



Village of Rhinebeck

Water Fees

Report of Examination

Period Covered:

June 1, 2012 — June 14, 2013

2013M-311



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 Rhinebeck, entitled Water Fees. 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 Rhinebeck (Village) is located in Dutchess County and has a population of approximately 2,700. The Board of Trustees (Board) comprises four elected members and an elected Mayor. The Board is the legislative body responsible for the general management and control of Village financial affairs and provides guidance through the enactment of laws, policies and procedures. The Mayor is the Village's chief executive officer and is responsible for the general administration, coordination and supervision of Village operations.

The Village provides water to 1,623 customers located in the Town of Rhinebeck and Villages of Rhinebeck and Rhinecliff. The Village Clerk-Treasurer (Treasurer) is the chief fiscal officer and is responsible for receiving and disbursing Village money, maintaining the accounting records and filing financial reports. The Deputy Village Clerk (Clerk) is responsible for billing, collecting, recording and preparing deposits specifically for customer water fees. The Village's budgeted water fund expenditures were \$862,000 for the fiscal year ending May 31, 2013.

Objective

The objective of our audit was to examine internal controls over water fees. Our audit addressed the following related question:

- Did the Board design internal controls to ensure that water fees were properly billed, collected, recorded and deposited?

Scope and Methodology

We examined the Village's process for billing, collecting, recording and depositing water fees for the period June 1, 2012 through June 14, 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 is 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 Clerk-Treasurer's office.

Water Fees

The Board is responsible for designing adequate procedures to safeguard Village resources. Village officials are responsible for implementing the Board's directives by designing and documenting operating policies and procedures and properly delineating employee responsibilities. Such policies and procedures provide a system of internal controls over water fees to help ensure that water usage is properly billed, collected, recorded, deposited and accounted for and that adjustments to customer accounts are documented and authorized. Village officials also need to segregate duties so that no one person controls all phases of a transaction. In addition, the Board is responsible for annually auditing the Treasurer's records and reports.

The Village's internal controls over billing, collecting and enforcing water fees needs to be improved. The Clerk's duties were inadequately segregated, unpaid water bills were not accurately relieved, water bills were not prepared in accordance with the Village's local law and the Board did not approve all customer account adjustments the Clerk made in the water accounting system (system). Further, the Board did not annually audit, or cause to be audited, the Treasurer's records. As a result, there is an increased risk that the Village may not be collecting all the revenue to which it is entitled and the Board's ability to monitor the Village's water operations is diminished.

Segregation of Duties

Proper segregation of duties ensures that no one individual 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. If it is not feasible to segregate duties, Village officials should implement compensating controls, such as providing enhanced management oversight.

The Clerk is responsible for preparing water bills, collecting and recording payments in the water billing program, preparing deposits and adjusting customer water bills. Although the Treasurer recorded the Clerk's water fund activity and reconciled the water fund bank account, the information used to perform these duties was based solely on information the Clerk provided. Concentrating these duties with the Clerk (i.e., billing, collecting, recording and depositing) with little or no oversight weakens internal controls and significantly increases the risk that errors and irregularities might occur, go undetected and remain uncorrected. For example, the Clerk could make changes to an individual's water bill by adjusting the meter reading, finance charges and collection fees without prior authorization or approval.

Relevy

According to the Village's local law, overdue water accounts remaining unpaid at the time Village real property 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 relevied water fees, are guaranteed by the County and paid to the Village before the fiscal year-end.

We found that the Board did not adopt policies or clarify its local law to specify the criteria to be used for determining which accounts should be relevied. For the 2013 fiscal year, the Treasurer prepared the relevy list in the Clerk's absence. The Treasurer told us that she reviewed the accounts receivable aging report and then evaluated each customer's account based upon their payment history, the amount owed and the length of time the bill was outstanding.

We reviewed the accounts receivable aging report and found that there were 185 accounts totaling \$30,210 with balances owed as of April 30, 2013. Eighty of these accounts totaling \$15,776 were current and 105 accounts¹ totaling \$14,434 were approaching or more than 60 days past due. However, the Treasurer only relevied 10 accounts totaling \$3,567. Further, eight of these relevied accounts totaling \$1,040 were not past due. With no set criteria, the Village may have lost the opportunity to collect \$11,907 in overdue fees and may have unnecessarily relevied some customers' accounts.

