

Village of Arkport

Water Fund Financial Operations

JULY 2020



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

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Report Highlights

Village of Arkport

Audit Objective

Determine whether the Village Board effectively managed the water service's financial operations.

Key Findings

- Complete and accurate accounting records were not maintained, the modified accrual basis of accounting was not used and interfund activity was not properly reported. As a result, the Board could not adequately monitor the water fund's financial operations.
- The Board did not properly segregate water billing and duties or establish compensating controls.
- Late penalties were not properly assessed on unpaid water bills.

Key Recommendations

- Maintain accurate accounting records including revenues and expenditures using the modified accrual basis of accounting.
- Segregate the Treasurer's financial duties or establish compensating controls, such as providing additional oversight of the Treasurer's work.
- Ensure billings comply with the Water Usage Law (WUL).

Village officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action. Appendix B includes our comment on an issue raised in the Village's response letter.

Background

The Village of Arkport (Village) is located in the Town of Hornellsville (Town) in Steuben County. The Village provides various services to its residents, including water which is funded by user fees.

The Village is governed by an elected Board of Trustees (Board) and a Mayor. The Board is responsible for the general management and control of the Village's finances and operations. The Board-appointed Treasurer is the Village's chief fiscal officer and is responsible for the custody and accounting of all Village money, as well as quarterly water billings and collections.

The Department of Public Works (DPW) Supervisor oversees the water department and is responsible for day-to-day operations.

Quick Facts

Population	844
Water Customers	370
2019-20 Water Appropriations	\$329,575

Audit Period

June 1, 2018 – February 19, 2020.

We extended the scope period back to June 1, 2016 to review the water fund's cash balances and interfund advances.

Water Fund Operations

The Village provides water service to 357 Village residents and 13 Town residents through a contract with the Town. Water meter readings are taken and billed quarterly in February, May, August and November. Each month, the Board receives reports from the Treasurer that detail the water fund's financials such as cash balances, revenues and expenditures as well as a departmental summary from the DPW Supervisor about the Village's water operations and updates on the progress of the water capital project.

How Should the Board Effectively Manage Financial Operations?

To effectively manage water operations, the board must ensure complete and accurate accounting records are maintained, the modified accrual basis of accounting is used and interfund activity is properly reported. The board is also responsible for providing guidance through the adoption of written policies and procedures for water billing and collection. This guidance should ensure that no one individual handles all aspects of a transaction. When it is neither practical nor cost-effective to segregate incompatible duties,¹ it is critical to implement compensating controls, such as review and approval of billings and adjustments.

Board guidance should outline all billing rates and special billing situations and provide for monitoring compliance with board-adopted policies and procedures. The Board adopted the WUL in 2009 to govern the fees and charges assessed to water customers. The Treasurer is responsible for accurately billing water customers based on water consumption through periodic meter readings and Board-adopted rates. According to the WUL, when a bill is 30 days in arrears, penalties should be assessed at 5 percent per month and termination notices should be sent for bills unpaid 30 days after the bill date.

The Board Did Not Ensure Complete and Accurate Accounting Records Were Maintained

We reviewed various financial records and transactions including water receipts and disbursement records and bank statements. We found the Treasurer did not maintain the accounting records using the modified accrual basis of accounting, but instead maintained them on a cash basis. In addition, she improperly recorded and reported interfund activity. The Village's May 31, 2019 accounting records contained the following inaccuracies:

- Water fund cash accounts totaled \$428,470, which were understated by \$16,091.
- Water rents receivable totaling \$47,516 were not reported.

¹ Incompatible duties include custody of assets, authorization or approval of transactions affecting those assets and recording or reporting of related transactions.

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- Due from other funds totaling \$19,255 were not reported.
 - Due to other funds totaled \$38,740, which were understated by \$38,353.
 - Revenues were understated by \$36,392.

Many of these errors can be attributed to the Treasurer's lack of training related to municipal accounting and the Village's computerized financial software. For example, the Treasurer repeatedly did not transfer funds from the water fund's bank accounts to the general fund's checking account that was used for all disbursements for the period July 1, 2017 through September 30, 2017 and payroll disbursements for the period July 1, 2017 through November 30, 2017. Therefore, interfund activity was not properly recorded and remains inaccurate and the Board cannot adequately monitor the water fund's financial operations.

