



Seneca County Water and Sewer Operations

Report of Examination

Period Covered:

January 1, 2015 — November 1, 2016

2017M-4



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2017

Dear County 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 County 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 Seneca County, entitled Water and Sewer Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State 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

Seneca County (County) is located in the Finger Lakes region in western New York, has a population of approximately 35,000 and encompasses 10 towns and four villages. The County is governed by the Board of Supervisors (Board), composed of 14 elected members, one of whom serves as the Chair. The Board is responsible for the general oversight of the County's water and sewer districts' financial affairs and for safeguarding its resources. The Chair is the chief executive officer. The County Manager, who is appointed by the Board, is responsible for the County's day-to-day management. The elected County Treasurer is the chief fiscal officer.

The County operates one water district (WD1) and two sewer districts (SD1 and SD2).¹ These districts provide services to the southern portion of the County, including the Towns of Fayette, Romulus and Varick, and the Villages of Lodi and Ovid. In total, the districts serve approximately 268 residential, nine municipal and three commercial customers. The County's budgeted water district appropriations for 2016 were \$571,784 and the combined budgeted sewer districts' appropriations were \$650,025 funded primarily by user fees.

Scope and Objective

The objective of our audit was to assess the County's water and sewer operations for the period January 1, 2015 through November 1, 2016. We extended our scope period back to January 1, 2013 to review the water and sewer budgeting and fund balance trends. Our audit addressed the following related question:

- Did the Board provide adequate oversight of the financial operations of the County's water and sewer districts?

Audit Results

The Board needs to improve its oversight of the County's water and sewer districts' financial operations. The Board did not establish policies and procedures governing the financial operations of the water and sewer districts, including billing, adjusting accounts or establishing the way shared district expenditures should be allocated. The County also lacked written, up-to-date contractual agreements with two of its five municipal water and sewer customers, its four largest commercial customers, and its water and sewer service providers. The Board also did not ensure it received regular reports to monitor the financial operations of the water and sewer districts.

¹ WD1 and SD2 were established in May 2000 and SD1 was established in June 1975.

While the Board adopted increased rates for WD1 in 2016, it did not analyze user rates for either sewer district to ensure the rates were adequate for each districts' operational needs. Because of the lack of timely rate analysis and adjustment, the financial condition of WD1 and SD1 declined significantly from 2013 through 2015 and SD2's fund balance was excessive. WD1's fund balance declined by approximately \$246,783 (88 percent), while SD1's fund balance declined by approximately \$184,900 (90 percent). Based on preliminary figures for 2016, WD1's fund balance increased to \$60,000 and SD1's fund balance increased to \$205,000,² while SD2's fund balance decreased to \$655,000.

County officials obtained debt financing totaling approximately \$2.2 million in 2016 for upcoming water and sewer capital projects, which will result in additional annual expenditures of approximately \$40,000 for WD1 and approximately \$105,000 for SD1. Officials had a water rate analysis conducted in 2016 that considered the annual bond payments. However, officials did not analyze sewer rates. Therefore, it is unlikely that the current SD1 rates can support this additional annual payment because current sewer revenues are insufficient to sustain annual district operating expenditures.

County officials purchased approximately 143.6 million gallons of water to supply WD1 customers and did not prepare formal water reconciliations to determine the amount of unaccounted-for water. We compared the amount of water purchased with amount of water billed from January 1, 2015 through June 30, 2016 and determined that unaccounted-for water totaled approximately 38 million gallons (26 percent), or 2.6 times the Federal Environmental Protection Agency industry standard of less than 10 percent. The unaccounted-for water would be valued at more than \$78,000.

Finally, County officials did not develop formal long-term financial plans or adequate capital plans related to the water and sewer districts. Consequently, the financial condition of WD1 and SD1 were significantly diminished, and the Board was unable to remediate arising issues in a timely manner.

Comments of County Officials

The results of our audit and recommendations have been discussed with County officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, County officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the County's response letter.

² The increase in SD1 was primarily due to recording revenues from bonds issued of approximately \$234,000 for the reimbursement of capital expenditures in prior years.

