



Village of Forestville

Water Fund

Report of Examination

Period Covered:

June 1, 2010 — July 31, 2012

2012M-207



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2013

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 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 Forestville, entitled Water Fund. 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

EXECUTIVE SUMMARY

The Village of Forestville (Village) is located in the Town of Hanover in Chautauqua County and has a population of 697 residents as of the 2010 census. The Village is governed by an elected Board of Trustees (Board) which consists of a Mayor and four Trustees. The Board is responsible for the general management and control of the Village's financial affairs including the establishment of water rates and preparing the annual budget.

The Board, along with the Clerk-Treasurer, is responsible for establishing proper internal controls that effectively safeguard Village assets. The Clerk-Treasurer, as chief fiscal officer, is responsible for the proper maintenance of all accounting records and reports, as well as overseeing the day-to-day operations of her office, which include generating water bills, collecting payments, and maintaining water customer accounts. The Clerk-Treasurer supervises a Deputy Clerk-Treasurer who assists her with water billing and collections.

Scope and Objective

The objective of our audit was to review the financial management of the water fund and the adequacy of the Village's controls over the billing and collection process for the period June 1, 2010 through July 31, 2012. We extended our review of financial management back to June 1, 2006. Our audit addressed the following related questions:

- Did the Board adopt realistic water fund budgets and establish appropriate user rates?
- Are there adequate internal controls over water billings and collections, and is related financial activity appropriately recorded in the financial records?

Audit Results

The Board authorized substantial improvements to the Village's water system and obtained funding for the project from the New York State Environmental Facilities Corporation without first identifying a plan to pay for the related debt. Although the Board raised water rates five times¹ starting in June 2007, it did not establish a reserve to set aside any of these resources to fund project costs or the debt service payments that are expected to begin in the Village's 2013-14 fiscal year. We also found that the Clerk-Treasurer's records for the water fund were inaccurate, and misrepresented the fund's financial condition. The Clerk-Treasurer improperly reported certain project expenditures in the operating fund,

¹ The rate increase for Village residents over this period was 233 percent.

making operating costs appear higher than they should have been. The Board prepared annual budgets based on this incorrect data.

It appears that the Village will have sufficient resources for its first debt payment due in 2013-14. However, based on our analysis, the rate increases appear inadequate to finance debt service payments on a continuing basis. It is essential that the Board properly plan for and record the costs of managing the Village's water operations so it can report accurate information to taxpayers and ensure the Village has adequate resources to finance the water fund's operations, as well as its annual debt service costs. The Village hired an external accounting firm during 2012 to temporarily perform bookkeeping functions and to prepare the Village's 2011-12 annual report.

We also found that the Board did not establish policies or procedures for the billing and collection of water charges, and failed to properly segregate the duties of the Clerk-Treasurer or implement compensating controls, such as an annual Board audit of the Clerk-Treasurer's records. Consequently, the Clerk-Treasurer makes billing adjustments with no oversight, applies penalties inconsistently, and fails to enforce billings through shut-offs for non-payment. In addition, we found that the Clerk-Treasurer did not include all unpaid water bills and fees on the tax roll for the 2012-13 fiscal year. Further, the Clerk-Treasurer did not maintain the general ledger in a timely manner. As a result, the Board lacks assurance that all water customers are paying the appropriate amount due.

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 have initiated or plan to initiate corrective action.

Introduction

Background

The Village of Forestville (Village) is located in the Town of Hanover in Chautauqua County and has a population of 697 residents, according to 2010 census data. The Village is governed by an elected Board of Trustees (Board), which consists of a Mayor and four Trustees. The Board is responsible for the general management and control of the Village's financial affairs, including the establishment of water rates and preparing the annual budget. An appointed Clerk-Treasurer serves as the Village's chief fiscal officer.

