



High Falls Water District Water Fees

Report of Examination

Period Covered:

January 1, 2014 — April 20, 2015

2015M-153



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of Local Officials and Corrective Action	3
WATER FEES	4
Billing	4
Relevy	6
Fee Schedule and Policies	7
Recommendations	7
APPENDIX A Response From Local Officials	8
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

November 2015

Dear District 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 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 High Falls Water District, entitled Water Fees. 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 High Falls Water District (District) is located in Ulster County in the Towns of Marbletown and Rosendale and serves approximately 188 properties with 426 residents. The District was created by the United States Environmental Protection Agency (EPA) as a superfund site because the area was determined to have polluted ground water. The EPA provided the infrastructure to deliver potable water to the area affected by the contaminated wells. The District is jointly supervised by the Town Boards (Boards) of both Marbletown and Rosendale and is managed by the Rosendale Water Superintendent (Superintendent). The Water District Commission (Commission) is composed of five Commissioners who each serve a three-year term. The Commission serves in an advisory capacity to both Boards and is subject to their direction and oversight. Further, the Commission provides recommendations on operations, capital costs and District extensions, and interacts with the New York City (NYC) Department of Environmental Protection and the NYC Water Board.

The Town Supervisors are co-chief fiscal officers. The water clerk is responsible for billing water charges. The Town Clerks and water clerk are responsible for collecting the water fees. The Marbletown Town Clerk is responsible for entering the payments into the water billing system, preparing deposits, depositing receipts and then remitting a monthly check to the bookkeeper. The bookkeeper is responsible for reconciling the receipts to the water payments journal and recording the revenue in the accounting software. The District's budgeted appropriations are \$173,089 for the fiscal year ending December 31, 2015.

Objective

The objective of our audit was to examine internal controls over water fees. Our audit addressed the following related question:

- Did the Boards design internal controls to ensure that water fees were properly billed, collected, recorded and deposited?

Scope and Methodology

We examined the District's process for billing, collecting, recording and depositing water fees for the period January 1, 2014 through April 20, 2015.

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

The Boards have 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 District to make this plan available for public review in the Town Clerks' offices.

Water Fees

The Boards are responsible for designing adequate procedures to safeguard District resources. Further, they are responsible for designing and documenting operating policies and procedures and properly delineating employee responsibilities to ensure the directives are carried out. Such policies and procedures provide a system of internal controls over water fees to help ensure that charges for water usage are properly billed, collected, recorded, deposited and accounted for and that adjustments to customer accounts are documented and authorized.

The District's internal controls over billing, collecting and enforcing water fees need to be improved. The water clerk manually enters readings from an electronic meter reader into the water billing system and generates bills without supervisory review. Additionally, the interest amount charged for late balances has not been approved by the Boards and was not charged in the billing quarter that unpaid balances were relieved. Further, the District did not reconcile the gallons of water purchased from NYC to the gallons it billed customers. For one billing quarter, the District was billed for approximately 1.1 million gallons more than it billed customers. As a result of these internal control weaknesses, the District may not be collecting all the revenue to which it is entitled.

Billing

The water clerk is responsible for preparing water bills based on metered water consumption and the Board-established rates. Before bills are printed and sent to customers, a review or reasonableness check should be performed to assess the completeness and accuracy of the billing register and bills. The reasonableness check could include comparing the total amount billed with prior billing amounts, comparing current consumption with amounts billed or comparing the number of bills to be printed with the database of customer accounts. Additionally, periodic comparisons of gallons delivered to the total gallons billed should be made.

Meter Readings – The Superintendent collects the meter readings by driving past the District's service addresses using an electronic remote reader. Once complete, he brings the reader to the water clerk who then manually enters the electronic readings into the billing software. When the water clerk is finished, she generates the bills using the billing software and sends the bills to the customers.

Reports are not generated to allow for any management review or analysis of the information that the water clerk enters into the water

billing system before bills are sent. Additionally, the original readings from the electronic reader are not uploaded into the associated software to generate reports and to maintain a history of account activity. When a new reading is taken, the Superintendent deletes the previous reading in the remote reader.

Without analysis to assess the completeness and accuracy of the billing register, billing problems cannot be identified before the bills are mailed to customers. Additionally, if reading information is entered into the billing software incorrectly, the electronic remote reading could be deleted before the issue is brought to the Superintendent's attention. As a result, the District may not be collecting all the revenues to which it is entitled.