Introduction

Background

Seneca County (County) is located in the Finger Lakes region of western New York, has a population of approximately 35,000 and encompasses 10 towns and four villages. The County is governed by the Board of Supervisors (Board) composed of 14 elected members, one of whom serves as the Chair. The Board is responsible for the general oversight of the County's water and sewer districts' financial affairs and for safeguarding its resources. The Chair is the chief executive officer. The County Manager, appointed by the Board, is responsible for the County's day-to-day management. The elected County Treasurer (Treasurer) is the chief fiscal officer.

The County operates one water district (WD1) and two sewer districts (SD1 and SD2).³ These districts provide services to the County's southern region, including the Towns of Fayette, Romulus and Varick and the Villages of Lodi and Ovid. In total, the districts serve approximately 268 residential, nine municipal and three commercial customers. The public works committee is composed of five Board members and oversees and advises the Board on water and sewer district operations and decisions.

The Water and Sewer Administrator (Administrator) oversees the water and sewer district daily operations. In September 2015, the Board appointed the County Highway Superintendent (Superintendent) to serve as the Administrator. The County's water district appropriations for 2016 were \$571,784 and the combined sewer districts' appropriations were \$650,025 funded primarily by user fees.

Objective

The objective of our audit was to assess the County's water and sewer operations. Our audit addressed the following related question:

- Did the Board provide adequate oversight of the financial operations of the County's water and sewer districts?

Scope and Methodology

We examined the County's water and sewer operations for the period January 1, 2015 through November 1, 2016. We extended our scope period back to January 1, 2013 to review water and sewer district budgeting and fund balance trends.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such

³ WD1 and SD2 were established in May 2000 and SD1 was established in June 1975.

standards and the methodology used in performing this audit are included in Appendix C of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of County
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with County officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, County officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the County's response letter.

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 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 Board Clerk's office.

Board Oversight

The Board is responsible for overseeing and effectively managing the County's water and sewer fiscal operations and ensuring that adequate internal controls are in place to safeguard assets. The Board can fulfill this responsibility, in part, by establishing and enforcing policies and procedures and sound business practices to ensure bills are accurate, reports are regularly generated and reviewed and inter-municipal agreements and commercial contract provisions are established and adhered to.

The Board needs to improve its oversight of the County's water and sewer districts' financial operations. The Board did not establish policies and procedures governing the financial operations of the water and sewer districts, including billing, making account adjustments or establishing how shared district expenditures should be allocated. Additionally, formal written agreements had lapsed or no evidence was presented to us to indicate that an agreement was ever initiated with two of five municipal water and sewer customers, its four largest commercial customers and its two water and sewer service providers. The Board also did not ensure it received regular reports to monitor water and sewer district financial operations.

While the Board adopted increased rates for WD1 in 2016, it did not analyze user rates for either sewer district to ensure the rates were adequate for each districts' operational needs. Because of the lack of timely rate analysis and adjustment, the financial condition of WD1 and SD1 declined significantly from 2013 through 2015 while SD2's fund balance was excessive. WD1's fund balance declined by approximately \$246,783 or 88 percent (from \$280,180 in 2013 to \$33,397 in 2015) and SD1's fund balance declined by approximately \$184,900 or 90 percent (from \$206,561 in 2013 to \$21,697 in 2015). Based on preliminary figures for 2016, WD1's fund balance increased to \$60,000 and SD1's fund balance increased to \$205,000,⁴ while SD2's fund balance decreased to \$655,000.

County officials obtained debt financing totaling approximately \$2.2 million in 2016 for upcoming water and sewer capital projects, which will result in additional annual expenditures of approximately \$40,000 for WD1 and approximately \$105,000 for SD1. County officials had a water rate analysis conducted in 2016 that considered the annual bond payments. However, officials did not analyze sewer

⁴ The increase in SD1 was primarily due to recording revenues from bonds issued of approximately \$234,000 for the reimbursement of capital expenditures in prior years.

rates. Therefore, it is unlikely that the current SD1 rates can support this additional annual payment because current sewer revenues are insufficient to sustain current annual operating expenditures let alone the additional debt service costs.