The Board, along with the Clerk-Treasurer, is responsible for establishing proper internal controls that effectively safeguard Village assets. The Clerk-Treasurer is responsible for the proper maintenance of all accounting records and reports, and for overseeing the day-to-day operations of her office, which include generating water bills, collecting payments and maintaining customer water accounts. The Clerk-Treasurer supervises a Deputy Clerk-Treasurer (Deputy), who assists with water billing and collection activities.

The Village provides various services to its residents including the maintenance of roads, snow removal, water, and general government support. General fund and water fund appropriations for the 2012-13 fiscal year totaled \$345,800 and \$152,940, respectively.

In March 2007, after the Village experienced a water emergency, the Board authorized improvements to the Village's water transmission facilities. This capital project included new wells, new lines, and new meters. The \$5.7 million project, which is now underway, will be funded through a no-interest loan (\$3.7 million) and with grant monies (\$2 million) from the New York State Environmental Facilities Corporation (EFC). Approximately \$500,000 of the total amount is for the installation of an electronic metered billing and collection system.²

The Village bills approximately 380 customers³ on a bi-annual basis. Currently, nearly all customers are billed a flat rate for water usage.⁴ Over a five-year period beginning June 1, 2007, the Village has increased the residential water rates for Village users by 233 percent. Estimated revenues from water sales for the 2012-13 fiscal year are \$125,000.

² The Village awarded the meter installation contract in March 2009. Although the majority of meters were in place as of March 2010, they were not yet being used for billing purposes at the time of our audit.

³ Including approximately 40 customers who live outside the Village limits

⁴ Five are billed based on meter readings at a metered rate.

Objective

The objective of our audit was to review the financial management of the water fund and the adequacy of the Village's controls over the billing and collection process. Our audit addressed the following related questions:

- Did the Board adopt realistic water fund budgets and establish appropriate user rates?
- Are there adequate internal controls over water billings and collections, and is related financial activity appropriately recorded in the financial records?

Scope and Methodology

We examined the financial management of the water fund and internal controls over the water billing and collection system of the Village of Forestville for the period June 1, 2010 to July 31, 2012. We extended our review of relevant records and reports for financial management of the water fund back to June 1, 2006 to include the impact of water rate increases.

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 have initiated or plan 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 Village Board to make this plan available for public review in the Clerk-Treasurer's office.

Financial Management

The Board is responsible for properly managing Village operations, and for informing Village residents about how their taxes and water fees are used. The Board can accomplish these goals by preparing realistic and accurate budgets, keeping accurate records, and planning for the financing of capital projects.

We found that the Board authorized substantial improvements to the Village's water system, and obtained funding for the project from the EFC, without identifying a plan to pay for the related debt. Although the Board raised water rates five times⁵ starting in June 2007, it did not establish a reserve to set aside any of these resources to fund debt service payments that are expected to begin in the Village's 2013-14 fiscal year. We also found that the Clerk-Treasurer's records for the water fund were inaccurate, and misrepresented the fund's financial condition. The Clerk-Treasurer improperly reported certain project expenditures in the operating fund, making operating costs appear higher than they should have been. The Board prepared annual budgets based on this incorrect data.

According to Board members, they initially increased water rates based on their assumption⁶ that rates needed to be raised to obtain EFC funding, and not based on any analyses of the new water system project cost. According to the Clerk-Treasurer, a portion of any surpluses created by the rate increases was intended to fund capital and debt service reserves. However, while the Board did raise water rates for domestic Village water users by a total of 233 percent since June 2007, it did not establish a reserve for capital project costs or future debt service payments. Further, it did not determine what future rate increases may be necessary to generate sufficient revenue for operating costs and future debt service payments.

It appears that the Village will have sufficient resources for its first debt payment due in 2013-14. However, based on our analysis, the rate increases appear inadequate to finance debt service payments on a continuing basis. It is essential that the Board properly plan for and

⁵ Rates for all users (Village and outside Village) increased in June 2007 by 33 percent, in December 2007 by 25 percent, in June 2009 by 10 percent, in December 2009 by between 5 and 200 percent, and in December 2011 by between 10 and 23 percent. The rate increase for domestic Village users over this period was 233 percent.

