



# Village of Whitehall

## Financial Condition and Water Accountability

### Report of Examination

Period Covered:

June 1, 2008 — May 31, 2011

2011M-237



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

March 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 Whitehall, entitled Financial Condition and 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*



## State of New York Office of the State Comptroller

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# EXECUTIVE SUMMARY

The Village of Whitehall (Village) is located in the Town of Whitehall in Washington County. The Village provides various services that include water and sewer services, law enforcement, general road maintenance, snow removal, and general government support.

The Village is governed by an elected Board of Trustees (Board) which is comprised of a Mayor and four trustees. The Board is responsible for the general management and control of the Village's financial affairs. The Board has the power to levy taxes on real property located in the Village and to issue debt. The Village's general fund budget for 2011-12 was \$1.8 million.

The Clerk-Treasurer is responsible for preparing, maintaining, and reporting all necessary financial information. The Superintendent of Public Works is responsible for the daily operation of the water treatment plant, including oversight of the water processing and distribution procedures.

### **Scope and Objectives**

The objectives of our audit were to review the financial condition of the Village's water and sewer funds and assess its water accountability for the period of June 1, 2008, to May 31, 2011. Our audit addressed the following related questions:

- Does the Board adopt realistic budgets, routinely monitor financial operations, and take appropriate actions to maintain the Village's financial stability?
- Can the Village achieve cost savings by reducing unaccounted for water to acceptable industry standard levels?

### **Audit Results**

The Village's financial condition is precarious. We found that water and sewer rates are not sufficient to support operating costs. In recent years both funds were dependent on loans from other funds, including the general fund. The water fund is currently unable to repay these loans. The financial condition of the general fund may become stressed in future years if the water and sewer funds are unable to repay the general fund. Additionally, the general fund's ability to make additional loans to the water and sewer funds in the future may be limited by the cap on property taxes.<sup>1</sup>

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<sup>1</sup> In 2011 the State passed legislation to limit the real property tax levies of local governments, commonly known as the Tax Cap.

We found that Village officials did not have effective procedures for accounting for its water. They did not reconcile the amount of water processed and consumed, compare water usage to industry standards, or determine the reasons for unaccounted for water. Further, the master meter was not periodically checked or recalibrated to ensure its accuracy. The Village could not account for at least 148 million gallons, or 55 percent of the water it processed in 2010. This was substantially more than the Federal Environmental Protection Agency (EPA) accepted standard loss rate of 10 percent. We estimate the cost to process and distribute the Village's unaccounted for water to be as much as \$97,000 to \$129,000 annually.<sup>2</sup>

### **Comments of Local Officials**

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.

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<sup>2</sup> The \$97,000 figure is based on a 55 percent water loss and the \$129,000 figure is based on a 73 percent water loss.

# Introduction

## Background

The Village of Whitehall (Village) is located in the Town of Whitehall in Washington County. According to the 2010 United States Census data, the Village had approximately 2,600 residents living within an area of about 4.7 square miles. The Village provides various services to its residents including water and sewer services, law enforcement, general road maintenance, snow removal, and general government support.

The Village is governed by an elected Board of Trustees (Board) which is comprised of a Mayor and four trustees. The Board is responsible for the general management and control of the Village's financial affairs. The Board has the power to levy taxes on real property located in the Village and to issue debt. The Village's general fund budget for the 2011-12 fiscal year was \$1.8 million.

The Village provides water to approximately 1,220 consumers including residents, commercial businesses, municipal buildings, schools, and other consumers in the Village and a small number of consumers outside the Village in the Towns of Whitehall and Dresden. The Village also provides waste water treatment services for consumers within the Village. In the 2011-12 fiscal year, the water and sewer budgets were approximately \$418,750 and \$468,550, respectively.

The Superintendent of Public Works is responsible for the daily operation of the water treatment plant, and oversight of water processing and distribution. The Clerk-Treasurer is responsible for preparing, maintaining, and reporting all necessary financial information.

