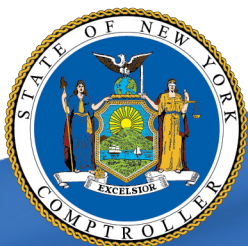


Town of Hartwick

Water District Operations

MAY 2018



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

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Report Highlights

Town of Hartwick

Audit Objective

Determine if the Board ensured that bills for water services were charged equitably to all system users.

Key Findings

- Although water bills appear to be based on an appropriate method to ensure equity among the users of the system, District officials could bill users more equitably if they serviced the water meters.
- Water rents were not billed to some District users.

Key Recommendations

- Continue working with engineers to resolve remaining water meter issues.
- Ensure that accurate information is kept on each property, and is compared to the Town's billing records to ensure all users of the system are being billed.

Town officials agreed with our recommendations and indicated they were in the process of implementing corrective action.

Background

The Town of Hartwick (Town) is located in Otsego County.

The Town is governed by the Town Board (Board) which is composed of the Town Supervisor and four elected Board members. The Board is responsible for the general oversight of the Town's operations and finances, including its water districts.

The Town Clerk (Clerk) is responsible for billing and receiving water rent payments. She also maintains water user accounts within the computerized Water District (District) software.

Quick Facts

Population	2,100
2017 Tax Levy	\$1.1 million
2016 Water District Receipts	\$126,100
Water Accounts	235

Audit Period

January 1, 2016 – July 27, 2017

Water District Operations

How Should Water Rents Be Billed?

A District should operate efficiently and equitably for all water users located in the District. Accordingly, the Board is responsible for ensuring that all users of the system are charged for water usage. To this end, the Board should ensure that accurate information is kept on each property such as when water supply is turned off or on; this information should then be compared to the Town's billing records to ensure all users of the system are being billed. Finally, District officials should ensure users are billed based on their share of the costs to operate the water system as established by the water rates.

Water Rents Could Be More Equitable

In 2005, the Town spent approximately \$45,000 to install water meters in an effort to more efficiently and equitably charge customers for water. However, the Town has not used the meters as a basis for charging users. Instead, a water maintenance operator reads accessible meters twice per year to monitor meter reliability and provide usage data. More specifically, Town officials told us that some meters have not worked since their initial installation, some are difficult to access, and the batteries are approaching the end of their useful lives. According to information provided by the Town, approximately 80 percent of the meters provide reliable readings. Officials have been working to remedy the meter situation for the past 12 years.

As a result of these ineffective meters, Town officials bill customers water rents based on a flat-rate schedule that assigns charging units based on the number of households or businesses being served (See Figure 1) instead of metered usage. Although this methodology can take into account certain factors such as the physical size of the house/business, this is not as equitable as consumption-based billing. Based on the established rate schedule, a one-family residential customer that uses 50,000 gallons per year and another that uses 150,000 gallons per year are charged equivalent amounts. In addition, businesses are charged the same rate (\$180 annually for a single business) regardless of their usage, which could vary significantly, depending on the type or size of business. For example, according to their meter readings, in one year a diner used 51,300¹ gallons and two local businesses each used an average of 9,000 gallons, but were all charged the same flat rate amount for water.

¹ Officials were unsure if the diner meter records consumption based on 100 or 1,000 gallons. We calculated our total gallons based on 100 gallons. If we calculated total gallons based on 1,000 gallons, the diner used 513,000 gallons.

Figure 1: Water District Rate Schedule

Category of User	Units ^a	Annual Usage Fee
1 household	1.0	\$120
2 households	2.0	\$240
3 households	2.5	\$300
4 households	3.0	\$360
5 households	3.5	\$420
1 Business	1.5	\$180
2 Businesses	2.0	\$240
3 Businesses	2.5	\$300
4 Businesses	3.0	\$360
5 Businesses	3.5	\$420

^a A unit is the multiplying factor of the current rate (\$120 per unit currently). Discounts are applied for multiple households and businesses when they occupy a common building (i.e., apartments).

When customers are charged a flat-rate fee instead of being charged for actual usage, there may be discrepancies between the flat-rate amount and actual usage by the district customers. Furthermore, customers may have no incentive to conserve water or notify Town officials when they notice water leaks.

Water Rents Were Not Billed

The Board did not ensure that water rents were properly billed to users. Of the 235 water accounts in the Town, 36 accounts were not charged water rents,² 27 of those were properly exempt from being charged (e.g., vacant lots). Town officials did not know why the remaining nine accounts were not charged water rents. Officials could not provide to us documentation to show why these accounts were not charged even though Town records showed that seven accounts used water.³ Town officials were not allowed access to read the meters at the other two locations.⁴ Therefore, we were unable to determine if water was used. Based on our audit testing, we have reasonable assurance that these findings were errors and not intentional.

² All 36 of these accounts were charged for debt service.

³ We used meter readings for the period of April-Sept 2017.

⁴ The Town did not have an enacted law allowing access to these meters. However, since the start of the audit, Town officials began working with lawyers and engineers to update the law to include the Town having access.

These errors occurred due to the lack of bill preparation oversight. More specifically, the Clerk prepares the bills quarterly, but no procedure is in place to verify the water rents are billed properly. In addition, Town officials do not maintain records that include a change in occupancy for parcels, or meter readings. Had they done so, they may have identified customers who were not being billed for water.

Without an accurate and current list of all users of the system, along with adequate procedures to reconcile these records to the quarterly billings of water rents, officials cannot determine if all users of the system are charged for water services.

What Do We Recommend?

Town officials should:

1. Continue working with their engineers to resolve remaining water meter issues as directed by the Town Board.

The Board should:

2. Pursue payment on the accounts that should have been billed.
3. Establish policies and procedures to ensure that accurate information is kept on each property, and is compared to the Town's billing records to ensure all users of the system are being billed.

Appendix A: Response From Town Officials

The Town of Hartwick

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Office of the NYS Comptroller

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Binghamton, N.Y. 13901

To Whom it May Concern:

The Town Board of the Town of Hartwick acknowledges the Report of Examination Draft issued by your office.

Although the facts within this report are technically accurate, we feel it is a mischaracterization of the efforts put forward by this current administration. The audit paints all town officials (past and present) with a broad brush and makes no distinction between previous administrations and the current one.

Not only was this examination requested by this administration, it was requested as a result of issues identified by the administration.

This administration has worked tirelessly to identify, mitigate and resolve the issues we have identified and will continue to do so.

Respectfully,

Robert J. O'Brien

Supervisor

Appendix B: 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 the Town officials and the Clerk to gain an understanding over the billing process.
- We examined quarterly billings to identify which parcels were not billed for water rents and then examined meter readings to assess whether properties are not being billed for water actually used.
- We analyzed the Town's rate structure for water rents and calculated annual costs by household and businesses.
- We reviewed water meter readings to identify how many properties have meters.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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 C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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