



Village of Akron

Selected Financial Activities

Report of Examination

Period Covered:

June 1, 2014 – December 22, 2015

2016M-133



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2016

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 Akron, entitled Selected Financial Activities. 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

The Village of Akron (Village) is located in the Town of Newstead, Erie County and has a population of approximately 3,000 residents. The Village is governed by an elected five-member Board of Trustees (Board) which is composed of the Mayor and four Trustees. The Board is responsible for the general management and control of the Village's financial affairs. The Village's annual budget for the 2015-16 fiscal year was approximately \$6 million and was funded mainly through real property taxes, sales tax, user fees, State aid and federal aid.

Scope and Objective

We examined the Village's water operations and the Clerk-Treasurer's office records and reports for the period June 1, 2014 through December 22, 2015. We extended our audit scope back to prior periods as it related to certain areas of audit testing as follows: back to June 1, 2004 for water underbilling; back to 1995 for the Village's water loss analysis; and back to June 1, 2013 for cash flow analyses. Our audit addressed the following related questions:

- Did Village officials properly account for water production and monitor water and sewer user charges?
- Did the Clerk-Treasurer's office maintain complete and accurate accounting records and reports to allow the Board to monitor the Village's financial operations?

Audit Results

The Village is experiencing financial difficulties because of systemic and historical practices of not properly monitoring and accounting for water production and then borrowing from other funds to address water revenue shortfalls. Over the past decade, these practices resulted in the Village's annual unaccounted-for water averaging more than 40 percent, totaling approximately 673 million gallons. Because other funds have been subsidizing the water fund, the Village's cash is generally depleted by April of each fiscal year. Consequently, Village officials issued revenue anticipation notes, used bond anticipation note proceeds inappropriately and delayed payments to vendors to ease the cash shortfall, which led to a downgrade of the Village's bond rating. Village officials also did not properly monitor user charges or account for water production. As a result, the Village did not bill customers accurately, resulting in a revenue loss during our audit period of \$85,000.

Additionally, the Clerk-Treasurer did not maintain complete or accurate accounting records and reports. Consequently the Board was not in a position to properly monitor the Village's financial operations.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix B, have been considered in preparing this report. Village officials generally agreed with our findings and recommendations and indicated that they have taken, or plan to take, corrective action.

Introduction

Background

The Village of Akron (Village) is located in the Town of Newstead, Erie County (County) and has a population of approximately 3,000 residents. The Village is governed by an elected five-member Board of Trustees (Board), which is composed of the Mayor and four Trustees. The Board is responsible for the general management and control of the Village's financial affairs. The Village's annual budget for the 2015-16 fiscal year was approximately \$6 million and was funded mainly through real property taxes, sales tax, user fees, State aid and federal aid.

The Mayor is the Village's chief executive officer and appoints all nonelected officers, subject to Board approval, including the Clerk, the Treasurer and the Department of Public Works Superintendent (DPW Superintendent), and appointed the former Clerk-Treasurer subject to Board approval. The Clerk-Treasurer was the chief fiscal officer and (CFO) and was responsible for maintaining custody of Village money, receiving and disbursing funds, maintaining the accounting records, and preparing monthly and annual financial reports.

The Village produces its own water and operates its own water and sewer systems. The water source is the Murder Creek Reservoir, which is located in the Town of Bennington, Wyoming County. The water treatment plant is located in the Town of Darien, Genesee County. The Village sells water to approximately 1,200 customers and provides sewer services to about 1,100 customers. Sewer fees are based on water usage.

Effective June 1, 2015, the Board separated the Clerk-Treasurer position and retained the former Clerk-Treasurer as the Village Clerk (Clerk) and appointed the former Deputy Clerk-Treasurer within the Clerk-Treasurer's office to serve as Village Treasurer (Treasurer), who is the CFO.¹ The Village engaged a certified public accounting firm (Firm) to prepare its annual financial report (i.e., annual update document (AUD)) and audited financial statements.

Objective

The objective of our audit was to review the Village's water operations and the Clerk-Treasurer's records and reports. Our audit addressed the following related questions:

- Did Village officials properly account for water production and monitor water and sewer user charges?

¹ Our audit testing focused on records and reports prior to this division of Clerk-Treasurer duties.

- Did the Clerk-Treasurer’s office maintain complete and accurate accounting records and reports to allow the Board to monitor the Village’s financial operations?

**Scope and
Methodology**

We examined the Village’s water operations and the Clerk-Treasurer’s office records and reports for the period June 1, 2014 through December 22, 2015. We extended our audit scope back to prior periods as it related to certain areas of audit testing as follows: back to June 1, 2004 for water underbilling; back to 1995 for the Village’s water loss analysis; and back to June 1, 2013 for cash flow analyses.

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. 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
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 B, have been considered in preparing this report. Village officials generally agreed with our findings and recommendations and indicated that they have taken, or plan to take, 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 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’s office.

Water Accountability and User Charges

Village officials are responsible for controlling the cost of operating the Village's water system. The Clerk-Treasurer's office is responsible for ensuring that water and sewer usage is correctly billed and recorded. The DPW Superintendent is responsible for ensuring that all sources of billed and unbilled water usage are properly metered. The Board is responsible for authorizing user rates and adjustments to bills.

