



# Town of Union Financial Condition

## Report of Examination

Period Covered:

January 1, 2014 — December 31, 2015

2016M-192



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

August 2016

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 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 Union, entitled Financial Condition. 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 Union (Town) is located in Broome County and has a population of approximately 55,000 residents. The Town encompasses the Villages of Johnson City and Endicott. The Town Board (Board) is composed of four elected Council members and an elected Town Supervisor. The Board is the legislative body responsible for the general management and control of the Town's financial affairs. The Town Comptroller (Comptroller) is responsible for the Town's day-to-day financial operations.

The Town provides a variety of services to its residents, including road maintenance, snow removal, fire protection, water services, sewer services and general government support. The Town pays the Village of Johnson City (Village) and the Binghamton-Johnson City Joint Sewage Treatment Plant (Plant) for water and sewer services, respectively. The Town's 2016 budgeted appropriations for the general town-wide, water and sewer funds totaled \$4.9 million. The Town experienced significant flooding in 2011 that resulted in a decrease of total assessed value of approximately \$6 million.

## Objective

The objective of our audit was to evaluate the Town's financial condition. Our audit addressed the following related question:

- Did Town officials ensure revenues were sufficient to finance current expenditure levels?

## Scope and Methodology

We examined the Town's financial condition for the period January 1, 2014 through December 31, 2015. We extended our scope period back to January 1, 2013 to analyze trends in revenues, expenditures and fund balances.

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 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 take 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 Board to make this plan available for public review in the Clerk's office.

## Financial Condition

Financial condition may be defined as the ability to balance recurring expenditure needs with recurring revenue sources while providing the desired level of services on a continuing basis. The Board and Town officials are responsible for the financial planning and management necessary to maintain the Town's financial condition. This includes developing structurally balanced budgets based on expected results of operations.

Town officials are responsible for ensuring that water and sewer revenues are sufficient to finance operations. As such, officials should review water and sewer rent charges periodically to determine that revenues are sufficient to cover total costs of operations. Based on that review, the Board should revise, if necessary, the rent charges. Town officials are also responsible for controlling the cost of operating the Town's water systems. To fulfill this responsibility, officials should track water use through the system and identify areas that need attention, particularly large volumes of unaccounted for water. Unaccounted for water can result for many reasons, such as hydrant flushing, source meter errors, accounting procedure errors or leaks.

