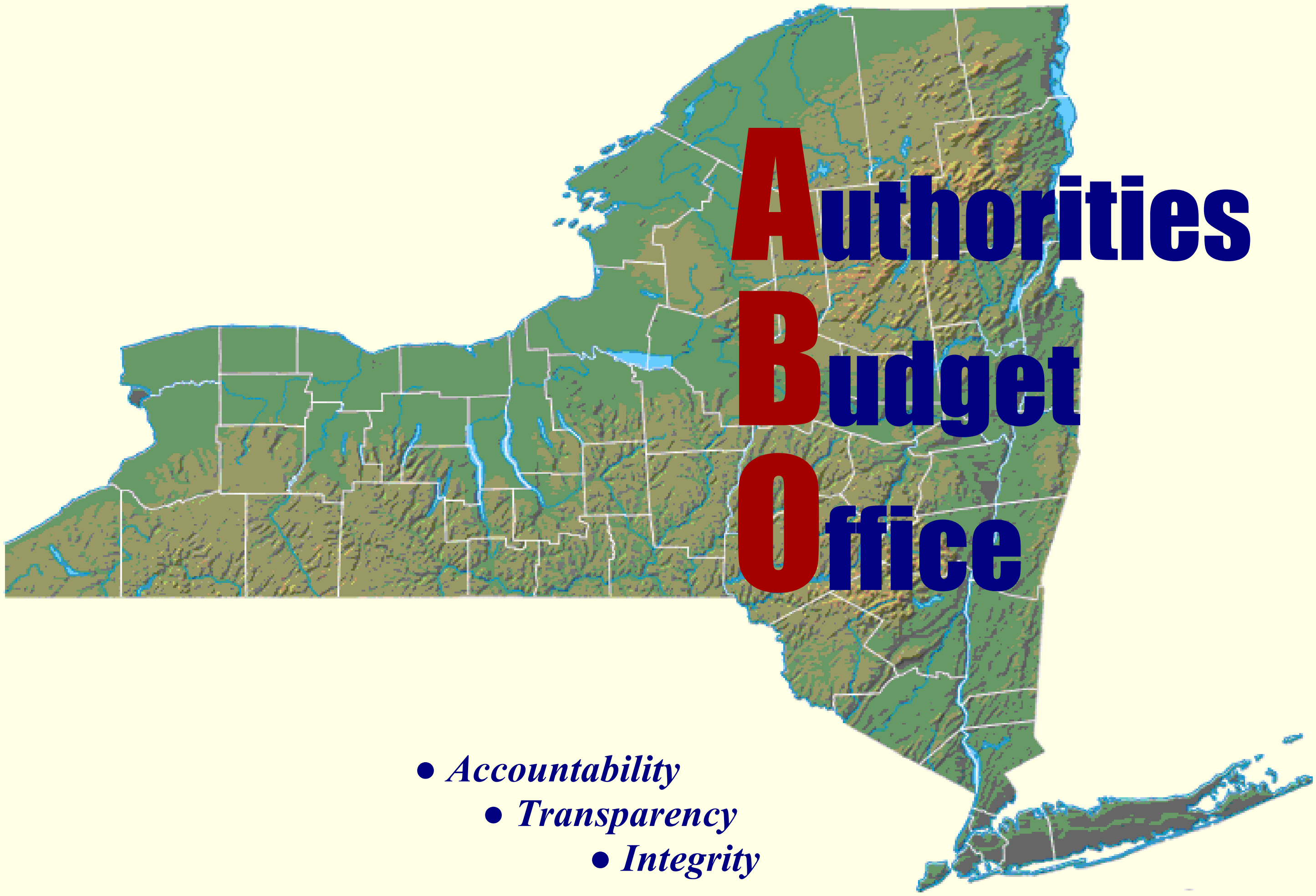

- *Accountability*
- *Transparency*
- *Integrity*

Operational Review

Water Authority of Great Neck North

October 27, 2014

OR-2014-01

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Executive Summary

Purpose and Authority: The Authorities Budget Office (ABO) is authorized by Title 2 of the Public Authorities Law to review and analyze the operations, practices and reports of public authorities, to assess compliance with various provisions of Public Authorities Law and other relevant State statutes, and to make recommendations concerning the reformation and structure of public authorities. This includes rendering conclusions and opinions regarding the performance of public authorities and assisting these authorities improve management practices and the procedures by which their activities and financial practices are disclosed to the public. Our operational review of the Water Authority of Great Neck North (WAGNN) was performed between April 2014 and September 2014 and was conducted in accordance with our statutory authority and compliance review protocols which are based on generally accepted professional standards. The purpose of our review was to provide an objective evaluation of WAGNN's management practices and determine if the board effectively discharges its fiduciary duty.

Background Information: The Water Authority of Great Neck North (WAGNN) was established in 1985 under Title 8-B of Public Authorities Law. It was created to provide potable water to the villages of Great Neck, Great Neck Estates, Kensington, Kings Point, and Saddle Rock, and to portions of Great Neck Plaza and Thomaston and the Town of North Hempstead. WAGNN is governed by an eight member board of directors. The board is comprised of one representative from each of the municipalities served by WAGNN.

WAGNN's water supply consists of groundwater drawn from eleven wells. WAGNN currently serves approximately 32,400 customers through 9,043 customer accounts. For 2013, WAGNN provided over 1.5 billion gallons of water to its customers. WAGNN had $8 million in water revenues and operating costs of $5.9 million. WAGNN operates with a total of 25 staff.

Results: Our review found that although WAGNN has incorporated various required and recommended conservation measures to sustain their water supply, it does not enforce its rules and regulations that restrict outdoor water use and has not implemented a water rate structure that promotes conservation. We found that WAGNN could further promote water conservation and reduce the costs to certain customers by implementing an increasing block rate structure that charges high volume users a higher rate while reducing the rate charged to the majority of users. Such change could save the average ratepayer approximately $117 a year on their water bills.