Approximately 10 years ago, three large customers stopped purchasing from the Village's water supply system. However, since that time, the Village's water production levels have not decreased as significantly as the amount of water billed. As a result, while the amount of water the Village bills has dropped significantly, the Village appears to still produce a water supply generally consistent with levels prior to the loss of the three large customers. Because Village officials did not properly monitor and account for water production over the last 10 years, the Village's annual unaccounted-for water averaged more than 40 percent, totaling approximately 673 million gallons. To demonstrate the financial impact of the potential revenue that could have been realized for a portion of this unaccounted-for water, if even 10 percent of the 63 million gallons of unaccounted-for water in 2014 were billed at the residential water and sewer rates, the additional revenue would have been approximately \$80,000. Additionally, Village officials did not properly monitor water and sewer user charges or account for water production. As a result, the Village did not bill customers accurately, resulting in a loss of more than \$85,000 in revenue. These problems have impacted the Village's cash flow and the Village has had to borrow from other funds to pay operating expenses.

Water Accountability

Village officials are responsible for controlling the cost of operating the Village's water system. To fulfill this responsibility, Village officials should track water use throughout the system and identify areas that need attention, particularly large volumes of unaccounted-for water. Unaccounted-for water can result for various reasons, such as source meter errors, faulty customer meters, unmetered customers, accounting procedure errors, improper connections, underground leaks and municipal use, such as the flushing of fire hydrants and firefighting. The United States Environmental Protection Agency has established an industry goal of 10 percent for unaccounted-for water system losses.

Procedures should be in place to monitor and identify the cause of water loss. It is essential to perform a periodic reconciliation

of water produced with water billed to provide officials with the information necessary to detect and reduce water loss. A large volume of unaccounted-for water could be a warning sign of significant infrastructure problems, billing deficiencies or improper use of Village water.

Over the past 10 years, Village officials have not taken adequate steps to identify and reduce the unaccounted-for water within the Village's system. During the 2014 calendar year, the Village could not account for 63 million gallons (44 percent) of the water produced. The Village produced more than 159 million gallons of water. However, it billed customers for approximately 81 million gallons and had authorized, unbilled usage of 15 million gallons, for a total of 96 million gallons of water recognized as consumed (61 percent of the water produced).

While Village officials were unable to provide specific reasons for the water loss, the Chief Water Plant Operator (CWPO) stated that he does not believe there are significant problems with water leakage within the Village's infrastructure. He indicated that he conducts tests during the night, during nonpeak usage periods, that would be able to identify at that time if there was significant water loss due to infrastructure. Because of these tests, the CWPO believed the issue is with the Village's billing system. The CWPO provided us with a historical analysis of billed water and total production that he prepared after our fieldwork began, dated September 9, 2015 (see Appendix A).² We inquired with a Village Trustee, who is also a member of the Village's Water Committee, regarding the water loss analysis. The Trustee indicated that he was aware of the significant amount of water loss and thought that replacing water meters would resolve the majority of the issue.

The CWPO indicated that during 2003, the Village stopped providing water to two neighboring towns, one of which included an amusement park with water rides and activities. However, from 2002 to 2014, water production only decreased by 18 million gallons, or 10 percent, while billing significantly decreased by 75 million gallons, or 48 percent for the same time period, which is inconsistent with the water production amount. As the number of customers has decreased significantly, we expected to see a similar reduction in the amount of water loss since there were fewer service connections and less water infrastructure in use; however, this was not the case.

Seven of 53 customers reviewed (see Water and Sewer User Charges) were billed based on inaccurate meter readings, which has contributed

² The CWPO's analysis does not include unbilled usage, such as the Village-estimated 15 million unbilled gallons in 2014.

to the amount of unaccounted-for water. In addition to these customers (noted later in our report), the Village itself is also a user of its own water system. However, the Village has not installed meters, or not read meters that were installed, to accurately account for its own water usage. For example, the Village has not read the installed meters to account for water used at the water treatment plant and at an occupied Village-owned building located at the water treatment facility. The Village also has not installed a meter to account for water used for fire hydrant flushing. Village officials stated that they estimate the annual usage for Village usage to be more than 15 million gallons. However, without meters, the actual figures are unknown.

The Board decided to undertake a capital project to address the water loss. The Village borrowed more than \$250,000 in April 2015 to replace water meters. However, there was no evidence that the Board approved the \$250,800 bond anticipation note (BAN). The Treasurer told us that the former Clerk-Treasurer stated that the resolution for this BAN was not in the Board's meeting minutes. Additionally, \$100,000 was improperly transferred to the electric fund to pay current operating bills two days after receiving the BAN proceeds and was not Board-approved. As of November 2015, only \$50,000 had been used to purchase 280 new residential water meters, fourteen of which had been installed as of the end of our audit fieldwork.