## Objectives

The objectives of our audit were to review the financial condition of the Village's water and sewer funds and assess its water accountability. Our audit addressed the following related questions:

- Does the Board adopt realistic budgets, routinely monitor financial operations, and take appropriate actions to maintain the Village's financial stability?
- Can the Village achieve cost savings by reducing unaccounted for water to acceptable industry standard levels?

## Scope and Methodology

We examined the Village's financial operations and water accountability for the period June 1, 2008, to May 31, 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 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 to make this plan available for public review in the Village Clerk's office.

## Financial Condition

The Board is responsible for adopting realistic budgets and setting user fees for services that will maintain a positive financial condition for the Village. To promote a positive financial condition, it is essential that the user fees charged for water and sewer services adequately cover the expenses associated with producing and delivering services to users. During the fiscal year, it is important for Village officials to periodically review financial reports to determine how well the funds are operating in relation to the parameters set by the adopted budget.

Additionally, Village officials must ensure that the level of fund balance – i.e., the accumulated difference between revenues and expenditures from prior years – is sufficient to provide available cash to pay vendors and employees throughout the year. A deficit fund balance may indicate that the municipality is not generating sufficient revenues to pay its operating expenses, and leaves no moneys available for contingencies. Furthermore, the Board must ensure that amounts loaned to the water and sewer funds from other funds are repaid as soon as the funds become available. The Board's financial plan must include provisions for repaying such loans in a timely manner to avoid placing an undue burden on the funds loaning the moneys.

The Village's financial condition is precarious. We found that water and sewer rates are not sufficient to support operating costs. In recent years both funds were dependent on loans from other funds, including the general fund. The water and sewer funds are currently unable to repay these loans. If the water and sewer funds are unable to repay the general fund, it is likely that the financial condition of the general fund will become stressed in future years. Additionally, the ability of the general fund to make additional loans to the water and sewer funds in the future will be limited by the cap on property taxes.<sup>3</sup>

### Water and Sewer Funds

The Village charges fees for water and sewer services based on water usage. The Village recently completed a meter replacement program and constructed a new water treatment plant which began operating in 2008. It is important that the Board structures the user fees for water and sewer services to ensure that they adequately cover the operating costs in each fund.

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<sup>3</sup> In 2011 the State passed legislation to limit the real property tax levies of local governments, commonly known as the Tax Cap.

Water Fund – We found that, even though the Board increased water rates in recent years, the user charges for water did not adequately cover the costs of providing services to residents. For the fiscal years ended May 31, 2008 through May 31, 2011, metered water sales increased approximately 17 percent each year. However, the water fund still experienced operating deficits for three of the four years. The Village’s \$62,274 operating surplus in fiscal year 2009-10 mainly resulted from the sale of timber. Annual operating results for the water fund are shown in the following table.

<b>Table 1: Water Fund – Results of Operations</b>				
	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>
Metered Water Sales	\$212,504	\$248,755	\$295,844	\$341,944
Other Revenues	\$34,318	\$57,901	\$124,406 <sup>a</sup>	\$65,256 <sup>b</sup>
Total Revenues	\$246,822	\$306,656	\$420,250	\$407,200
Less: Total Expenses:	\$263,465	\$333,273	\$357,976	\$414,471 <sup>c</sup>
Operating Surplus (Deficit)	(\$16,643)	(\$26,617)	\$62,274	(\$7,271)
<b>Unreserved, Unappropriated Fund Balance at Year End</b>	<b>(\$27,013)</b>	<b>(\$53,630)</b>	<b>\$8,644</b>	<b>\$1,373</b>

<sup>a</sup> Includes revenue of \$48,264 from the sale of timber  
<sup>b</sup> Includes one-time revenue of \$14,842 from the sale of real property  
<sup>c</sup> This does not include \$200,000 principal on debt for water capital project that was paid by the general fund.