We also found the board has not established a policy for its unrestricted reserve funds and has not determined the level of reserves needed. As a result, WAGNN has $10 million of reserve funds available with no guidance from the board as to how such funds are to be used. Under WAGNN's current rate structure these reserve funds will continue to grow based on projected annual operating surpluses. We further found that WAGNN issued excessive bonds for capital improvements, since it was able to pay for those capital projects with over $3 million of other funds. WAGNN has no planned use for over $5 million in bond funds that remain available.

We identified over $160,000 in potential annual cost savings. For example, WAGNN could have saved over $103,000 in 2013 if employee contributions for health insurance were more in line with national averages and eliminated other enhanced insurance benefits. We also found that WAGNN is paying a board officer $40,000 a year to perform the same duties and activities performed by the existing Superintendent. And WAGNN provides certain management employees with Authority owned vehicles to respond to emergencies. It could have saved $23,000 in 2013 if it were to reimburse these employees for the use of their personal vehicles, rather than provide the employees with vehicles. Further the business mileage reported by these employees is overstated: we identified 12 instances where managers reported business mileage on days they did not report to work, as well as instances of duplicate reporting for a single day. These reporting errors reduced the value of the taxable benefits provided to these employees and reported to the State Tax Department and Internal Revenue Service.

Introduction and Background

The Water Authority of Great Neck North (WAGNN) was established in 1985 under Title 8-B of Public Authorities Law. Its mission is to provide potable water to the villages of Great Neck, Great Neck Estates, Kensington, Kings Point, and Saddle Rock, and to portions of Great Neck Plaza, Thomaston, and the Town of North Hempstead in Nassau County. WAGNN has a service area of 7.5 square miles and operates nearly 117 miles of water mains. WAGNN provides water to approximately 32,400 people through 9,043 service connections. WAGNN's customers include residential and commercial users as well as municipal and other government institutions.

WAGNN is governed by an eight member board of directors. The chief executive officers of the municipalities in its service area may each appoint themselves or another representative to the board. Board members receive no compensation. Currently six municipal executives serve on the board. The board appoints five officers: chair, vice chair, deputy chair, treasurer and secretary, who do not need to be board members and can receive compensation. The chairman is designated as the chief executive officer in the enabling legislation and is currently the only officer who is a board member. WAGNN's day to day operations are managed by a Superintendent. WAGNN has 25 staff and paid over $1.8 million in salaries in 2013.

