



Village of Tannersville Water Department Operations

Report of Examination

Period Covered:

June 1, 2015 – June 22, 2016

2016M-417



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2017

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 Tannersville, entitled Water Department Operations. 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 Village of Tannersville (Village) is located in the Town of Hunter (Town) in Greene County and has a population of approximately 700 permanent residents, with seasonal increases up to 1,400 in the winter and summer. The Village provides a wide range of services for residents, including fire protection, street maintenance and improvements, snow removal, water distribution and general administration. For the 2015-16 fiscal year, the Village's budgeted appropriations for the general fund were \$639,362 and water fund were \$410,550.

The Board of Trustees (Board) is the legislative body responsible for managing Village operations, including establishing appropriate internal controls over the Village water department's operations. The Mayor, who is a member of the Board, serves as the Village's chief executive officer. The Village's chief fiscal officer is the Clerk-Treasurer, who is responsible for maintaining and reporting all necessary financial information to ensure the proper accountability of water operations.

The Board of Water Commissioners (Water Board) is responsible for creating laws and regulations relating to water usage, water rents and enforcement of collections. The Water Board is composed of the Mayor and the Village Board's Trustees. The Department of Public Works Supervisor is responsible for the water treatment plant's operations and maintenance, meter reading and water line repairs. The Village hired an independent contractor to monitor the quantity and quality of water produced and consumed.

Objective

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

- Does the Board provide adequate oversight of water operations?

Scope and Methodology

We examined the Village's water department operations for the period June 1, 2015 through June 22, 2016.

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 C of this report. 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.

**Comments of Village
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. Except as specified in Appendix A, Village officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the Village's response letter.

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-Treasurer's office.

Water Department Operations

The Board's management of the Village's water operations includes establishing policies and procedures over the billing and collection of water rents, as well as the reconciliation of water produced with water billed. The Village's water supply comes from three reservoirs and a well and is maintained in two towers. Revenue from water operations is derived from water user charges (water rents) and all customers are billed semiannually. According to the October 2015 billing records, the Village provided water to 559 residential and commercial customers¹ and charged water users approximately \$179,512 in October 2015 and \$177,318 in April 2016.

The Board and Village officials need to improve controls over water department operations. Because the Village does not use water meters, Village officials cannot determine how more than 90 percent of the water produced is consumed. While the Village produced approximately 98 million gallons of water during the 2015-16 billing cycle, it recorded commercial usage of about only 7 million gallons. Therefore, Village officials have no information concerning whether the remaining 91 million gallons was consumed by residential customers, used for municipal purposes or lost to leakage or unapproved use.

In addition, Village officials have not established proper procedures to ensure adequate collections of water rents receivable. As a result, the Village maintains a balance of \$27,370 of water rents over 90 days past due, which represents approximately 8 percent of total 2015-16 water billings. Furthermore, approximately 10 percent of all 2015-16 water billings had a late fee that was charged improperly, resulting in a loss of \$1,110. By identifying the sources of unaccounted-for water and improving water billing and collection procedures, the Village could realize significant cost savings and revenue enhancements in water department operations.

Water Accountability

Village officials are responsible for controlling the costs of operating the Village's water system. To fulfill this responsibility, Village officials should develop policies and procedures that include tracking water use throughout the system and identifying areas that need attention. It is essential to perform a periodic reconciliation of water produced with water billed to provide information necessary to detect and, if necessary, reduce water loss.

¹ 426 inside-Village customers and 133 outside-Village customers

Installing water meters on all properties that use water helps ensure that all customers pay for the water that they actually consume. When customers are charged a flat-rate fee, instead of being charged for actual usage, they have no incentive to conserve water or notify Village officials when they notice water leaks.

Village officials did not require staff to perform periodic reconciliations of water produced to water billed to determine whether water consumed by customers is accurately accounted-for. In addition, the Village’s water supply infrastructure has deteriorated, which limits the capabilities of staff to adequately monitor water production and consumption.