In September 2010, the Village issued \$7.7 million in bonds for a water project with annual principal payments of \$258,437. In the 2010-11 fiscal year, the Board elected to budget and pay for \$58,437 of the principal on this debt in the water fund and budget and pay for the remaining \$200,000 principal in the general fund so that it could be paid for by taxes rather than user charges. While Village water debt can be paid for with real property taxes, splitting the debt payment between the two funds distorts the cost of water operations as compared to its operating revenues.

Sewer Fund – Although the sewer fund experienced operating surpluses for 2009-10 and 2010-11, the fund still could not afford to repay \$231,000 that it owed to other funds on May 31, 2011. Additionally, the future financial condition of the sewer fund is uncertain because the Village is having difficulty financing mandatory sewer improvements.

The Village is under a Consent Decree from the New York State Department of Environmental Conservation (DEC) to reconstruct the

Village's sewer system to reduce infiltration and inflow. The original project, as estimated in 2009, was for three phases totaling \$25 million dollars, which was beyond the Village's financial ability. In July 2011 the Village developed a revised plan to complete phase I, estimated to cost \$4.8 million, by December 31, 2013. The remainder of the work will be broken up into several smaller projects that will be easier to finance. The Village obtained a \$2.1 million bond anticipation note for phase I leaving approximately \$2.7 million still to be financed. The Village is currently working with the Environmental Facilities Corporation to obtain funding for the project. As of the end of our fieldwork, the Village had not obtained any additional funding.<sup>4</sup>

Long-Term Capital Plan – The Trustees did not establish a long-term capital plan for the improvement and replacement of water and sewer infrastructure and treatment plants. In addition to the required upgrades to the sewer infrastructure, many of the Village water mains date to the early 1900s and need to be replaced. Without a long-term capital plan, the Village may be unable to replace the existing aging infrastructure or perform routine maintenance when necessary. For example, the water treatment plant uses 68 filters with a current replacement cost of \$3,000 per filter and an estimated life of 20 years. The Village is currently into the fourth year of the life of each filter. Village officials have not established a plan of action to finance the replacement of these filters.<sup>5</sup>

## **Interfund Advances**

General Municipal Law states that moneys advanced between funds are to be repaid as soon as the funds become available, but in no event later than the close of the fiscal year in which the advance was made. While the use of interfund advances is a permissible form of short-term borrowing to meet current cash flow needs, it is not intended to be used as a long-term approach to provide financial resources from one fund to another operating fund.

Village officials loaned moneys from the general, capital project and community development funds to the water and sewer funds throughout our audit period. These loans were not repaid by the close of the fiscal years ending May 31, 2009, 2010 and 2011. As of May 31, 2011, the Village's financial records showed interfund loan and cash balances as follows:

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<sup>4</sup> As of December 22, 2011, the Village had not secured additional funding.

<sup>5</sup> All 68 filters will not have to be replaced in one year. The filters can be replaced over a number of years. However, the filters must be replaced in blocks of 17 with each block costing \$51,000 (17 times \$3,000). This is more than 10 percent of a typical year's water budget.

**Table 2: Interfund Loans as of May 31, 2011**

<b>Fund</b>	<b>Interfund Loan Receivable</b>	<b>Interfund Loan Payable</b>	<b>Net Receivable or (Payable)</b>	<b>Available Cash</b>	<b>Available Cash Plus Current Receivable</b>
Water	\$81	\$453,423	(\$453,342)	\$13,408	(\$439,934)
Sewer	\$5,525	\$231,281	(\$225,756)	\$21,510	(\$204,246)
General	\$368,495	\$32,599	\$335,896	\$161,702	\$497,598
Capital Project	\$303,202	\$0	\$303,202	\$157,161	\$460,363
Community Development	\$40,000	\$0	\$40,000	\$175,679	\$215,679
<b>Total</b>	<b>\$717,303</b>	<b>\$717,303</b>	<b>0</b>	<b>\$529,460</b>	<b>\$529,460</b>

As shown in the table, the water fund cannot repay the loans it has received from other funds because its revenues have been insufficient to cover the cost of providing services and its available cash and other assets are not adequate to meet its obligation to the other funds. The sewer fund also had insufficient cash available to repay its advances, and mandatory upgrades to the system make it probable that it will have to borrow again in the near future.