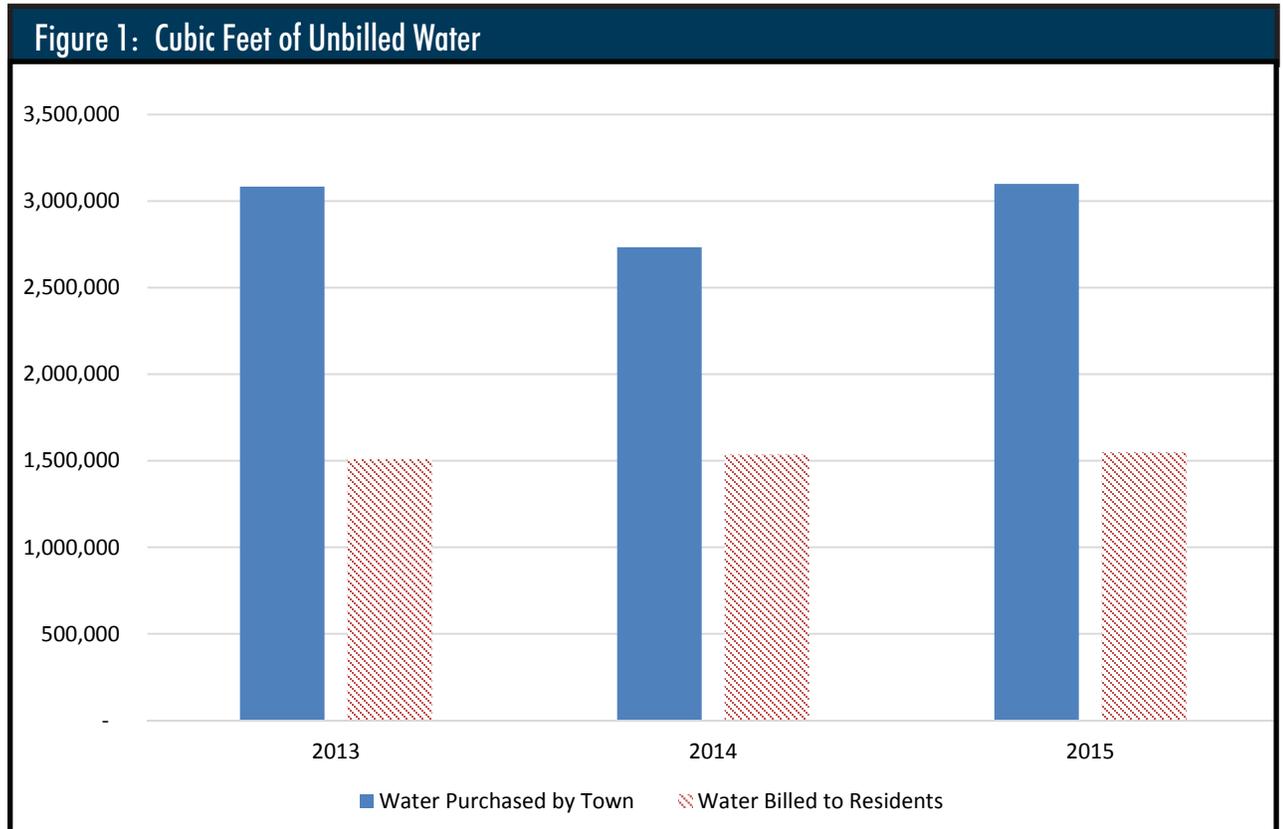
Town officials did not ensure revenues were sufficient to finance current expenditure levels for the water, sewer and general town-wide funds. From fiscal years 2013 through 2015, these funds have experienced recurring operating deficits. Specifically, the water fund had an average annual operating deficit of \$65,000, the sewer fund had an average deficit of \$19,000 and the general town-wide fund had an average deficit of \$215,670. As a result, the water and sewer funds have had to borrow \$730,000 from the general part-town fund to maintain cash flow and operations. If Town officials do not take action to address the deficits, these funds may not be able to repay these loans. This will impact the general part-town fund's financial condition and result in an inequity for residents who paid for but did not benefit from these services. Further, the general town-wide fund does not have any unrestricted fund balance to fund unexpected expenses.

Water Fund – The Town purchases water from the Village based on cubic feet<sup>1</sup> of water flows. The Town then bills residents quarterly based on meter readings. From fiscal years 2013 through 2015, the water fund received an average of \$89,000 in revenue and incurred

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<sup>1</sup> One cubic foot equals approximately 7.5 gallons.

an average of \$154,000 in expenditures annually, resulting in average annual operating deficits of \$65,000 and a cumulative operating deficit of \$195,000. This occurred because Town water rents are not sufficient to cover recurring expenditures. More specifically, Town officials have not billed for approximately half the volume of water purchased from the Village, as shown in Figure 1.



The Comptroller attempted to reconcile the amount of water purchased by the Town to water billed to residents in 2014 and found that approximately half of the water was unaccounted for. When she discovered this discrepancy, she contacted Village officials, who stated that the old meters were inaccurate and may account for much of the difference. Village officials tested several old meters and found they failed to record 50-70 percent of water flows.

The Town is billed for a total of 187 water meters, 157 of which are older than five years as of 2015. We reviewed the water billed to all 157 accounts with meters older than five years and found that, with an error rate of 50 percent, these meters would account for 70 percent, or 1.1 million cubic feet, of the unaccounted for water. Town officials considered raising rates less of a burden to the user than passing on the costs of replacing older water meters. Town officials discussed raising rates in 2015, but preferred to raise water rates once, as they anticipate that the Village will raise rates by the end of 2016. The Town’s 2016 budget did not address the water fund’s financial

condition or include provisions to replace inaccurate water meters to reduce unaccounted for, and unbilled, water use.