⁶ EFC, the project funding source, supplied the Village with information that showed the typical annual service charge per dwelling unit (based on comparable sized units with similar systems). However, raising water rates was not a requirement to receive project funding.

record the costs of managing the Village's water operations so it can report accurate information to taxpayers and ensure that the Village has adequate resources to finance the water fund's operations, as well as its annual debt service costs.

Budget Preparation and Financial Reporting – The Board is responsible for adopting budgets based on realistic estimates of revenues and expenditures, and for using unexpended surplus funds when appropriate. The Board must have accurate information about total operating revenues and expenditures so it can properly monitor the financial condition of the water fund. To properly fund water operations, the Board must determine if revenues are sufficient to pay the costs necessary to properly operate and maintain the facilities and service lines, as well as to finance debt service costs as they become due.

We found that the Board did not have accurate data necessary to prepare realistic operating budgets for the water fund, or to assess its financial condition. The Board relies on the Clerk-Treasurer to provide the necessary information to prepare the annual operating budget. However, the Clerk-Treasurer did not provide Village officials with complete and accurate historical data and projections on which to estimate revenues and appropriations. The Clerk-Treasurer did not properly record certain costs associated with the capital project; instead, she included project expenditures with operating expenditures, which resulted in overstated actual operating expenditures that exceeded budgeted appropriations (see Table 1). Board members were unaware of the fact that reported operating expenditures over the five-year period ending May 31, 2011,⁷ included certain water project expenditures. Our revised figures (See Table 2), which properly excluded project expenditures, show that the water fund had a net operating surplus of \$78,646 for this period, rather than \$5,732 as stated in the Village's figures.

Table 1: Water Fund Operations – Village Reported					
	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Budgeted Revenues ^a	\$58,000	\$91,500	\$100,000	\$108,000	\$107,300
Actual Revenues	\$57,447	\$103,190	\$111,898	\$187,383	\$127,317
Over/(Under) Budget	(\$553)	\$11,690	\$11,898	\$79,383	\$20,017
Budgeted Appropriations	\$82,000	\$91,500	\$100,000	\$138,000	\$137,154
Actual Expenditures	\$110,708	\$110,002	\$83,269	\$166,631	\$110,893
(Over)/Under Budget	(\$28,708)	(\$18,502)	\$16,731	(\$28,631)	\$26,261
Operating Surplus/(Deficit)	(\$53,261)	(\$6,812)	\$28,629	\$20,752	\$16,424
^{a)} Fund balance was appropriated in 2006-07 (\$24,000), 2009-10 (\$30,000) and 2010-11 (\$29,854).					

⁷ As of November 2012, the financial information for the 2011-12 fiscal year was not complete.

Table 2: Water Fund Operations – OSC^a Adjusted					
	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Budgeted Revenues ^b	\$58,000	\$91,500	\$100,000	\$108,000	\$107,300
Actual Revenues	\$57,447	\$103,190	\$111,898	\$137,314	\$141,311
Over/(Under) Budget	(\$553)	\$11,690	\$11,898	\$29,314	\$34,011
Budgeted Appropriations	\$82,000	\$91,500	\$100,000	\$138,000	\$137,154
Actual Expenditures	\$64,483	\$86,582	\$71,108	\$146,246	\$104,095
(Over)/Under Budget	\$17,517	\$4,918	\$28,892	(\$8,246)	\$33,059
Operating Surplus/(Deficit)	(\$7,036)	\$16,608	\$40,790	(\$8,932)	\$37,216
^{a)} Office of the State Comptroller ^{b)} Fund balance was appropriated in 2006-07 (\$24,000), 2009-10 (\$30,000) and 2010-11 (\$29,854).					

Based on available information, we identified discrepancies between the reported actual revenues and expenditures. For example, there was no supporting documentation for \$51,718⁸ of the \$187,383 reported as revenue in fiscal year 2009-10.⁹ According to the Clerk-Treasurer, she incorrectly reported project expenditures in the operating fund in the prior year, and then recorded this amount as a refund of prior year expenditures.