The water plant has a meter to measure the amount of water coming into the plant, but does not have a meter to record the output. Therefore, Village officials cannot accurately measure the amount of gallons produced after treatment to determine exactly how much water is lost during treatment operations.

Because only commercial customers have functioning water meters, residential water use is not measured. The Village charges residential customers a flat rate based on the size of the resident’s home: one-, two- or three-family. Therefore, a one-family residential customer that uses 100,000 gallons per year and another that uses 300,000 gallons per year are charged equivalent rates.

Without periodic reconciliations or functioning residential meters, the Village was unable to accurately determine usage for 93 percent of total water consumed for the 2015-16 billing cycle.² Taking into consideration commercial customer water use, we estimated that approximately 91 million gallons of water was not accurately measured and billed.

Figure 1: Water Accountability Summary for 2015-16^a	
Estimated Total Water Produced	98,161,600
Commercial Customer Usage	6,949,314
Percentage of Metered Usage	7.1%
Total Unmeasured Usage	91,212,286
^a April 1, 2015 through March 31, 2016; amount in gallons	

² The estimated total water production calculation was derived from the Village’s “Daily Operations Records” that it filed with the New York State Department of Health (DOH). These records provide estimated water amounts produced and chemicals used for the production (net flow) of potable water. We reduced the net flow amount by 5 percent and attributed it to necessary municipal use.

Village officials told us that some water is treated but not billed due to pipe breaks. They estimated that three to four pipe breaks were discovered during 2015 for which they were unable to determine the amount of water lost. Although grant proceeds have been received for updating the water infrastructure, Village officials stated they will be prioritized toward updating and upgrading the water plant, which should include new meters for measuring water coming into the plant, water treated and water sent to consumers. Officials said that the grant proceeds will not be enough to provide functioning meters for all residential customers.

Without accountability for water produced and consumed, Village officials cannot accurately and thoroughly detect water leaks in or illegal connections to the water system. Also, because the Village has not installed meters on residential properties, Village officials cannot accurately measure amounts consumed, bill customers for actual usage or determine amounts that may be lost through leaks.

Billing Agreements

The Board requires customers outside the Village boundaries to sign an agreement for water services. This agreement describes the terms of service and the policies for disputes and complaints and gives notice of when water rents are due. In addition, the water rent agreements require all disputes to be handled in Greene County small claims court. Village ordinances state that customers should receive written notice of delinquent accounts that are 90 days past due and indicate that 10 days thereafter, water service will be disconnected. Water connections may be reconnected after an appeal is submitted and approved by the Board.

The Board has not adequately enforced water rent collection laws. We reviewed 15 randomly selected Town water rent accounts and found that five (33 percent) did not have a signed agreement on file. As of June 22, 2016, the Village had a balance of \$27,370 of water rents that were more than 90 days past due. This represents approximately 8 percent of the total 2015-16 water bills (\$337,396) and is composed entirely of residential customers located outside the Village.

Late Fees

The Board established a schedule of late fees for water rent collections that are past due. The fee schedule requires a \$10 late fee charge for payments received in the first month after the due date and an additional \$5 for each month after, until the next billing cycle begins, for a maximum of \$30 in late fees.

Because Village officials did not adequately segregate the duties of applying and collecting late fees and did not provide any oversight of the water billing records, the Clerk-Treasurer incorrectly applied water rent late fees, and this error was not detected.

We evaluated all 1,026 water bills for the 2015-16 billing cycle and found that 171 (17 percent) customer payments were received after the due date. Of these, 101 (59 percent) included an incorrect application of late fees. Although the Clerk-Treasurer stated that she had used the postmark dates of the payments to calculate the late fees, we found that the Clerk-Treasurer had not recorded postmark dates or provided any supporting documentation for the dates. As a result of the inaccurate application of late fees, the Village lost revenue of \$1,110 for the 2015-16 billing cycle.

