



Village of Perry

Water Accountability

Report of Examination

Period Covered:

June 1, 2012 — January 3, 2014

2014M-31



Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	4
Comments of Local Officials and Corrective Action	4
WATER ACCOUNTABILITY	5
Recommendations	6
APPENDIX A Response From Local Officials	7
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2014

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 Perry, entitled Water Accountability. 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 Perry (Village) is located in Wyoming County and has a population of approximately 3,700. The Village is governed by an elected Village Board (Board) comprised of a Mayor and four Trustees. The Board is responsible for the general management and control of Village finances.

The Mayor is the chief executive officer and is responsible for the general administration, coordination and supervision of Village operations. The Village Clerk/Treasurer (Treasurer) is the chief fiscal officer responsible for receiving and disbursing Village moneys, maintaining the accounting records and filing financial reports. The Deputy Village Clerk¹ (Clerk) is responsible for billing, collecting and recording water user charges. The Village's 2013-14 budgeted appropriations totaled \$2.3 million for the general fund, \$767,939 for the water fund and \$654,660 for the sewer fund.

The Village produces its own water and provides water services to approximately 1,640 residential and commercial accounts. The Water Plant Operator (Operator) reads the master water meter,² which records all water produced by the Village, on a monthly basis. The Village has approximately 1,560 meters, of which 465 meters have been upgraded from manual to electronic read.

A Department of Public Works (DPW) employee reads each meter quarterly, using a handheld electronic reader for those meters that have been upgraded. Using the handheld meter reader, the Clerk downloads the readings into the billing system. The Village is divided into three billing areas which are each billed quarterly. Therefore, the Village generates a water billing each month for one of the three areas. The Village charges a base rate of \$60 and an escalating rate for gallons used. If a bill goes unpaid for a month, a shut-off notice is sent. The customer is then given another two to three weeks to make a payment. If the customer does not make the payment, the Village shuts off the water.

Objective

The objective of our audit was to review the Village's water operations and addressed the following related question:

- Does the Village adequately monitor and reconcile the amount of water produced to the amount billed to customers to properly account for this resource?

¹ The Deputy Village Clerk is also the Department of Public Works secretary.

² According to the Operator, the master meter is calibrated annually.

**Scope and
Methodology**

We examined the Village’s records and reports for water operations for the period of June 1, 2012 through January 3, 2014.

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 is 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 agreed with our findings and recommendations and have initiated 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 Treasurer’s office.

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 usage throughout the system and identify areas that need attention, particularly large volumes of unaccounted-for water. Unaccounted-for water includes losses that can result for various reasons such as source meter errors, faulty customer meters, unmetered customers, accounting procedure errors, illegal connections, malfunctioning distribution system controls, storage tank overflows, underground leaks, flushing of fire hydrants and municipal use such as firefighting.

The Federal Environmental Protection Agency (EPA) has established an industry standard of 10 percent for unaccounted-for water system losses. Procedures should be in place to monitor and identify the cause of water loss that is greater than the industry standard. It is essential to perform a periodic reconciliation of water produced with water billed to provide responsible officials with the information necessary to detect and reduce water loss. A large volume of unaccounted-for water is a warning sign of significant infrastructure problems.

Village officials do not have written procedures for reconciling the water produced by the Village's water system, as measured by master meter readings, with the water billed to customers. Although the Operator prepared the Water Withdrawal Report to be submitted to the New York State Department of Environmental Conservation (DEC),³ he did not prepare formal reconciliations comparing the amount of water produced to the total amount metered and the estimated amounts for authorized unbilled uses. This type of reconciliation would have allowed Village officials to determine the amount of water loss, compare the rate of loss to industry standards and take steps to correct identified problems.

For the audit period, the Village could not account for 34 percent of the water produced. The Village produced 263 million gallons of water but billed its customers for 173 million gallons. After deducting the EPA's standard 10 percent allowance, unaccounted-for water was 24 percent of the amount produced.

³ The current Operator began in August 2012. The Water Withdrawal Report filed in March 2013 was the first this Operator filed.

Table 1: Unaccounted-For Water (in 1,000s)		
	Gallons	Percent
Gallons Produced	262,782	100%
Gallons Consumed	172,781	66%
Unaccounted-For	90,001	34%
EPA 10% Allowance	(26,278)	10%
Adjusted Unaccounted-For	63,723	24%

Metered water user charges are the primary source of revenue for the water fund. When unaccounted for water is due to inaccurate or malfunctioning meters or theft, the Village loses water revenues for the amount not billed. Using the rates⁴ paid by the Village customers and the 63.7 million gallons of unaccounted for water in excess of the standard industry allowance, we determined that the Village could have generated as much as \$330,000 if all of the unaccounted-for water was used by customers that would have been charged. However, while the Operator and Village officials were unable to provide specific reasons for the water loss, they believe that unmetered water services for various Village functions are the major contributors to the unaccounted-for water. The Operator indicated that there are Village-owned properties that receive unmetered water, such as the Village Hall, Fire Hall, Village Park and cemeteries, and that the Village uses unmetered water for flushing fire hydrants. In addition, the DPW Superintendent indicated that Letchworth State Park, which is also a Village water customer, has water main breaks fairly frequently.⁵

We estimate that it costs the Village approximately \$0.59 to produce 1,000 gallons of water. Therefore, the Village would save about \$38,000 if water production was reduced by 64 million gallons.