Unaccounted-for water has had a significant financial impact for the Village. For perspective, if even 10 percent of the 63 million gallons that were unaccounted-for in 2014 were billed at the residential rate for water and sewer, the additional combined revenue would be approximately \$80,000. However, while the Trustee, who was a member of the Village's Water Committee, was aware of the extent of the significant water loss, there was no evidence to demonstrate that the Clerk-Treasurer's office was working with the CWPO or the DPW Superintendent to identify and reconcile the significant differences between water production, consumption and billing. When we brought this issue to the current Treasurer's attention, she indicated that she was not aware of the extent of the unaccounted-for water.

If the billings are accurate and the difference between water produced and water billed is truly attributed to water leakage within the system, there are still costs associated with that water loss. We estimate that it costs the Village approximately \$0.34 for electricity and chemicals to produce 1,000 gallons of water. Therefore, the Village would have saved approximately \$21,000 during 2014 if it did not need to produce the 63 million gallons unaccounted-for. We also reviewed the DPW's water loss analysis for the five years prior to this time period. The water loss trend for those years was similar to 2014 and

Village officials could not account for 233 million gallons of water. Assuming the estimates were similar for electricity and chemicals during this period, we estimate that the additional cost was \$79,000 to produce water the village did not need.

Ultimately, the financial difficulties at the Village are the result of systemic and historical practices of borrowing from other funds to address water revenue shortfalls over the past decade. The cash shortfall has occurred because the Village has not adequately reconciled and resolved the significant differences between water billing and production over the past 10 years or adjusted rates to allow the fund to cover costs. Because other funds have been subsidizing the water fund, Village cash is generally depleted by April of each fiscal year. It is imperative that Village officials address these issues as the Village and its residents cannot afford the costly errors of underbilled customers or the production of significant amounts of water that is unaccounted-for and remains unbilled.

Water and Sewer User Charges

It is important that Village officials ensure that all water and sewer services are billed at Board-adopted rates and that bills are calculated accurately. Proper segregation of duties ensures that no one person is responsible for recordkeeping, billing, and collecting and depositing cash receipts without oversight by another person who is independent of this function. Any customer account adjustments or corrections should be properly supported and Board-approved.

Billings – The Village’s water and sewer billings are generally based on metered usage of water consumption. The DPW Superintendent obtained meter reads electronically using a hand held remote reader. The Village had the capability to electronically transfer all of these meter reads to its water and sewer billing software. However, the Clerk-Treasurer’s preference was to require the billing clerk to manually enter all meter readings into customer accounts from a manual report he provided her.

We reviewed water and sewer billings to 53 customers and found that seven were underbilled by more than \$85,000 as indicated in the following:

- The Village billed a neighboring town incorrectly and untimely for sewer services, resulting in the underbilling of the three customers³ totaling \$50,000 since 2009. These customers were billed manually, outside of the Village’s billing software by the secretary to the Mayor (Secretary), and did not include

³ The sewer district has three customers: the neighboring town and two businesses within the town.

Board-adopted maintenance fees or surcharges that should have been added. The Secretary stated the Clerk-Treasurer advised her to not include the maintenance fees or surcharges on these bills.

- The Village incorrectly underbilled a mobile home park by more than \$14,800 since 2012 for sewer services. While the sewer bill should have been calculated based on the water usage, it was not. Instead, the Village billed the mobile home park based on a separate sewer meter which did not provide accurate readings. When we discussed this with Village officials, they agreed there was an issue with this billing and would investigate other methods to bill for sewer services, such as billing based on the mobile home park's water usage.
- The Village provided water service to certain customers outside of the Village. However, the Board-adopted billing rate is 150 percent of the Village residential water rate. We identified one customer who was underbilled by more than \$7,000 since 2004 because the Clerk-Treasurer's office did not apply this rate to the customer's account.
- Water usage for a restaurant in the Village was consistently lower than other Village restaurants. The billing clerk indicated they had identified prior to our audit that this customer had been underbilled because the meter read software program recorded the meter read improperly, excluding one digit and resulting in low reads. Since January 2011, the Village underbilled this customer by 389,000 gallons of water.⁴ In addition, because sewer bills are based on water usage, the amount for sewer has also been underbilled. We estimate that the Village underbilled this customer a total of approximately \$5,250. As a result of discussing this error with the billing clerk during our audit fieldwork, she found and brought to our attention nine additional customers whose meter read had this same error.
- The Village provides water service to a County park in a neighboring town. There are several water meters within this park to accommodate maintenance and comfort station requirements. We reviewed water usage and found inconsistent meter readings. For example, there was no billed meter usage from October 2014 through March 2015 and a minimum bill was charged for both quarters. However, when we reviewed the next billing cycle, the prior meter reading reflected on

⁴ The Village billed quarterly, beginning in January each year, for water services.

the billing register was not consistent with the actual meter reading for the prior quarter on the prior billing register. The meter reading in the prior quarter was 1,755 but the July 2015 billing indicated that the prior reading was 2,868. This incorrect reading resulted in a bill of \$77.50 during peak consumption at the park. However, if the 1,755 was accurate as indicated in the prior two quarters, the Village may have underbilled the County by \$8,610.