Water Billing

Village officials must ensure that all water services are billed at Board-adopted rates³ and that bills are calculated accurately, sent to the correct customers and collected in a timely manner. Proper segregation of duties requires that one person is not responsible for performing incompatible financial duties — such as recordkeeping, billing, collecting and depositing cash receipts — without oversight by another person who is independent of the duties in question. Furthermore, all customer account adjustments and corrections should be Board-approved and supported with adequate documentation.

In addition, because the Village uses a financial software application to record the billing and collection of water services and fees, it is imperative that the Village maintain adequate controls over the system, data entered into it and data produced by it. Effective controls over user access to the system require the use of an audit trail, also known as an audit log, which is a computer-generated record of any change or transaction made in the system. Audit trails enable management to determine when an entry was made and what it entailed. They also establish individual accountability by identifying the user accounts associated with each entry and adjustment. Management or its designee must review audit trails to monitor user activity.

The Board has not created proper policies and procedures to ensure proper billing and collection of water rents. The Board does not review the Clerk-Treasurer's work and has not ensured proper segregation of duties between billing, collecting and depositing water rents. Also, the Board did not ensure that the software application used for the water billing records generated audit trails.

The Clerk-Treasurer and deputy clerk are able to perform all phases of billing transactions without generating an audit trail. They both have the ability to add, delete or modify a customer account; receive payments for water usage; and record and deposit funds without the system creating an audit trail to identify who made the entries. In

³ The Board has adopted four different user rate charges: inside-Village residential, inside-Village commercial, outside-Village residential and outside-Village commercial.

addition, Village officials do not provide any oversight of their work. Therefore, unauthorized entries or billing errors could occur and be undetected and uncorrected.

We reviewed a random sample⁴ of 15 Village accounts and all 11 accounts belonging to Village officials and found that two of the Village officials' properties were billed incorrectly. One commercial property was charged the residential flat rate of \$225 instead of the proper \$300 rate for commercial property and one Village official underpaid for the October 2015 billing cycle because the Clerk-Treasurer or deputy clerk did not charge the proper late fee. The Clerk-Treasurer stated that both discrepancies were due to human error and that she would correct the errors and rebill the Village officials for the proper amounts. Improper bills and inconsistent application of late fees for Village officials could result in lost revenues and give the appearance of favoritism.

Transfers of Ownership

The Water Board established a law stating that when a transfer of ownership occurs for any property using Village water, the property owner must advise the Water Board in writing and submit the new owner's name and address. Until this notification occurs, the former owner is liable for the water rent.

We found that 58 transfers of ownership — 44 within the Village and 14 within the Town — occurred during our audit period. Of the 44 Village ownership transfers, 33 (75 percent) were not reported to the Water Board. Of the 14 Town ownership transfers, 11 (79 percent) were not reported. This occurred because Village officials have not effectively communicated the Water Board's rules and regulations to all Village water customers.

As a result, new property owners may be unaware of the rules and regulations, including rates and terms of water service, which can delay water rent collections and lead to potential collection disputes and declining cash flow issues.

Recommendations

The Board should:

1. Develop written policies and procedures for water reconciliations and periodic reporting requirements.
2. Seek other grants and resources to provide adequate revenue to cover all necessary upgrades to bring the water infrastructure up to date, including installing meters where necessary.

⁴ We obtained our random sample from Greene County's "Town of Hunter 2016 Final Assessment Roll – Taxable." We excluded from our sample all properties in this assessment roll that were not located within the Village.

3. Ensure all late fees are applied to customer accounts according to the Village code and Board-approved rates.
4. Develop written policies and procedures to ensure customers are billed the proper amounts, late fees are applied consistently and adequate segregation of duties is established for the receipt of billed receivables.
5. Enforce Village ordinances requiring written transfers of ownership from previous property owners.

APPENDIX A
RESPONSE FROM VILLAGE OFFICIALS

The Village officials' response to this audit can be found on the following page.



