



Village of Albion

Water and Sewer Rents

Report of Examination

Period Covered:

January 1, 2010 — March 15, 2013

2013M-108



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2013

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 Albion, entitled Water and Sewer Rents. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Village of Albion (Village) is located in the Town of Albion in Orleans County and has approximately 6,000 residents. The Village provides various services to residents, including water, sewer, street repair, plowing, police and fire protection, emergency service, and general government support. Budgeted appropriations for the general, water, and sewer funds in the 2012-13 fiscal year totaled \$6.5 million, funded primarily by real property taxes, sales tax, State aid, and user charges.

The Village is governed by an elected Board of Trustees (Board) comprised of four Trustees and a Mayor. The Board is responsible for the general oversight of Village operations and the design and implementation of internal controls to safeguard assets from loss or misuse. The Mayor is the chief executive officer and appoints all non-elective officers, subject to Board approval, including the individual who serves as both Clerk and Treasurer. The Treasurer is the chief fiscal officer and is responsible for the receipt, disbursement, and custody of Village moneys, maintaining the accounting records, and filing financial reports. The Clerk is responsible for keeping a record of all Village resolutions and local laws, and has custody of the Village's books, records, papers, and all of the Board's official reports and communications.

Objective

The objective of our audit was to examine internal controls over the billing and collection of water and sewer rents. Our audit addressed the following related question:

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

Scope and Methodology

We examined the billing, collecting, recording, and depositing of water and sewer rents of the Village for the period January 1, 2010, to March 15, 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Clerk-Treasurer's office.

Water and Sewer Rents

The Board is responsible for designing adequate procedures to safeguard Village resources. An effective system of internal controls over water and sewer rents ensures that usage is properly billed and all moneys are collected, recorded, deposited, and accounted for. The Board is responsible for segregating duties so that no one person controls all phases of a transaction. In addition, master meters that measure the amount of water flowing into the system and other large meters should be tested and calibrated on a regular basis, and master meter readings should be compared to the total amount of water billed to help ensure that billings are accurate. Cash and checks should be deposited intact, that is, in the same form and amount as received, within 10 days of receipt.¹ Village officials should issue press-numbered duplicate receipts when no other evidence satisfactory for the purpose of audit is available.²

The Board did not establish adequate internal controls over the billing, collection and accounting for water and sewer rents. For example, the Board did not properly segregate the duties of the water clerk. As a result, the water clerk billed, collected, recorded, deposited, and adjusted water and sewer bills with only limited oversight. The Board also did not ensure that large meters were tested and calibrated on a regular basis to help ensure that bills, especially those for the Village's largest customers (the correctional facility and other municipalities), were accurate. We analyzed water usage trends and noted that they were inconsistent. Finally, the water clerk did not deposit moneys intact or timely or issue duplicate receipts to provide accountability for set-up fees paid by new customers. As a result, there is a high risk that errors or irregularities could occur and go undetected.

Segregation of Duties — Proper segregation of duties ensures that no one person controls all phases of a transaction and provides for the work of one employee to be verified by another employee in the course of his or her duties. Having the same person perform all the key duties for a transaction (e.g., billing, collecting, recording, and depositing) with little oversight weakens internal controls and significantly increases the risk that errors and/or irregularities might occur and go undetected.

The water clerk is responsible for uploading electronic meter readings to prepare water and sewer bills, collect and record payments, prepare

¹ Village Law

² General Municipal Law

and make deposits, and adjust bills. The Board has not provided for acceptable duty segregation by assigning functions so that one person could verify the work of another, or ensuring that someone not involved with the process could be responsible for reviewing billing records periodically.

Billing — The water clerk is responsible for preparing water and sewer bills based on metered water consumption and the rates established by the Board. Because water meters can lose their accuracy over time, the Village is responsible for periodically testing and recalibrating its largest meters to provide assurance that the metered readings used for billing purposes are accurate.