County officials purchased approximately 143.6 million gallons of water to supply WD1 customers and did not prepare water reconciliations to determine the amount of unaccounted-for water. We compared the amount of water purchased with the amount of water billed from January 1, 2015 through June 30, 2016. We determined that unaccounted-for water totaled approximately 38 million gallons (26 percent) or 2.6 times the Federal Environmental Protection Agency (EPA) industry standard of less than 10 percent. The approximately 23.6 million gallons of unaccounted-for water in excess of the EPA allowance would be valued at more than \$78,000.

Finally, County officials did not develop formal long-term financial plans or adequate capital plans related to the water and sewer districts. Consequently, the financial condition of WDI and SD1 were significantly diminished, and the Board was unable to remediate arising issues in a timely manner.

Written Governance

Written policies, procedures and contractual agreements that clearly define and communicate how the Board intends to conduct operations are key components of the County's internal controls. In addition, written agreements should clearly address the needs, expectations, roles and responsibilities of the contracted parties, including pricing, billing and terms of payment. Such agreements should be as specific as possible to implement the parties' intent. Policies or agreements that lack such details can lead to indecision, disagreements or additional unanticipated costs.

The Board did not execute contracts or previous contracts had expired with several municipal and commercial water and sewer customers. These customers included the Town of Romulus, Village of Ovid, New York State Department of Corrections and Community Supervision (DOCCS), Sampson State Park, Hillside Children's Center and Willard Drug Treatment Center.⁵ In addition, the County did not enter into a formal written agreement with the Village of Waterloo⁶ for water services and an agreement with a third-party for sewer facility maintenance and operations had been expired for approximately three years.

⁵ At the time of our audit fieldwork, contracts with DOCCS and Hillside Children's Center were in the process of being drafted and reviewed.

⁶ The Board accepted a request for proposal (RFP) from the Village of Waterloo to provide services, but a formal contract was never drafted or executed.

Our review of the County's contracts revealed that while contract terms were generally followed, certain contract terms were not adhered to, including the following:

- Town of Varick's Seneca Lake Water District (SLWD) – Annual meetings were not held to discuss and project rates and the specific needs over a five-year period. Additionally, billing for water purchased from the SLWD was done quarterly rather than monthly.
- Village of Waterloo – The Village was supposed to provide a detailed bill for the services provided. However, the bills provided to the County did not specify the work performed or the dates the services were provided.

Without written contracts for its municipal and commercial customers, there were no specific limits on the amount of water these customers could use. The County has a finite water supply, with the primary responsibility to provide water to customers located within the district's boundaries. Therefore, in the event that the municipal and commercial customers' water use increases significantly, the County may not be able to supply the appropriate amount of water or risks not having an adequate supply for its in-district customers.

The Board also did not establish policies or procedures governing water and sewer financial operations, including billing and adjustments or establishing the manner in which shared district expenditures should be allocated. In addition, the Board did not establish adequate policies and procedures to ensure that each district's revenue and expenditures, cost containment measures and inter-municipal shared services were properly accounted for.

Without written policies or agreements, the Board has not clearly communicated its intentions to employees, officials and related parties about how water and sewer operations will be conducted. As a result, there is an increased risk of errors, fraud and contract or service disagreements, which may result in additional time or monetary costs.