Errors in fund recordkeeping and budgeting carried over to the Village’s calculation of fund balance and the Board’s assessment of the water fund’s financial condition. In addition to discrepancies caused by misstatements of operating surplus (or deficit), we also found that the Clerk-Treasurer had made two unsupported adjustments to increase fund balance, which were identified as prior period adjustments. According to the Clerk-Treasurer, she made the adjustment in the 2010-11 fiscal year (\$156,731) to refund the operating fund for capital project expenditures paid for with operating fund moneys.¹⁰ However, the Clerk-Treasurer had no documentation to show how she arrived at this adjustment. The Clerk-Treasurer told us that she had also adjusted fund balance in the 2009-10 fiscal year (\$44,749) to account for project expenditures, even though she had already corrected the fund balance figure in the 2008-09 annual report.

Table 3 shows the fund balance in the water fund for the five years ended May 31, 2011, as reported by the Village. Table 4 shows our

⁸ The remaining difference of \$1,649 was due to various revenue recording errors.

⁹ According to the Clerk-Treasurer, she incorrectly reported the revenue, Refund of Prior Period Expenditures, when attempting to adjust out project expenditures recorded in the operating fund as a refund of prior year expenditures.

¹⁰ Since we did not include project costs in our reported expenditures, we did not include this or any other prior period adjustments. Further, the adjustment noted in fiscal year 2009-10 was actually corrected in the 2008-09 annual report. The Clerk-Treasurer could provide no explanation as to why she included the adjustment to fund balance in the subsequent year.

restatement of fund balance after making corrections for improperly reported capital project activity and unsupported adjustments of fund balance.

Table 3: Water Fund Balance – Village Reported					
	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Beginning Fund Balance	\$84,675	\$31,414	\$24,602	\$53,231	\$118,732
Prior Period Adjustment	\$0	\$0	\$0	\$44,749	\$156,731
Restated Beginning Fund Balance	\$84,675	\$31,414	\$24,602	\$97,980	\$275,463
Operating Surplus/(Deficit)	(\$53,261)	(\$6,812)	\$28,629	\$20,752	\$16,424
Year End Fund Balance	\$31,414	\$24,602	\$53,231	\$118,732	\$291,887
Less: Appropriated Unexpended Surplus	\$0	\$0	\$30,000	\$29,854	\$22,600
Unexpended Surplus Funds	\$31,414	\$24,602	\$23,231	\$88,878	\$269,287

Table 4: Water Fund Balance – OSC Calculated					
	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Beginning Fund Balance	\$84,675	\$77,639	\$94,247	\$135,037	\$126,105
Operating Surplus/(Deficit)	(\$7,036)	\$16,608	\$40,790	(\$8,932)	\$37,216
Year End Fund Balance	\$77,639	\$94,247	\$135,037	\$126,105	\$163,321
Less: Appropriated Unexpended Surplus	\$0	\$0	\$30,000	\$29,854	\$22,600
Unexpended Surplus Funds	\$77,639	\$94,247	\$105,037	\$96,251	\$140,721

Because of the reporting inaccuracies, neither the Clerk-Treasurer nor the Board was aware of the water fund's actual operating results and its overall financial condition. Further, given these inaccuracies, the Board was unable to gauge the impact of recent rate increases on the financial position of the water fund, or to determine if the rates were sufficient to meet the fund's operational and debt service needs. In fact, even though revenues increased significantly during this period, the under-estimation of budgeted revenue and the inaccurate operating results data may have prompted the Board to appropriate fund balance for the ensuing year's budget in the last three fiscal years to balance the budget. The Village hired an external accounting firm during 2012 to temporarily perform bookkeeping functions and to prepare the Village's 2011-12 annual report. We obtained a preliminary report from the accounting firm for the 2011-12 fiscal year that identified total water fund revenue of approximately \$133,000 and total expenditures of approximately \$106,000.