The Board Did Not Properly Segregate Water Billing and Collection Duties

The Village Clerk (Clerk) collects water payments and logs them into a spreadsheet for the Treasurer. The Treasurer prepares the water bills, collects payments in the Clerk's absence, records all transactions in the computerized software and prepares deposits of customer payments. Either the Clerk or Treasurer take the prepared deposits to the bank. However, these individuals do not independently check each other's work.

Although the Treasurer and DPW Supervisor review various reports from the billing software to identify excessive, unusual or missing meter readings, the Treasurer makes adjustments to meter readings, billings, penalties, payments and customer accounts with no review or approval. The Treasurer also determines unpaid water accounts eligible for levy on Village taxes. Because compensating controls were not implemented, this concentration of key duties with one individual without sufficient oversight significantly increases the risk of errors and irregularities occurring and going undetected and uncorrected.

We reviewed and recalculated six quarterly water billings from the period May 2018 through August 2019 and verified unpaid amounts levied onto the Village property tax bills. We also traced 328 payments and three relieved account receipts totaling \$71,535 collected between August and October 2019 to supporting documentation from the Clerk. Although the error rates were not significant, the control weaknesses in the Village's water operations could allow significant errors and/or irregularities to occur and not be discovered. In addition, meter readings were generally consistent with previous readings and the metering software reports, or differences were reasonably explained; however, clear documentation supporting the Treasurer's and DPW Supervisor's adjustments to the meter readings was not maintained or approved.

The Treasurer Did Not Properly Assess Late Penalties

The Treasurer did not appropriately charge penalties for unpaid water bills. Every quarter the Treasurer applied a one-time 10 percent penalty to unpaid bills a month after the due date. However, according to the WUL, penalties should have been assessed for bills 30 days in arrears at 5 percent per month and termination notices should have been sent 30 days after the bill date. We selected 10 of the 81 accounts in arrears as of May 1, 2018 and recalculated their penalties according to the WUL. We found seven of the 10 delinquent accounts were undercharged a total of \$191 and three were overcharged a total of \$60. These errors occurred because the Treasurer was not provided procedures for water operations and unbeknownst to Village officials, the computerized billing software was erroneously set to charge 10 percent penalty once a quarter, instead of 5 percent each month of delinquency, since its implementation in 2017.

In addition, delinquent accounts are not terminated per the WUL, but allowed to remain unpaid for several quarters. As a result, the Board was unaware of the large number of unpaid water user fees and their negative impact on the cash flow of the water fund until it relieved unpaid user fees on the next fiscal years' Village real property tax bills. The Board relieved 33 (9 percent) accounts totaling \$17,006 and 38 or 10 percent of accounts totaling \$31,540 onto the Village's 2018 and 2019 taxes respectively. Therefore, 10 percent of the earned revenues were unavailable for use as planned.

What Do We Recommend?

The Board should:

1. Ensure the Treasurer is provided with municipal accounting and software training.
2. Develop policies and procedures for water billing and collection that segregate the Treasurer's financial duties or establish compensating controls, such as providing additional oversight of the Treasurer's work.
3. Approve all water billing and accounting adjustments.
4. Consult with Village counsel to determine whether the Village should seek to recoup funds that may have been underbilled and/or reimburse potentially overbilled water users.

Village officials should:

5. Maintain accurate accounting records including revenues and expenditures using the modified accrual basis of accounting.

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6. Maintain supporting documentation for all adjustments to meter readings, billings, penalties, payments and customer accounts.
 7. Ensure billings comply with the WUL by modifying the computerized billing software so that it assesses penalties in accordance with the WUL.
 8. Clarify the circumstances under which delinquent accounts will result in service termination and/or a levy of unpaid amounts on the tax roll.

Appendix A: Response From Village Officials



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June 18, 2020

VILLAGE OF ARKPORT

WATER FUND FINANCIAL OPERATIONS

2020M-45

NY State Auditors did an audit The Village of Arkport Water Fund operations – the time period was from June 1st, 2018 through February 19th, 2020 with the following recommendations and the Village of Arkport's Corrective Action Plan.

- 1) The Village Board should ensure the Treasurer is provided with municipal accounting and software training.

The Village Board agrees with the Auditors finding – that the Village Treasurer would greatly benefit from municipal accounting and software training.