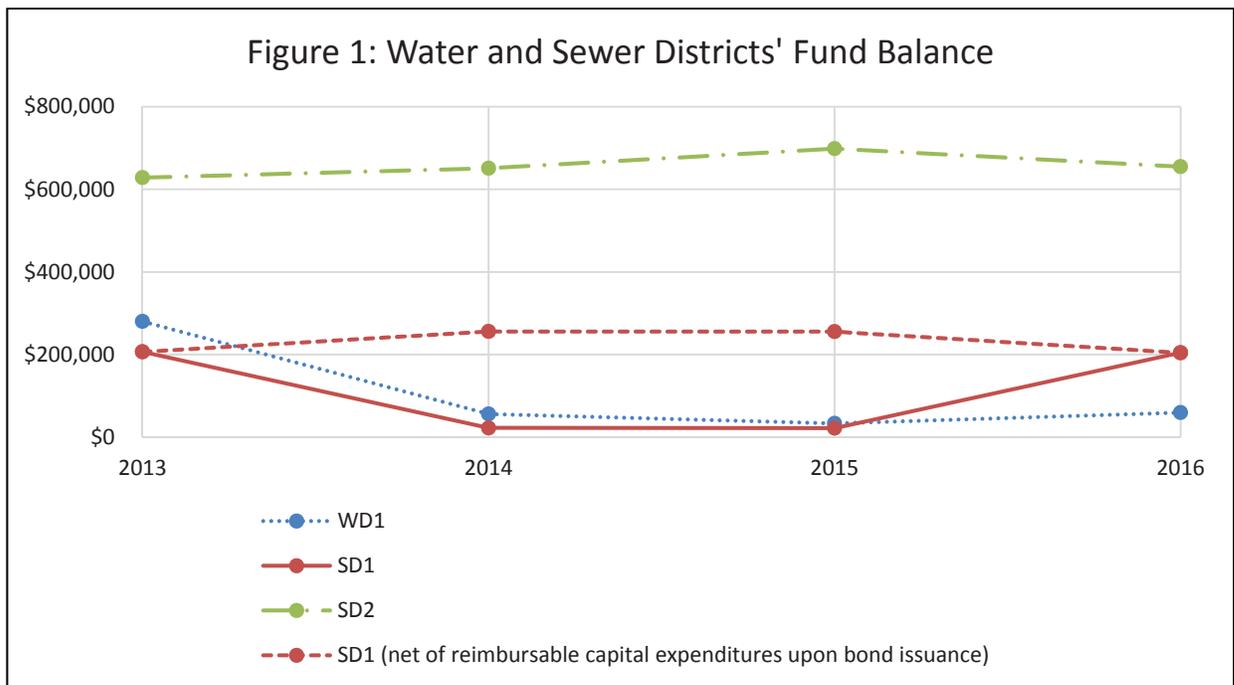
Financial Condition

The Board must adequately monitor the districts' financial operations and ensure that appropriate actions are taken to properly account for district activity and maintain financial stability. These activities include adopting budgets with realistic estimates of revenues and expenditures and ensuring that user charges are sufficient to fund water and sewer operations.

The Board should determine the annual cost of operations and maintenance and anticipated future repairs and improvements. Based

on that information, it should establish water and sewer rates that will generate sufficient revenues to pay the total costs needed to properly operate and maintain the facilities and provide service to its customers.

The Board should take steps to improve the financial condition of the County’s water and sewer districts. County officials adopted ineffective budgets and failed to establish sufficient user charges to cover WD1 and SD1 operating expenditures. As a result, the total fund balances of WD1 and SD1 diminished significantly from 2013 through 2015, while the SD2 fund balance was excessive.



WD1 – The financial condition of WD1 declined significantly from 2013 through 2015. This decline was the result of the Board adopting budgets based on inaccurate financial records and information due to an accounting error that caused approximately \$247,000 in 2014 and 2015 revenues to be incorrectly recorded in the period they were billed instead of when the services were actually provided. These accounting errors masked the true financial condition of WD1 and the extent of the overall effect operating deficits had on fund balance. Without accurate information the Board was left unable to respond accordingly and increase water rates in a timely manner.

Therefore, from 2013 through 2015 the district’s fund balance declined by approximately \$247,000 (88 percent) to approximately \$33,000 or 6 percent of the 2016 appropriations. In addition, the County issued bonds totaling \$597,000 in 2016 for upcoming water district projects, which resulted in annual payments of approximately \$40,000. These payments were about 8 percent of the district’s

average annual expenditures for 2013 through 2015, or 120 percent of the 2015 year-end fund balance.