WAGNN's primary source of revenue is metered water sales to customers who are billed on a monthly or quarterly basis. Customers are charged a uniform rate of $3.95 per 100 cubic feet (ccf) of water, with a minimum usage charge that varies based on the size of the water meter. In 2013 WAGNN provided 1.5 billion gallons of water (4.3 million gallons per day), and earned over $8 million in revenue, 80 percent of which was from residential customers. WAGNN's operating expenses were $5.9 million, 42 percent of which were administrative expenses. The balance consisted of costs for pumping, transmission, and purification of water.

WAGNN issued $38.8 million in bonds in 2008 to fund $19.5 million of capital improvements, to retire existing debt, and to cover bond issuance costs. WAGNN's annual principal and interest payments are approximately $2.9 million. As of December 2013, over $31 million remains outstanding. WAGNN's debt covenants require it to set water rates at a level sufficient to meet its debt service requirements.

Compliance Review Objectives

The Authorities Budget Office (ABO) is authorized by Title 2 of the Public Authorities Law to review and analyze the operations, practices and reports of public authorities, to assess compliance with various provisions of Public Authorities Law and other relevant State statutes, and to make recommendations concerning the reformation and structure of public authorities. Our operational review was conducted to evaluate WAGNN's management practices and determine if the board effectively discharges its fiduciary duty.

Compliance Review Scope and Methodology

Our compliance review was conducted between April and September 2014, and covered WAGNN water conservation efforts, water rates, use of reserve funds, and select operating costs since 2012. To perform our review we relied on the following documentation and data sources:

- Contractual agreements of the authority
- Board meeting minutes
- Financial records of revenues, expenditures and bond obligations
- Independent financial audits and other reports
- Annual and Budget Reports required by the Act
- Capital Plans
- Official Statements for the 2008 Bond Issuance
- Policies and procedures required under the Act, Public Authorities Law, and Public Officers Law
- Policies and procedures indicative of good governance practices

In addition to reviewing documents and records, we interviewed various staff, management and board members of the authority; attended an authority board meeting; toured the authority's facilities; and performed other testing we considered necessary to achieve our objectives. Our report contains recommendations to improve the effectiveness of the operations of the authority. The results and recommendations of our review were discussed with WAGNN officials, and their responses are reflected in this report where appropriate.

Review Results

Water Conservation Efforts

WAGNN has implemented an effective water conservation program, but has not enforced its adopted outdoor irrigation restrictions. Water conservation is an ongoing concern in Nassau County, since its residents rely on groundwater for 100 percent of their drinking water. As a result, water usage needs to be controlled to ensure the County has a long term water supply. Both the New York State Department of Environmental Conservation and Nassau County have implemented measures to address this issue. In 1987, the New York State Department of Environmental Conservation (DEC) imposed restrictions on all Nassau County public water suppliers, and the Nassau County Board of Supervisors implemented a comprehensive plan for water conservation throughout the County.

DEC also recommends a series of water conservation methods for public water suppliers to consider when developing their own water conservation programs. These methods include a leak detection program to quickly identify and repair leaks in the water delivery system; a plumbing retrofit program to encourage the use of low-flow faucets and other water saving devices, a water use audit program and a public awareness program for water conservation. Further, Nassau County imposes restrictions on the use of outdoor irrigation systems, commercial and industrial cooling systems, car washes and fire hydrants.

We found that WAGNN has established rules and regulations for the conservation of water that address the DEC recommendations as well as the County requirements. For example, WAGNN has a leak detection program, a plumbing retrofit program, a water use audit program, and a water conservation public awareness program. In addition, WAGNN has issued rules and regulations that restrict the times that outdoor irrigation is allowed, and monitors the use of fire hydrants. Although WAGNN has implemented most of the local and state requirements and recommendations into its water conservation plan and activities, we found that it is not enforcing its rules and regulations regarding restrictions on outdoor irrigation.

