



Village of Middleport

Water and Sewer Rents

Report of Examination

Period Covered:

April 18, 2012 — October 3, 2013

2013M-313



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2014

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 Middleport, entitled Water and Sewer Rents. 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 Middleport (Village) is located in Niagara County and has approximately 1,840 residents. The Village provides various services to residents, including street repair, plowing, sewer, police and fire protection, and general government support. The Village also provides water services to 655 residential and commercial customers. Budgeted appropriations for the general, water and sewer funds in the 2013-14 fiscal year total \$1.7 million, to be funded primarily by real property taxes, sales tax, State aid and user charges.

The Village is governed by an elected Board of Trustees (Board) comprised of four Trustees and a Mayor. The Board is responsible for the general oversight of Village operations and the design and implementation of internal controls to safeguard assets from loss or misuse. The Mayor is the chief executive officer and appoints all non-elective officers, subject to Board approval, including the individual who serves as both Clerk and Treasurer (Clerk-Treasurer). The Clerk-Treasurer is the chief fiscal officer and is responsible for receiving, disbursing and having custody of Village moneys; maintaining the accounting records; and filing financial reports. She is also responsible for keeping a record of all Village resolutions and local laws and the custody of the Village's books, records, papers and all of the Board's official reports and communications. There are two deputy clerks that work in the Clerk-Treasurer's office.

Objective

The objective of our audit was to review the Village's water and sewer rent activity, and we addressed the following related question:

- Does the Clerk-Treasurer accurately and completely collect, record and deposit water and sewer rents and penalties?

Scope and Methodology

We examined water and sewer rent activity for the period April 18, 2012 through October 3, 2013.

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 C of this report.

Comments of Village 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 disagreed with the findings but indicated they would take corrective action with respect to the recommendations. Appendix B includes our comments on issues raised in the Village's response.

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 Clerk-Treasurer's office.

Water and Sewer Rents

The Clerk-Treasurer is responsible for ensuring that all water and sewer rents are correctly billed, collected, recorded and deposited and that adjustments to customer bills are properly authorized by the Board and documented. The Clerk-Treasurer should maintain complete, accurate and timely accounting records, and reconcile bank accounts with recorded cash activity on a monthly basis. Cash and checks should be deposited intact, that is, in the same form and amount as received, and within 10 days of receipt, as required by the Village Law.

Overall we found that the Clerk-Treasurer properly billed, collected and deposited water and sewer rents. However, she did not maintain timely, complete and accurate records. In addition, we found significant control deficiencies.

We reviewed eight credit adjustments totaling \$516 from individual customer accounts and found that none of these adjustments were properly authorized by the Board and only two had been sufficiently documented as to the rationale for the adjustments. While the Mayor indicated that the Board authorized one adjustment for \$172, it was not documented in the Board meeting minutes. According to the Clerk-Treasurer, the other adjustments were to correct errors. Additionally, we reviewed all 34 deposits¹ from the June 3, 2013 through August 30, 2013 collections totaling \$12,059 and found that all the receipts were posted as collected on the date the deposits were prepared, rather than when the payments were actually received. We also tested selected customer bills and penalty adjustments on overdue accounts and found that all were properly calculated.²

The Clerk-Treasurer uses a combination of manual records, spreadsheets with control and subsidiary accounts and a billing software application to record water and sewer financial activity. This “accounting system” did not ensure that transactions were recorded in a timely manner. Furthermore, relying on spreadsheets to serve as the primary accounting system is inherently risky in that spreadsheets do not record transaction histories and can be modified without any audit trail other than the last time the spreadsheet was saved.

We reviewed the Clerk-Treasurer’s spreadsheets and found that they were not up-to-date to reflect the Village’s current financial position. As of September 13, 2013 she had not recorded any cash receipts

¹ Seventeen water deposits and 17 sewer deposits

² See Appendix C for more information.

for the 2013-14 fiscal year, which began June 1, and the most recent recorded cash disbursements were through July 2013. We also reviewed bank statements from June 2012 through May 2013 for both the water and sewer fund accounts and found that the Clerk-Treasurer did not properly prepare bank reconciliations for either account.