In addition to the deficiencies identified above, Village officials have not reconciled the total number of actual water service connections with water accounts on the billing registers to ensure all connections that received service were billed. The DPW's 2014 annual water quality report identified 1,238 water service connections. However, the October 2014 billing register showed that 1,157 meters (or 81 less) were billed. As a result, the Board cannot be certain that all users were billed properly.

Billing Adjustments – While Village officials indicated that the Board is required to review and approve all billing adjustments to customer accounts prior to being entered into the billing software by the Clerk-Treasurer's office, this was not always done. As a result we found that the Clerk-Treasurer's office adjusted nine customer accounts totaling approximately \$5,850 without Board approval. Five of the adjustments, totaling \$3,250, were for the Village's portion of water and sewer charges for the joint highway facility with the Town of Newstead. When we brought this to the current Treasurer's attention, she indicated that these reducing adjustments were made to correct billing errors.

Not ensuring that all adjustments are formally approved increases the risk that customers may receive account adjustments to which they are not entitled or that errors and irregularities could occur that are not detected in a timely manner.

Segregation of Duties – Proper segregation of duties ensures that no one person controls all phases of a transaction. When it is not possible to have an optimal segregation of duties, the associated risk can be reduced by supervisory and Board oversight and regular review of an individual's work. Having the same person perform all the key duties for a transaction (e.g., billing, collecting and recording) with little oversight weakens internal controls and significantly increases the risk that errors and irregularities might occur and go undetected.

The billing clerk, an employee within the Clerk-Treasurer's office, is responsible for preparing the billing register, collecting cash and recording utility usage, charges and payments. The billing clerk

is also responsible for reviewing usage calculated to determine if it is reasonable based on prior usage and has the ability to make adjustments or estimate bills. Her duties also include printing and sending bills to customers. Customer payments are collected by this employee and three others within the Clerk-Treasurer's office. However, the billing clerk is primarily responsible for recording the payments in the customers' accounts. The Clerk-Treasurer and Deputy Clerk-Treasurer had the same financial software access abilities as the billing clerk.

Because Village officials have not adequately segregated the duties of billing, collecting and recording or provided oversight of this employee, the Clerk-Treasurer or the Deputy Clerk-Treasurer, the risk remains that errors and irregularities could occur and remain undetected, particularly since control receivable accounts are not reconciled to the individual account totals.

Control Accounts – A control account is a summary account in the general ledger which is an overall summary of individual transactions for each customer. The control account is generally updated with total amounts, such as total collections for the month, total billings for the month and total adjustments for erroneous billings. It should be reconciled periodically to individual customer account records. Any discrepancies should be promptly investigated and resolved. This process helps to ensure the accuracy and completeness of transactions recorded in the individual customer accounts.

Although the Deputy Clerk-Treasurer maintained accounts receivable control accounts for water and sewer, she did not periodically reconcile them to the individual customer accounts. We compared the water and sewer receivable control accounts with the customer account records for October 2014. The receivable control accounts totaled approximately \$307,000 and the individual customer account records totaled \$301,000, or a difference of approximately \$6,000. Due to the lack of controls, we further examined the accounts receivable control accounts to verify cash receipts, billings and adjustments on a sample basis. We found that the penalties for late payments of the October 2014 billing were not included in the accounts receivable control accounts for water and sewer. As such, we estimate that the combined balance on the water and sewer control receivable accounts was \$3,000 less than it should have been, and while the individual customer accounts properly contained the \$3,000 in penalties, in total they were \$6,000 less than they should have been.

When the control accounts receivable balances are higher than the total for the user accounts, there is an increased risk that customer accounts reflect payments or adjustments made that are not reflected in the control accounts receivable account.

Recommendations

The Board should:

1. Ensure the DPW Superintendent and the Treasurer develop procedures to periodically reconcile the number of actual water service connections to the actual water accounts billed and the amount of water produced with the amount of water billed, investigate any discrepancies and periodically (at least annually) report to the Board on the results of this reconciliation.
2. Ensure the Clerk-Treasurer's office properly bills water and sewer customers at Board-adopted rates.
3. To the extent practical, segregate the water and sewer duties of billing, collecting and recording or provide for oversight and an independent review of work when adequate segregation is not practical.

The Clerk-Treasurer's office should:

4. Ensure that water and sewer receivable control accounts are properly maintained and reconciled monthly with the detailed customer account totals. Any discrepancies should be promptly investigated and resolved.
5. Bill both water and sewer customers based on accurate meter readings and Board-approved rates and in a timely manner and, with assistance of the Village's legal counsel at the direction of the Board, seek recovery from the underbilled customers.
6. Only make adjustments to water and sewer accounts after they are Board-approved.
7. Ensure that penalties on late water and sewer bills are properly accounted for.

