



Village of Coxsackie

Financial Condition and Water and Sewer Fund Accountability

Report of Examination

Period Covered:

June 1, 2012 — May 31, 2014

2014M-324



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2015

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 Coxsackie, entitled Financial Condition and Water and Sewer Fund Accountability. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Village of Coxsackie (Village) is located in the Town of Coxsackie, in Greene County, and has a population of about 2,800. The Village Board is the legislative body responsible for managing Village operations, including establishing appropriate internal controls over financial operations and maintaining a sound financial condition. The Mayor serves as the Village's chief executive officer. The Board appoints the Clerk-Treasurer (Treasurer), who is the chief fiscal officer and Clerk of the Board.

The Village's 2014-15 budgeted appropriations for all operating funds total approximately \$3.7 million, funded primarily with real property taxes, water and sewer rents, sales taxes and State aid.

The Village produces its own water and provides water and sewer services to the Village and Town of Coxsackie and the Greene County Correctional Facility. In addition, water services are provided to the Town of New Baltimore and the Coxsackie Correctional Facility. The Village charges users quarterly based on the users' location and total number of gallons consumed. The Village mails meter consumption cards to each customer two weeks prior to billing. Quarterly water charges are calculated based on meter readings reported by the homeowner. Customers that do not report are assessed the minimum charges.

Objectives

The objectives of our audit were to review the Village's financial condition and its accountability over the water and sewer funds for the period June 1, 2012 through May 31, 2014. Our audit addressed the following related questions:

- Do Village officials adequately monitor the Village's financial operations to ensure fiscal stability?
- Did the Board provide adequate oversight of water and sewer operations?

Audit Results

Village officials did not adequately monitor financial operations to ensure fiscal stability. The Village has experienced unplanned operating deficits in its water and sewer funds over the last two years. These deficits were caused by inaccurate budget estimates and the lack of monitoring financial operations throughout the year. As a result, the general fund advanced funds to the water and sewer funds to pay for operational costs, which could not be repaid in a timely manner. Village officials did not properly address and account for the inability of the water and sewer funds to repay temporary interfund transfers from the general fund. As a result, the Village has experienced significant cash flow deficiencies which have affected its ability to meet its obligations.

Because the advances to the water and sewer funds were not likely to be repaid within one year, these advances should have been reclassified as long-term receivables or written off. This would have required an adjustment of the unassigned fund balance in the general fund from \$660,019 to \$219,045 for fiscal year 2012-13 and from \$591,302 to \$30,943 for fiscal year 2013-14. In addition, at the end of the 2013-14 fiscal year, the Village did not have enough available cash to pay vendors and payroll was being advanced by its bank. The Village's fiscal problems were highlighted in a previous audit¹ but the recommendations were not implemented. Unless these budgetary and cash flow problems are addressed, future Village operations could be adversely impacted.

The Board also needs to improve its oversight of water and sewer operations. The budgets in both the water and sewer funds were not based on realistic revenues and water and sewer rates were not sufficient to cover anticipated expenditures. The Board also does not have adequate procedures in place to ensure that all property owners are properly charged for water use. Finally, the Village's unaccounted-for water exceeds the standard by 20 percent. When unaccounted-for water is due to inaccurate and/or unread meters or theft, the Village loses water rent revenues. We estimate that the Village lost at least \$352,443² in water rents and \$211,446³ in sewer rents during the audit period due to the unaccounted-for water.

Because of these factors, the water and sewer funds have regularly experienced operating deficits and continue to rely on general fund transfers. Water and sewer user rates do not generate sufficient revenues to pay the total costs of operating and maintaining the facilities and service lines. As a result, the Village is left with insufficient funds to pay for unplanned or unforeseen expenditures.

Comments of Village Officials

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 agreed with some of our findings and recommendations and indicated they plan to initiate corrective action. Appendix B includes our comments on the Village officials' response.

¹ See report 2009M-32 titled "Financial Condition and Internal Controls Over Selected Financial Operations"

² Calculated based upon the Village's minimum charge per 1,000 gallons over the minimum of \$5.

³ Calculated based upon the Village's minimum charge per 1,000 gallons over the minimum of \$3.

Introduction

Background

The Village of Cossackie (Village), located in Greene County, covers 2.17 square miles and serves approximately 2,800 residents. The Village Board (Board) is the legislative body responsible for managing Village operations, including establishing internal controls over financial operations and maintaining a sound financial condition. The Village Mayor (Mayor) is a Board member and serves as the chief executive officer. The Board appoints the Clerk-Treasurer (Treasurer), who is the chief fiscal officer and Clerk of the Board. The Treasurer is responsible for receiving, disbursing and maintaining the custody of Village moneys; maintaining the accounting records; and providing financial reports to the Board.

The Village provides a variety of services to its residents, including general government support, police and fire protection, street maintenance and refuse service. The Village's total expenditures were \$3 million for the 2012-13 fiscal year and \$3.3 million for 2013-14. The Village's 2014-15 general fund budget totaled \$1.7 million and was funded primarily by property taxes and federal and State aid. The 2014-15 water fund budget totaled \$1 million and was funded by water fees. The 2014-15 sewer fund budget totaled \$980,000 and was funded by sewer fees. The Board sets both the water and sewer fees.