We also found that any individual in the Clerk-Treasurer's office could handle all aspects of a financial transaction. The Clerk-Treasurer or either of the two deputy clerks manually prepares a daily payment sheet for all water and sewer receipts. The payment sheet, which is used to prepare bank deposits, lists the water and sewer bills, meter rent and penalties on delinquent water and sewer payments. After the deposit is prepared, whoever prepares the deposit, also records the activity in the billing software application and in a manual cash receipts journal.

These deficiencies occurred because of insufficient Board oversight. The Board did not ensure that duties in the Clerk-Treasurer's office were properly segregated. The Board also did not properly approve adjustments to water and sewer bills, and did not perform an adequate audit of the Clerk-Treasurer. While the Mayor appoints a trustee to review the Clerk-Treasurer's annual financial report, this by itself is not sufficient to fulfill the Board's responsibility to audit the Clerk-Treasurer's financial records. As of October 3, 2013, the Board had not yet audited the Clerk-Treasurer's financial records for the 2012-13 fiscal year.

The lack of segregation of duties, without compensating controls, increases the risk that errors or irregularities can occur and go undetected. The failure to formally authorize adjustments and adequately document the reasons they are made increases the risk that customers may receive adjustments to which they are not entitled or may be used to conceal the misappropriation of funds. The Board's failure to ensure that the Clerk-Treasurer properly prepares monthly bank reconciliations for Village bank accounts also increases the risk that discrepancies could occur and not be detected or resolved in a timely manner. Poor records also affect the Clerk-Treasurer's ability to file the annual financial report accurately and in a timely manner. Consequently, the Board may be relying on inaccurate information to make management decisions.

Recommendations

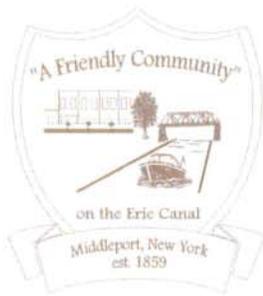
1. The Clerk-Treasurer should implement and maintain a comprehensive accounting system that provides for the integrity of financial information.
2. The Clerk-Treasurer should properly record water and sewer rents in a timely manner.

3. The Board should improve its oversight of the Clerk-Treasurer's office and ensure that incompatible duties within the Clerk-Treasurer's office are adequately segregated.
4. The Board should properly authorize billing adjustments and require written documentation of the reason(s) for the adjustments.
5. The Clerk-Treasurer should properly prepare bank reconciliations and periodically submit the bank reconciliations to the Board for its review.
6. The Board should annually audit the Clerk-Treasurer records as required.

APPENDIX A

RESPONSE FROM VILLAGE OFFICIALS

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



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Rebecca A. Hinkson
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Rebecca A. Schweigert

Police Chief
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Village Coordinator
Bryan Bobbitt

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December 30, 2013

Mr. Robert Meller
Chief Examiner, Buffalo Office
Office of the State Comptroller
Division of Local Government
& School Accountability
295 Main St., Suite 1032
Buffalo, NY 14203-2510

Re: Audit Response

Dear Mr. Meller

Please consider this to be the Village of Middleport's Audit Response to the Draft Report of Examination for Water and Sewer Rents for the period of April 18, 2012, to October 3, 2013.

The Village agrees with the conclusion that the Village Clerk properly billed, collected, and deposited water and sewer rents and appreciates the Audit Report recognizes this.

The Village does not agree that the Clerk-Treasurer's records were not complete or accurate. The overall Audit Report does not support that conclusion.

See
Note 1
Page 11

The Village agrees that procedures for timely record keeping needs to be implemented and that checks to assure that one person does not control the entire process need to (and have been) implemented.