Residential meters are read remotely and uploaded into the Village’s billing software quarterly. Billings for the correctional facility and other municipalities (see Table 1) are based on meters manually read each month by the Village’s Department of Public Works. We reviewed 50 residential customer accounts from the July 2012 billing register and found that all customers tested were billed the appropriate amount. We also obtained 23 meter readings for 2011 and 2012 to recalculate monthly billings to the correctional facility and the four municipalities. Our tests did not disclose any material errors with respect to the calculation of bills, and the variances between actual usage recorded by the largest meters and the amounts billed were immaterial.

However, we noted that the Village has not regularly tested or calibrated its largest meter that measures the amount of water entering the distribution system from the Village’s water plant. Given the variances in the water usage recorded by the Village’s largest meters, which accounts for approximately 75 percent of water usage, the accuracy of some of the meter readings is suspect, as indicated in the chart below:

Table 1: Water Usage by Calendar Year (Gallons)

	2009 Usage	2010 Usage	2011 Usage	2012 Usage	Percent Change 2009-2010	Percent Change 2010-2011	Percent Change 2011-2012
Correctional Facility	107,579,700	81,137,000	69,915,900	72,188,726	(25%)	(14%)	3%
Town of Carlton	22,119,064	76,006,815	57,190,600	63,573,336	244%	(25%)	11%
Town of Gaines	91,344,000	73,010,598	64,059,000	73,810,000	(20%)	(12%)	15%
Town of Albion	6,313,000	7,715,820	8,460,980	7,839,430	22%	10%	(7%)
Town of Barre	72,013,000	72,055,000	75,381,000	78,026,000	0%	5%	4%

Village officials were unable to provide an explanation for the unusual water usage trends, such as those noted for the Towns of Carlton and Gaines. The Water Department Superintendent indicated that the water usage at the correctional facility has decreased because of a

decline in the inmate population and improvements the State made to the facility's infrastructure. Additionally, in 2010, a 'bar screen leak' at the correctional facility, which resulted in the loss of 30,000 gallons per day, was detected and corrected. By ensuring that these large meters are accurately reading water usage, the Village will have more assurance that the bills to their largest customers are correct.

Collection — An effective system of internal controls over water and sewer rents ensures that all moneys are collected, deposited, and recorded. A separate cash drawer should be used by each employee who collects payments. Computers should be password protected and have log-in requirements to provide an audit trail for each user who records payments. Deposits should be made intact and all moneys should be deposited within 10 days of receipt. When no other evidence satisfactory for the purpose of audit is available, Village officials should issue press-numbered duplicate receipts.

We found that the water clerk, Clerk-Treasurer, and two other clerical employees share a common cash drawer and input customer payments on the same computer. This computer does not have login requirements; therefore, any employee is able to record payments without an audit trail to evidence which individual received and recorded the payment. We also found that cash and checks were not deposited intact within 10 days of collection and that press-numbered duplicate receipts were not issued.

We compared 70 deposit compositions to the corresponding cash receipt journal and noted that 65 of these deposits were not made intact for two reasons. First, Village officials were cashing personal checks from health insurance reimbursements. We noted 22 checks payable to Village employees totaling \$1,038 that were included in the deposits. Second, Village officials did not deposit account set-up fees paid in cash as they were received from customers.

The Village imposes a \$25 set-up fee for new water and sewer customers. The water clerk told us that, when a customer paid the fee in cash, she would set the cash aside until she had time to add the new account into the billing system. She also indicated that when a customer paid the fee by check, she would deposit the check with the daily receipts, but remove \$25 in cash from the daily collections and set it aside until she had a chance to create the new account in the billing software. Therefore, the cash often was not deposited within 10 days, contrary to the requirements of Village Law. Additionally, the water clerk did not prepare a press-numbered duplicate receipt when the customer paid the set-up fee. Instead, she told us she manually recorded the transaction on a blank two-part billing ticket, providing one part to the customer and retaining the other part.