The Village produces its own water and provides water and sewer services to the Village and Town of Cossackie and the Greene County Correctional Facility. In addition, water services are provided to the Town of New Baltimore and the Cossackie Correctional Facility. The Village charges users quarterly based on the users' location and total number of gallons consumed. The Village mails meter consumption cards to each customer two weeks prior to billing. Quarterly charges are calculated based on meter readings reported by the homeowner. Customers that do not report are assessed the minimum charges.

Objectives

The objectives of our audit were to review the Village's financial condition and its accountability over the water and sewer funds. Our audit addressed the following related questions:

- Do Village officials adequately monitor the Village's financial condition to ensure fiscal stability?
- Did the Board provide adequate oversight of water and sewer operations?

**Scope and
Methodology**

We examined the Village’s financial condition and the water and sewer fund activities for the period June 1, 2012 through May 31, 2014.

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.

**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. Village officials agreed with some of our findings and recommendations and indicated they plan to initiate corrective action. Appendix B includes our comments on the Village officials’ response.

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 Village Clerk’s office.

Financial Condition

Financial condition is defined as a local government's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A local government in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a local government in fiscal stress that usually struggles to balance its budget can suffer disruptive service level declines, has limited resources to finance future needs and may have cash flow difficulties. Village officials have a responsibility to develop reasonable budgets and manage fund balance responsibly.

Village officials did not adequately monitor financial operations to ensure fiscal stability. The Village has experienced unplanned operating deficits in its water and sewer funds for the last two years. These deficits were caused by inaccurate budget estimates and the lack of monitoring financial operations throughout the year. As a result, the general fund advanced funds to the water and sewer funds to pay for operational costs, which could not be repaid in a timely manner. Village officials did not properly address and account for the inability of the water and sewer funds to repay temporary interfund transfers from the general fund. As a result, the Village has experienced significant cash flow deficiencies which have affected its ability to meet its obligations.

Because the advances to the water and sewer funds were not likely to be repaid within one year, these advances should have been considered long-term receivables. This would have required an adjustment of the unassigned fund balance in the general fund from \$660,019 to \$219,045 for fiscal year 2012-13 and from \$591,302 to \$30,943 for year ended 2013-14. In addition, at the end of the 2013-14 fiscal year the Village did not have enough available cash to pay vendors and payroll was being advanced by its bank. The Village's fiscal problems were addressed in a previous audit⁴ but the recommendations were not implemented. Unless these budgetary and cash flow problems are addressed, future Village operations could be adversely impacted.

Fund Balance

A key measure of the Village's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. The Village may retain a reasonable level of fund balance as a financial cushion in the event of unforeseen

⁴ See report 2009M-32 titled "Financial Condition and Internal Controls Over Selected Financial Operations"

financial circumstances. When a fund does not have sufficient cash to meet its current obligations, governing officials are often forced to explore options such as obtaining loans from other funds.

The Village’s reliance on general fund balance as a financing source for the water and sewer funds has negatively impacted the Village’s overall financial condition. As of May 31, 2014, both the water and sewer funds had a deficit fund balance.

Figure 1: Fund Balance		
Fund	2012-13	2013-14
General Fund	\$ 706,716	\$ 646,197
Water Fund	(\$194,716)	(\$124,789)
Sewer Fund	\$ 48,626	(\$80,368)

Deficit fund balances were caused by poor budgeting and the lack of enforcement of user charges which resulted in the reliance on general fund transfers to support the water and sewer fund operations. The water and sewer funds needed temporary transfers, as shown in Figure 2.

Figure 2: Due To Other Funds		
Fund	2012-13	2013-14
Water Fund	\$ 364,430	\$ 503,682
Sewer Fund	\$ 76,544	\$ 210,120

Village officials have no assurance that the large transfers to the water and sewer funds will be repaid. In addition, Village officials have not classified the long-term due from other funds account properly. As a result, Village officials have not been using accurate records when making decisions regarding the continued use of general fund transfers. While the general fund appears to have adequate fund balance, the actual amount available to fund operations is much less than reported because loans to the water and sewer funds are unlikely to be repaid.

Interfund Transfers

General Municipal Law requires that funds temporarily advanced from one fund to another be repaid as soon as available, but in any event, no later than the close of the fiscal year in which the advance was made. According to the Government Accounting Standards Board, if loan repayment is not expected within a reasonable amount of time, the affected fund balance should be reduced. The amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan or, at a minimum, should be classified as a long-term receivable. This will provide those relying on the financial statements a more accurate amount of unassigned fund balance.

We found that Village officials did not properly classify the amounts due to the general fund from the water and sewer funds. For the fiscal year ending May 31, 2013, the water and sewer funds owed the general fund \$440,974. For the fiscal year ending May 31, 2014, the amount increased to \$560,359. The amount borrowed has increased each year. These amounts should not be considered temporary transfers because funds are not available to the Village to use to fund current obligations. The Mayor informed us that repayment of the advances was unlikely due to fiscal constraints. Village officials told us that they did not classify the outstanding portion of these transfers as a long-term receivable because they were unaware of the accounting rule and relied on the independent accountant’s review.