In response to WD1's diminished fund balance and anticipated bond issuance, the Board commissioned an independent water rate study, which was completed in 2016. The Board adopted the proposed water rate increases from this study in March 2016, which are estimated to generate \$70,000 of additional water revenues annually (based on a 19 percent increase for in-district customers and a 27 percent increase for out-of-district customers). This increase should be sufficient to support the additional debt payments and current annual operating expenditures without having to rely on fund balance. At the end of 2016, WD1's fund balance increased to approximately \$60,000⁷ or 9 percent of the 2017 appropriations.

SD1- Similarly, the financial condition of SD1 declined significantly from 2013 through 2015. County officials inconsistently budgeted for district revenues and underestimated revenues by a combined total of \$64,000 (12 percent) in 2013 and 2014 and overestimated revenues by \$54,000 (18 percent) in 2015. Furthermore, County officials overestimated appropriations in 2013 and 2015 by a combined total of approximately \$118,000 (21 percent). In 2014, officials significantly underestimated appropriations by \$229,000 (90 percent), which was primarily related to approximately \$216,000 in unbudgeted consulting fee expenditures for upcoming capital projects, which were to be reimbursed upon bond issuance.

As a result of these ineffective budgeting practices combined with insufficient user charges, from 2013 through 2015, SD1's fund balance declined by approximately \$184,900 (90 percent), which was approximately 8 percent of the 2016 appropriations. At the end of 2016, SD1's fund balance increased to \$205,000⁸ or 54 percent of the 2017 appropriations. However, this was primarily due to the reimbursement of \$234,000 of capital project expenditures for which the County issued bonds totaling approximately \$1.59 million in 2016 for several sewer district projects. These bonds, which resulted in annual payments of approximately \$105,000 and alone would constitute about 36 percent of the district's average annual expenditures for 2013 through 2016, or approximately 51 percent of the 2016 year-end fund balance.

Although SD1's fund balance significantly declined from 2013 through 2015 and the County issued bonds in 2016 for upcoming capital improvements, the Board did not analyze sewer rates to ensure rates were adequate to fund district operations. Because revenues have

⁷ Based on preliminary figures.

⁸ Ibid.

not been sufficient to adequately fund district operations, SD1's fund balance has been depleted to levels that will not allow it to sustain operations as usual, especially given the added bond payments.

SD2 – The financial condition of SD2 remained sound from 2013 through 2016. The district generated net operating surpluses totaling approximately \$48,000 for these years primarily due to ineffective budgeting practices. While County officials generally budgeted reasonably for revenues, they inconsistently budgeted for district expenditures.

In 2013, appropriations were underestimated by \$108,000 (27 percent), while in 2014 and 2015 appropriations were overestimated a combined total of \$168,000 (20 percent). Appropriations were more closely budgeted in 2016,⁹ being underestimated approximately \$33,000 (8 percent). As a result, from 2013 through 2016 the district's fund balance increased by approximately \$26,000 (4 percent), and at the end of 2016 totaled approximately \$655,000, or approximately 167 percent of 2017 appropriations. Furthermore, County officials did not establish a long-term capital plan or reserves for the use of these excess funds.

Ultimately, the Board's lack of oversight of the water and sewer districts' financial condition, including ineffective budgeting and insufficient user rates, resulted in the significant decline of WD1's and SD1's financial condition, while SD2's fund balance was excessive.

Accountability

Accounting records and reports are essential tools that the Board can use to monitor water and sewer operations. It is important for the accounting records and reports to be complete, accurate and useful. Good management practice requires the Treasurer or Administrator (or designee) to prepare and provide a monthly financial report to the Board, which includes a list of receipts and deposits, disbursements, month-end bank balances and a budget status report of monthly and year-to-date revenues and expenditures compared to budget estimates, an account adjustment report, unpaid customer listing and an unaccounted-for water reconciliation report.

County officials should periodically compare water produced with water billed and identify whether any difference (unaccounted-for water) is caused by recordkeeping errors, leaks, theft or malfunctioning meters. Water loss results in an expenditure for the County for which no revenue is received. An effective water accounting system provides for the tracking of use throughout the distribution system and the identification of areas that may need attention. This is a first

⁹ Ibid.

step in minimizing water losses and ensuring an adequate supply of water, reducing system costs and increasing system revenue.