For example, we found that 10 checks totaling \$367 for nine set-up fees and one water and sewer payment were deposited prior to being recorded as received in the cash receipts journal. The December 30, 2010, cash receipts journal entry included two of the checks which were actually deposited on November 19, 2010, two checks actually deposited on December 7, 2010, and four checks actually deposited on December 23, 2010. The January 13, 2012, cash receipts journal entry included one check which was actually deposited on December 13, 2011, and one check actually deposited on December 30, 2011. We traced the nine checks representing the payments of set-up fees to the billing stubs the water clerk manually prepared, noting that the payments were marked received as cash (not checks) on the same day the transactions were recorded in the cash receipts journal, instead of the date the check was deposited.

Without adequate internal controls over the billing and collecting of water and sewer rents, there is a significantly higher risk that errors could occur and go undetected.

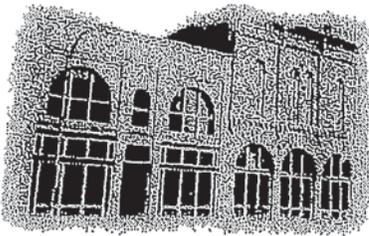
Recommendations

1. The Board should segregate the water and sewer billing, collecting, recording, depositing, and adjusting duties or implement compensating controls, such as routine management oversight activities of the billing records.
2. The Board should ensure that the master meter is recalibrated periodically.
3. The Village should discontinue the use of a common cash drawer and utilize a single-user cash drawer, and login and password requirements for each employee accepting customer payments.
4. The Village should deposit all moneys collected intact within 10 days of collection.
5. The Village should issue press-numbered duplicate receipts where no other evidence satisfactory for the purpose of audit is available.
6. The Village should discontinue the practice of cashing employee checks.
7. Village officials should promptly record all checks and cash in the form they are received in the cash receipts journal as payments from customers are received.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



Village of Albion

Incorporated 1828

35 East Bank Street
Albion, NY 14411
585-589-9176 • 585-589-1218 fax

Stirk Block - circa 1923
TDD 1-800-662-1220

Dean A. Theodorakos - Mayor
Kevin P. Sheehan - Deputy Mayor
Eileen S Banker - Trustee
Fred Miller - Trustee
Peter Sidari - Trustee
Linda K. Babcock - Clerk Treasurer
John C. Gavenda - Attorney

June 13, 2013

NYS Office of the State Comptroller
295 Main Street; Suite 1032
Buffalo NY 14203-2510

Unit Name: Village of Albion
Audit Report Title: Water and Sewer Report of Examination
Audit Report Number: 2013M-108

Dear [REDACTED],

Please accept this correspondence as both our response letter and our CAP. For each recommendation included in the audit report, the following is our corrective actions taken or proposed.

1. Audit Recommendation:

The Board should segregate the water and sewer billing, collection, recording, depositing and adjusting duties or implement compensating controls, such as routine management oversight activities of the billing records.

Implementation Plan of Action:

The water billing clerk does not prepare the deposits. These have always been done by someone else in the Office. The billing clerk "spins off" (which has all billing, corrections, payments and adjustments the clerk has done) monthly and the Clerk-Treasurer is responsible for posting all entries. To provide further management oversight, the Village Clerk-Treasurer will manually scan through the reading/billing journal's and sign off and date all reports. Also, the Water Billing Clerk will run daily, a report to verify all cash and checks match the report.

Implementation Date:

Further Management Oversight - June 2013

Person Responsible for Implementation:

Linda K Babcock, Clerk-Treasurer

2. Audit Recommendation:

The Board should ensure that master and other large meters are recalibrated periodically.

Implementation Plan of Action:

The Superintendent of Public Works oversees the testing of all large meters other than the Water Treatment Plant's master meter. All large meters except for the one at the Water Treatment Plant have always been tested yearly.

Implementation Date:

WTP master meter – tested by [REDACTED] using their electromagnetic flow meter May 2013. Currently the Water Treatment Plant Superintendent is getting quotes to purchase a meter that will replace the meter so it can be sent out to get fully tested.

