

Town of Philipstown

Board Oversight of Water Billing Operations

MAY 2019



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

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Report Highlights

Town of Philipstown

Audit Objective

Determine whether the Board provided proper oversight of water billing operations.

Key Finding

- The Board did not provide proper oversight over the water clerk or segregate her duties.

Key Recommendations

- Segregate the water clerk's incompatible duties or design compensating controls.
- Provide oversight to ensure water billings are accurate and complete.
- Amend the Town code water penalty to comply with Town Law.

Town officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The Town of Philipstown (Town) is located in the western part of Putnam County (County). The Town is governed by a five-member Board of Trustees, composed of four Board members and a Town Supervisor (Supervisor).

The Town provides general governmental services, such as water, recreation, fire and department of public works services.

The Board is responsible for oversight of the Continental Village Water District (District) and its employees.

Quick Facts

2017 Appropriations	\$8.4 million
2017 Water Appropriations	\$265,790
Water Customers	434
Water Collections During the Audit Period	\$105,884
Population	9,662
Area	48.8 Square Miles

Audit Period

January 1, 2017 – December 31, 2017

Water Operations

How Should the Board Provide Oversight of Water Operations?

A board is responsible for setting water rates and ensuring that water rents are properly billed, collected and enforced. To effectively manage water operations, a board should develop policies and procedures that provide guidance to the water clerk to safeguard town resources. Well-designed internal controls must provide sufficient oversight of employees and must ensure that duties are adequately segregated, so that one employee does not control all phases of a transaction.

When it is not practical to segregate duties because of limited staffing resources, a board must establish compensating controls, such as reviewing the work in question before bills are printed and sent to customers. A 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, or comparing the number of bills to be printed with the database of customer accounts.

In addition, a supervisor or designated official should maintain a master list of water district customers independent of the records maintained by the clerk to ensure all customers are properly billed and water rents are collected as billed. The board and supervisor should ensure that accurate information is kept for each property, such as when ownership changes.

Furthermore, the supervisor or designated official should require a report of the total number and amount of each billing, the total collections against that billing and a list of the resulting unpaid accounts that should agree with the list of accounts to be levied on the tax roll. The collections shown in this report should equal the amounts deposited into the supervisor's water fund account.

New York State Town Law¹ (Town Law) requires that a map be prepared before establishing a water district that identifies where water district boundaries begin and end to ensure accurate water billing. Town Law² also allows for a penalty for unpaid water charges in arrears for thirty days or longer, not to exceed 10 percent of the total amount due. The Board is required to follow Town Law to ensure that water penalties for unpaid accounts do not exceed the allowable percentage.

The Board Did Not Provide Oversight of Water Operations

The Board assigned the water clerk (clerk) responsibility for maintaining complete records for the District. The clerk maintains customer contact information, billing and payments in the computerized financial system. In addition, she maintains spreadsheets for winter and summer billings, payments and deposit compositions

1 New York State Town Law (Town Law), Section 192

2 Town Law, Section 198

for each deposit made. The clerk bills customers a flat fee of \$325 for winter water use in January and \$180 for summer use in May each year, winter payments are due in February and summer payments are due in June.

The Board did not adopt adequate policies and procedures or implement compensating controls, such as providing oversight of the clerk's incompatible duties. The nature of duties assigned to the clerk created substantial weaknesses in internal controls and no evidence was presented to us to indicate that the Board reviewed her work to reduce the effect of those weaknesses.

The clerk operates the District from her personal residence using her personal computer, and performs all phases of water transactions, which includes billing, receiving payments and depositing receipts. Customers make payments by check, and send their payment, made payable to Continental Village Water District, to the clerk's home address.

The clerk prepared water bills, collected and deposited customer payments, recorded transactions in the computerized software, disbursed funds to the Supervisor and reviewed bank statements. However, the Board did not assess the billing register and water bills for accuracy and completeness or maintain a master list of water district customers, independent of the records maintained by the clerk, to ensure all customers are properly billed and water rents are collected as billed.

In addition, the Board did not ensure that the clerk's duties were adequately segregated or monitored. As a result, the clerk performed incompatible duties such as collecting checks, recording receipts, writing checks and preparing bank deposits.

Furthermore, the Board did not review a report of total water rents billed, amounts collected and unpaid balances to be levied on the tax roll. This review would show that all amounts billed were either collected or listed as unpaid and collected through levy on the tax bills.

Because of the lack of segregation and oversight, we reviewed water bills, customer payments, receipts, deposits, bank statements and customer and re-levy lists. Our review disclosed significant findings regarding the clerk's activities due to the lack of oversight.³ As a result, internal controls were weakened and the lack of oversight increased the risk that errors and irregularities might occur, go undetected and remain uncorrected.