By not replacing the old inaccurate meters, users with accurate meters have to pay higher rates for water to help subsidize residents with meters that only register half of their use. Additionally, rates are too low to allow the fund to break even, which results in taxpayer inequity, as the water fund is subsidized by the part-town general fund. Postponing a rate increase simply increases the amount of inequity.

Sewer Fund – The Town contracts with the Plant for treatment of Town sewage. The Plant’s billings are based on quarterly estimates derived from the most recent Plant certified flows<sup>2</sup> and the Plant’s operating budget. After year-end when final reported flows are certified by the plant, the Town receives a final bill<sup>3</sup> based on actual flows and actual results of Plant operations for the year. In turn, the Town bills its residents quarterly for sewer based on metered<sup>4</sup> water usage, or an estimate for nonmetered residents.

From fiscal years 2013 through 2015, the sewer fund experienced significant variability in operating results. For example, the fund reported an operating loss of \$372,000 in 2013 but reported a surplus of \$417,000 in 2015. After adjusting for refunds from the prior year’s operations received in the ensuing year, the sewer fund received an average of \$317,000 in revenue and incurred an average of \$336,000 in expenditures annually, resulting in a cumulative operating deficit of \$57,000. These refunds were primarily due to flooding resulting in a significant difference between estimated and actual flows.

This occurred because of two major factors. The Plant’s billing rate faces variability from changes in final reported flows, the Plant’s results of operations or both, causing difficulty for the Town to set appropriate rates to cover its costs. In addition, the Town bills residents for sewer services based on inaccurate reported water flows, as discussed earlier in this report. From 2013 through 2015, the Town paid for an average of 3 million cubic feet of water annually, but billed metered Town residents for 1.25 million cubic feet for sewage services based on these water flows, as shown in Figure 2.

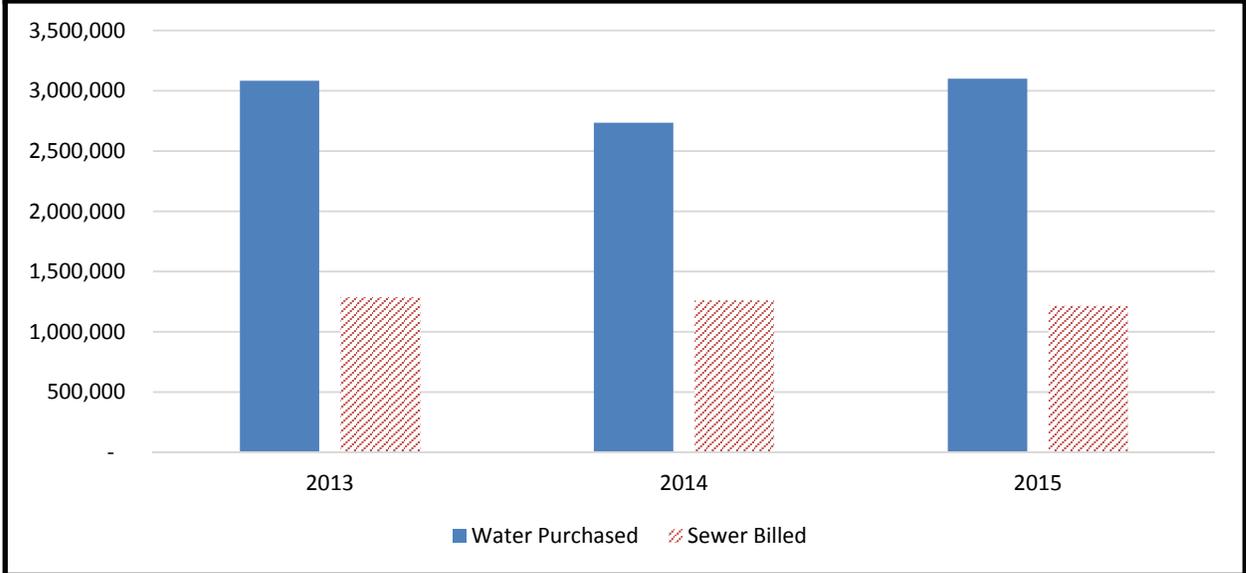
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<sup>2</sup> The first quarterly billing is usually sent prior to certifying the prior fiscal year’s flows. As a result, the estimated flows are usually based on two-year old flow data.