If the current water rates remain unchanged and expenditures remain at similar levels, we estimate the water fund will have an operating

deficit of approximately \$96,000 for the 2013-14 fiscal year.¹¹ The initial debt service payment of \$123,000 will be payable in that year. Although the Village should be able to make the payment by using unexpended surplus funds, it is substantial in relation to the water fund's operating budget. It is essential that the Board develop a multiyear plan that includes the future financing of the water fund's debt service obligations, verify the adequacy of water rates to pay for operations and the debt, and consider establishing reserves to set aside resources for future capital and repair costs for the water system. The Board should share this plan with Village residents to keep them informed about the financing of water operations and capital projects.

Recommendations

1. The Clerk-Treasurer should provide complete and accurate historical data, including actual operating revenues and expenditures to date, to assist in preparing the water fund operating budget. The Clerk-Treasurer should maintain separate records for project expenditures.
2. The Board and Village officials should review and revise water rates to ensure they generate sufficient revenue to cover appropriations, and establish reserves to set aside an appropriate portion of revenue from rate increases to pay for future debt service costs.
3. The Board should develop a multiyear capital plan that states how it intends to generate and use water fund operating surpluses and how it plans to pay for project-related debt and any additional capital projects.

¹¹ Based on similar results of operations as during the 2011-12 fiscal year, less debt service of approximately \$123,000, which assumes a 30-year maturity. As of the conclusion of our fieldwork, it was expected that the closing for the bonds will occur in March 2013.

Billing and Collection

The Board is responsible for establishing an internal control system that provides reasonable assurance that all water charges are correctly billed, collected and deposited, that adjustments to customer bills are documented and authorized, and that all accounts are properly enforced. The Board is also responsible for implementing controls that provide an adequate segregation of financial duties and appropriate oversight. The Clerk-Treasurer should ensure that records and reports are complete and accurate.

The Board has not established adequate policies or procedures for the billing and collection of water charges. The Board did not properly segregate the duties of the Clerk-Treasurer or implement compensating controls, such as a monthly review or an annual audit of the Clerk-Treasurer's records. Because the Clerk-Treasurer bills, collects, records, deposits, and makes adjustments with no oversight, errors have occurred and not been corrected. For example, our tests identified under-billings of about \$1,964 and net overbillings of about \$1,188. Further, we found that the Clerk-Treasurer did not properly include all unpaid water bills and fees on the tax roll for the 2012-13 fiscal year. Finally, the Clerk-Treasurer did not accurately maintain the general ledger. Due to inadequate internal controls, the Board lacks assurance that all water customers are paying the appropriate amount due, in a timely manner, and that the records accurately reflect the results of water operations. Poor records also inhibit the Village's ability to correctly file its required Annual Update Document (AUD), and the Board's ability to make well-informed financial management decisions.

Segregation of Duties – Proper segregation of duties ensures that no one person controls all phases of a transaction, and provides for the work of one employee to be verified by another employee in the course of his or her duties. Having the same person (or persons) perform all the key duties for a transaction (i.e., accounting records maintenance, cash custody, and reconciliations) with little or no oversight weakens internal controls and significantly increases the risk that errors and/or irregularities might occur and go undetected. If it is not feasible to segregate duties, the Board must institute compensating controls, such as mandating that receivable control accounts be maintained and enhanced management oversight.

The Clerk-Treasurer and the Deputy have both taken responsibility for entering customer information in a spreadsheet used to prepare water bills, record payments, and make adjustments to customers'

bills (e.g., pro-rating charges for partial period service). The Board has not provided for acceptable duty segregation by assigning functions between these two individuals, so that one person could verify the work of the other, or for a Board member to review billings. No individual, such as a Board member or other Village official, approves adjustments made to the individual customer accounts on the spreadsheet or bills. Further, the Village has not established an accounts receivable control account for the water fund to help track billings, adjustments and payments made.

Without adequate segregation of duties, there is a significantly higher risk that errors could occur and go undetected. Errors did occur, as described below. We attribute the relatively high error rate we found, in part, to the Board's failure to properly segregate financial duties or provide for Board review of water billing and collection as a compensating control.