³ Refer to the Accounts Were Improperly Billed section of this report.

The Town Did Not Have a Water District Boundaries Map

Town officials did not have maps that show all the properties located within District boundaries as required. Although the water superintendent provided us with a map for a specific area of the Town, other areas where water service is provided to residents were not included. We compared the assessors list to the customer billing list and found that there were 128 residential property owners within the District who were not billed for water use during 2017.

Officials could not provide an explanation or provide documentation to support why the properties in question were not billed and told us that some of these properties have wells, but did not provide any specific information to conclude that the properties should not have been billed. As a result, the Town is likely losing water fee revenue ranging from \$23,040 to \$41,600 and provided service to residents that are not being billed.⁴

Accounts Were Improperly Billed

We reviewed deposit spreadsheets, bank statements and deposit receipts for the audit period to determine whether the amounts deposited matched the amounts received. In addition, we reviewed bank adjustment letters that contained deposit error information, to determine the amount deposited. We also reviewed bank statements to determine the amount of payments made to the Supervisor. We compared winter and summer spreadsheets to customer, payment and deposit lists to determine whether the information was accurate.

Deposit Composition Spreadsheet – From the deposit composition spreadsheet used to track payments received and deposited, we found the following:

- Three bank deposit adjustments for incorrect deposit amounts totaling \$455 shown in the bank adjustment letters, were not reflected in the deposit or payment records.
- An additional deposit was made on October 2, 2017 for \$216 that was not reflected on the deposit composition or payment spreadsheet.

Winter and Summer Spreadsheets – From the winter and summer spreadsheets used to maintain customer account information and record payments, we found the following:

- 43 payments totaling \$12,977 were not recorded and four tax map numbers were incorrect on the customer payment spreadsheet.

⁴ We were unable to determine whether these properties should be billed at the winter or summer rates. If all properties were billed at the lower summer rate, the total lost revenue would be \$23,040 and if they were billed at the winter rate the total lost revenue would be \$41,600.

-
- 11 customer deposits totaling \$2,722 were not recorded and four customers had incorrect account numbers on the deposit spreadsheet.
 - 23 customer names did not match and 12 names contained spelling errors across all these spreadsheets. These errors could result in misapplied payments because the payment information did not match the clerk's records.

Financial System Records - From the financial system used to bill and record payments, we found the following:

- 28 of the 434 customer accounts totaling \$5,040 were not billed for water used.
- 12 customers paid \$2,160 but were not billed for any water use.

Re-levied Water Bills – From the 2017 re-levy list provided to Town officials with customer information and amounts to be re-levied on the unpaid water customer's real property tax bills, we found the following:

- Five unpaid accounts totaling \$1,150 were not included on the re-levy list submitted to the County for 2018.

These errors occurred because the Board did not implement policies and procedures or provide oversight to address the review of customer accounts, billing or outline the documentation that it should be given periodically. More specifically, the Board did not ensure that the clerk maintained accurate and complete accounting records and customer lists.

Further, officials have no verification procedures to ensure that the list of re-levied accounts is complete and accurate. Without an accurate and current list of all system users, along with adequate procedures to reconcile these records with the water bills, officials cannot determine whether all system users are charged for water service and could allow significant errors to occur and not be detected.

Late Payment Penalty Charges Did Not Comply with Town Law

If water bills are not paid by the due date, customers are assessed a one-time 20 percent penalty. Overdue water accounts remaining unpaid when the Town's real property taxes are levied are added to the annual real property tax roll for the ensuing year. Any unpaid Town taxes, including re-levied water fees, are guaranteed by the County and paid to the Town before the year-end.

The Town Code, which requires that officials assess a 20 percent penalty for nonpayment or delinquent water accounts, does not comply with Town Law⁵

5 Town Law, Section 198

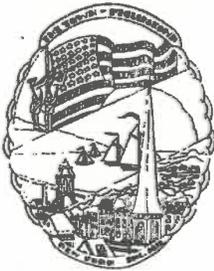
because the penalty exceeds 10 percent of the total amount due. This occurred because officials were unaware of the maximum percentage to be charged on unpaid water rents allowed by law. As a result, officials overcharged 96 customers \$2,787 in 2017.

What Do We Recommend?