<sup>3</sup> Alternatively, if the Town was overbilled, it would receive a refund.

<sup>4</sup> Metered residents are subdivided by users that pay the Town of Union for water only, sewer only or for both water and sewer.

**Figure 2: Flows Purchased versus Sewer Billed**



The water and sewer fund deficits have exhausted fund balance, which has caused the funds to borrow money they may be unable to repay. At the end of 2015, the water and sewer funds owed a combined \$730,000 to the general part-town fund. If the water and sewer funds are unable to repay the funds borrowed, residents without these services would have inappropriately subsidized water and sewer operations. Further, if officials do not address the unaccounted for water, these funds' financial condition will continue to decline and residents may face significant increases in water and sewer rates. The Town's 2016 budget did not address the sewer fund's financial condition or include a plan to replace water meters. However, the Town has paid \$40,000 toward the loan in 2016.

General Town-Wide Fund – From fiscal years 2013 through 2015, the general town-wide fund experienced an average operating deficit of \$215,670, resulting in a cumulative deficit of \$647,000.<sup>5</sup> The Town received an average of \$3.8 million in revenue and incurred an average of \$4 million in expenditures annually. This occurred because the Town adopted structurally imbalanced budgets that relied on unrestricted fund balance, a one-time financing source, to finance recurring expenditures. Town officials used \$683,000 in fund balance as a financing source over the last three years.

Town officials stated they try to stay within the tax levy limit without making significant cuts to services. The significant cost drivers included health insurance and street lighting expenditures, which

<sup>5</sup> The 2013 operating results include a nonrecurring revenue of \$275,000 in State and federal disaster aid for a flood that occurred in 2011.

averaged \$1.5 million over the three years. These expenditures accounted for more than one-third of the total annual expenditures.

In an effort to reduce the health insurance costs, by reducing premium costs, Town officials educate enrollees about using walk-in clinics instead of emergency rooms. Town officials have also reduced the number of staff positions through attrition or have hired part-time employees to replace full-time positions. Despite these efforts, health insurance expenditures have increased approximately 13 percent annually over the last three years. To reduce lighting costs, Town officials intend to replace the current street lights with more efficient lighting, which they estimate will save the Town \$345,000 annually.

If Town officials continue to finance recurring expenditures with unrestricted fund balance, there is a risk that unforeseen events could affect the Board's ability to provide necessary services. Total fund balance decreased from \$1.3 million in 2013 to \$618,000 in 2015, or 14 percent of the 2016 budgeted appropriations. The 2016 budget includes an appropriation of \$300,000 that will further reduce available fund balance. It is important to note that the Town does not have any unrestricted fund balance to cover unplanned expenditures.

## **Recommendations**

The Board should:

1. Create a schedule for replacing old or inaccurate meters or both.
2. Ensure that the Town bills for all water and sewer services based on accurate meter flows and set rates sufficient to cover operating expenditures.
3. Develop structurally balanced budgets by financing recurring expenditures with recurring revenues. The Board should do so by continuing to identify and implement opportunities to reduce expenditures or increase revenues.
4. Develop a plan to repay amounts borrowed from the part-town general fund.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

The Local Officials' response to this audit can be found on the following pages.

# town of union

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August 4, 2016



ROSE A. SOTAK

TOWN SUPERVISOR

Supervisor@townofunion.com

[REDACTED]  
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44 Hawley Street  
Binghamton, NY 13901-4417

Re: Response and Corrective Action Plan to the Town of Union, Financial Condition, Report of Examination, Period Covered: January 1, 2014 – December 31, 2015

Dear [REDACTED]

Please consider this letter to be the Town of Union response and corrective action plan to the preliminary draft report of the financial condition audit on the Water Fund, Sewer Fund, and Full-town General Fund of the Town of Union. While the Town generally agrees with the findings presented in the draft audit report the following response should be considered.