Corrective Action Plan or CAP. The Village Treasurer will be taking advantage of either online or one of the several training opportunities offered by the State of New York.

- 2) The Village Board should develop policies and procedures for water billing and collection that segregate the Treasurer's financial duties or establish compensating controls, such as providing additional oversight of the Treasurer's work.

The Village Board agrees with the Auditors finding - Though the Village does have Policy and Procedures in place that the Village needs to clarify the segregation and make additional oversight of the Treasurer's work.

CAP – the Village of Arkport will be working on the Villages Policies and Procedures which includes establishing controls and additional oversight of the Treasurer's work.

- 3) The Village Board should approve all water billing and accounting adjustments.

The Village Board agrees that all water billing and accounting adjustments need to be approved by the Village Board

CAP- Any and all billing and accounting adjustment will be approved by the Village Board

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- 4) The Village Board should consult with Village counsel to determine whether the Village should seek to recoup funds that may have been underbilled and or reimburse potentially overbilled water users.

The Village Board agrees that the Village should consult to determine if the village should recoup funds that may have been underbilled and/or reimburse potentially overbilled water users.

CAP The Village Board has contacted Village Counsel in regards to the late fee penalty for water users.

- 5) The Village Officials should maintain accurate accounting records including revenues and expenditures using modified accrual basis of Accounting.

The Village Officials agree that we should be using Modified Accrual Basis of Accounting vs Cash Accrual.

CAP – The Village Officials have taken the recommendation of the Auditors and have started to put in place Accrual Basis of Accounting.

- 6) The Village Officials should maintain supporting documents for all adjustments to meter readings, billings, penalties, payments and customer accounts.

The Village Officials agree that any and all adjustments should have supporting documents.

CAP – The Village Officials will enforce that any and all adjustments will have supporting documents and Board approval.

- 7) The Village Officials should ensure billings comply with the WUL by modifying the computerized billing software so that it assesses penalties in accordance with the WUL

The Village Officials agree that the WUL and the computerized billing software should match.

CAP – at the April Board Meeting the Village Board made a resolution to change the WUL late fees to match the computerized billing software.

8. The Village Officials should clarify the circumstances under which delinquent accounts will result in service termination and / or a levy of unpaid amounts on tax roll.

The Village Officials stand behind the Village WUL which states the Village has the option to terminate service for unpaid water bills

CAP – The Village Officials will continue to abide by the Village WUL which state the Village has the “Right to Terminate” for unpaid water bills and will continue to levy unpaid water bills onto the County Taxes

Village of Arkport

Jon Hedges

Deputy Mayor _____

See Note 1 Page 8

Appendix B: OSC Comment on the Village's Response

Note 1

The WUL states that termination notices should be sent out for unpaid accounts 30 days after billing, and the Board may, by resolution, authorize the discontinuance of water services that are more than (90) days in arrears. Termination notices were not sent out, nor did the Board take action to terminate unpaid accounts. Village officials' decision to continue to allow unpaid accounts to remain delinquent until relevy, negatively impacts cash flow.

Appendix C: Audit Methodology and Standards

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 interviewed Village officials and employees to gain an understanding of water operations, billing and Board oversight of the funds including policies and procedures, reserves and long-term planning.
- We reviewed various financial records and transactions including water receipt and disbursement records and bank statements to determine whether the Treasurer was using the modified accrual basis of accounting and properly recorded financial activity.
- We recalculated water fund cash balances and interfund activity from June 1, 2016 through October 10, 2019.
- We analyzed meter readings for 370 billed customer accounts for the May 1, 2019 billing cycle and followed up with the Treasurer and other documentation to identify valid reasons for any inconsistencies.
- We tested the six most recent billing cycles (May 1, 2018 through August 1, 2019) containing 2,224 billings, recalculating bills and late charges. We completed an in-depth review of documentation supporting various billing arrangements and adjustments.
- We tested amounts levied on the 2018-19 and 2019-20 Village tax bills.
- To determine the effect of the incorrectly applied late penalties we took a random sample of 10 accounts out of the 81 with arrears as of the May 1, 2018 billing and recalculated the late penalties. We compared our calculations to what the Village charged and calculated the difference.

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.

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.

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 D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

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?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

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

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

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