In addition, the outstanding loans from the general fund to the water and sewer funds impair the general fund's financial condition. As of May 31, 2011, \$368,495 of the \$484,955 unappropriated general fund balance was offset by a significant interfund loan receivable balance, leaving only \$116,460 of fund balance for general fund operations. With the 2 percent cap on the property tax levy going into effect for the 2012-13 fiscal year, the general fund may not be able to continue to finance deficits in the water and sewer funds.

## Recommendations

1. The Board should establish user rates for water and sewer that are sufficient to finance water and sewer fund operations.
2. Village officials should develop a plan to address the long-term infrastructure improvements to the water and sewer systems.
3. The Board should continue to aggressively pursue grant and financing opportunities to pay for the improvements to the sewer system.
4. The Board and Village officials should develop a comprehensive plan to ensure that all outstanding interfund advances are repaid, and future interfund loans should be repaid no later than the close of the fiscal year in which the advance was made.

## Water Accountability

Unaccounted for water is the difference between the amount of water processed and the amount of water billed to customers and used for other known purposes during a given period. Unaccounted for water can result from inaccurate or incomplete recordkeeping, meter errors, unmetered uses (such as water for firefighting, line flushing, public buildings, and wastewater treatment plants), leaks, and unauthorized use.

The quantity of water and revenue lost from a water distribution system will vary depending upon how well the system is operated and maintained. The industry goal of 10 percent for unaccounted for water is established by the Federal Environmental Protection Agency (EPA) and supported by the DEC. Unaccounted for water results in a production expense for the water district for which there is no revenue. An effective water accounting system provides for the tracking of use throughout the distribution system and the identification of areas that may need attention.

The Village prepares annual water reports that include the total amount of processed water and the total metered water.<sup>6</sup> The annual water reports are submitted to the Department of Health and available to the public. In 2008, the Village opened a new water treatment plant, replaced the service meters for the residential and commercial users, and began using a computerized system for collecting meter readings.

We found that Village officials did track water loss by recording the amount of water processed and metered. However, they did not prepare formal reconciliations comparing the amount of water processed to the amount metered and an estimate of amounts used for other known purposes.<sup>7</sup> This type of reconciliation would have allowed Village officials to determine the causes of the water loss, compare the rate of loss to industry standards, and give them the opportunity to address the causes.

For the calendar year 2010, the Village reported that it processed 277 million gallons of water and billed metered customers for 75 million gallons. Therefore, the metered use only accounted for 27 percent of the total water the Village processed while 73 percent, nearly 202 million gallons, was unaccounted for. Furthermore, the Village's

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<sup>6</sup> These reports are prepared on a calendar year basis.

<sup>7</sup> The estimated amounts used for other known purposes should include amounts used for firefighting and firefighter training, and flushing hydrants and water mains.

recent annual water reports indicate that the unaccounted for water has increased from 62 percent in 2007 to 73 percent in 2010.

<b>Gallons of Water</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Produced	212,200,000	250,000,000	260,000,000	277,311,000
Metered	81,546,574	90,155,000	75,788,352	75,311,769
Unaccounted for	130,653,426	159,845,000	184,211,648	201,999,231
Unaccounted for Percentage	62%	64%	71%	73%

The Village did not estimate the amount of water that may have been used for appropriate purposes like firefighting, firefighter training, and flushing hydrants and water mains. However, the 2010 annual water report indicated that a significant percentage of the loss was due to leaks from water mains and laterals in the distribution system. Additionally, the Superintendent of Public Works told us that the master meter at the water treatment plant has not been checked since the plant became operational in 2008. The DEC recommends that master meters be checked annually, especially considering that master meters may over-register water by as much as 25 percent due to improper setting, sizing or gearing, poor water quality, reading errors, or air or jetting action.<sup>8</sup>

After our inquiries, the Superintendent of Public Works prepared an estimate of the water used for unmetered activities such as firefighting and hydrant flushes, and unmetered use at the water treatment plant along with an estimate of leaks. Even after taking these estimates into consideration, the Village still could not account for about 55 percent of water it produced, which is substantially higher than the EPA industry standard of 10 percent.