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April 21, 2017

Tenneh Blamah, Chief Examiner
New York State Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553-4725

Re: Response to Audit 2016M-417

Ms. Blamah,

Based on conversations with your staff at the exit conference on April 6th, 2017, the Village generally has no objections to your findings or recommendations contained in the report for the Village of Tannersville covering the period June 1, 2015 to June 22, 2016. Many of the recommendations were put into place by this administration prior to, and while your staff was on site compiling the audit.

Duties have been and continue to be segregated with two full time clerks. I meet with them on a regular basis and reports are produced regularly for board meetings.

In regards to the balance of accounts receivable, those are for water accounts outside of the Village. Of those accounts, 3 actions have been awarded judgements totaling \$7,195.20 which are liens against the property, another account for \$3,220.00, will be collected at sale closing of the property, and \$2,070 is pending settlement in Rockland County. The remaining balance is comprised of customers in structured payment plans or are in the midst of small claims proceedings. There has been tremendous effort to reduce this balance and continues to be a priority. We will be formalizing a contract between the Town of Hunter and Village of Tannersville which will enable us to collect outside the Incorporated Village and attach those unpaid water rents to their Town/County taxes. This will prevent any water debts and the Village will be made whole.

We are working with our Village Attorney to update our water regulations which will encompass our current regulations and updating late penalty structures (including the acceptance of postmarks) and transfer of ownership for both inside and outside water customers.

After reviewing the term at which late fees were applied, we have determined that if we accept the postmark, we will keep a copy of the envelope if received after the due date for the retention period as required by the New York State Archive Records Retention Schedules.

The Village continues to give urgent attention to seeking additional water sources and expanding the water system. Even though the Village has a \$3.4 Million Dollar Grant/Loan program through the EFC and DWSRF, we continue to actively seek grants for additional funding to continue the water infrastructure improvements. As far as the unmeasured water, we believe the figures in the report are inadequate and unsubstantiated. There were leaks in the system that were repaired, and broken meters throughout the system. These factors along with hydrant flushing and backwash at the water treatment plant make it difficult to reconcile usage within the system. We are working aggressively with our engineers to find the most cost effective ways to install meters on every connection and a master meter at the plant without burdening the customers. Essentially we would like the meters to coincide with adequate and streamlined billing software. We welcome any suggestions on grants for this process.

If you have any questions, or need anything further, please feel free to contact me.

Sincerely,

Dr. Lee E. McGunnigle, Mayor

See
Note 1
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APPENDIX B

OSC COMMENT ON THE VILLAGE'S RESPONSE

Note 1

We obtained these figures from the Village's water production records that it submits to DOH. The records are provided to the Village by an independent contractor that records daily reservoir flow amounts. They indicate the Village's estimated water produced and chemicals used in the production (net flow) of potable water during the period April 1, 2015 through March 31, 2016.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Village officials to gain an understanding of water operations and determine whether there were adopted policies and procedures for water rent billing, collection and enforcement.
- We reviewed Board minutes for evidence of Board oversight over water operations, including billing adjustments, relevy of unpaid water bills for inside-Village residents and shut-off of delinquent accounts for Town residents.
- We reviewed 100 percent of water billings during our audit period to determine whether customers paid in a timely manner and all those who paid outside the proper payment periods were correctly penalized.
- We randomly selected 15 Town residents who received Village water service and requested to review their signed water use agreements to determine whether the Village retained them on file.
- We reviewed all Village and Town residents included on the transfer of ownership list and requested documentation to determine whether the residents properly gave notice of property transfers or sales.
- We examined a random sample of 15 Village water rent customer parcels and all 11 water customer parcels belonging to Village officials to determine whether water rent payments were properly billed, collected and deposited and to determine whether Village staff had properly applied late fees to the accounts, if necessary.
- We compared water billing with water production. We obtained water production records for the period April 1, 2015 through March 31, 2016 from an independent contractor that records daily reservoir flow amounts.

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 D

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