Billing and Collection Records – The Board establishes water rates which are used to bill residents a flat fee on a bi-annual basis. A Board-adopted local law also requires that customers who wish to discontinue service must give notice at the Clerk-Treasurer's office and will be charged for water service until the date notice is given.

We reviewed 46 randomly selected customer accounts from both the June 2011 and March 2012¹² billing registers¹³ to determine if billed amounts were accurate, if payments were accurately posted to individual accounts, and if deposits were properly and timely deposited.

We found that 29 of the 92 billing records (32 percent) contained recording or billing errors. Twenty customer payments were not accurately posted to the detail records (i.e., wrong amount or date of payment); nine customers' accounts were not billed in the correct amount, resulting in a net overbilling of \$1,188. Of these nine accounts, three were under-billed because customer accounts were marked "off" (meaning that water service was turned off), even though there was no supporting documentation to show that service had actually been shut off.

We then tested 38 other customers accounts¹⁴ that were marked as "off" on the June 2011 and March 2012 billing registers. We found

¹² Bills are typically sent in June and December but were sent out late for the December 2011 billing.

¹³ The 46 customer accounts from June 2011 and the same 46 customer accounts from March 2012 total 92 billing/collections.

¹⁴ Seven of these customers appeared as off on both the June 2011 and March 2012 billing periods.

evidence that service was disconnected for 20 customers. Of the remaining 18 customers, seven actually made payments totaling \$987,¹⁵ indicating that these customers did receive, and were billed for, services during these periods. There was no documentation to show that the Village had disconnected services for the remaining 11 customers, whose billings would have totaled \$1,964.¹⁶ Village officials indicated that customers contact them to discontinue service. However, the Village does not require that water department personnel document the date of customer contact and the date that services are shut off. Unless the Village documents this information in the customer accounts, it has no assurance that customers are not continuing to use water without paying for it.

Our review of eight deposits of customer payments made between February 2011 and July 2012 found that these deposits were made timely and intact, with no material discrepancies.

Enforcement – Residents are allowed a 30-day payment period, after which a 10 percent penalty is assessed on the unpaid amounts. Accounts unpaid after 60 days are charged an additional 5 percent late payment penalty. We reviewed daily collection reports for billings in June 2011 and March 2012 to determine if customers who paid after the 30-day penalty-free period were charged the appropriate penalty. We found that 19 customers were not charged a penalty, or not charged the correct penalty, resulting in a loss of \$334 in revenue.

According to local law, overdue amounts remaining unpaid at the time Village taxes are levied in May are to be added to the annual real property tax roll for the ensuing fiscal year. Any unpaid Village taxes, including these relieved water charges, are guaranteed by the County and are paid to the Village before the end of the fiscal year.

The Clerk-Treasurer prepares the list of unpaid water accounts to be added to the real property tax roll and no one verifies her list. We reviewed the May 2012 relevy list, which included 59 customer accounts in all. We found that 39 customer accounts were correctly listed. Of the 20 accounts with errors, we determined the following:

- Nine accounts had errors totaling \$24.
- Six accounts had unpaid amounts added to the wrong parcel.
- Five accounts, totaling \$570, were not delinquent and should not have been included on the list.

¹⁵ One of these customers was pro-rated for the period.

¹⁶ Three of these customers received pro-rated bills but there was nothing in writing showing when they restarted or discontinued service.

We also found that the Clerk-Treasurer does not ensure that she includes all unpaid water bills and fees on the tax roll. For example, an additional 17 accounts, totaling \$1,394, which were not on the list, should have been included because the customers' payments were delinquent. Without properly enforcing unpaid accounts, the Board cannot ensure that the water fund is receiving all moneys due in a timely manner.