Billing

The Clerk is responsible for preparing water bills in accordance with the Village's local law based on metered water consumption and the Board-established rates. The local law states that water service will be billed each quarter, while those customers whose use exceeds 50,000 gallons per month will be billed monthly. The local law further states that bills remaining unpaid for a period of 15 days from the invoice date, will incur an additional 10 percent charge. Additionally, if a bill remains unpaid for a period of 30 days from the invoice date, water service may be discontinued until the bill, together with a 10 percent charge to cover discontinuing and restoring service, is paid.

Finance Charges — Our review of how finance charges were assessed disclosed that the Clerk did not prepare bills in accordance with the Village's local law. Instead, she prepared water bills that were dated the first business day of the month and due on the 25th with a 10 percent finance charge assessed the day after the due date.² Further, the Clerk did not add the additional 10 percent finance charge once the account remained unpaid for 30 days. Instead, she charged a \$25

¹ Eleven of the 105 accounts contained both current and past due amounts.

² If the 25th falls on a weekend, the due date would be either the Friday preceding or the Monday following, depending on which day (Saturday or Sunday) the 25th fell.

collection fee which was intended to cover the cost associated with resending the bills and collection notices after accounts remained unpaid for 60 days. The Clerk stated that she was aware that the law differed from how the billing is actually prepared; however, this has been the practice since she started working for the Village.

We reviewed all 100 water accounts billed in November 2012 with balances outstanding after the due date indicating that they should be assessed finance charges. We recalculated the amounts assessed to verify if the Clerk accurately assessed these charges. Our review of these accounts disclosed that finance charges were accurately assessed.

However, our review of collection fees assessed on these past due accounts revealed that the Clerk did not consistently apply the \$25 fee. We identified five customer accounts with outstanding balances more than 60 days from the November billing due date that were not assessed the \$25 collection fee. Three of these accounts had balances of less than \$25 outstanding and the Clerk told us she does not usually charge the collection fee for customers with balances of less than \$25. The remaining two were monthly accounts for which the Clerk forgot to assess the charge that month.

Because the Clerk indicated that she forgot to assess charges on these monthly accounts, we reviewed all 49 monthly accounts billed during the 2012-13 fiscal year and found that the \$25 collection fee was not assessed on any of these accounts. We reviewed all 26 accounts that were assessed finance charges and identified 14 accounts that would most likely³ be subject to the \$25 collection fee charge. Our review disclosed that six of the 14 accounts were not assessed \$425 in collection fees, some for multiple months, resulting in 17 collection fees that were not assessed.

Although we did not assess the financial impact of assessing the \$25 late charge instead of the 10 percent penalty as part of our audit, it is likely that as a result of inconsistent billing practices and not applying the collection fees to all delinquent water accounts, the Village may not be collecting all the revenue to which it is entitled.

Adjustments — To evaluate whether customer account adjustments the Clerk made to the system were properly approved and supported we reviewed a sample of 99 adjustments totaling \$12,068 made during the eight months (June 1, 2012 through January 31, 2013) for

³ The 14 accounts were assessed finance charges for at least two consecutive months, which indicated that a payment was not received before the due date and therefore might be subject to the \$25 collection fee.

which Board minutes were available.⁴ We found that 77 adjustments totaling \$10,822 were not approved in the Board minutes; however, the Clerk-Treasurer provided supporting documentation for all but two of these adjustments totaling \$175. Without Board review and approval of all water account adjustments there is a risk that customers may receive water account adjustments to which they are not entitled.

Billing Accuracy — We reviewed 50 water bills with amounts due totaling \$4,591 from the November 2012 billing register and recalculated the amount that should have been billed using the Board-established rates. We found that all 50 were billed the appropriate amount and the billed amounts were properly recorded in the customers' individual accounts. In addition, we reviewed the billing register for negative or zero balances due and found 13 accounts totaling (\$932) in negative balances. We reviewed the individual account information for five of these 13 accounts with the highest negative dollar amounts totaling (\$750) and found that all of these account balances were correct and were the result of customer over-payments.

Collections

An effective system of internal controls over water fees helps ensure that all money is collected, deposited intact and accurately recorded. The Clerk is responsible for collecting payments mailed in to the Village in addition to accepting payments made at the Village offices. When a payment is received the Clerk should issue press-numbered receipts to provide evidence for accountability and audit.

When the Clerk received a payment, she retained the remittance stub submitted with the payment. If a remittance stub was not submitted, the Clerk wrote down the amount remitted and the customer number on a piece of scrap paper which she retained. However, neither the stubs nor the scrap paper indicated the form of payment received (i.e., cash or check) and no receipts were issued.