The Board should:

1. Segregate the clerk's financial duties or implement compensating controls such as providing additional oversight.
2. Ensure that District boundaries are determined and documented on a map.
3. Ensure all District water users' information is accurate and they are properly charged for water use.
4. Review reports of amounts billed, collected and re-levied on the tax roll to assure that all billings were collected and deposited or re-levied.
5. Ensure the unpaid water rents re-levy list is complete and accurate, and attempt to recoup amounts not collected.
6. Amend the Town Code to include a 10 percent penalty for nonpayment or delinquent water rents to comply with Town Law. Consult legal advice on how to address water account penalty overcharges.

Appendix A: Response From Town Officials



TOWN OF PHILIPSTOWN

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TOWN CLERK AND TAX COLLECTOR

JOHN VAN TASSEL, COUNCILMAN
MICHAEL LEONARD, COUNCILMAN
ROBERT FLAHERTY, COUNCILMAN
JUDITH FARRELL, COUNCILWOMAN

May 13, 2019

[REDACTED]
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, New York 12553

Audit Report Title: Board Oversight of Water Billing Operations

Audit Report Number: 2018M-43

Dear [REDACTED]

This letter is in response to the Report of Examination issued by the Office of the State Comptroller ("OSC") regarding the Town of Philipstown ("Town") and the associated corrective action plan ("CAP") the Town has developed and begun to implement during the current fiscal year.

Below are the Town's responses to the OSC comment letter regarding the financial condition of the Town.

Audit Recommendation (1):

The Board should segregate the clerk's financial duties or implement compensating controls such as providing additional oversight.

Implementation Plan of Action:

The Town is determining the best course forward to segregate some of the duties performed by the clerk and add compensating controls to verify the accuracy of information provided. Given the limited resources available to the Town, choosing the correct individual will be important so as to not create other control deficiencies.

Implementation Date:

The Town is currently performing the evaluation and will have determined the appropriate individual and/or compensating controls needed by the end of the third quarter.

Person Responsible for Implementation:

Given this process involves various touchpoints, the Town does not believe there is one individual person responsible for implementation. However, the Supervisor and the Board are involved, at the appropriate levels, in the decision-making process.

Audit Recommendation (2):

The Board should ensure that district boundaries are determined and documented on a map.

Implementation Plan of Action:

The Town will create a map showing all properties located within the water district boundaries.

Implementation Date:

The Town is targeting to have this map completed as soon as possible in 2019.

Person Responsible for Implementation:

Creating the map will require input from various individuals but the Town will expect the Water Superintendent to be the primary contact.

Audit Recommendation (3):

The Board should ensure all district water users' information is accurate and they are properly charged for water use.

Implementation Plan of Action:

The Town will create an updated list of current water district users based on the boundary map and ensure the information is correctly reflected in the billing system.

Implementation Date:

The Town will complete this step immediately after the boundary map is created.

Person Responsible for Implementation:

The primary individuals responsible for implementing the above-stated actions is the Water Superintendent, Water Clerk and Town Supervisor.

Audit Recommendation (5):

The Board should ensure the unpaid water rents re-levy is complete and accurate and attempt to recoup amounts not collected.

Implementation Plan of Action:

The Town will develop a process in conjunction with the creation of the boundary map and updating of water users' information.

Person Responsible for Implementation:

The primary individuals responsible for implementing the above-stated actions is the Water Superintendent, Water Clerk and Town Supervisor.

Audit Recommendation (6):

The Board should amend the Town Code to include a 10 percent penalty for non-payment or delinquent water rents to comply with Town Law. Consult legal advice on how to address water account penalty overcharges.

Implementation Plan of Action:

The Town will consult with legal counsel to determine the correct path forward on implementing a 10 percent penalty and addressing water account penalty overcharges.

Person Responsible for Implementation:

The primary individuals responsible for implementing the above-actions is the Water Superintendent, Town Supervisor and Town Board.

Sincerely,

Richard Shea
Supervisor

/amg

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, we performed the following audit procedures:

- We interviewed Town officials to gain an understanding of the Town's policies and procedures and to determine whether there were internal controls over the water district operations.
- We reviewed all water cash receipts, deposits and bank statements for the audit period to determine whether they were recorded, collected and deposited intact.
- We reviewed the water budget and yearly water billing reports for 2017 to determine whether rates were calculated accurately.
- We reviewed all 434 water accounts and documented invoices and payments from the transaction detail report. We recalculated the rates to bill water accounts, using the Board-approved water rates, and recalculated penalty amounts. We also determined how many accounts were not billed or were inaccurate for each period.
- We reviewed the water clerk's spreadsheets and compared to bank information.
- We compared the assessor's water district list to the customer contact list to determine whether all accounts were being billed.

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 relevant population size 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/pubs/cyber-security-guide.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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Local Government and School Accountability Help Line: (866) 321-8503

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