Until the water and sewer funds can repay these temporary transfers, the amounts should be accounted for as fund balance that is “Not in Spendable Form.” This will reduce the amount of available general fund unassigned fund balance. The adjusted unassigned fund balance as shown in Figure 3 is \$219,045 for 2013-14 and \$30,943 for 2013-14.

Figure 3: Adjusted General Fund Unassigned Fund Balances		
	2012-13	2013-14
Reported Unassigned Fund Balance	\$660,019	\$591,302
Not in Spendable Form ^a	\$440,974	\$560,359
Adjusted Unassigned Fund Balance	\$219,045	\$30,943
^a Accounted for in A806 - Not in Spendable Form		

Because the due from accounts were not properly classified, Village accounting records indicated that they had sufficient unassigned fund balance in the general fund. However, the Village actually had minimal amounts of general fund balance available for general government activities or to lend to other funds.

Cash Flow

An essential component of effective financial management is ensuring that sufficient cash resources are available to pay obligations as they come due. Generally, a local government should have enough residual cash to pay its bills for 30 to 60 days. To ensure that cash is available as needed, cash flow projections should be developed to help identify potential cash deficiencies. When a fund does not have sufficient cash to meet its current obligations, short-term options to provide needed cash include obtaining loans (advances) from other funds that have excess residual cash or issuing short-term debt.

The Village’s general and sewer funds did not have enough available cash at the end of 2013-14 to meet Village obligations. As shown in Figure 4, the amount of cash reported was less than the current accounts payable in the general and sewer funds. In addition to

the outstanding accounts payable, the general fund also owed the water fund \$38,624 that was temporarily borrowed to meet payroll obligations. This increased the general fund cash deficit to (\$63,958) for fiscal year 2013-14.

Figure 4: 2013-14 Available Cash Flow			
Fund	Available Cash	Accounts Payable	Difference
General Fund	\$ 6,792	\$ 32,126	(\$25,334)
Water Fund	\$100,532	\$ 13,474	\$87,058
Sewer Fund	\$8,155	\$ 33,627	(\$25,472)

Although the water and sewer funds had outstanding accounts receivable that, when collected, would mitigate the cash flow deficits, the general fund did not, as outlined in Figure 5.

Figure 5: 2013-14 Adjusted Cash Flow				
Fund	Available Cash	Accounts Receivable	(Less) Accounts Payable	Difference
General Fund	\$6,792	\$1,815	\$32,126	(\$23,519)
Water Fund	\$100,532	\$186,089	\$13,474	\$273,147
Sewer Fund	\$8,155	\$112,746	\$33,627	\$87,274

The Village’s cash flow problem can be attributed directly to the operating deficits in the water and sewer funds. According to the Mayor, the estimated revenue in the Village’s sewer budget is a “plugged” number. There is no basis for the amount included in the budget. It is essentially the difference between the anticipated sewer rents and total estimated expenditures.

The lack of sufficient cash has forced the Village to rely on last-minute transfers of cash that may or may not be available from other funds. This resulted in the Village having insufficient cash for operations. Also, the extensive and continued use of interfund advances distorts the actual cash needs of the individual operating funds and hinders the development of long-term solutions.

Recommendations

The Board should:

1. Review all outstanding interfund advance balances and take action to repay the advances or make necessary adjustments to reduce fund balance.
2. Monitor financial operations throughout the year to ensure that revenues are sufficient and appropriations are not overspent.

Water and Sewer Funds

The Board and Village officials are responsible for providing oversight of the water and sewer funds' operations. This includes adopting realistic budgets that balance revenues and expenditures, setting rates based on the annual cost of operations and maintenance and anticipated future repairs and improvements, accounting for water produced and implementing adequate procedures to ensure that all water used is adequately billed.

In addition, water production should be monitored to ensure a minimal level of unaccounted-for water because metered water rents are a primary source of revenue. When unaccounted-for water is due to inaccurate or unread meters or theft, the Village loses water rent revenues for the amount of water usage that is not billed. Adequate enforcement of meter readings is necessary to help ensure that the Village receives the revenue that is due. If Village officials do not ensure that all users pay the correct amounts, the results could include increased rates and inequitable user costs.

The Board needs to improve its oversight of water and sewer operations. The budgets in both the water and sewer funds were not based on realistic revenues and water and sewer rates were not sufficient to cover anticipated expenditures. In addition, the Village has experienced large amounts of unaccounted-for water and billing practices do not provide a system in which users are equitably charged based on usage.

Because of these factors, the water and sewer funds have regularly experienced operating deficits and continue to rely on general fund transfers. Water and sewer user rates do not generate sufficient revenues to pay the total costs of operating and maintaining the facilities and service lines. As a result, the Village is left with insufficient funds to pay for unplanned or unforeseen expenditures.

Budgeting

It is essential that Village officials adopt structurally balanced budgets for the water and sewer operations so that recurring revenues finance recurring expenditures and a reasonable fund balance is maintained. Effective management includes monitoring budgets during the course of the year and making any needed budgetary amendments to address revenue shortfalls or costs that exceed appropriations. Recurrent operating deficits generally indicate a failure to ensure that budgets are realistic and properly monitored.