Recommendations

1. The Board should ensure that the Operator develops procedures for periodically reconciling the amount of water produced with the amount billed.
2. The Operator should perform a periodic reconciliation and remedy the causes of significant discrepancies of unbilled water in a timely manner.
3. The Board should ensure that all water services are metered and that meter readings are reviewed for reasonableness.

⁴ The calculation is based on the lowest rate per gallon charged to customers.
⁵ Based on the Village meter book, Letchworth State Park had one water leak during our scope period.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

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May 19, 2014

Office of the State Comptroller
Jeffrey D. Mazula, Chief Examiner
295 Main Street, Suite 1032
Buffalo, New York 14203

Re: Village of Perry
Period Covered: June 1, 2012 – January 3, 2014
Water Accountability
2014M-31

Dear Chief Examiner Mazula:

The Village of Perry would like to express its gratitude to your office for our recent audit. We are thankful for your recommendations to improve our water operations and accountability.

Upon reviewing the audit findings with the local examiner, this board agrees with the findings and has begun corrective measures to reconcile our water procedures. Please be advised that this audit response is also serving as the Corrective Action Plan.

Audit Recommendation:

- 1. The Board should ensure that the Operator develops procedures for periodically reconciling the amount of water produced with the amount billed.*

The Chief Operator and Deputy Village Clerk will begin to reconcile on a quarterly basis the amounts of water produced verses the amount billed and unmetered water use. This should ensure that if there is a potential water loss, it can be addressed in a reasonable, timely fashion. This quarterly reconciliation will begin at the end of the first quarter of the 2014-15 fiscal year.

Mr. Jeffrey D. Mazula

Page 2

May 19, 2014

2. *The Operator should perform a periodic reconciliation and remedy the causes of significant discrepancies of unbilled water in a timely manner.*

A water loss (usage) log was begun in January to approximate water used for fires, repairs at the water treatment plant, and to approximate loss from water main leaks. This log is kept at the Water Treatment Plant facility and all water operators are instructed to record any water loss known and approximate gallons of loss (usage). Backwash water for the filter beds at the treatment plant will be accounted for by reading the effluent meter.

3. *The Board should ensure that all water services are metered and that meter readings are reviewed for reasonableness.*

The Village has been purchasing water meters (with remote read) that are more accurate and can indicate if a location has a potential leak (or unusual usage). A master meter will be installed on one of the outside districts to ensure that all water passing through it will be billed to the district instead of relying on billing off individual customer's usage. The Chief Water Operator will work with the Supt. of Public Works to schedule this meter installation by the end of summer. Water meters are being replaced as part of our ongoing water meter replacement plan that began in 2011. The Village intends to have all of its meters changed to the remote read by 2016. Water meters will be installed by the water department to ensure that all village owned buildings, facilities, cemeteries and parks are metered. Two (2) new hydrant water meters have been purchased this spring to accurately measure water when filling of pools by the fire department. The fire department will also use these meters to measure the water used while performing drills. These meters will also be used by outside contractors that require water on the jobsite.

Thank you for your time to meet with the Village to explain your findings.

Respectfully,

Frederic R. Hauser
Mayor

FRH/gv

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of internal controls put in place by officials to safeguard Village assets. To accomplish this, we performed an initial assessment of internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, payroll and personal services, and the operations of the Court, Village Clerk/Tax Collector, and Highway and Water Departments.

During the initial assessment, we interviewed appropriate Village officials, performed limited tests of transactions and reviewed pertinent documents, such as Board minutes, financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of fraud, theft or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected water operations for further audit testing.

To accomplish our objective, our procedures included the following:

- We interviewed appropriate Village officials and employees to gain an understanding of water operations.
- We compared properties listed on an independent source document, such as the 2013 tax roll, which lists all taxable and exempt properties located in the Village, to water billing records to help ensure that all properties connected to the water system were receiving bills for usage.
- We compared the amount of water produced from the report the Village submitted to the DEC to the amount of water billed. We used this comparison to determine if water loss within the system was acceptable based on industry standards established by the EPA.
- We determined the value of the unaccounted-for water if all the water produced was billed to customers.
- We reviewed water production plant costs to determine the cost savings if water loss is reduced.

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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