Water Reconciliation – County officials did not prepare water reconciliations to determine the amount of unaccounted-for water even though master meters (at the point of purchase and sale) were read daily to monitor usage and flow. We prepared a reconciliation of water purchased to water billed for the period January 1, 2015 through June 30, 2016. During this period, unaccounted-for water totaled approximately 38 million gallons (26 percent), or 2.6 times the EPA industry goal (Figure 2).

Figure 2: Unaccounted-for Water and Cost of Lost Water	
January 1, 2015-June 30, 2016	Gallons
Water Purchased	143,550,050
Less: Billed to Customers	105,552,695
Unaccounted-For Water	37,997,355
Less: EPA Acceptable Water Loss	14,355,005
Water Loss Above EPA Goal	23,642,350
Divided by 1,000	23,642
Cost of Lost Water at \$3.33 per 1,000 Gallons	\$78,728
Unaccounted for Water Percentage	26.5%

Unaccounted-for water increases the purchase cost for the County without generating any additional revenue. We calculated that the cost of purchasing the unaccounted-for water in excess of the EPA goal was approximately \$78,700 based on the rate that the County pays to purchase water of \$3.33 per 1,000 gallons.

County officials told us that there was an issue with incorrectly calibrated or malfunctioning meters within the past two years, which may have accounted for any significant amount of unaccounted-for water. However, without completing an analysis of unaccounted-for water, County officials cannot accurately determine the extent of potential water loss. This analysis could help County officials determine the extent to which the County is incurring costs to purchase water that is lost through leaks or consumption that is not being captured and billed.

Reports to the Board – The Board did not ensure it received regular reports to monitor the County’s water and sewer districts’ financial operations. Because the Board did not request interim water and sewer financial reports, it was unable to provide adequate oversight of these operations and its ability to oversee the County’s finances was diminished.

We reviewed one quarterly billing from our audit period to determine whether water and sewer bills were accurate and payments received were properly recorded and appropriately deposited.¹⁰ From our review of the 281 water and sewer bills (totaling \$286,325), bills were generally calculated properly based on the established rates and payments received were properly recorded and appropriately deposited.

We also reviewed the water and sewer billing adjustments totaling approximately \$6,600 made from January 1, 2015 through August 31, 2016. Although these adjustments appeared reasonable and notes were included describing the nature of each adjustment, no evidence was presented to us to indicate the Board's review or approval.

Long-Term Planning

It is important for County officials to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs for the County's water and sewer districts. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and allow County officials to identify revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates and/or user fees.

Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide guidance on the financial priorities and goals set by County officials. County officials should monitor and update long-term plans on an ongoing basis to ensure that decisions are guided by the most accurate information available.

County officials have not developed formal long-term financial plans or adequate capital plans related to the water and sewer districts. County officials prepared long-term capital plans for a 10-year period for each district in 2006, which included maintenance and improvements to be completed each year of the plan and the associated costs. However, the long-term plans developed did not specify the sources of funding for capital improvements and were not periodically updated and adopted by the Board. As a result, County officials made recent capital decisions for the water and sewer districts without adequately considering the long-term financial effects of the approximate \$2.2 million in bonding obtained to finance necessary infrastructure improvements.

County officials considered these additional bond payments in the recent water rate adopted. However, the Board did not evaluate the short- or long-term ability of SD1 to pay annual bond payments or

¹⁰ See Appendix B for further information on our methodology.

establish a plan, to remedy any shortfalls in meeting these payments. Because of the lack of a comprehensive multiyear plan County officials' ability to effectively manage finances and address the County's needs without overburdening water and sewer customers is inhibited. County officials must remain aware of future needs and available revenue streams when strategically planning.