The Board did not adopt budgets which contained realistic water and sewer revenue estimates that were based on historical and other

relevant information.⁵ Instead, the Board consistently overestimated water and sewer revenues, as shown in Figure 6. We anticipate this trend will continue during the 2014-15 fiscal year.

Figure 6: Water and Sewer Revenue Estimates		
Water Rent Revenues		
	FY 2012-13	FY 2013-14
Budgeted Revenues	\$888,709	\$985,417
Actual Revenues	\$787,558	\$931,054
Variance	(\$101,151)	(\$54,363)
Sewer Rent Revenues		
	FY 2012-13	FY 2013-14
Budgeted Revenues	\$878,913	\$881,413
Actual Revenues	\$668,041	\$651,925
Variance	(\$210,872)	(\$229,488)

Although expenditures were less than the budgeted appropriations, the difference between actual revenues⁶ and expenditures resulted in an operating deficit in the water fund for fiscal year 2012-13 and in the sewer fund for fiscal year 2013-14, as shown in Figure 7.

Figure 7: Water and Sewer Results of Operations		
Water Fund		
	FY 2012-13	FY 2013-14
Actual Revenues	\$787,558	\$931,054
Actual Expenditures	\$848,427	\$861,127
Operating Surplus/(Deficit)	(\$60,869)	\$69,927
Sewer Fund		
	FY 2012-13	FY 2013-14
Actual Revenues	\$668,041	\$651,925
Actual Expenditures	\$667,571	\$780,919
Operating Surplus/(Deficit)	\$470	(\$128,994)

The Mayor stated that the sewer revenue estimate is a “plugged” number that is used to balance the appropriations with anticipated revenue. The water fund revenue estimates were based on projections prepared by the Mayor that relied heavily on metered sales, which is an unpredictable amount due to the variable amount of use.

Rates

To properly fund water and sewer operations, the Board should determine the annual cost of operations and maintenance and anticipated future repairs and improvements. Based on that

⁵ Such as the number of customers, historical usage and established rates

⁶ Includes water rents, penalties and re-levied amounts

information, the Board should establish water and sewer rates that will generate sufficient revenues to pay the total costs needed to properly operate and maintain the facilities and service lines.

The Board did not set water and sewer rates that were adequate to fund operational costs. While the Board increased water rates in 2013, sewer rates have remained unchanged. As a result, the water fund has shown improvement for the past two years, whereas the sewer fund has generated operating deficits for the same period.

Figure 8: Water and Sewer Rates		
Water Fund		
	FY 2012-13	FY 2013-14
Billed Revenues	\$756,518	\$908,025
Less: Expenditures	\$848,427	\$861,126
Operating Surplus (Deficit)	(\$91,909)	\$46,899
Sewer Fund		
	FY 2012-13	FY 2013-14
Billed Revenues	\$653,960	\$629,920
Less: Expenditures	\$667,571	\$780,920
Operating Surplus (Deficit)	(\$13,611)	(\$151,000)

In addition, based on the increase in expenditure trends, it is expected that both the water and sewer funds' rates will not generate sufficient revenue to meet 2014-15 budgeted appropriations, as shown in Figure 9.

Figure 9: Projected Water and Sewer Rates	
Water Fund	
	FY 2014-15
Billed Revenues	\$917,685
Less: Expenditures	\$1,008,629
Operating Surplus (Deficit)	(\$90,944)
Sewer Fund	
	FY 2014-15
Billed Revenues	\$629,918
Less: Expenditures	\$980,555
Operating Surplus (Deficit)	(\$350,637)

Billing

Indoor water meters are used to determine consumption amounts for users in the District. According to Village policy, water and sewer quarterly billings are calculated based on the indoor meter reading. Sewer billings are based on water usage. Village personnel do not read water meters. Instead, the Village relies on each user to provide those readings quarterly. Meter consumption cards are mailed to customers approximately two weeks prior each quarterly billing. Customers that

do not report their consumption are assessed a minimum charge.⁷ The Village does not assess a penalty for customers who do not report their consumption.

We reviewed all quarterly meter consumption cards mailed to customers during our audit period and found that a significant number of customers did not return their water consumption cards. The Village mailed its customers a total of 7,665 water usage cards during our audit period. However, 3,587 cards, or 47 percent, were not returned. The Village also handles billing for the Town of New Baltimore and Town of Coxsackie customers. The Village mailed a total of 1,400 water usage cards to Town of Coxsackie customers and 541, or 39 percent, were not returned. The Village mailed a total of 169 water usage cards to Town of New Baltimore customers and 64, or 38 percent, were not returned.

Because customers are not reporting their actual consumption, the Village may not be receiving all the revenue to which it is entitled. Users may not be paying for the actual water used, which could cause the water and sewer rates to increase for all users, creating user inequity. In calendar year 2013, 37 percent of the users that returned their cards reported using more than the minimum, averaging about 33,500 gallons. Estimating that the same percentage of users would also exceed the minimum usage for the entire audit period, the Village might bill for an additional 36.5 million gallons and increase revenue by as much as \$182,600.