In addition, we found that the Village continued to provide water service to delinquent water customers and did not shut their services off for non-payment after 60 days, as allowed by local law. For example, all 39 delinquent water customers who paid their delinquent water rents totaling \$8,908 after the 60-day period had elapsed should have had their water services shut off and been assessed a services turn-off/on fee of \$40. Had the Village shut off these services, it could have collected an additional \$1,560 in fees.

Village officials stated the primary reason they do not shut off water is that the County guarantees the payment of unpaid water bills that are relieved on the tax roll. However, this guarantee does not extend to unpaid customer accounts of users outside the Village. We found that delinquent accounts from six users outside the Village totaled an additional \$1,682 as of May 31, 2012. Since the Village cannot relevy these unpaid accounts on its tax roll,¹⁷ it should have enforced payment of these overdue accounts by shutting off service.

Maintenance of Records – The maintenance of a water rents receivable control account helps to ensure that all activity posted to individual customer accounts is summarized and captured for recording purposes within the operating funds. The control account should be periodically reconciled to individual customer account records, with any differences being investigated and promptly addressed. Any adjustments to the individual customer accounts should be reviewed for approval by someone other than the individual making the adjustments.

The Clerk-Treasurer did not maintain a control account for water receivables during the year. Moreover, general ledgers and general journals for fiscal years 2009-10 and 2010-11 were not completed until June 2012, and 2011-12 fiscal year ledgers had not been started as of June 2012. We compared billings to the available ledgers and journals¹⁸ and found errors and questionable journal entries. For example, we compared 2010-11 reported water fund revenues with revenues recorded in the ledger and found that the 2010-11 ledger actually reflected the prior year's (2009-10) revenues, with

¹⁷ No indication a town water district was established by the town

¹⁸ We limited our review to the water fund reports.

the exception of billed revenues, and that revenue for June 2010 water sales was understated by \$3,452. In addition, water sales were underreported on the 2010-11 AUD by \$12,719.

Without complete, accurate and timely records, the Board may be relying on inaccurate information to make financial management decisions.

Recommendations

4. The Board should establish policies and procedures for the billing and collection of water charges.
5. The Board should segregate the water billing and collection duties or implement compensating controls, such as routine management oversight activities.
6. The Board or other Village officials should review and approve any water billing adjustments before they are made.
7. The Clerk-Treasurer should ensure that all penalties are applied to delinquent water bills.
8. The Board should develop policies that require the Clerk-Treasurer to document all customer requests for discontinuance of services, ensure that water department personnel promptly shut off services, and record the shut-off date in the customer accounts.
9. The Board should verify that the list of unpaid water rents is complete and accurate prior to relevy on the tax roll.
10. The Board should ensure that all shut off policies are being enforced, and assess a services turn-off/on fee on all customers who pay delinquent accounts after 60 days.
11. The Clerk-Treasurer should establish and maintain an accounts receivables control account.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Village of Forestville
18 Chestnut Street
Forestville, NY 14062
Phone: 965-2921
Fax: 965-2600

February 5, 2012

Office of the State Comptroller
Robert Meller, Chief Examiner
295 Main Street, Room 1032
Buffalo, NY 14203-2510

Dear Mr. Meller,

The Village of Forestville is in receipt of the Office of the State Comptroller's audit of the Village of Forestville for the period of June 1, 2010 through July 31, 2012. We are writing to provide you with our reaction to the findings contained in your report, and will submit our Corrective Action Plan at a later date.

The Office of the State Comptroller's audit focused on the operations and recordkeeping of the Village of Forestville's Water and Capital Project Funds. The Village agrees with and appreciates the auditor's findings regarding the procedures utilized in the financial management of our Water and Capital Projects Funds. The Village realizes that some internal control procedures were not in place, and has engaged with an outside accounting firm to alleviate those control issues. We plan to implement improved controls over our billing and collection procedures, and will address those and other issues further in our Corrective Action Plan. We also agree with your recommendations regarding budgeting and capital planning, and will seek assistance with these matters from the outside accounting firm as well. In regards to the auditor's findings related to prior fund balances, the former Village Clerk/Treasurer had contacted the Office of the State Comptroller in the past for assistance in calculating fund balances, and preparation of the Annual Update Documents. She submitted the Annual Update Documents based in part upon recommendations and guidance that she received from the Office of the State Comptroller at that time.