Person Responsible for Implementation:

Kevin M Miller, Water Treatment Plant Superintendent

3. Audit Recommendation:

The Village should discontinue the use of a common cash drawer and utilize a single user cash drawer and login and password requirements for each employee accepting customer payments.

Implementation Plan of Action:

The water clerk will be the employee responsible for the cash drawer. The other office staff who receive cash payments will put the money, along with the payment stub in a bank bag for the water clerk to confirm the cash payment before placing the cash in the drawer.

Implementation Date:

June 7, 2013

Person Responsible for Implementation:

Linda K Babcock, Clerk-Treasurer

4. Audit Recommendation:

The Village should deposit all moneys collected intact within 10 days of collection.

Implementation Plan of Action:

The Village deposits all moneys collected in tact within 10 days of collection.

Implementation Date:

February 2013

Person Responsible for Implementation:

Linda K Babcock, Clerk-Treasurer

5. Audit Recommendation:

The Village should issue press-numbered duplicate receipts, where no other evidence satisfactory for the purpose of audit is available.

Implementation Plan of Action:

The Village has purchase a press-numbered duplicate receipt book.

Implementation Date:

February 2013

Person Responsible for Implementation:

Linda K Babcock, Clerk-Treasurer

6. Audit Recommendation:

The Village should discontinue the practice of cashing employee checks.

Implementation Plan of Action:

The Village Office has discontinued the practice of cashing employee's health reimbursement checks issued by the Village of Albion.

Implementation Date:

February 2013

Person Responsible for Implementation:

Linda K Babcock, Clerk Treasurer

7. Audit Recommendation:

Village officials should promptly record all checks and cash in the form they are received in the cash receipts journal as payments from customers are received.

Implementation Plan of Action:

The Village promptly records all checks and cash in the form they are received in the cash receipts journal as payments from customers are received.

Implementation Date:

February 2013

Person Responsible for Implementation:

Linda K Babcock, Clerk-Treasurer

Sincerely,

Dean A Theodorakos
Mayor

June 13, 2013
Date

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by Village officials to safeguard Village assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on the area most at risk. Our initial assessment included evaluations of the following areas: financial condition, information technology, water and sewer rents, Clerk-Treasurer's records and reports, procurement, and payroll.

During the initial assessment, we interviewed appropriate Village officials, performed limited tests of transactions, and reviewed pertinent documents such as Board minutes, bank statements, and available financial records. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit the area most at risk.

To accomplish the objective of this audit and obtain valid audit evidence, our audit procedures included the following steps:

- We interviewed Village officials to gain an understanding of the internal control procedures over the billing, collecting, recording, and depositing of water and sewer rents from residents, the correctional facility, and municipalities.
- We obtained and reviewed billing registers, cash receipt journals, deposit compositions, receipt stubs, water quality reports, water consumption reports, meter readings, and tax rolls.
- Using a judgmental selection process to obtain a sample, we compared properties listed on the 2011-12 tax roll to the July 1, 2012, meter reading records and the July 2012 billing register to determine if properties listed on the tax roll were found in the meter reading records and the billing register. We then compared meter readings to the usages billed and recalculated the water/sewer bills, based on the water and sewer rates established by Board resolution.
- We obtained the 2011 and 2012 master meter readings and recalculated the usages billed to the correctional facility and other municipalities.
- We analyzed usage and revenue trends from 2008 through 2012 for water sold to the correctional facility and other municipalities and discussed unusual trends with Village officials.
- We performed a cash count for the water and sewer accounts.
- We obtained 70 bank deposit compositions from January 1, 2010, to May 31, 2012, and compared the detail of the compositions to the corresponding cash receipts journal. We reconciled differences between checks deposited and checks recorded in the cash receipts journal by reviewing the billing register, and the customer history detail, and by discussion with Village officials.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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