In 2009, the Village hired an outside consultant to perform a leak survey that identified several leaks in the Village's 90- to 100-year old infrastructure. The Village repaired these leaks over a two-year period between 2009 and 2011. However, these actions did not result in a decrease in the amount of water that was unaccounted for. Village officials did not calculate the cost of the unaccounted for water because they were uncertain of how much of the unaccounted for water is the result of inaccurate metering. Village officials indicated that they intend to have the master meter checked and recalibrated if necessary.<sup>9</sup> They also plan to further search for potential leaks. We

<sup>8</sup> If we adjust the processed amount for the maximum 25 percent error rate, unaccounted for water was still 64 percent in 2010.

<sup>9</sup> The Village Clerk confirmed that the master meter was checked and recalibrated on September 8, 2011. The meter had been running 2 percent too fast. The recalibration corrected this problem.

estimate the cost to process and distribute the Village's unaccounted for water to be as much as \$97,000 to \$129,000 annually.<sup>10</sup>

## **Recommendations**

5. The Village should develop procedures for determining water accountability that include the periodic reconciliation of the water produced to metered and unmetered water.
6. The Village should investigate and correct the reasons for unaccounted for water, including inaccurate metering and significant leaks.
7. The Village should work towards meeting the industry standard for unaccounted for water.

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<sup>10</sup> The \$97,000 figure is based on a 55 percent water loss and the \$129,000 figure is based on a 73 percent water loss.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

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



P.O. Box 207  
1 Saunders Street  
Whitehall, New York 12887  
(518) 499-0871 Fax (518) 499-1120

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Peter J. Telisky  
Mayor

March 01, 2012



Division of Local Government and School Accountability  
Office of the State Comptroller  
One Broad Street  
Glens Falls, NY 12801



Enclosed please find the villages response to the current Comptroller's Audit. We appreciate the assistance your office has provided to the village. If you need anything further you can contact either the Village Clerk Stephanie LaChapelle or the Mayor Peter Telisky at 518-499-0871.

Respectfully,

Julie Van Guilder  
Deputy Village Clerk

Village of Whitehall  
1 Saunders Street  
Whitehall, New York

**In response the Village of Whitehall Board of Trustees respectfully submits:**

Materially we concur with the findings of the Comptroller and appreciate the emphasis the finding place on the current fiscal condition of the Village. In some respects we are pleased that the awareness of our current state of affairs has now been highlighted. We are hopeful that this will underscore for State and Federal agencies the complication of imposing any further unfunded major projects on the community.

We have and continue to feel that the Village is in a very precarious and fragile financial position. Further mandates could dramatically exacerbate this situation and potentially have catastrophic effects on the entirety of the community and its citizens.

We feel that the multiple recommendations, included in this audit, have been made in an effort to help current and future Village Board members better plan future responses to ongoing issues. In addition the findings should strengthen the Village's position as we continue to seek financial assistance as well as support to help us make needed improvements in the areas of water purification and distribution and waste treatment.

In as far as addressing the ongoing upgrading to the Village's water and wastewater systems we state in earnest that the community and its leaders are committed to the concept of a safe and healthy environment. We will do, within our means, everything possible to reach this goal. What we cannot do is continue to incur exorbitant amounts of debt. The Village has and continues to seek out aid to help address these critical and important problems.

