



Village of Orchard Park Water Operations

Report of Examination

Period Covered:

January 1, 2008 — November 3, 2011

2011M-276



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
WATER ACCOUNTABILITY	5
Recommendations	6
APPENDIX A Response From Local Officials	7
APPENDIX B Audit Methodology and Standards	9
APPENDIX C How to Obtain Additional Copies of the Report	10
APPENDIX D Local Regional Office Listing	11

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 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 Orchard Park, entitled Water Operations. 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 Orchard Park (Village) is located in the Town of Orchard Park in Erie County, has a population of approximately 3,300, and encompasses almost three square miles. The Village is governed by a Board of Trustees (Board) which comprises four elected Trustees and an elected Mayor. The Board is responsible for the general management and control of Village finances. For the fiscal year ended May 31, 2011, general fund operating expenditures totaled \$922,000.

The Village purchases water from the Erie County Water Authority (ECWA), which it distributes to 1,065 customers. The Village Department of Public Works oversees water operations, which includes general maintenance and meter reading. The Village uses an electronic meter reader system to capture customer usage. Meter readings are uploaded to the Village accounting system and water bills are generated quarterly. Three employees are responsible for collecting water rents and one of them, a part-time employee, inputs payments collected into the accounting system.

Objective

The objective of our audit was to review the Village's water operations. Our audit addressed the following related question:

- Did the Village account for water properly and bill water charges completely and accurately?

Scope and Methodology

We examined various records and documents pertaining to the Village's water operations for the period January 1, 2008 through November 3, 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.

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 the findings and recommendations and indicated they would 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 Village Clerk/Treasurer's office.

Water Accountability

Village officials have a responsibility to control water operation costs. In order to fulfill this responsibility, it is essential that officials track this resource throughout the system and identify issues needing attention, particularly large volumes of unaccounted-for water. The Village’s unaccounted-for water is the difference between the amount of water purchased from the ECWA and the amount of water billed to customers. This could include losses from customer meter under-registration, unmetered usage, accounting errors, illegal connections and leaks. Municipal usage that is often unmetered may include water for firefighting and flushing the water or sewer system. A large volume of unaccounted-for water is a warning sign of potentially significant problems. The United States Environmental Protection Agency (EPA) has established an industry goal of 10 percent for unaccounted-for water.

Unaccounted-For Water – We performed a reconciliation of water purchased to water billed and found that the Village had unaccounted-for losses significantly higher than the EPA goal of 10 percent. Table 1 details unaccounted-for water over the last four calendar years.

Year	Water Purchased (Gallons)	Water Billed (Gallons)	Difference (Gallons)	Difference (Percentage)
2008	106,800,000	87,913,000	18,887,000	18%
2009	126,387,000	84,614,000	41,773,000	33%
2010	115,908,000	85,685,000	30,223,000	26%
2011 ^a	81,739,000	67,407,000	14,332,000	18%
Total	430,834,000	325,619,000	105,215,000	

^a Includes the first three quarters only

The Village Clerk/Treasurer reconciles the total amount of water purchased to the amount of water billed to its customers. The Director of Public Works, Clerk/Treasurer, and the Mayor all indicated that the water system is old and water leaks often occur during the winter months. Village officials indicated that a significant portion of the water loss was due to leaks and that the Village periodically has the system tested for leaks. The Village is a member of an association that provides a free leak detection service to its members. The Village used the service twice during 2010 and found leaks that were subsequently repaired. However, the Director of Public Works also indicated that some water leaks are difficult to identify and locate.

During the four year period reviewed, water losses totaled more than 105 million gallons. Using an average of \$2.23 per thousand gallons paid to the ECWA, we estimate the cost associated with this water loss is approximately \$235,000. It is also possible that a portion of the unaccounted-for water is due to inaccurate meters or customers not being properly billed. As such, the Village may be missing an opportunity to collect additional water user charges. For perspective, at a rate of \$5.00 per thousand gallons billed to customers, 105 million gallons of water represents \$526,000 in potential revenue.

Customer Accounts – We performed various procedures¹ to ensure that water charges were accurate and complete. Overall we found that customers were accurately and completely billed, and water charges were properly collected.

Each quarter the Deputy Village Clerk/Treasurer compares individual customer meter readings with each account’s average prior water usage for reasonableness. Village officials also annually compare the electronic readings to manual readings taken by each customer and reported to the Village, and investigate significant variances. However, Village officials do not periodically inspect meters for damage or tampering or determine whether there were illegal hook ups. The Village also does not have procedures in place to ensure that all water users were billed. For example, Village officials could compare the tax roll to the water bill report to determine if all users are being billed.

Recommendations

1. Village officials should identify and correct potential causes for unaccounted-for water in a timely manner.
2. Village officials should periodically inspect meters for damage or tampering and establish procedures to ensure any illegal hookups are detected and appropriately addressed in a timely manner.

¹ Refer to Appendix B for a description of our audit procedures.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

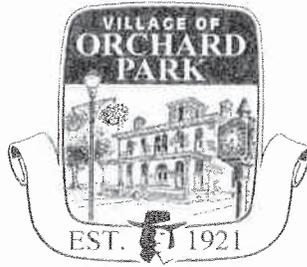
The local officials' response to this audit can be found on the following page.

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February 13, 2012

Office of the State Comptroller
Division of Local Government & School Accountability
Robert Meller, Chief Examiner
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Dear Mr. Meller:

At a work session on February 13, 2012, the Village Board of Orchard Park discussed the Comptroller's Draft Audit Report, entitled Village of Orchard Park Water Operations. We are pleased with the audit report following our discussion. The Village Board is aware that there are some physical deficiencies within our water system. Prior to the audit by Office of the State Comptroller, we had begun investigating a course of action to rectify the known deficiencies

The presence and demeanor of our auditor, [REDACTED], was pleasant, helpful and professional.

We look forward to the issuance of the final report and will respond with a corrective action plan to resolve the identified issues.

Sincerely,



John B. Wilson
Mayor
Village of Orchard Park

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the Village's water operations. To achieve our objective, we performed the following procedures:

- We interviewed appropriate Village officials and personnel to gain an understanding of Village water operations.
- We compared the amount of water purchased to the amount of water billed using Village records and invoices from the ECWA to determine whether the Village has properly accounted for water purchased.
- We compared the amount of unaccounted-for water to standards for water loss within municipal systems as established by the EPA.
- We analyzed Village financial records to ascertain whether water revenue and expenditure fluctuations corresponded with water purchased and water sold.
- We reviewed a recent quarterly bill report to identify charges that were inconsistent with established rates.
- We interviewed Village officials to determine whether any entities were exempted from water user charges.
- Using a non-biased judgmental process, we selected 120 parcels from the 2011 tax roll and traced to the water bill register report to ensure all water users were receiving bills for usage.
- Using a biased judgmental process, we selected 11 employees and Board trustees to ensure that they were accurately and completely billed for water usage.
- We traced meter readings for all 17 manual reading water accounts in two quarters to the water bill register report to ensure that the meter readings were correctly input, water usage was correctly calculated, and they were accurately billed.
- We tested all water payments received in the first half of September 2011 to ensure that payments received were properly recorded and collected.

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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