In response to the Water Fund's need to replace old water meters, the Town began to address this issue starting at the Kot Road water tank. Since 2011 the Town of Union has made a \$299,143 capital investment in meters, relief valves, upgrades and improvements at the water tank. The largest capital burden of \$212,400 occurred in 2013 with the NYS Department of Health mandated painting of the water tank, which also required multiple filling and flushing of the 500,000-gallon tank. The replacement of the Kot Road meters improved the readings at the tank which highlighted the inaccuracy of the individual meters. Though water rate increases are currently under review, the Town Board must closely analyze the impact of the estimated \$100,000 expense to replace individual meters as to not overburden the 187 users with debt payments. When the water district was established the Town anticipated revenue increasing with further new construction; however, the local economy has not encouraged such, which has limited expansion of this district and its revenue.

The variability in the Sewer Fund is a direct result of the quarterly flow rates billed from the Binghamton-Johnson City Joint Sewer Treatment Plant based on information that is usually from two-years old data. The final bill on actual flows and actual plant operations is received well after budget development and implementation. Funds borrowed from the General Part-town Fund have and will be repaid from refunds received from the plant due from the difference in estimated and actual flows. In 2015 the Town received \$391,546 in refunds from the plant and estimates an additional \$160,000 is still owed to the Town. Further repayment of funds and the operational deficit was addressed in the rates established by the Town Board in December 2014 as indicated with the \$40,000 repayment made to date in 2016. Sewer accounts are billed based upon water readings; therefore, the replacement of the above mentioned meters would assist in reconciling just those accounts. The Town is responsible for 392 accounts within the Sewer Fund that are dependent upon readings from water meters controlled by the Villages of Endicott and Johnson City. Replacing the meters within the Town's Water Fund without

Office of the State Comptroller  
August 4, 2016

addressing the meters in the Villages could as the report states, create an inaccuracy in rates when applied to accurate and inaccurate meters.

In an effort to remain responsible to the residents by adhering to the property tax cap the Town Board has adopted Full-town General Fund budgets that have appropriated fund balance to the current balance of 14.05% of 2016 budget appropriations. In an effort to maintain fund balance the Town Board reduced the appropriated fund balance from \$690,000 to \$300,000 in the 2016 budget. Efforts to reduce health insurance expenditures is dependent upon successful negotiations with the collective bargaining units. The 2016 Full-town General Fund budget includes \$51,500 of contingent funds for unplanned expenditures. Beyond the efforts reported, the Town Board continually tries to identify and implement areas of savings and revenue sources.

The Town Board appreciates the time and effort expended by the Comptroller's staff as the Town is always looking for ways to improve its procedures. The approved corrective action plan for the Water and Sewer Funds will be to seek funding sources, including grant opportunities, for the replacement of the water meters to minimize the impact of the expense to the users. Once a funding stream is secured the Public Works Department will procure the meters within policy and create a replacement schedule for the installation. Water and Sewer Fund operating expenditures, including funds borrowed, will be monitored by the Comptroller to ensure that rates are sufficient. The approved corrective action plan for the Full-town General Fund will include closely monitoring fund balances to ensure the Town's ability to provide necessary services to its residents. The Town Board will continue to implement cost savings and increases in revenue to ensure the fund remains structurally sound.

The Town of Union Board will continue to maintain its commitment to provide services to its residents with the highest standards of fiscal management.

Sincerely,

Rose A. Sotak  
Supervisor

Cc: Town Board  
Comptroller  
Commissioner of Public Works

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the Town's financial condition for the period January 1, 2014 through December 31, 2015. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Town officials to determine the billing process for water and sewer and to determine officials' future plans related to the general, water and sewer funds.
- We analyzed the Town's financial condition by reviewing historical trends in budgets, revenues, expenditures and fund balance. We also analyzed the money due between funds.
- We obtained a list of the newly installed meters from Village officials. We used this list to identify older meters and estimated unaccounted for water, assuming these meters were inaccurate.
- We performed a reconciliation of the water flows paid by the Town and water flows billed to residents for water and sewer services.

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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