The high volume of unreported meter readings occurred in part due to an inadequate billing policy in which all unreported accounts are assessed a minimum charge without a penalty. Poor oversight of operations and enforcement of the Village Code also contributed to the high volume of unreported meter readings.

Enforcement

Village Code (Code) allows for discontinuing the supply of water to users who have charges that have remained unpaid for more than 90 days along with assessing a \$50 reactivation fee. However, Village officials continued to provide water service to delinquent water customers and did not shut their services off for non-payment, as allowed by the Code. For example, there were a total of 234 customers for which the 90-day period had elapsed. This would have allowed Village officials to shut off water services and assess a services turn-off/on fee of \$50. Village officials told us that they generally do not shut off water for non-payment because the County re-levies unpaid

⁷ Unreported accounts are charged the minimum water and sewer quarterly amount. Village residents are charged \$102.75. Town of Coxsackie residents are charged \$178.00. Town of New Baltimore residents are charged \$99.18.

water bills on the tax roll. Had the Village enforced its Code, an additional \$11,700 in fees could have been collected.

The Code does not extend to unpaid customer accounts of users outside the Village. Delinquent accounts for 34 users outside the Village totaled \$22,247 as of May 31, 2014. While the Village will eventually receive this money, it will have to wait until the Town of Coxsackie collects its property taxes in order to receive the re-levied amounts. The Town of New Baltimore makes the Village whole and then collects from those customers through the re-levy process.

Unaccounted-For Water

Village officials should track water usage throughout the system and identify areas that may need attention, particularly large volumes of unaccounted-for water. Unaccounted-for water includes losses that can result from source meter errors, customer meter under-registrations, unmetered customers, accounting errors, illegal connections, malfunctioning distribution system controls, storage tank overflows, theft, underground leaks, fire hydrant flushing and municipal use, such as firefighting.

The United States Environmental Protection Agency (EPA) has established an industry goal of 10 percent for unaccounted-for water system losses. Procedures should be in place to monitor and identify the cause of water loss that is greater than the industry goal. It is essential to perform a periodic reconciliation of water produced with water billed to provide responsible officials with the information necessary to detect and reduce water loss. A large volume of unaccounted-for water is a warning sign of significant infrastructure problems.

Village officials do not have written procedures for reconciling the water produced by the Village's water system, as indicated by the master meter readings, with the water billed to the Village's customers. Although the Chief Water Plant Operator prepared the Water Withdrawal Report Form to be submitted to the New York State Department of Environmental Conservation (DEC) on an annual basis, he did not prepare formal reconciliations comparing the amount of water produced to the total amount metered and estimated amounts for authorized unbilled uses. This type of reconciliation would have allowed Village officials to determine the amount of water loss, compare the rate of loss to industry standards and take steps to correct identified problems.

For the audit period, the Village could not account for 30 percent of the water produced. The Village produced approximately 358.6 million gallons of water, but billed its customers for 252.2 million gallons. After deducting the EPA's standard 10 percent allowance, unaccounted-for water was 20 percent of the amount produced.

Figure 10: Unaccounted-For Water		
	Gallons	Percent
Gallons Produced	358,568,697	100%
Gallons Consumed	252,223,285	70%
Unaccounted-For	106,345,412	30%
Less: EPA 10% Allowance	(35,856,870)	10%
Adjusted Unaccounted-For	70,488,542	20%

Village officials were unable to provide specific reasons for the unaccounted-for water loss, but they believe that leaks and unread meters contributed to a significant portion of the unaccounted-for water.

The cost to produce the unaccounted-for water is about \$63,400. Metered water rents are a primary source of revenue for the Village. When unaccounted-for water is due to inaccurate or unread meters or theft, the Village loses water rent revenues for the amount of water usage that is not billed. Using the rates paid by Village customers and the 70.5 million gallons of unaccounted-for water in excess of the standard industry allowance, we estimate that the Village lost a minimum of \$352,443⁸ in water rents and \$211,446⁹ in sewer rents during the audit period.

The Village may be losing revenue for water because of leaks and also due to meters that are either not working properly or have not been read. The Village does not have a formal water monitoring program and Village officials did not routinely inspect the distribution system to detect and repair leaks.

Recommendations

The Board should:

3. Adopt structurally balanced budgets that include realistic estimates of revenues for the water and sewer funds.
4. Prepare an annual cost analysis to calculate the water and sewer rates to be billed. The Board should review the rates annually and revise them, if necessary, to generate sufficient revenue to cover appropriations.
5. Develop policies that will increase the number of users who return their meter consumption cards.

⁸ Calculated based upon the Village's minimum charge per 1,000 gallons over the minimum of \$5.

⁹ Calculated based upon the Village's minimum charge per 1,000 gallons over the minimum of \$3.

6. Ensure that Village officials review meter readings for reasonableness and periodically inspect meters for damage or tampering.
7. Ensure that the Village Code relating to shut-off policies is enforced.
8. Ensure that procedures are developed for periodically reconciling the amount of water produced with the amount billed.

Village officials should:

9. Investigate and correct the reasons for unaccounted-for water, including inaccurate metering and significant leaks.
10. Work towards meeting the industry standard for unaccounted-for water.