Once again, we are thankful for the recommendations made in the audit report, and detailed responses will be forthcoming in our Corrective Action Plan.

Sincerely,

Katherine Bowker
Mayor, Village of Forestville

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by Village 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 condition, cash receipts and disbursements, Clerk-Treasurer's records and reports, purchasing and claims processing, 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 Board minutes, bank statements, and available financial records.

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 on the reported objective and scope by selecting for audit those areas most at risk.

The objective of our audit was to determine if Village officials are providing adequate financial management over the water fund and to ensure that all the money owed to the Village for water services was properly billed, collected, and accounted for. To accomplish the objective of this audit and obtain valid audit evidence, our audit procedures included the following steps:

Financial Condition

- We reviewed the minutes of the Board meetings from June 1, 2006 through May 7, 2012 to determine how and on what basis the current water rates were established, and if they were reviewed annually and revised if needed.
- We interviewed appropriate Village officials regarding the establishment of rates and to determine if a multiyear financial plan had been established.
- We obtained various records and reports including adopted budgets, abstracts, invoices, bank statements, general ledgers and general journals, and project expense summary reports.
- We interviewed appropriate Village officials to gain an understanding of the budget development process for the water fund.
- We analyzed budgeted and actual revenues for fiscal years 2007 through 2011 as reported on the Village's AUDs to determine if the estimates were realistic.
- We analyzed actual revenues and expenditures for fiscal years 2007 through 2011 reported on the Village's AUDs to determine if there were operating deficits/surpluses.

- We analyzed the fund balances for the water fund for fiscal years 2007 through 2011 reported on the Village's AUDs to determine if they were accurate.
- We reviewed expenditures for fiscal years 2007 through 2011 to determine if operating and capital expenditures were segregated and properly reported.
- We interviewed appropriate Village officials and consultants (e.g. legal, engineering and financial) to determine the impact the ongoing water capital project has had on the water fund's financial condition.

Billing and Collection

- We reviewed available policies and local laws and interviewed local officials to determine the policy for assignment of late fees and for terminating a customer's service.
- We obtained and reviewed various records and reports including billing registers, daily collection reports, unpaid (relevey) lists, copies of bills (stubs), bank statements, meter readings, and tax rolls.
- We selected a random sample from the June 2011 and March 2012 billing reports and performed the following tests: were amounts billed accurately based on water rate schedules at the time of billing; were payments posted to individual accounts and recorded on the daily collection report; were payments included in the corresponding deposits; and were penalties correctly applied. In addition, we also selected a focused sample, including Village employees, of accounts that were recorded as "off" on the billing register and those billed at other than the flat rate.
- We compared the June 2011 tax roll to the March 2012 billing register to determine if parcels listed on the tax roll agreed with the billing register.
- We verified the accuracy of the May 2012 delinquent water list (relevey list) by comparing June 2011 and March 2012 billing registers against recorded payments on the daily collection report. We traced the recorded payments to the payment stubs and check copies. We also traced the Village's delinquent list to the June 2012 tax roll to verify that amounts were correctly releved on the tax bills.
- We reviewed the June 2011 and March 2012 billing registers and documented those accounts that were listed as "off" (no bill received) and interviewed the Deputy Clerk-Treasurer and the Working Supervisor to determine if service had been shut off. For those accounts where officials could not verify that the service had been terminated, we calculated the amount that should have been billed.
- Using the daily collection reports from June 1, 2011 to June 1, 2012, we documented any payments that were made after 60 days to determine if shut off procedures were enforced. For those accounts that were not shut off, we calculated the amount of lost revenue based on the current turn-on/off fee.

- Using the daily collection reports from June 1, 2011 to June 1, 2012, we documented any customers that did not pay a penalty after the penalty free period and calculated the amount of penalty that should have been applied.

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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