We reviewed all 675 payments made in November 2012 to determine if they were recorded in the system and deposited intact by obtaining deposit composition information from the Village's bank and comparing that information with the amounts remitted as recorded in the system.⁵ All 675 payments agreed with the payments recorded in the system. However, the bank deposits totaled \$94,447, while the payments recorded in the system totaled only \$92,213. This variance resulted from two receipts that were deposited in the water fund bank account that were billed through the engineering department

⁴ We selected our sample of 99 from 511 account adjustments made during our audit period. See Appendix B for information on the sample selection.

⁵ Payments received included payments on prior months' water bills.

for engineering fees associated with the extension of a water line. Although our testing did not disclose any material discrepancies, without adequate internal controls over the water fees collected, there is an increased risk that cash may be misappropriated and not detected.

Annual Audit

Village Law requires that the Board annually audit the Treasurer's financial records, or cause them to be audited by a Village officer, employee or an independent auditor. This annual accounting provides an added measure of assurance that financial records contain reliable information on which to base management decisions and gives the Board the opportunity to monitor the Village's fiscal procedures and activities. The audit also provides independent verification that the records (including those for water operations) were maintained in accordance with established procedures, transactions have been properly recorded and cash has been properly accounted for.

The Board did not annually audit, or cause to be audited, the Treasurer's financial records. The Board's failure to perform the required annual audit diminishes its ability to monitor the Village's water operations and increases the risk that errors and irregularities could occur, go undetected and remain uncorrected.

Recommendations

1. The Board should segregate the Clerk's water billing and collecting duties or implement compensating controls, such as providing routine management oversight activities.
2. The Board should establish criteria to determine which water accounts are relieved.
3. The Board should ensure that water bill finance charges are assessed in accordance with its local law, as written, or consider amending its local law to agree with the procedures that are currently in place to assess such charges.
4. The Board should approve all of the Clerk's water account adjustments.
5. The Board should require that written receipts are issued for all cash payments.
6. The Board should annually audit, or cause to be audited, the Treasurer's financial records.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

INCORPORATED



April 23, 2014

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[REDACTED]
New York State Comptrollers Office

Dear [REDACTED],

As per our phone conversation earlier today this letter will serve to inform you that the Village of Rhinebeck agrees with the findings in the draft report and we will taking steps to address your recommendations moving forward.

Best regards,

Jim Reardon

Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We assessed internal controls over the Village's water operations including billing users, collecting fees, recording transactions and depositing fees received. To accomplish our audit objective and obtain valid and relevant audit evidence, we performed the following procedures:

- We interviewed Village officials and reviewed Board minutes and relevant financial records, such as reports from the general ledger, bank statements, billing registers, meter reading reports and remittance stubs.
- We obtained the meter readings for a sample of 50 customers. We compared the amounts on the November 2012 meter reading report with the billing software and recalculated the amount of water consumed and billed using the Board-established water rates and compared it with the November 2012 billing register. We selected our sample by dividing the total population of customers by 50 and selecting every 14th bill starting at the beginning of the billing register.
- We footed the billing register for accuracy and traced each selected customer's bill to the individual customer accounts in the water billing system.
- We reviewed the November 2012 billing register for accounts with zero balances due or negative balances due. We selected the five highest negative dollar amounts for testing.
- We obtained the deposit composition information for November 2012 from the Village's bank and traced each amount received to the system and compared it with the water bills to identify any discrepancies.
- We compared the November 2012 water bill remittance stubs to the billing register to identify any changes to the system.
- We determined which accounts should have finance charges assessed by obtaining the amounts due as shown on the November 2012 billing register and eliminating any payments received before the due date. We then recalculated the finance charges for those unpaid accounts and compared our results with the amounts recorded in the system to determine if all accounts were properly charged.
- We determined which accounts should have collection fees assessed by determining which customers made payments in December 2012 to verify which accounts were still unpaid after 60 days. We then recalculated the collection fee assessed on those unpaid accounts that were assessed finance charges for at least two consecutive months. We then compared our results with the amounts recorded in the system to determine if those collection fees were properly assessed.
- We obtained the 2012-13 fiscal year relevy list, footed its accuracy and compared it with the accounts receivable aging list. We then compared the amount relevied to the 2013 real property tax roll to ensure the amounts were actually relevied.

- We obtained a list of water account adjustments and judgmentally selected a sample from the eight-month period June 1, 2012 through January 31, 2013 for which Board minutes were available. We further reduced the size of our sample by excluding new users, collection fees and owner account transitions which are part of the normal billing process. We then traced our resulting sample of adjustments to the Board minutes and accounting records and reviewed supporting documentation, where necessary.

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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