The Village of Whitehall Board of Trustees is aware of the many problems delineated in the attached audit report and have been working diligently towards a solution. The complexity of the matter lies in the reality that the Village water system and sewer system are, for the most part, in excess of 90 years old. The second condition that makes any rapid remediation of the problem extremely difficult is the overall financial condition of the community.

While the audit specifically addresses problems in the water fund the entire financial condition of the Village is precarious at best. A series of mandates as well as increasing costs and a declining tax base has caused the community to experience the highest overall tax rate for any village in Washington County, New York. Compounding the problem is the fact that the population of the community has also been declining over the past several years. In addition there are significant numbers of senior citizens as well as low to moderate income families that are currently struggling to maintain their homes in light of the Village's heavy tax burden, which includes fees charged for water and sewer usage, Village tax, Town tax, School tax, and County tax. It could very well be observed that in some instances the cost per month in fees and taxes is larger than some mortgages on homes (based on average home costs in the community).

## Specifics for Consideration:

- Leak detection surveys:

Multiple surveys completed by the Village, using professional services, resulted in finds that indicate no significant leakage is occurring. Over a several year period of time the Village has employed multiple agencies to assist in leak detection. While considerable numbers of small events were in fact detected no one major source of water loss was found.

*Corrective actions, based on finds during the detection survey, were taken in the form of repair and replacement of indicated failed lines.*

*Professional engineering services have been employed by the Village to further investigate this situation.*

- Line replacement projects:

The Village has completed and is in the process of engineering major water infrastructure repair projects. The most recent of which involve the total replacement of approximately seven thousand feet of antiquated and failing main water pipes along the Village's Route 4 and 22 corridor. Additional work was done on the intake line which delivers raw water to the Village's treatment plant (3500 feet of century old waterline was replaced). An additional project is planned for spring of 2012 to replace several hundred feet of line north of the village (an area that has been identified as in most need of repair).

- Possible loss of water through un-metered sources:

The Village has reason to believe that some of the water loss may be a result of water meter bypass at various locations. Using information from the leak detection surveys the Village DPW will investigate several areas within the village that are suspect of taking un-metered water from the system.

The Village recently purchased of a strap on water meter which will allow the DPW to perform spot detections on flows. This in conjunction with service water meter readings will provide the necessary data to allow accurate analysis of expected flows to suspect areas.

- Water bleed off:

The Village maintains several bleed points throughout our system. These points are placed in strategic locations on Village water lines that are dead ended. This is done to insure that sedimentation will not occur and to assure that water quality standards are met. Closely monitoring these particular points will allow the Village to obtain better estimates on the amount of water lost through bleed off.

*An electric flow regulator and timer is currently in place on one of the dead end points. The Village designed this device for this specific purpose and is currently monitoring its operation. If this action proves to be effective additional timers will be installed which will assist in limiting loss of water by way of bleed off.*

*The Village is also considering installing line loops where possible to eliminate dead end water services.*

- Revenues gained through forest management and harvesting:  
The Village of Whitehall owns a substantial parcel of land in the Town of Dresden, NY (approximately 3000 acres). This land is the location of the Village's water shed and reservoir. For many years the Village has used the revenues from selective harvesting of timber from this track of land to assist in offsetting cost of operation of the Village's water treatment and distribution system. To insure the continued success of this program the community employs the services of a professional forester to supervise a sustainable management program.

- Debt service for major projects paid from revenues taken in through property taxation:  
The Village has in the past and continues to look for the most economic way to pay and maintain its debts. On occasions Village Officials have selected to pay certain portions of project expenses for both water and sewer using revenues collected in the general fund as opposed to raising user fees. This method spreads the cost for large projects in a way that makes it equitable and manageable. All users / owners of the system pay a proportionate part of the expense based on property value as opposed to water usage. User fees are then collected to offset the costs of day to day operations. On occasion, and due to extraordinary events, it becomes necessary to draw from all Village resources in seeking a responsible solution to resolve financial strains experienced by a particular Village department.

To distribute the cost fairly users outside the Village limits are assessed additional fees to compensate for costs which cannot be recovered through property taxation.