Billing Accuracy – We recalculated the last two quarterly billings¹ for all 188 accounts with amounts due totaling \$37,300 to assess the accuracy of the billings. All were billed the appropriate amount and these amounts were properly recorded in the customers' individual accounts. We also verified that remaining balances or credits from the earliest quarter tested were carried over to the next quarter. We also recalculated the water usage over the last three quarters. We compared the readings to the billing summaries to determine whether individual accounts matched what was billed. We found that the meter readings for each account were reasonable and matched what was billed.

Zero Readings – During our review of the 188 accounts in the first quarter of 2015, we found three accounts that had meter readings of zero, which would mean that no water has been used since the meters were installed. These three accounts paid the minimum charge and have not been billed for actual usage since 2007.

The Superintendent was aware that one account had zero usage, but was unaware that the other two accounts had zero water usage since the meter installation. He stated that, because all of the meters are new, there should not be any operational problems with them. Therefore, he does not review the meter readings. We informed him of the zero readings and he set up appointments with the two property owners to determine if the meters are in working order and properly installed. He found that one meter was not being used and the other was being used but defective since installation. Without proper review of the meter readings, the District may be losing water meter revenue.

Water Reconciliation – The District purchases its water from the NYC Water Board and is billed monthly for the number of gallons used. The Superintendent does not perform a reconciliation of the

¹ See Appendix B, Audit Methodology and Standards for information about how the samples were chosen.

gallons purchased from the NYC Water Board to the gallons billed to customers to ensure that the water purchased is properly billed or can be accounted for other purposes.

Certain properties in the District are exempt from water fees. Because these properties do not have meters connected, the District cannot determine the amount of water these exempt properties are using. As a result, the District is unable to accurately reconcile the gallons billed to customers with the gallons purchased from the NYC Water Board.

We compared the gallons of water purchased from the NYC Water Board for the last quarter of 2014 to the gallons billed to District customers. The District purchased approximately 2.8 million gallons of water at a cost of \$4,429 and billed customers for approximately 1.7 million gallons. Therefore, the District cannot account for 1.1 million gallons or almost 40 percent of the water purchased, which cost \$1,693. Some of the unaccounted for water is used by unmetered properties. However, the significant difference between gallons delivered and gallons billed could also be caused by unauthorized or unknown uses of services or by errors resulting from inaccurate entries of meter readings, or may indicate a need for infrastructure repairs. By not having all customers metered, the District cannot accurately account for all water, which could lead to a loss in revenue.

Relevy

According to the Towns' rules and regulations, overdue water accounts remaining unpaid when the Towns' real property taxes are levied are added to the annual real property tax roll for the ensuing fiscal year. Any unpaid Town taxes, including these relevied water fees, are guaranteed by the County and paid to the Towns before the fiscal year end. The list of relevied accounts is due to the Towns' Assessors by November 10.

We reviewed the 2014 arrears that were relevied on the 2015 tax bills. Because District officials did not review the list of relevied accounts, they were not aware that the water clerk did not include the interest charges for the final quarter's unpaid water charges before the relevy list was sent to the Assessor. The water clerk did not include the charge because she did not have time to compose a courtesy letter to the customers with overdue charges to warn them that their account was past due and thought it was unfair to charge them the fee without sending a letter. The Superintendent was unaware that the interest had not been charged to the accounts in this quarter.

Without reviewing the relevy list, the Superintendent, Boards and Commission do not know if the list of unpaid accounts was complete and accurate.

Fee Schedule and Policies

The governing board should create a written policy establishing the frequency of customer billings, the collection periods, timing and amount of late charges, enforcement of unpaid accounts and any other guidelines necessary for effectively managing water service charges.

The water clerk bills customers a one-time 2.5 percent penalty on their current bill if it is not paid after 30 days of the date billed. Although the District's rules and regulations mention that a penalty shall be charged on all bills 30 calendar days overdue, the Boards have not established the rate of interest for late payments. Additionally, they have not established on which amount (current charges or total with arrears) the penalty should be calculated. The water clerk currently uses the rate charged by the Rosendale Water District. Without adopting a policy to establish the procedures and penalty interest rate, the water clerk does not have sufficient guidance on how to properly calculate and administer customer charges.

