

# Town of Highlands

## Water and Sewer Funds' Financial Condition

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JANUARY 2022

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OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Town of Highlands

### Audit Objective

Determine whether the Town of Highlands (Town) Board (Board) and Town officials effectively managed the financial condition of the water and sewer funds.

### Key Findings

The Board did not effectively manage the Town's financial condition of the water and sewer funds.

- The Board did not monitor and amend the budgets as necessary.
- The water fund had a negative unassigned fund balance since 2016. As of December 31, 2020, the unassigned fund balance was negative \$370,229 and the water fund owes \$490,922 to other funds.
- Loans from other funds were not repaid by the end of the fiscal year, as required.
- For 2016 – 2020, officials budgeted for non-existing debt payments and reserve transfers that were not made totaling \$430,000.
- Multiyear financial and capital plans have not been developed.

We also released *Town of Highlands – Receiver of Taxes and Assessments (2021M-120)*, which reported water and sewer parcels were not properly billed and late payment penalties were not properly assessed.

### Key Recommendations

- Make accurate estimates based on the most current and accurate information available for revenues and expenditures to ensure the water and sewer funds remain self-sufficient.
- Monitor and amend the budget as needed.

Town officials generally agreed with our findings and indicated they plan to initiate corrective action.

### Background

The Town is located in Orange County and is governed by an elected five-member Board composed of four Board members and the Town Supervisor (Supervisor). The Board is responsible for the general oversight of the Town's operations and finances.

The Supervisor is responsible for the Town's day-to-day management. The Town Comptroller (Comptroller) is responsible for receipt, disbursement and custody of Town money and preparation of the budget.

### Quick Facts

2020 Budget	\$6.6 Million
Unplanned Water Fund Operating Deficits	\$232,318
Water Fund Balance Deficit (as of 12/31/20)	\$370,229

### Audit Period

January 1, 2017 – March 6, 2018

We extended the audit period back to January 1, 2016 and forward to December 31, 2020 to analyze operating results and revenue and expenditure trends.

# Water and Sewer Funds' Financial Condition

## What Is Effective Financial Condition Management?

A properly constructed budget is a key instrument in a town's day-to-day operations. A significant error contained within the budget could have severe consequences. Therefore, it is important to prepare the budget using realistic estimates, based on the most current and accurate information available and historical trends.

According to New York State General Municipal Law (GML) Section 9-A, a town may temporarily advance money held in any fund to any other fund, provided the temporary advance is authorized and suitable records are maintained. All money must be repaid to the fund from which it was advanced, no later than the close of the fiscal year. Though, due to the COVID-19 pandemic, the repayment was extended to two years for the year 2020 only. If advanced money is from a fund with a different tax base, the repayment must include an amount reasonably estimated to be paid in interest.

Additionally, a board should create multiyear financial and capital plans. Planning on a multiyear basis allows town officials to identify developing revenue and expenditure trends, set long-term priorities and goals, and consider the impact of current budgeting decisions on future fiscal years. It also allows officials to assess the impact and merits of alternative approaches to address financial issues, such as the use of fund balance to finance operations. The board must monitor and update long-term financial plans on an ongoing basis to ensure that its decisions are guided by the most accurate information available.

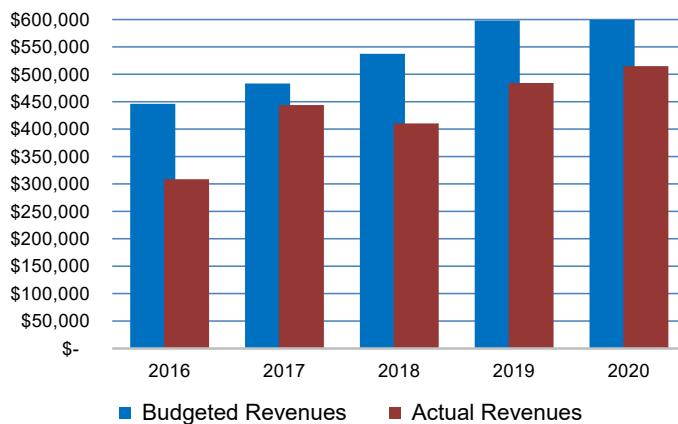
A properly constructed budget is a key instrument in a town's day-to-day operations.

## Officials Overestimated Water Fund Revenues

We compared budgeted expenditures and estimated revenues for the water fund in the adopted budgets with actual operating results for 2016 through 2020 and found that expenditures were generally reasonable. However, Town officials overestimated revenues, resulting in actual revenues being about \$502,000 (19 percent) less than budgeted (Figure 1).

