



Village of Fleischmanns

Water Fund

Report of Examination

Period Covered:

June 1, 2011 — March 13, 2013

2013M-151



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2013

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 Fleischmanns, entitled Water Fund. 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 Fleischmanns (Village) is located in the Town of Middletown in Delaware County. The Village has 351 residents. The Village provides various services including water distribution, sewage treatment, code enforcement, street maintenance, snow removal, and general government support. The Village's annual budget for the 2012-13 fiscal year was \$953,000, which was funded mainly through real property taxes, water and sewer user fees, and State and Federal aid. The water fund budget for the same period was \$136,165.

The Village is governed by a five-member Board of Trustees (Board), which is composed of a Village Mayor and four Trustees. The Board is responsible for the general management and control of the Village's finances and operations and protection of Village assets. The Board generally has the authority and responsibility to adopt realistic, structurally balanced budgets and to monitor the budget continually.

Objective

The objective of our audit was to assess the financial management of the Village's water fund. Our audit addressed the following related question:

- Did the Board adequately manage the water fund's financial operations?

Scope and Methodology

We examined the financial management of the water fund for the period June 1, 2011 to March 13, 2013. We extended our scope back to fiscal year 2007-08 to analyze budget practices and fund balance trends.

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 Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village 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 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 Clerk's office.

Financial Management

The Board is responsible for making sound financial decisions that are in the best interest of the Village and the taxpayers that fund its operations. The Board must adopt structurally balanced budgets that provide sufficient revenues to finance recurring expenditures. The Village may retain a reasonable portion of fund balance to use as a financial cushion in the event of unforeseen financial circumstances. Although there is no fixed percentage that is allowed, good business practice dictates that the Village only retain a reasonable amount for unforeseen needs.

When a fund has excessive fund balance, the Board can appropriate it to reduce taxes and/or establish reserves. The Board can legally reserve portions of fund balance to finance future costs for a variety of specified purposes. It is important for the Board to adopt budgets that include realistic estimates of revenues and expenditures, and to use surplus fund balance as a funding source, when appropriate. It is also important that long-term plans be in place to ensure that moneys accumulated in operating funds are used for appropriate and authorized purposes. If the Board follows these practices, it will raise only the necessary amount of real property taxes.

The Board did not adequately manage the water fund's financial operations. The Board consistently overestimated expenditures and revenues, which initially resulted in an excessive fund balance, but has since caused fund balance to significantly decrease over the past two years. Although capital expenditures were made to repair infrastructure and decrease water loss, no long-term capital plan has been put into place to address financial needs and further capital improvements. Without proper budgeting and capital planning, this resulting decrease in fund balance may lead to fiscal stress in the water fund.

Budgeting and Fund Balance – As of the fiscal year-end 2008, the Village reported more than \$80,000 in available water fund balance. In fiscal years 2009 to 2011, the Board adopted budgets that overestimated the amount of revenue they would receive by more than \$47,000, an average of 12 percent. However, over the same period, the water fund spent \$78,000 less than the Board had planned, offsetting the revenue shortfall, and resulting in an aggregate operational surplus of about \$31,000. Expenditures began to outpace and eventually exceed revenues during 2012 and 2013, as the water fund spent approximately \$55,250 more than it received in revenues. While the fund balance in the water fund was more than sufficient to

absorb these deficits, the balance is estimated to decrease to about \$56,300 at the close of fiscal year 2012-13. This may not be sufficient to address the water operation's current and future infrastructure needs.

Unaccounted-for Water – Based on the Village's records from June 2012 to February 2013, they processed 35 percent more water than what was billed to customers. The Village Water Commissioner stated that part of this unaccounted-for water could be due to leakage, but is also inclusive of various municipal usages including fire hydrants and flushing of the water system. While the water system's efficiency has improved since 2006, 35 percent of unaccounted for water is still excessive when compared with the industry standard.¹

Table 1: Average Monthly Unaccounted-for Water (Gallons)	
February 2006 survey	5,310,000
July 2009 – September 2010	2,538,000
June 2012 – February 2013	378,000

Capital Plan – Since 2006, the Village has spent more than \$1,000,000 on capital projects for the water treatment and distribution system that included line upgrades and replacements. These were funded through grants and low-interest loans. Even after this significant investment, the water system still produces 25 percent more water than necessary. However, the Board has not adopted a long-term capital maintenance plan for the village's water system to identify future needs and the financing sources for those needs.

While we commend the Board for addressing infrastructure needs and reducing water loss, as the Board continues to address these needs and pay off current and future loans, the water fund's ability to finance operations and maintenance will become increasingly difficult without sufficient revenues. At this rate of decline, the water fund will have no residual fund balance in two to three years.

Recommendations

1. The Board should adopt balanced budgets with realistic estimates for anticipated needs and that are based on historical spending.
2. The Board should establish a long-term capital plan for the water fund to address current and future infrastructure needs, including setting aside money in reserves as needed.

¹ The United States Environmental Protection Agency (EPA) has established an industry standard of 10 percent for unaccounted-for water.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TODD PASCARELLA
MAYOR
LORRAINE DE MARFIO
VILLAGE CLERK

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August 31, 2013

Ann Singer, Chief Examiner
State Office Building, Room 1702
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Re: Response to Water Fund Report of Examination

Dear Mrs. Singer,

The Village of Fleischmann's is in receipt of the recent report of examination regarding your audit of our water fund. The Village board is currently reviewing the report and its recommendations and looking at options for strengthening the water fund moving forward. We appreciate your careful consideration of the Village's fiscal situation and our interest in balancing our budget while keeping rates as low as possible for the end user. Thank you for your input, our specific action plan will be forthcoming following further board discussion.

Very Truly Yours.

Todd Pascarella, Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate Village officials and employees, tested selected records, and examined pertinent documents for the period June 1, 2011, through March 13, 2013. Our procedures included the following:

- We obtained an understanding of the Village's internal controls related to the budget development and monitoring process.
- We obtained information related to the Board's financial oversight and reviewed Board meeting minutes.
- We analyzed revenue and expenditure trends and the changes in fund balance of the water fund for fiscal years 2008-09 through 2012-13.
- We compared budgeted revenues and appropriations to actual revenues and expenditures of the water fund for fiscal years 2008-09 through 2012-13.
- We analyzed the Village's tax assessments, tax rates, and tax levies for trends and changes for fiscal years 2008-09 through 2012-13.
- We compared the total amount of processed water to the total amount of water billed for the period June 1, 2012, through February 28, 2013 to determine the amount of unaccounted-for water.

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.

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