The DPW Superintendent should:

8. Ensure that all sources of billed and unbilled water usage are properly metered and read.

Clerk-Treasurer's Office

The Clerk-Treasurer's office is responsible for performing the basic accounting functions, including maintaining accurate accounting records. This includes ensuring the bank account balances reconcile to cash balances in the accounting records on a timely basis and accurately recording interfund loans. Also, the Village is required to file its AUD with the Office of the State Comptroller (OSC) following the fiscal year close. Lastly, the Clerk-Treasurer's records are required to be audited on an annual basis. Effective June 1, 2015, the Board separated the Clerk-Treasurer position and retained the former Clerk-Treasurer as the Clerk and appointed the former Deputy Clerk-Treasurer within the Clerk-Treasurer's office to serve as Treasurer. Our audit testing focused on the records and reports prior to this division of Clerk-Treasurer duties.

The Clerk-Treasurer did not maintain complete or accurate accounting records and reports. Consequently the Board was not in a position to properly monitor the Village's financial operations. Also, the CPA firm did not audit the Clerk-Treasurer's records timely, did not file the AUD timely and did not report out on the timeliness or completeness of Village's records as having impacted their audit. As a result, the Board did not have the information needed to appropriately manage Village finances and could not rely on the timely availability of the Firm's audit work. Consequently the Village has experienced cash shortfalls and operating fund deficits and has had its bond rating downgraded.

Accounting Records – The Clerk-Treasurer did not maintain accurate accounting records. Therefore, the Village's cash and interfund activity was not recorded or able to be reconciled timely or routinely. The Clerk-Treasurer maintained a spreadsheet outside of the Village's accounting software to track cash balances by fund as the Village commingles all of its cash in one money market account. However, the Clerk-Treasurer did not reconcile the cash activity on this spreadsheet to the general ledger until the fiscal year end. As a result, cash balances in total and by fund could not be determined on an ongoing basis and also did not reconcile at year-end.

During the year, disbursements were made without regard to the actual cash balances by fund. This resulted in several funds having a cash deficit or increasing the already existing cash deficit in that respective fund. For example, the spreadsheet shows the water fund with a negative cash balance of approximately \$401,000 as of October 31, 2014. However, the general ledger indicated that this

account had a negative balance of more than \$473,000 on this date. We also noted that the Clerk-Treasurer did not record the adjusting entries recommended by the Firm to this spreadsheet and ledger within a timely manner. For example, adjustments for 2012 totaling approximately \$197,000 were not recorded until December 2014. During our audit fieldwork, we also identified a duplicate entry in error of approximately \$111,000 in this spreadsheet for both the general and capital projects funds and brought this to the current Treasurer's attention to address. The magnitude of these adjustments severely undermines the relevance and accuracy of the Village's records.

Further, the Clerk-Treasurer did not properly record interfund activity. The Clerk-Treasurer maintained a separate spreadsheet which only reflected the cash amounts used by each fund and did not record these interfund transfers of cash in the accounting records. For example, a \$250,800 BAN for water meter replacements was recorded on the spreadsheet as a deposit to the water fund instead of the capital projects fund. Additionally, a transfer of \$100,000 out of the water fund to the electric fund was not properly recorded in the accounting records to recognize the interfund activity. Moreover, New York State Local Finance Law requires the Village to use debt proceeds only for the object or purpose for which the debt was issued, rather than routine operating costs. We reported a similar finding in our prior Report of Examination of the Village.⁵

Because the Clerk-Treasurer did not maintain accurate accounting records in the Village's accounting software or the external cash spreadsheet, the bank reconciliations did not agree with the general ledger. We compared the ledger cash balances with the bank reconciliations as of March 31, 2015 and found a difference of more than \$422,000. The cash in the bank reconciliations for all accounts totaled to a negative of more \$513,000 while all the ledger cash accounts totaled a negative cash balance of approximately \$91,000.

Monthly Reports – The Clerk-Treasurer did not provide the Board complete and accurate monthly financial reports and, as a result, the Board was not in a position to effectively monitor the Village's financial condition.

The Clerk-Treasurer did not provide the Board with monthly financial reports during 2014-15 but stated that he did provide the reports sporadically. We compared the November 2014 and February 2015 quarterly reports with the Clerk-Treasurer's accounting records and bank statements and determined that the cash amounts reported to the Board were significantly inaccurate. For example, in the February

⁵ *Village of Akron – Internal Controls Over Capital Projects (2010M-221)*

2015 report, six significant revenue accounts were reported to the Board totaling more than \$2.9 million. However the Clerk-Treasurer reported only approximately \$2.2 million in the accounting records. As a result, the revenue the Clerk-Treasurer reported to the Board was overstated by more than \$750,000. We noted a similar situation with the November 2014 report. The Clerk-Treasurer could not explain how these errors occurred. The Clerk-Treasurer also did not include reconciled cash balances for each fund and cash receipt and disbursement activity in the financial reports to the Board.

The current Treasurer indicated that while she is currently providing monthly reports to the Board's Finance Committee, she does not provide these reports to the Board. We reviewed the August and September 2015 reports and found that they did not include reconciled cash balances for each fund, budget-to-actual comparisons of all revenues and expenditures or monthly cash receipts and disbursements. Instead, the reports included recommendations for budgetary transfers.