**FIGURE 1**

**Water Fund Budget vs Actual Revenues**



We identified two water districts where actual revenues for residents' water usage were consistently less than budgeted in each of the five fiscal years (Figure 2). We found several factors contributed to the shortfall of these two revenues:

- Each year, the Board adopts a list of each parcel

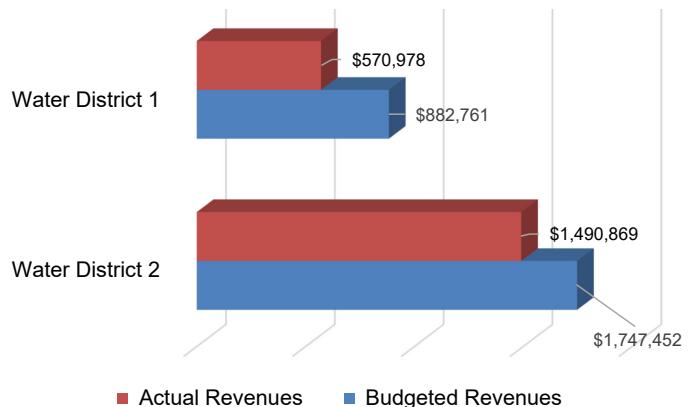
to be billed for water with a certain number of points per parcel. Then the estimated amount of appropriations for administrative costs is divided by the total number of points to determine the cost per point. However, there were 10 parcels on the adopted list that did not have an account established and, therefore, were not billed for the administrative points. This resulted in less revenues being collected than estimated.

- The Town purchases water to supply to residents and is billing residents the same price per gallon as it pays for water, which does not include the Town's overhead, administrative costs or unaccounted-for water use/loss (flushing hydrants, leaks, etc.).

The Board's failure to monitor and amend the budget as necessary throughout the year resulted in operating deficits in four of the five previous fiscal years. Further, the water fund has had a negative unassigned fund balance since 2016. As a result, the water fund has continued to borrow money from other operating funds to finance operations, resulting in an increase to the amount due to other funds over the last five fiscal years without any repayments to the other funds being made. As of December 31, 2020, the water fund had a negative unassigned fund balance of \$370,229 and owes \$490,922<sup>1</sup> to other funds. Officials were required to repay the loans at the end of each fiscal year, but they were not repaid. As a result of borrowing the money over the last five fiscal years, interest totaling \$1,192 has accrued and is owed to the general fund.

**FIGURE 2**

**Budget to Actual Water Fund Revenues 2016 through 2020**



<sup>1</sup> To the general fund for water district #2: \$348,135; To the general fund town - outside village for water district #2: \$127,127 and to the general fund for water district #1: \$15,660.

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## Officials Budgeted for Non-Existing Bond Expenditures and Transfers

In 2016 through 2020, the Town budgeted for bond principal and interest payments totaling \$380,000 for a bond that it had not taken out and budgeted for transfers to a reserve totaling \$50,000 that were not actually made. This resulted in \$430,000 of budgeted expenditures and transfers not actually being made from 2016 through 2020. As a result, the sewer fund had additional funds to cover unbudgeted expenditures that arose for fiscal years 2016 through 2019. However, in 2020, the actual expenditures exceeded the additional funds and an operating deficit resulted. Town officials told us actual expenditures exceeded estimated expenditures in 2020 because of unexpected costs for repairs.

Budgeting for bond and interest payments for debt that does not exist and budgeting for reserve transfers each year that are not actually made are not transparent budgeting practices.

## The Board Did Not Develop Multiyear Financial and Capital Plans

The Town has not developed a multiyear financial or capital plan. The Town Comptroller told us they did not develop a multiyear financial plan and capital plan because it is a small town with limited staff and they have not had the opportunity to do so. As a result, the Town does not have a plan outlining what will happen to its ability to pay for and provide services, given a set of policy and economic assumptions. Furthermore, without these plans, the Board cannot assess expenditure commitments, revenue trends, financial risks and the affordability of new services and capital investments.

## What Do We Recommend?

The Board should:

1. Make accurate estimates based on the most current and accurate information available for revenues and expenditures to ensure the water and sewer funds remain self-sufficient.
2. Monitor and amend the budget as needed.
3. Develop a plan to address the negative fund balance in the water fund, which includes provisions to repay the outstanding interfund loans from other operating funds including applicable interest on the borrowings.
4. Develop and adopt multiyear financial and capital plans.

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Budgeting  
for bond  
and interest  
payments  
for debt that  
does not  
exist and  
budgeting  
for reserve  
transfers  
each year  
that are  
not actually  
made are not  
transparent  
budgeting  
practices.

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# Appendix A: Response From Town Officials



Kelly Pecoraro  
Comptroller

Chartered December 3rd, 1872

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Highland Falls, NY 10928  
(845) 446-4280 ext 325  
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January 10, 2022

Office of the State Comptroller  
110 State Street  
Albany, NY 12236  
Attn: Lisa Reynolds

Unit Name: Town of Highlands  
Audit Report Title: Water and Sewer Funds' Financial Condition  
Audit Report Number: 2021M-152

Dear Ms. Reynolds:

Below please find the Town of Highlands' audit response and corrective action plan for each of the recommendations in your audit report.