Recommendations

The Superintendent should:

1. Contact the meter reader manufacturer to determine if the software provided with the meters can download and retain the readings as well as interface with the billing software to automatically upload the readings.
2. Review the accuracy of the water clerk's entries before the bills are sent out.
3. Review the meter readings for inconsistencies each quarter.
4. Install meters at all sites that use District water and keep a record of the water usage.
5. Conduct a reconciliation between the gallons of water purchased, the gallons used in the District and the gallons billed to customers quarterly and investigate any differences.

The Boards should:

6. Establish written procedures for the review of the relevy list to ensure all unpaid accounts are listed and for the correct amount.
7. Establish a written policy establishing the penalty rate for late payments and the process for processing the penalties.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



High Falls Water District

September 23, 2015

State of New York
Office of the State Comptroller
110 State Street
Albany, NY 12236

Re: District Audit Response (January 1, 2014 –April 20, 2015) 2015M-153

The High Falls Water district is hereby submitting a response to the audit findings from your office.

The list of seven recommendations your office identified, will be addressed in order.

- 1- The District will contact the meter reader manufacturer to get the billing software and the meter software to communicate with one another. We will keep a file of previous meter readings to help the District with reconciliation of accounts.
- 2- The Superintendent will review all meter readings prior to bills being sent out to the Districts customers. This will be accomplished by manually looking over the bills in conjunction with the Clerk to make sure all readings are entered correctly and identify any issues with meters not functioning correctly.
- 3- The Superintendent will provide written criteria for any meter reading inconsistencies to be followed by the Clerk and other staff of the District.
- 4- The two Town Supervisors in conjunction with the Superintendent and the District's Lawyer will look into the feasibility of metering the sites that were promised water service through the United States, Environmental Protection Agency. These agreements were made with the property owners prior to the official acceptance of the water district by the Towns of Marbletown and Rosendale, respectively. The U.S. E.P.A. made these agreements to obtain Right of Ways for the installation of water mains and service lines in the district.
- 5- Reconciliation of water purchased versus water billed will be done quarterly and submitted to the Town Supervisors and the Commissioners of the water district. Discrepancies will be investigated and acted upon.
- 6- The District will establish written procedures for the relevy of unpaid accounts to the County of Ulster. Checks will be made to insure that all penalties and accrued interest is posted to the accounts.
- 7- The Town Boards will establish a written policy detailing the penalty rate and processing procedure for unpaid accounts.

This response will serve as the ~~corrective~~ action plan and will be fully implemented by the end of 2016.

Michael E. Warren, Town of ~~Marbletown~~ Supervisor

Jeanne L. Walsh, Town of Rosendale, Supervisor

Terry M. Johnson, High Falls Water District, Superintendent

1915 Lucas Ave. Corttekill, NY 12419 (845)658-7956 (845) 687-7959 fax
Highfallswater@yahoo.com

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the internal controls over water fees for the period January 1, 2014 through April 20, 2015. To accomplish the objective of the audit, we performed the following procedures:

- We interviewed District officials and staff and reviewed relevant financial records, such as reports from the general ledger, bank statements, deposit slips, remittance stubs, billing registers and payment journals.
- We reviewed the 2014 accounts in arrears relevied to the 2015 tax bills. We compared the billing summary for the final period before the relevy list due date (third quarter of 2014) to the payment journals between October 1 and November 10, 2014 to determine the unpaid accounts. We calculated the total amount in arrears and compared our calculation to the amount relevied to determine any differences.

For the following tests, we selected the most recent billing period, the first quarter of 2015, to review because the readings are deleted from the handheld meter reader prior to the next billing period. We intended on comparing the readings from the handheld device to the readings entered into the billing software since the readings are deleted from the reader prior to the next billing period. We went back to the previous quarter, the fourth quarter of 2014, to have the ability to trace all payments received to the water payments journals and calculate the remaining balances and credits to trace to the first quarter billing of 2015.

- We reviewed a judgmental sample of seven accounts from the 19 accounts with usage less than 100 gallons on the first quarter billing of 2015.
- We recalculated the last two billings (quarter four of 2014 and quarter one of 2015) for all 188 accounts based on the meter readings entered into the billing software and the Board-approved rates. We used the collection information for the fourth quarter of 2014 to determine the balances and credits that should be carried over to the first quarter of 2015.
- We reviewed the latest quarter that the District had been billed by the NYC Water Board to correlate with the billing accuracy test which was the last quarter of 2014. We determined the gallons of water purchased by the District by reviewing the NYC Water Board bills. We then compared the amount purchased to the amounts the District charged its customers and determined the difference.

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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