinquent water customers, with unpaid water rents totaling \$4,465, that should have been shut off from water service based on the Code. As of February 8, 2012, 12 of the 45 customers were still delinquent, and the Village had to re-levy these unpaid water rents totaling almost \$1,550 on the 2012-13 real property tax bills.

This occurred because the Board did not enforce compliance with the shut off provision of the Code. In our discussions with Village officials, they provided us with three reasons why enforcement of shut

² Customers are charged a late fee which is 5 percent of the 30-day outstanding balance.

³ \$25 for shut off and an additional \$25 for reconnection

⁴ See Appendix B, Audit Methodology and Standards, for details on our sample selection.

off provision was not practical.⁵ Because the Board does not wish to routinely use shutoffs to enforce payment, it should update the Code to change the current late fee to formalize its policy. For example, prior to January 10, 1995, the late fee was 10 percent after 30 days, with an additional 5 percent after 60 days. If the Board reinstated this approach, the Board could alleviate its concerns about shutting off a customer's water while still increasing revenue and the incentive to pay in a timely manner. Any amount still unpaid could be enforced by levy on the tax roll.

Further, the Village does not have individual contracts with 11 water customers located in the Town of Urbana (Town). These customers are not in one of the Town's two water districts and, therefore, the Village does not have the power to re-levy delinquent charges on the tax roll. Instead, the Village would have to go to civil court to collect delinquent payments. Contracts should be used to clearly define the rights and responsibilities of both parties, including the Village's right to enforce payment. For example, the contract could make provisions for shut off and penalties for late payment and could require the outside users to pay a deposit, make a minimum payment in advance, or pay a reasonable collection charge to cover costs that are collected by means of a civil suit. The absence of such contracts could lead to misunderstandings between the Village and the water customers and could complicate and make more expensive collection efforts.

Recommendations

1. The Board should adopt measures to increase the incentive to pay water bills in a timely manner.
2. The Board should enter into contracts for water service with the individual customers located outside the Village.

⁵ Village officials were concerned that the cost to the Village of sending personnel to shut off and then turn on the water service would nullify the gain from the fee; the process can be ponderous because it requires bills to be delinquent 60 days, and the owner of record and any occupants be served with notice of shutoff 15 days prior to shutting off water service; and the elderly's or children's health and safety could be affected.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



March 29, 2012

Edward V. Grant, Jr., Chief Examiner
Division of Local Government
The Powers Building
16 West Main Street, Suite 522
Rochester, NY 14614

Dear Mr. Grant:

This letter is in response to the preliminary draft findings of your recent audit of the village of Hammondsport water billings and collections. The findings propose two recommendations to the Village Board.

The Board should adopt measures to increase the incentive to pay water bills in a timely manner. The Board should enter into contracts for water service with individual customers located outside the Village.

The village board agrees with the findings of the audit and will work to initiate corrective actions.

The Village Board has developed a Water Billing Policy and Procedure Manual to address the procedures to go along with water shutoffs and the levying of unpaid water rents. This policy has been reviewed by the board and will be adopted at the April 10, 2012 board meeting.

The Board is currently working with the Town of Urbana to place all water customers outside the Village in a Water District.

Sincerely,

A handwritten signature in cursive script that reads "Emery V. Cummings, Jr." is written over the typed name.

Emery V. Cummings, Jr.
Mayor

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 oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

During the initial assessment, we interviewed appropriate Village officials, performed limited tests of transactions and reviewed pertinent documents, such as Village policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the Village's financial transactions as recorded in its databases. Further, we reviewed the Village's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

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. 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 then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected the billing of water rents for further audit testing. We performed the following steps in answering our audit objective:

- We interviewed Village officials and reviewed Village Code to determine how delinquent customer accounts are turned off and how late fees are applied. We determined if there is one set of written policies that should be followed. We also documented the process for reading meters, entering readings into the computer, billing, collecting, and depositing.
- We selected a biased judgmental sample of two quarterly billing reports using the first and last billing cycles in our scope period. We selected June 2010 and September 2011 for our test months. We then used a random sample generator to select 48 customers from each billing cycle to test. Since the number of customers may change from year to year, the 48 customers selected from June 2010 did not match the 48 selected from September 2011. Once selected, we listed each customer by customer number, documented the water consumption per meter readings, documented the amount billed per master bill, and then calculated what the payment should have been based on the water rates at the time. We also traced the customer payments to the customer accounts, deposit listing, and the deposit slips to the bank statements.
- Using reports obtained from the Village for July 2010 and April 2011 showing late fees assessed, we obtained a random sample of late fees by customer (generated by a random sample generator). Late fees were assessed at 5 percent of the amount due after 30 days of initial billing, and we calculated the amount of proper late fees to be assessed on each of the sample customers.

- We obtained a listing of Village employees and officials, scanned the water billing reports already obtained above, and scheduled out all Village employees who were reported on the water billing reports and anyone who appeared to be a family member (same last name). We then recalculated the billing based on meter readings, determined if the bills were calculated correctly based on water rates, determined the payment date, and traced to duplicate deposit tickets on the bank statements to determine if the money was properly collected and deposited.
- We conducted a review of available policies and local laws and interviewed local officials to determine the policy for terminating a customer's service. We reviewed an aged receivables report as of September 2011 and determined how many customers were eligible for shut off per the Village's policy. We also determined how many of those eligible customers had shut off action taken against them. We scheduled out 100 percent of all customers who were more than 60 days past due as of September 1, 2011, and determined the amount owed, shut off and reconnection fees applicable, and if action has been taken on the account to date.
- We reviewed meter reading reports for June 2010 and September 2011 (chosen because they were the first and last bill in our scope period). We identified and scheduled all adjustments that were made, determined if they were explained on the reports, and determined if there was annotated approval from someone independent of the water billing process.
- We obtained a listing of unpaid water rents at the end of the 2010-11 fiscal year levied on the Village's tax roll. We interviewed the Village Clerk and Village Mayor to determine the policy for collecting these rents and re-levying them on the Village's tax roll, consistent with statutory provisions. We reviewed the list and traced it to the tax levy to verify that the unpaid rents were actually re-levied on the tax roll.
- We obtained a listing of unpaid water rents for the 2011-12 fiscal year to be levied on the Village's tax roll and compared the account numbers to the list of delinquent customers at September 1, 2011, to determine if customers were still delinquent.

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.

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