In addition, property taxes for some residents are income tax deductible whereas user fees are not.

**Remedy:**

In order to better clarify department funding derived from other sources the following practices will be implemented.

It has been and continues to be the goal of the Village fiscal officers to provide complete transparency in all Village activities. In order to better maintain this goal the Village will modify its accounting system to reflect when out of department funding has been used in a manner as described above. Each department's budget will clearly indicate the source of all costs associated with the operation and maintenance of that department which are funded through other Village revenue streams.

- Addressing future capital projects associated with the operation and maintenance of the Village of Whitehall Water Purification Plant:

A capital reserve fund has been established to insure adequate funding is available for future upgrades and repairs to the Village's water plant. An initial deposit of fifteen thousand dollars into this account was recently authorized and directed by the Village Board of Trustees. Additional monies will be appropriated each year during budget.

*This reserve fund was initially established to purchase filtration cylinders which have an expected fifteen year life cycle. The expense for the replacement of these filters is substantial (in the order of \$200,000.00).*

- Purchase of Pump / Vac Truck:

The Village Board of Trustees recently authorized the purchase of a commercial pump truck. This purchase allowed the Village to redirect funds, on the order of five hundred thousand dollars, towards future replacement of antiquated water lines. These monies were initially earmarked to install mandated drying beds at the Village's water treatment facility located in the neighboring community of Dresden, NY. The truck fulfilled this requirement by allowing the Village to transport sludge, derived from the water treatment process, to a dewatering and drying facility already owned and operated by the Village. In addition to this one time savings the Village also avoided an increase in property tax owed to Dresden.

- Flow Meter Calibration:

The Village will, on a biannual basis, have its distribution water flow meters calibrated. This will insure the accuracy of data collected from these devices. A recent calibration was done by Burch Schoenenberger indicating the devices were registering accurately (within allowable perimeters). Some reprogramming of the outflow meter was performed as specified by the manufacturer.

- Slowly increasing user fees:

As evidenced by the Village's 2011-2012 budget the Village Board of Trustees is adjusting user fees for water and sewer to better reflect actual cost of operation and maintenance.

*User fees are being increased at a gradual rate to lessen initial impact.*

- Supportive Documentation is available upon request from the Village Clerk.

Village of Whitehall  
1 Saunders Street  
Whitehall, NY 12887  
(518)-499-2484

Respectfully Submitted,



Peter J. Telisky - Mayor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

The Village was selected for audit based on an initial review of financial data that found the Village's financial condition was precarious. While reviewing the factors of the water fund revenues, we found that the Village was experiencing a significant amount of unaccounted for water.

To review the Village's financial condition, we performed the following steps:

- We interviewed officials to gain an understanding of the Village's budget process and financial accounting system.
- We reviewed the results of operations and determined their impact on fund balances.
- We assessed the composition of significant balance sheet accounts.
- We reviewed the Village's periodic financial reports.
- We reviewed budgets to determine if they were reasonable and structurally balanced.
- We analyzed interfund borrowings.
- We reviewed water and sewer fees to determine if they adequately covered the cost of operations.
- We reviewed the Village's periodic financial reports, budget amendments, and meeting minutes.
- We reviewed the increase in the tax levy for recent years.
- We tested the reliability of the data maintained on the accounting system.

To review the Village's system for water accountability, we performed the following steps:

- We reviewed the Village's system for determining water accountability for the period January 1, 2010 through December 31, 2010.
- We interviewed officials to gain an understanding of the procedures for tracking produced and metered water.
- We reviewed the Village's monthly records of produced water to verify the amount included on the annual report.
- We reviewed the Village's billing records to verify the amount of metered water.

- We calculated unmetered water for municipal uses based on the Village's estimates of usage and estimated leaks.
- We calculated the unaccounted for water based on the Village's records of produced water, metered water, and estimates of unmetered water for municipal uses and leaks.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX C

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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Steven J. Hancox, Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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