Budgetary Projections – The Clerk-Treasurer did not provide the Board budgetary projections that reflected actual historical data and trends of revenue and expenditure activity during the budget development process. These inaccurate projections resulted in the depletion of fund balance and cash flow deficiencies because budget projections were insufficient to meet the Village's needs. The Board has demonstrated a historical pattern of using unrealistic budgetary projections. For example, in three of the past five years, the water sales revenues⁶ totaled more than \$114,000 lower than budgetary estimates. This long-standing budgeting practice has resulted in cash flow deficiencies and the borrowing from other funds to compensate for the shortfall.

Cash Flow Analysis – The Clerk-Treasurer's office does not prepare and provide to the Board a cash flow analysis and, as a result, the Board was not able to properly monitor the Village's cash flow position. Hence, the Village has resorted to certain temporary cash flow financing in order to maintain routine operations.

During April 2015, the Village issued a BAN for \$250,800. The BAN was designated to replace the Village's water meters. However, rather than restricting this money for the intended use, the Clerk-Treasurer transferred \$100,000 of these proceeds to the electric fund two days after it was received. During April 2014, the Village issued a \$550,000 revenue anticipation note (RAN) for cash flow purposes. Village officials indicated that due to cold temperatures, electric

⁶ As reported in the Village's AUD for fiscal years ending 2011 through 2015

usage increased substantially and the Village was unable to pay those utility bills. While the Clerk-Treasurer reported a cash balance of \$240,768 in the electric fund as of March 31, 2014, because the Clerk-Treasurer had recorded interfund loans exceeding that cash balance in the electric fund, there was actually no cash available to pay the electric fund's bills.

Village officials indicated that they would also delay the payment of bills to vendors to address cash flow deficiencies. For example, more than \$188,000 in bills were approved on April 20, 2015; however, they were not actually released for payment until the following month, on May 15, 2015. Similarly, bills totaling approximately \$103,000 that were approved for payment on May 18, 2015 were not released until the following month, on June 18, 2015. We also identified 54 checks totaling approximately \$387,000 that were approved by the Board but were withheld for payment during February and March of 2015. During our audit fieldwork, Village officials indicated they plan to issue another RAN in the amount of \$300,000 to meet the current year's anticipated financial shortfall.

As a result of the continued shortfalls, the Village's bond rating was downgraded from A to BBB+ with a negative outlook during our audit fieldwork.⁷ According to the current Treasurer, this downgrade was the result of the negative cash balances in the Village's financials. This downgrade will likely increase the cost of borrowing.

Annual Audit – While the Village contracted with a firm to perform the required annual audit of the Village's financial operations, the Firm did not do this in a timely manner. Therefore, it did not serve as a productive tool for the Board to monitor financial activity.

The audited financial statements issued for 2013-14 were dated February 17, 2015, or 262 days beyond the fiscal year end. Furthermore, the draft 2014-15 financial statements were not released until November 24, 2015 and they were provided to us on December 9, 2015. We question how the Board can effectively evaluate the Village's financial position without the timely assurance of audited financial statements.

Annual Financial Report – While the Village contracted with a firm to prepare its annual financial report (i.e., AUD), we noted multiple errors and variances in comparison to the Clerk-Treasurer's accounting records. As a result, the Firm's failure to properly account

⁷ A downgrade is a negative change in the rating of a security. This situation occurs when analysts feel that the future prospects for the security have weakened from the original recommendation, usually due to a material and fundamental change in the entity's operations or future outlook.

for and report the Village's financial activity is a key contributing factor to the declining financial condition and did not serve as an effective tool for the Board to monitor financial activity.

The 2013-14 AUD reported a deposit in transit of approximately \$477,000 on the bank reconciliation. The current Treasurer could not explain this entry but confirmed that there was no money in transit to be deposited. The Treasurer referred us to the Firm since they prepared the AUD. The Firm indicated that this number does not reflect a true deposit in transit; rather, it reflects the amount of cash overdrafts which were offset in the accounts payable liability for each respective fund.

The Firm could not provide us with detail or support for the \$477,000 and admitted that the number was used to balance the bank reconciliation page of the AUD (i.e., a "plug"). Further, the Firm also indicated that by the time they completed the audit, the amount of the cash overdrafts had actually increased to \$556,917. However, the Firm could still not provide us with detail to substantiate the difference between the amounts.

When we reviewed the cash overdrafts reported in the Firm's report, we found inconsistencies with the Firm's explanation. For example, the Firm indicated that approximately \$250,000 was from money associated with borrowings for meter replacement. However, these funds did not materialize until April 2015 (or more than 10 months after the close of the 2013-14 fiscal year). The Firm also identified \$100,000 in grant funds. However, the Firm's adjustments show that this money was already received during 2011-12 (more than two years prior). We addressed our concerns with the Firm during audit fieldwork. The Firm refiled the Village's 2013-14 AUD after our audit fieldwork ended, but the subsequent filing did not address our findings

We also compared the accounting records with the 2014-15 AUD for ten revenue accounts totaling approximately \$5.4 million. We identified two accounts where the revenue reported in the AUD was more than \$207,000 higher than what was recorded in the revenue ledger. We also compared the accounting records with the AUD for ten expenditure accounts totaling approximately \$4.3 million. We identified five expenditure accounts that showed a difference of more than \$386,000. For example, the AUD showed approximately \$338,000 for a capital project. However, nothing was recorded in the accounting records. The Treasurer could not provide us detail regarding the amount reported in the capital projects fund because she indicated that there were no actual capital expenditures to support this number. The Treasurer indicated it was an adjusting entry made by the Firm and they did not provide the Village with supporting

documentation or adjusting entries for this amount. We attempted to obtain this information from the Firm as well, but they did not provide any further documentation or explanation.

