



Town of Schaghticoke Water Operations

Report of Examination

Period Covered:

January 1, 2015 – June 30, 2016

2016M-390



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2017

Dear Town 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 Town 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 Town of Schaghticoke, entitled Water 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*

Introduction

Background

The Town of Schaghticoke (Town) is located in Rensselaer County and has approximately 7,600 residents. The Town is governed by an elected five-member Town Board (Board), which is composed of the Town Supervisor and four council members. The Board is responsible for the general management and oversight of the Town's financial operations, including establishing internal controls over water operations. The Supervisor serves as the Town's chief executive and chief fiscal officer. The Budget Director, who is appointed by the Board, assists the Supervisor in these duties. The Board is responsible for the general management and control of the Town's financial affairs and has the authority to set the rates for water user fees.

The Town operates seven water districts with a total of 1,193 customers who are billed based on water usage. The water district clerk is responsible for maintaining the Town's water customer accounts and for billing, receiving and recording payments, making bank deposits and making adjustments to accounts. The Town's total budgeted appropriations for 2016 were approximately \$4.3 million, including \$688,799 for the water districts.

Objective

The objective of our audit was to evaluate the Board's oversight of the water districts. Our audit addressed the following related question:

- Did the Board provide adequate oversight of the water districts' financial operations?

Scope and Methodology

We examined the water districts' financial operations for the period January 1, 2015 through June 30, 2016.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. 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 Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town 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 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 Town to make this plan available for public review in the Clerk's office.

Water Operations

The Board should establish policies and procedures that provide guidance for employees involved in the billing and collection of water charges to ensure water rents are accurately billed, collected, deposited and accounted for. This requires the segregation of incompatible duties or implementation of compensating controls when it is not feasible to segregate duties. In addition, the Board should approve all water billings and adjustments to water bills prior to any adjustments being made. New York State Town Law also requires the Board to annually audit the records and reports of any Town officer or employee who received or disbursed any money in the previous year, including the water clerk (clerk).

The Board has not adopted and implemented adequate policies and procedures to guide employees involved with water billings and collections. Also, the Board did not approve water billings and customer account adjustments, and did not perform an annual audit of the clerk's records and reports.¹

Billing Records— The Supervisor, as chief fiscal officer, is responsible for ensuring that water rents are properly accounted for. The Supervisor should maintain a master list of water district customers independent of the records maintained by the clerk to ensure all customers are properly billed and water rents are collected as billed. The Board has assigned the clerk the responsibility for maintaining complete records of water rent billings as well as customer files even though this is a responsibility of the Supervisor and not the Town Clerk. The Town operates a total of seven water districts, which are billed semiannually.² The Town bills customers based on water usage recorded on water meters, which are electronically read by the Water Superintendent using a handheld device, although in some instances he needs to manually input the water meter readings. The clerk mails the bills on or about the 15th of the month and the customer has 30 days to pay the bill without penalty. If the payment is not received within the 30 days, a 10 percent penalty is affixed to the bill.

The Town has not developed a master list of customers and, as a result, the Board could not approve a master list of customers independent of the clerk's records or verify the number of customers billed and whether customers were billed accurately, payments were properly recorded and the payments received matched the amount billed.

¹ The Board did not audit any records of departments that were collecting payments (including those of the Town Clerk, clerk and Justice Court).

² Three districts are billed in January and July, two districts are billed in February and August and the remaining two districts are billed in March and September.

We determined that during our audit period, the seven water districts consisted of 1,193 customers. We selected 25 customers³ and recalculated the bills by multiplying the water usage times the Board approved rates. We found that each customer's bill was accurately calculated, the payments were properly recorded and the payments made during the grace period matched the amount billed. Except for minor exceptions that were discussed with Town officials, we found that penalties were properly affixed to customer bills.

Collections — The clerk is responsible for maintaining adequate cash receipt records, which document the amount and the form of payment received (e.g., cash or check) and the collection date. The clerk should prepare detailed duplicate deposit slips to document the money collected. Such detailed receipt and deposit records should be maintained to ensure that all money collected is deposited, and that deposits are timely⁴ and intact.⁵

The Board authorized the clerk to accept payments for water usage in the form of cash or check. Customers may pay their bill in person at the Town hall or submit payment by mail. When customers pay the bill at the Town Hall, the bottom portion of the bill is retained for the clerk's records and the top portion is date stamped and initialed by the clerk with the amount paid circled, and returned to the customer. The customers who submit their payments by mail may receive a receipt if requested. All payments received, both in person and through mail, are recorded in a pre-numbered duplicate receipt book.