The Chief Water Plant Operator should:

11. Perform a periodic reconciliation and investigate the causes of significant discrepancies.

APPENDIX A
RESPONSE FROM VILLAGE OFFICIALS

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

Village of Coxsackie

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www.villageofcoxsackie.com



MAYOR
Mark R. Evans

TRUSTEES
Stephen Hanse
Daniel Hellen
Dianne Ringwald
Paul Sutton

Response of the Village of Coxsackie to the State Comptroller's audit 2014M-324 – 1/16/15

The Village of Coxsackie respectfully agrees with the following conclusions made in the audit:

- 1) Pg. 8 Financial Condition – “..... the General Fund advanced funds to the water and sewer (wastewater) funds to pay for operational costs.....” The Village agrees and adds that this was practiced by Village administrations for the last 20+ years.
- 2) Pg. 8 Financial Condition - “The Village has experienced cash flow deficiencies.....” The Village agrees.
- 3) Pg. 8 Financial Conditions – “....at the end of the 2013-2014 fiscal year the Village did not have enough available cash to pay vendors and payroll was being advanced by its bank.” The Village agrees.
- 4) Pg. 8 Financial Conditions – “Unless these budgetary and cash flow problems are addressed, future Village operations could be adversely impacted.” The Village agrees.
- 5) Pg. 8 Fund Balance – “The Village’s reliance on general fund balance as a financing source for the water and sewer (wastewater) funds has negatively impacted the Village’s overall financial condition.” The Village agrees.
- 6) Pg. 11 Water and Sewer (Wastewater) Funds “Water and sewer (wastewater) user rates do not generate sufficient revenues to pay the total costs of operating and maintaining the facilities and service lines.” The Village agrees.
- 7) Pg. 12 Budgeting – “It is essential that the Village adopt structurally balanced budgets for the water and sewer (wastewater) operations so that recurring revenues finance expenditures and a reasonable fund balance is maintained.” The Village agrees.
- 8) Pg. 13, 14 Rates – “.....the Board should determine the annual cost of operations and maintenance and anticipated future repairs and improvements. Based on that information, the Board should establish water and sewer (wastewater) rates that will generate revenues sufficient revenues to pay costs needed to properly operate and maintain the facilities and service lines.” The Village agrees.

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The Village of Coxsackie respectfully disagrees with the following stated conclusions in the audit:

- 1) Pg. 8 Financial Condition “These deficits (water & wastewater funds) were caused by inaccurate budget estimates.” This is inaccurate, the budgets are factual and correct the revenue needed to support the expenditures was not raised.
- 2) Pg. 8 Financial Condition - “The Village has experienced cash flow deficiencies which have affected its ability to meet its obligations.” The Village disagrees and the auditors have not cited what obligations the Village has failed to meet.
- 3) Pg. 9 Fund Balance – “...Village officials have not been using accurate records when making decisions regarding the continued use of general fund transfers.” This is a false assumption of what the Village board knew. The Village board knew at all times of the fund transfers and the impact.
- 4) Pg.9 Fund Balance – “Village officials have no assurance that large transfers to the water and sewer (wastewater) funds will be repaid.” The Village advised the auditors that there is no plan and will be no plan other than to write off the owed amounts. The Village further cites the audit of 2007-2008 in which this condition existed but the Comptroller made no mention of the repayment of funds and as with this audit also provides no guidance on how to account for writing the debt off that can be shared with the Village’s CPA.
- 5) Pg. 8 Interfund Transfers – “Village officials told us that they did not classify the outstanding portion of these transfers as a long term receivable because they were unaware of the accounting rule and relied on the independent accountant’s review.” While the Village agrees that this statement is factually correct it points out that the amount owed to the general fund has accumulated over many years and several audits and questions why the comptroller’s office has never directed the Village to correct this and properly make the amount owed to the general fund as long term receivable prior.
- 6) Pg. 11 Cash Flow – “According to the Mayor, the estimated revenue in the Village’s sewer (wastewater) budget is “plugged” number.” The Village disagrees with this statement. First we do not know what a “plugged” number means and with the extensive analysis done by the comptroller’s office certainly an accurate number would be developed. To clarify this point, the anticipated water usage drives the anticipated revenue in sewer (wastewater).
- 7) Pg. 12 Budgeting – “Recurrent operating deficits generally indicate a failure to ensure that budgets are realistic and properly monitored.” The Village disagrees, the water and wastewater budgets were and are continually monitored each month by the Treasurer, audited by an outside CPA firm and reviewed by the Village Board and department head.
- 8) Pg. 15 Billing – “Poor oversight of operations and enforcement of the Village Code also contributed to the high volume of unreported meter readings.” The Village disagrees, the operation of the wastewater system is nominal, the finances must be addressed. The comptroller’s office consistently throughout this report fails to cite that the Village in 2013 and again presently is making an enforcement effort to obtain delinquent water meter readings and that eventually all meters are brought current and any past due billings are done and user fees collected.