While clerical adjustment for errors were made internally, without Board approval, all such adjustments were accurate and appropriate. Council advises there is no legal requirement for Board approval of mere clerical adjustments. Nevertheless, best practice would be to report such adjustments and obtain Board approval. This will be addressed in the Audit Response.

The Clerk-Treasurer correctly points out that while spreadsheets were not contemporaneously updated, all transactions were timely recorded by manual entries in the paper books, contemporaneously, and so there

See
Note 2
Page 11

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were up to date contemporaneous records. Improvements to Accounting Systems will be addressed in the Corrective Action Plan.

The method of bankbook reconciliation (at the end of the previous month) was a long standing practice which predated the current Clerk-Treasurer and had never been criticized in prior Audits. This will be addressed in the Corrective Action Plan.

The Board oversight of the procedures in the Clerk-Treasurer's office will be addressed in the Corrective Action Plan. However, the Audit fails to note that the Board receives and reviews the monthly Treasurer's report which indicates intake and outflows of cash as well as book balances. The Corrective Action Plan will address increased Mayor/Board oversight.

See
Note 3
Page 11

The specific recommendations, 1 through 6, will be addressed in the Corrective Action Plan. Recommendation number 6 however seems to imply that the Board does not annually Audit the Clerk-Treasurer's records. This is not accurate, as the Board does annually Audit the Clerk-Treasurer's records.

See
Note 4
Page 11

The Village appreciates the overall finding that the Village Clerk-Treasurer properly billed, collected and deposited water and sewer rents, and will timely prepare a Corrective Action Plan upon receipt of the final Audit Report.

Very truly yours,

Richard J. Westcott
Mayor, Village of Middleport

RJW/jmt

APPENDIX B

OSC COMMENTS ON THE VILLAGE'S RESPONSE

Note 1

Financial activity that is not posted in a timely manner results in financial records that are incomplete and inaccurate.

Note 2

As indicated in the audit report, the Village's combination of manual records and spreadsheets is inadequate. Furthermore, the manual records, which consist of payments sheets and receipt and disbursement journals, can easily be modified without detection and do not ensure that financial activity is recorded in a timely manner.

Note 3

We recognize that the Board receives and reviews the monthly Treasurer's report. However, since the Clerk-Treasurer was not properly preparing bank reconciliations, these reports were inaccurate and not reliable.

Note 4

As indicated in the audit report, appointing a Trustee to review the Clerk-Treasurer's annual financial report does not fulfill the Board's responsibility to audit the Clerk-Treasurer's financial records.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine whether the Clerk-Treasurer accurately and completely collects, records and deposits water and sewer rents and penalties. To accomplish this, we interviewed appropriate Village officials, tested selected records, and examined pertinent documents for the period April 18, 2012 through October 3, 2013. Our procedures included the following:

- We interviewed Village officials to gain an understanding of the internal control procedures over the billing, collecting, recording and depositing of water and sewer rents and penalties.
- We obtained and reviewed quarterly billing summaries, spreadsheets, water deposit reports, cash receipt journals, deposit compositions, bank statements, bank deposit receipts, the annual settlement with the County, meter readings, water and sewer related regulations, Board minutes and tax rolls.
- We judgmentally selected a sample of 41 properties from the 2013 tax roll and compared them to the July 2013 meter reading records and the August 2013 quarterly billing summary to ensure the properties were being billed for water. We then tested 205 bills for these 41 customers and compared meter readings to the usage billed and recalculated the bills, using Board-approved water and sewer rates.
- We analyzed the penalties assessed to nine overdue customer accounts to determine if they were properly calculated and recorded.
- We tested 32 receipts from August and September 2013 for accuracy and timeliness of entry in the accounting records.
- We compared bank deposits to various Village records to determine if the receipts were deposited timely and intact.
- We reviewed significant billing adjustments for support and proper approval.
- We compared the listing of relieved water, sewer and penalties to the tax warrant settlement with the County.

We conducted this performance audit in accordance with 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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