The Village is required to file the AUD with OSC within 60 days after the close of the Village's fiscal year. Upon written request, OSC may extend the Village's filing period for an additional 60 days. The Village requested and received extensions for the past six years. This pattern is indicative of the chronic accounting deficiencies discussed in this report.

Without reliable and timely financial information from the Clerk-Treasurer's office or the Firm which the Village contracts with to annually report and audit the financial activity recorded by the Clerk-Treasurer, the Board did not have the information to properly manage the Village finances. As a result, the Village had insufficient cash to fund its operations, and the continued use of temporary debt financing and interfund loans distorts the actual cash needs of the individual operating funds and hinders the development of long-term solutions for the Village and its residents.

We identified internal control weaknesses, including recording and reporting deficiencies, in a previous audit report issued in February 2011.⁸ However, the Board and Village officials did not correct all the deficiencies identified.

We have referred the Firm's activities to the New York State Department of Education Office of the Professions.

Recommendations

The Board should:

9. Ensure the Clerk-Treasurer's office duties are performed to enable it to monitor the fiscal operations, including:
 - Periodically ensuring that the Treasurer's accounting records are updated timely and accurately;
 - Ensuring that the Treasurer properly accounts for and expends debt proceeds in accordance with statutory requirements;
 - Requiring the Treasurer to provide complete and accurate monthly financial reports;
 - Requiring the Treasurer to provide budgetary projections during the annual budget process based on actual historical trends; and
 - Requiring the Treasurer to periodically prepare, analyze and provide to the Board cash flow projections on a routine basis

⁸ See Footnote 5.

and use these reports to develop a plan to provide resources before shortfalls occur.

10. Issue requests for proposals for accounting services and retain a different firm to provide timely and accurate services.
11. Attend training to become familiar with its budgeting and financial oversight responsibilities. Such training opportunities can be found on our web site at <http://www.osc.state.ny.us/localgov/academy/index.htm>.
12. Develop a corrective action plan that includes actions that will be taken in response to our prior audit and the many findings in this audit including a timeline for completion for each of the findings.
13. Review progress against the corrective action plan periodically to monitor progress.

The Treasurer should:

14. Attend training to enhance her understanding of municipal accounting. Basic accounting schools and various other training can be found on our web site at <http://www.osc.state.ny.us/localgov/academy/index.htm>.
15. Ensure that all financial activity is recorded timely and accurately in the accounting records.
16. Compare reconciled bank statement cash with the general ledger on a monthly basis and promptly investigate any differences.
17. Discontinue making unauthorized interfund loans.
18. Prepare complete and accurate monthly financial reports and provide them to the Board.
19. Prepare accurate and conservative budgetary projections based on historical trends and provide them to the Board for its consideration during the annual budget process.
20. Prepare, analyze and provide the Board with monthly cash flow analyses reflecting actual and projected monthly receipts and disbursements and resulting cash balances for all funds on at least a rolling 12 month basis.
21. Ensure that all adjusting entries provided by the Firm are understood, supported with appropriate documentation and approvals and recorded in a timely manner in the accounting records.

APPENDIX A

VILLAGE-PREPARED HISTORICAL WATER LOSS ANALYSIS

Year	Gallons Billed	Gallons Produced	Gallons Lost	Percentage Loss
1995	168,561,000	172,818,875	4,257,875	2.5%
1996	158,840,000	185,415,260	26,575,260	14.3%
1997	190,652,000	222,065,841	31,413,841	14.1%
1998	180,676,000	234,297,000	53,621,000	22.9%
1999	174,315,000	187,963,000	13,648,000	7.3%
2000	137,404,000	173,892,000	36,488,000	21.0%
2001	152,724,000	183,432,118	30,708,118	16.7%
2002	155,970,000	176,832,924	20,862,924	11.8%
2003	125,541,000	187,496,068	61,955,068	33.0%
2004	114,191,000	164,523,950	50,332,950	30.6%
2005	109,351,000	197,904,000	88,553,000	44.7%
2006	99,917,000	180,896,500	80,979,500	44.8%
2007	99,020,000	149,700,000	50,680,000	33.9%
2008	94,781,000	160,736,460	65,955,460	41.0%
2009	89,270,000	164,586,719	75,316,719	45.8%
2010	84,956,000	154,100,100	69,144,100	44.9%
2011	84,535,000	156,700,000	72,165,000	46.1%
2012	87,917,000	113,673,000	25,756,000	22.7%
2013	79,857,000	146,515,138	66,658,138	45.5%
2014	81,196,000	159,214,000	78,018,000	49.0%