See
Note 1
Page 22

See
Note 2
Page 22

See
Note 3
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Note 4
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Note 6
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Note 7
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Note 8
Page 23

- 9) Pg. 15 Enforcement - Comptroller's in describing how the Village should be more aggressive with enforcement and shutting off of water for failure to pay or lack of meter readings, fails to cite the many county and state DOH regulations that come into play and the onerous "process" which must be followed for each shut-off.
- 10) Pg. 16 Unaccounted-For Water – "Village officials should track water usage throughout the system and identify the areas that may need attention, particularly large volumes of unaccounted for water." While this is a nice statement the Comptroller's office provides no practical guidelines on how to do this. See
Note 9
Page 23
- 11) Pg. 16 Unaccounted-For Water – The Village rejects nearly all the assumptions made in this section. The comptroller's office calculation simply uses a general formula for unaccounted for water from the United States Environmental Protection Agency, not taking into account the age of the Village's water system or the many private water lines that are served. Additionally the comptroller's office cites many things that the Village should do to reduce the amount of unaccounted-for water such as detection of large water leaks, source meter errors, unmetered customers etc., to name a few. The Village would like to implement a plan to address all of these items and more but without sufficient revenue they are not attainable. While bringing this to the Village's attention is helpful the comptroller's office in citing these issues should be addressed they are failing to note a "catch 22" situation, with inadequate revenue the Village does not have the funds to pursue these fixes, but not addressing these issues leaves billing for unaccounted-for water and revenue. See
Note 10
Page 23

Additional Comments:

- 1) Board should establish water and sewer (wastewater) rates that will generate revenues sufficient revenues to pay costs needed to properly operate and maintain the facilities and service lines." The Village agrees.
- 2) Several things were asked of the comptroller's office that they were either unwilling or unable to provide to the Village. Based upon the belief that the comptroller's office has performed audits on many other water and wastewater systems it was felt that this information should be available and readily offered.
 - a) Meter Reading -To address the issue of meter readings the Village would be willing to obtain wireless radio read meters and grant opportunities have been sought by other communities, the comptroller's office was asked where to go for this information and what level of rates might be needed, no information was available. See
Note 11
Page23
 - b) Rates – the Village asked what the rate levels should be to address the revenue deficiencies. The Village was told you can take our report and give it to "your people" as a tool to figure it out. I asked if the comptroller's office had anybody that they could recommend and they said no, you must have people. The truth is no one or no company exists to address this and more assistance should be provided by the comptroller's office. See
Note12
Page23

- 3) New \$3.4 million Water Plant - nothing was stated throughout the report about the Village's commitment to producing quality water thru the new water plant opened in 2011. In addition that the Village has taken on an additional debt load of \$170,000/year to pay the 30 year no interest loan from the Environmental Facilities Corporation (EFC) for the plant.
- 4) Radio read water meters – no mention that the Village has about 140 radio read water meters in place already and only buys radio read meters for replacing existing meters now and invested in the computer and program to read the meters.

See
Note 13
Page 23

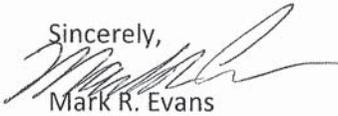
While the retrospective approach that the comptroller's office takes in performing an audit is necessary the inability or unfamiliarity of assisting with the future specific steps that a Village should take in the form of template policies, procedures, rate structures etc. should be incorporated to assist after an audit.

See
Note 14
Page 24

Instead of just pointing out deficiencies and failures, specific steps should be outlined as opposed to just the recommendations. The Comptroller's office should be charged with being more proactive with assisting communities with how to move forward.

See
Note 15
Page 24

Sincerely,



Mark R. Evans

Mayor

cc: Trustees

APPENDIX B

OSC COMMENTS ON THE VILLAGE OFFICIALS' RESPONSE

Note 1

The Village's budgets were not accurate. In 2013-14, sewer fund revenue was over-budgeted by \$229,488 and expenditures were over-budgeted by \$100,494. This resulted in an operating deficit of \$128,994. For 2014-15, we project operating deficits for the water and sewer funds totaling \$90,944 and \$350,637, respectively. These projected operating deficits are caused by increased expenditures combined with inaccurate revenue estimates.

Note 2

We addressed cash flow deficiencies on page 8 of the audit report. At the end of fiscal year 2013-14, the general fund had a balance of \$6,792. However, the general fund had \$32,126 in outstanding accounts payable for operating expenditures owed to various vendors. Furthermore, \$38,624 was "temporarily borrowed" from incoming water rents in order to meet payroll obligations. After taking those factors into consideration, the general fund balance was negative \$63,958. Similarly, the sewer fund had a balance of \$8,155 at the end of fiscal year 2013-14. However, the sewer fund had \$33,627 in outstanding payables for operating expenditures owed to various vendors. After taking those factors into consideration, the sewer fund balance was negative \$25,472.

Note 3

The Board was relying on financial records and reports prepared by an independent accountant which incorrectly included amounts "due to" and "due from" in the total amount of unassigned fund balance in the general fund. The financial records the Board was relying on indicated that the Village had sufficient unassigned fund balance in the general fund when in fact, the Village had minimal amounts available. The Mayor informed us that repayment of the advances was unlikely due to fiscal constraints. Therefore, we reclassified those amounts as "not in spendable form." As a result, at the end of the 2013-14 fiscal year, the unassigned fund balance in the general fund was reduced from \$219,045 to \$30,943, leaving the Village with minimal funds to finance unexpected expenditures or to lend to other funds.