To determine if collections were deposited intact and in a timely manner, we randomly selected and reviewed three months of collections during our audit period. The months selected were March 2015, August 2015 and June 2016, which contained 720 receipts totaling \$89,592. We traced the receipts recorded on the cash report generated from the computerized billing software to the pre-numbered duplicate receipts and then to the deposit tickets and bank statements for these months. We found collections were deposited intact and in a timely manner.

Board Approval and Adjustments — Obtaining prior Board approval of water billings and customer account adjustments helps ensure adjustments are completed in a consistent manner, for appropriate

³ See Appendix B, Audit Methodology and Standards, for our sample selection methodology.

⁴ New York State Town Law (Town Law) requires the Supervisor to deposit money received no later than 10 days after receipt. While the Town Clerk and clerk made deposits, the Supervisor is responsible for ensuring they were made timely.

⁵ Money deposited in the same order and form (cash or check) in which it was received.

purposes and reduces the opportunities for unauthorized adjustments or reductions in billings. Recording the total amount billed not only informs the Board of amounts expected to be collected, but also provides the basis for establishing accountability to those charged with collecting and reconciling amounts billed.⁶ It also helps prevent unauthorized changes to billing totals from occurring after bills are sent out.

The clerk did not provide the Board with a report that included the District's billing registers for the semiannual billing cycles, totaling \$265,450 in the 2015 fiscal year. Also, the Board did not approve water billing adjustments made by the clerk. The clerk adjusted water bills for various reasons, such as adjusting the penalty because the customer did not receive the bill or waiving the penalty due to a delay in the delivery of the mail. The clerk was not required to request Board approval prior to making these adjustments or provide the Board with a list of adjustments made. We randomly selected 25 adjustments totaling \$3,173 that the clerk made to water customer accounts. We reviewed the supporting documentation and information provided by the clerk and found that the adjustments were for appropriate purposes. However, without prior 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.

Annual Audit — The Board is required to annually audit, or cause an audit of, the clerk's records and reports. The purpose is to verify that the records are maintained in accordance with established procedures, transactions are properly recorded and cash is properly accounted for. It also provides Board members with an added measure of assurance that the financial records and reports contain reliable information on which to base financial decisions. The annual audit is especially important when there is limited or no segregation of duties.

The Board did not audit or cause an audit of the clerk's financial records during our audit period. As a result the financial transactions of the Town's water operations were not audited. The Board's failure to perform the required annual audit diminishes its ability to monitor the Town's water operations and increases the risk that errors and irregularities could occur, go undetected and remain uncorrected.

Recommendations

The Board should:

1. Establish policies and procedures to provide guidance to employees involved in the billing and collection of water charges.

⁶ The total amount to be billed for each semiannual period should be recorded in the Board's meeting minutes.

2. Ensure that the Supervisor, or someone working under his direction, accounts for water rents billings and collections.
3. Review and approve all water districts' semiannual billing registers received from the Supervisor and verify them against the customer master list.
4. Implement billing adjustment procedures that require Board approval for all adjustments including written documentation of the reasons for such adjustments.
5. Perform an annual audit of the clerk's records and reports.

The Supervisor should:

6. Account for water rent billings, adjustments and collections.
7. Establish a master list of customers and use it to verify that all customers are billed appropriately; and provide semiannual billing registers to the Board for approval.
8. Provide the Board with details on all necessary adjustments to bills and obtain approval for each adjustment.

The clerk should:

9. Deposit collections to the Supervisor's account and provide the Supervisor with a list of paid bills included in each deposit.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



July 25, 2017

[REDACTED]
NYS Office of the State Comptroller
Division of Local Government and School Accountability
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, NY 12801

[REDACTED]
I am in receipt of the Report of Examination for the Town of Schaghticoke for period covered January 1, 2015 through June 30, 2016 wherein you examined the water operations in the Town Clerk's office.

I have read your report and in conjunction with the Town Board, I will address your recommendations. Upon that time, I will give a formal response to be included in this audit.

Thank you.

Very truly yours,

Jean Carlson
Supervisor
TOWN OF SCHAGHTICOKE

JMC/nh

JEAN CARLSON

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials to gain an understanding of water operations; determine if the Town had adopted policies and procedures over water billing and collection; determine whether the water operation functions were adequately segregated; and gain an understanding of the reports provided by the clerk to the Board.
- We reviewed the Board meeting minutes to determine if the Board approved billing registers and adjustments to customer water accounts.
- We selected 25 customers (eight Town employees and 17 randomly selected customers) to determine if each customer was billed correctly.
- We randomly selected three months during our audit period and reviewed collections during those months to determine whether they were deposited intact and in a timely manner.
- We randomly selected 25 adjustments to determine whether adjustments were for proper purposes and authorized by the Board.

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 C

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