**Board Recommendations:**

1. *Make accurate estimates based on the most current and accurate information available for revenues and expenditures to ensure the water and sewer funds remain self-sufficient.*

The Town of Highlands agrees with the recommendation above and has implemented the following. The Town is in the process of reviewing our water billing to ensure that we are billing correctly to meet the needs of the budget. The Board is reviewing our water rates with the goal of ensuring the funds are self-sufficient. During the 2022 budget process all items in the water fund and sewer fund budgets were analyzed in order to ensure our estimates were based on accurate information.

The Board has also taken measures to ensure that water and sewer billing is accurate, a key component to the funds remaining self-sufficient. Before any water or sewer bills are sent out, the Town Comptroller now reviews the preliminary billing register for accuracy. The billing register is compared to the Town Budget and to the prior period billing register. The number of accounts, dollar amount of the register and in the case of water bills, the consumption are reviewed for reasonableness.

2. *Monitor and amend the budget as needed.*

The Town of Highlands agrees with the recommendation above and has implemented the following. During the 2022 budget process all items in the water fund and sewer fund budgets were analyzed in order to ensure our estimates were based on accurate information. The Town Comptroller's office prepares monthly reports for the water and sewer funds that show actual vs. budget amounts. These reports are

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distributed to the Town Board and to the Department Heads for the review and input. Amendments and budget transfers will be prepared as determined necessary.

3. *Develop a plan to address the negative fund balance in the water fund, which includes provisions to repay the outstanding interfund loans from other operating funds including applicable interest on the borrowings.*

The Town Board and the Town Comptroller are in the process of developing a plan to eliminate the negative fund balance and repay the interfund loans. The Board is reviewing our water rates with the goal of ensuring the funds are self-sufficient. During the 2022 budget process all items in the water fund and sewer fund budgets were analyzed in order to ensure our estimates were based on accurate information. Based on preliminary data for 2021, the Town Board anticipates a reduction in the negative fund balance for this fiscal year.

4. *Develop and adopt multiyear financial and capital plans.*

The Town Board agrees with this recommendation and has already begun implementing the recommendation. During the 2022 budget process each department was required to submit a 5 year capital plan. The Town Board and the Town Comptroller will be compiling this information into a formal financial plan during the upcoming fiscal year.

The Town Board of the Town of Highlands appreciates the efforts of the Office of the State Comptroller. We are pleased that we have been able to plan and implement our corrective action plan and address the negative fund balance issue for the water funds. If you require any additional information please do not hesitate to contact me at (845) 446-4280 extension 312 or via email at [blivsey@highlands-ny.gov](mailto:blivsey@highlands-ny.gov).

Best Regards,

Mervin R. Livsey  
Town Supervisor

## Appendix B: Audit Methodology and Standards

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We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We reviewed Board meeting minutes, Board-adopted policies, and water and sewer codes.
- We interviewed Town officials to gain an understanding of the processes and procedures relating to the financial condition of the water and sewer funds and the billing and collection of water and sewer fees.
- We reviewed the due to/due from account balances and interfund advances for the water and sewer funds to determine if interfund transfer amounts are increasing, and if these funds are being subsidized by other funds. We calculated the total amount of interest due for the last five fiscal years based on the interest rate of 0.05% from the Town's banking website.
- For the water and sewer funds, we entered the adopted revenues and expenditures by line per year and the actual revenues and expenditures by line per year. We calculated any difference in adopted revenues to actual revenues and any adopted expenditures to actual expenditures.
- For the water and sewer funds, we entered the actual revenue and expenditures by line per year and totaled the revenues and expenditures to determine any deficits.
- For the water and sewer funds, we entered all revenues and expenditures per line for fiscal years 2016 through 2020 and calculated the operating surplus or deficit for each year by subtracting expenditures from revenues. Then we totaled the operating results for the last five years and calculated the average operating results. We added the average operating results to the beginning fund balance to calculate the projected fund balance for the next three years.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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.

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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 provided 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 the CAP available for public review in the Clerk's office.

# Appendix C: Resources and Services

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## **Regional Office Directory**

[www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf)

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[www.osc.state.ny.us/local-government/publications](http://www.osc.state.ny.us/local-government/publications)

**Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems  
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**Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management  
[www.osc.state.ny.us/local-government/publications](http://www.osc.state.ny.us/local-government/publications)

**Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans  
[www.osc.state.ny.us/local-government/resources/planning-resources](http://www.osc.state.ny.us/local-government/resources/planning-resources)

**Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders  
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**Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller  
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## Contact

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