APPENDIX B
RESPONSE FROM LOCAL OFFICIALS

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

MAYOR
CARL E. PATTERSON
TRUSTEES
E. PETER FORRESTEL
KEITH A. HATSWELL
MICHAEL R. MIDDAUGH
BRIAN T. PERRY



CLERK
DANIEL P. BORCHERT
TREASURER
TAMMY L. KELLEY
CHIEF OF POLICE
RICHARD C. LAURICELLA

July 27th, 2016

Office of the State Comptroller
Buffalo Regional Office
Attn: Jeffrey D. Mazula
295 Main Street
Suite 1032
Buffalo, NY 14001

Dear Mr. Mazula,

The Board of Trustees of The Village of Akron has reviewed the draft report of examination regarding Selected Financial Activities prepared by the Office of the State Comptroller's Office for the period of June 1, 2014 through December 22, 2015 and acknowledges the results and concerns. On July 14th, 2016 I met with the examiner from the State Comptroller's Office, who explained this report in detail.

The Village Officials have already addressed some of the recommendations:

- Procedures have been put in place to reconcile monthly water produced vs water billed.
- Installed water meters at the water plant and house are read monthly.
- New meter installation program is approximately ninety percent complete.
- As of February 15th, 2016 all meter readings are downloaded electronically.
- Incorrect billing to a neighboring town was in negotiations prior to the audit.
- The mobile home park as of March 15th, 2016 is being billed from the water master meter usage.

21 MAIN STREET P.O. BOX 180
AKRON, NEW YORK 14001-0180

PHONE (716) 542-9636
www.erie.gov/akron

FAX (716) 542-5586 TDD 7
POPULATION 2010 - 30

THE VILLAGE OF AKRON IS AN EQUAL OPPORTUNITY EMPLOYER

The Board recognizes its responsibilities to the Village of Akron taxpayers and appreciates your assistance in identifying areas for improvement. We will take all of your recommendations into consideration as we develop our Corrective Action Plan.

 Very truly yours,

Carl E. Patterson
Mayor

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

For the Water Accountability and User Charges audit objective:

- We interviewed appropriate Village officials and staff and reviewed Board meeting minutes and the Village code to gain an understanding of how Village officials monitor user charges for water and sewer and unaccounted-for water.
- We used a random non-statistical sampling method and selected one water and sewer billing register and reviewed for accuracy and completeness. We compared this billing register with the respective tax roll and inquired about any differences. Using a random, nonstatistical sampling method, we selected a sample of 28 residential customers, and using a risk-based judgmental sampling method based on known risk factors we selected an additional mix of 25 business, commercial and industrial customer water and sewer billings from the register, to verify if bills were calculated using Board approved rates. Based on the deficiencies we identified, we extended our testing back to 2004 to capture the historical amount of billing deficiencies for customers within our sample.
- We used a random nonstatistical sampling method and selected 10 customer account histories to review and traced the payments recorded in their customer accounts to the cash receipts journal.
- We inquired about adjustments to the receivable control account to determine if there was supporting documentation and Board approval.
- We performed a penalty analysis on user charges and determined if the amount was reasonable to what was reported in the records.
- We traced the receipts per the receivable control account to bank deposits for a sample month.
- We compared water billing with water production and obtained historical information from the DPW Superintendent and the CWPO to determine the amount of unaccounted-for water.

For the Clerk-Treasurer audit objective:

- We interviewed appropriate Village officials and staff and reviewed Board meeting minutes and the Village code to gain an understanding of the Clerk-Treasurer's role and responsibilities.
- We reviewed financial reports the Clerk-Treasurer provided to the Board to determine if they were timely, complete and accurate.

- We compared budgetary projections for the water fund with actual revenues and expenditures as reported in the AUD for the past five years to determine the historical extent of significant budgetary variances in this fund.
- We inquired with officials to determine if cash flow reports were performed on a periodic basis.
- We performed a cash flow analysis as of March 31, 2015 and as of March 31, 2014 to determine if there was a trend.
- We performed financial analysis over the past five years to determine actual revenue and expenditure trends in the general, water and sewer funds.
- We compared the accounting records, specifically the revenue and expenditure ledgers with the AUD as of May 31, 2015, to determine if there were any significant discrepancies.
- We reviewed the accounting records and bank statements to determine if there were any transfers/loans between funds and, if so, to ensure they were properly supported and recorded.
- We compared bank statement check images to vouchers for payment on the Board-approved abstracts to ensure that payments were for appropriate purposes, properly approved and issued for payment timely.
- We reviewed the bank composition of deposits for 1,083 checks that were deposited during November 2014.
- We interviewed the Firm to discuss cash overdrafts and the accounting records and inquired about the Firm's treatment of beginning and ending year cash reconciliations and capital project expenditures.
- We examined the capital projects accounting records to determine the extent of activity during our audit period.
- We reviewed the AUD filing dates for the past six years and the audited financial statements issued by the Firm for 2013-14 and 2014-15 to determine if they were filed in a timely manner.

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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APPENDIX E
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller

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