Recommendations

The Board should:

1. Establish written policies and procedures over the County water and sewer districts' financial operations.
2. Ensure written agreements are established with all municipal and commercial water and sewer customers and service providers with clearly defined terms and expectations.
3. Prepare a cost analysis to calculate the necessary sewer rates to be billed. Water and sewer rates should be reviewed annually and revised, if necessary, to ensure rates generate sufficient revenues to cover appropriations.
4. Adopt realistic water and sewer budget estimates for revenues and expenditures based on historical data and current trends.
5. Request appropriate interim financial reports to aid in monitoring the County's water and sewer districts' operations, including reports related to budget status, billing, adjustments and unaccounted-for water.
6. Review and approve all billing adjustments.

The Board and County officials should:

7. Develop procedures for periodically reconciling the amount of water purchased with the amount billed, perform a periodic reconciliation and correct causes of significant discrepancies in a timely manner.
8. Develop and adopt comprehensive multiyear financial and capital plans for water and sewer district's operations for a three- to five-year period that address the anticipated funding and use of reserve funds, anticipated capital improvement needs and funding sources, costs of long-term maintenance on capital improvements and any economic or environmental factors which could affect the plans.

APPENDIX A

RESPONSE FROM COUNTY OFFICIALS

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



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RE: Draft Report of Examination (DROE), Seneca County Water and Sewer Operations

Chief Examiner Grant:

On behalf of the Seneca County Board of Supervisors (BOS) I appreciate the process, effort and likely positive results of our recent Water and Sewer Operations Examination. Examiners [REDACTED] accomplished the field work in a professional manner. Their thorough examination revealed operational deficiencies of which Seneca County will strive to correct.

I ask that the following considerations be made to the DROE before a final release is made;

1. Pages 10-11, last paragraph WD1.

Change "WD1 – The financial condition of WD1 declined significantly from 2013 through 2015. This decline was the result of capital expenditures processed through the operating accounts with the planned intent to reimburse the operating accounts once the county authorized and received bond proceeds. In 2016 the bonds were issued and the operating accounts were reimbursed for the capital expenditures incurred during 2014 and 2015. At the end of 2016 the fund balance was an appropriate indication for the 3 year period of 2014, 2015 and 2016

See
Note 1
Page 17

2. Page 13, last two paragraphs

a. The reference of "...281 water and sewer bills..." in the first paragraph does not appear contextually consistent with the reference "For the remaining 276 accounts..." in the second paragraph.

See
Note 2
Page 17

Several deficiencies have been corrected, have corrective measures in place or will be corrected through a comprehensive consolidation effort of these Special Districts. The specifics of these corrections will follow in our After Action Report.

Sincerely,

Robert Shipley, Chairman
Board of Supervisors

RS/js/ml

APPENDIX B

OSC COMMENTS ON THE COUNTY'S RESPONSE

Note 1

Footnotes 2 and 4 disclose this information.

Note 2

We removed the reference to the 276 accounts from our audit report.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed County officials and employees to obtain an understanding of water and sewer processes and operations.
- We reviewed relevant policies and procedures, Board minutes and resolutions, public works committee minutes, contracts and agreements and rate analysis studies.
- We reviewed the billing adjustments made to water and sewer accounts from January 1, 2015 through August 31, 2016 to determine whether adjustments were reasonable, reasons for the adjustments were documented and the Board reviewed and approved them.
- We reconciled the gallons of water purchased to gallons of water sold from January 1, 2015 through June 30, 2016 to determine the variance (unaccounted-for water). We determined the cost of lost water beyond the EPA goal of 10 percent, based on the amount of water purchased from the SLWD.
- We analyzed the financial condition of the water and sewer districts for 2013 through 2016, including budgeting and fund balance.
- We reviewed debt service schedules for the water and sewer districts.
- We reviewed long-term plans related to the water and sewer districts for adequacy.
- We randomly selected one quarterly billing from our audit period (October-December 2015), which was billed in January 2016, to determine whether water and sewer bills were accurate and if fees collected were appropriately recorded and deposited. We followed up on any discrepancies to determine whether the reasons for any adjustments were appropriate.

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.

APPENDIX D

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