Note 4

Our 2009 audit addressed the use of interfund advances in depth and recommended that the Board review all outstanding balances of interfund advances and take action to repay the advances by the end of each fiscal year. Unfortunately, the Mayor and Board did not implement the recommendations and, after six years, the same problems still exist.

Note 5

Our 2009 audit report cited the lack of cash flow projections as a contributing factor for the need to provide interfund transfers from the general fund to the water and sewer funds to support operations. The audit report also provided specific recommendations to assist the Village in correcting the issue.

Note 6

The Mayor told us that the estimated revenue for the sewer fund in 2013-14 adopted budget was not supported by any real calculation or based on any actual usage or rates. He stated that it was an amount to equal the estimated appropriations, the very definition of a “plugged” number. He confirmed this to us on multiple occasions.

Note 7

The Village has recurrent operating deficits that were detailed in this report as well as during our 2009 audit. We question how this could occur if the Village was properly monitoring operations. In addition, the Mayor’s statement regarding the Village having been audited by an outside CPA is not accurate. We have confirmed on multiple occasions and from multiple sources that an audit was never conducted by an outside CPA firm.

Note 8

The Village had no documentation indicating steps that have been taken to collect past due accounts. As of April 2014, there were approximately 350 past due accounts.

Note 9

In addition to the recommendations made in this report that specifically address the large volumes of unaccounted-for water, we encouraged Village officials to reach out to other local governments that have addressed similar issues. These issues have been effectively addressed by other local governments throughout the State.

Note 10

The inadequate revenue in the water and sewer funds is the result of a combination of factors that have been addressed throughout this audit report.

Note 11

We are always willing to provide the Village with any guidance that is requested. In fact, we have provided the Mayor with the names of other local municipalities that were successful in obtaining grant funds. In addition, our 2009 audit addressed some of the same findings as this audit report, which also provides specific recommendations to help assist the Village in correcting these problems.

Note 12

It is not the role of the Office of the State Comptroller to establish or recommend specific water rates that should be charged. Village officials are responsible for managing operations.

Note 13

The construction of the Village’s new water plant was not included in the scope of our audit and is not relevant to our audit findings.

Note 14

Both this audit and the audit issued in 2009 contained numerous recommendations designed to assist the Village.

Note 15

Our audit recommendations are specific steps that should serve as an outline to correct deficiencies and failures. Village officials are responsible for taking actions to correct problems identified in our audits.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments based on financial and environmental indicators. These indicators are calculated using the local government's annual update document,¹⁰ as well as information from the United States Census Bureau, New York State Department of Labor and the New York State Education Department, among other sources. The Village has demonstrated signs of fiscal stress in several areas. Due in part to these fiscal stress indicators, we selected the Village for audit.

Our overall goal was to assess the Village's financial condition and identify areas where the Village could realize efficiencies when providing services. To accomplish this, our initial assessment included a comprehensive review of the Village's financial condition.

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

- We reviewed the Village policies and procedures for developing and reporting information relevant to financial and budgeting activities. We gained an understanding of the fiscal responsibilities of Village officials.
- We interviewed Village officials to determine what processes were in place and gain an understanding of the Village's financial condition and budgeting process.
- We reviewed and analyzed the Village's financial records and reports for all funds, including balance sheets, budget reports, statements of revenues and expenditures, bank statements, general ledgers, accounts receivable and payable accounts.
- We calculated the cash flow for the general, water and sewer funds for both the 2012-13 and 2013-14 fiscal years, starting with the year-end cash balances per the bank statements. We then adjusted those amounts by net effect of the accounts payable and receivable to determine the available balance.
- We recalculated the Village's general fund unassigned fund balance for our audit period. The Village included the amount due to and due from the water and sewer funds as a part of the general fund's unassigned fund balance. We adjusted the general fund's unassigned fund balance amount by reducing the total by amount of the outstanding due to and due from accounts. We reclassified those amounts to "not in spendable form."
- We projected the 2014-15 operating results for the water and sewer funds. Revenue estimates were based on the prior year, as minimal fluctuations were anticipated. We based expenditures on the 2014-15 adopted budgetary appropriations. We calculated the net surplus (deficit) by subtracting revenues from the expenditures.

¹⁰ Required to be submitted annually by the Village to the Office of the State Comptroller

- We calculated the water produced using the daily water production (gallons) report. For days and months in which data was unavailable, we used the average. We calculated the totals for each month then adjusted them by 10 percent to compensate for water loss.
- We obtained and analyzed the quarterly water and sewer billing journals for our entire audit period to determine if the water and sewer billing and enforcement policy was operating as intended. We reviewed all 9,233 meter consumption cards mailed to water and sewer users. We analyzed them to determine the number of users that did not report consumption information.
- We selected the September 2013 billing register to determine the number of delinquent accounts because it was the second billing cycle of the fiscal year, which included delinquent accounts from the prior billing cycle. Therefore, we were able to identify accounts that had an outstanding balance exceeding the 90-day window because billing is done on a quarterly, or 90 day, basis.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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