WAGNN’s rules and regulations state that outdoor irrigation is not allowed between 10am and 4pm and customers are prohibited from doing so more than three days per week. If a customer does not abide by these restrictions they may be assessed a penalty of $50 or risk temporary suspension of their water services. However, WAGNN officials told us that these water conservation measures are not being enforced and customers that fail to comply with the restrictions are not penalized. WAGNN officials indicated that they can issue a warning letter to customers if they are made aware of a violation and the customer is found to be in violation of restrictions. However management officials indicated that this is rarely done. Officials also indicated that they do not usually take action in response to complaints about customers violating the restrictions. WAGNN officials responded to our draft report that the board will review the options available to enforce its rules and regulations regarding the use of outdoor irrigation systems to advance water conservation.

Water Rate Structure

WAGNN's current rate structure does not encourage customers to conserve water. The American Water Works Association (AWWA) has determined that certain rate structures, such as a decreasing block rate or a flat rate structure do not promote conservation. Other rate structures, such as an increasing block rate structure do promote water conservation.

AWWA recommends that an increasing block rate structure be implemented when different groups of customers with similar usage patterns can be distinguished, when there is a concern about the available water supply and when system constraints are an issue. Also, rate stabilization funds are generally established when an increasing block rate structure is in place. WAGNN fits this scenario. For example, WAGNN has established five different customer classes: residential, commercial, major government, municipal and apartments. Commercial, major government, municipal and apartment classes comprise about 8 percent of WAGNN's customers and can be distinguished from the residential class in that they are generally high volume users and are billed monthly. Residential customers comprise about 92 percent of WAGNN's customers. These are lower volume users who are billed quarterly. Further, WAGNN indicates in its Water Quality Reports that during peak summer periods, consumption rises to a point that creates stress on the system. WAGNN has also established a rate stabilization fund as a contingency if water revenues should unexpectedly decrease. The increasing block rate structure is considered a conservation oriented rate because it sends price signals to customers to decrease their demand. When the price for water increases, customers are encouraged to choose more efficient ways to meet their water needs.

WAGNN charges a uniform rate of $3.95 per 100 cubic feet (ccf) of water to all of its customer classes, regardless of the amount used, with a minimum usage charge depending on the size of their water meter. Based on AWWA guidelines, uniform rate structures are considered appropriate for a water provider when increments of water use have the same production cost and the cost differences for serving different customers is minimal. However, WAGNN's total costs for producing water increase in periods of high demand as additional wells need to be operational to meet the demand caused mostly by high consumption customers. Charging the same amount per unit of water, independent of the level of usage, can result in overcharging customers with low consumption and undercharging customers with high consumption. The uniform rate structure does not take into account the additional operating and capital costs associated with supplying water to high consumption customers.

We found that WAGNN could implement an increasing block rate structure that significantly reduces the cost of water for the majority of its customers, and generates sufficient revenues to meet its debt service requirements. The increasing block rate structure would have the additional benefit of encouraging customers to reduce water consumption. Based on WAGNN's yearly customer usage data for 2012 and 2013 we identified 200 ccf per billing period as a potential threshold between a low volume usage tier and a high volume usage tier. This threshold defines about 95 percent of the customers who are billed quarterly as low volume users, and about 90 percent of the customers billed monthly to be similar low volume users. The consumption of roughly five percent of the quarterly customers and ten percent of the monthly customers falls above this threshold.

We determined that it would be feasible for WAGNN to reduce its base water rate to $3.42 per ccf (a 13 percent reduction) for customers using less than 200 ccf per billing period. Customers that use more would be charged $7.90 per ccf for water consumption over 200 ccf per billing period. This significant difference between the rate charged to low volume users and high volume users should serve as an effective incentive to encourage water conservation. Under this potential rate structure, a typical customer would realize annual savings of close to $117 on their water bill, and sufficient revenues would still be generated for WAGNN to meet its operational needs and debt service obligations.

One shortcoming of an increasing block rate structure is that accurately forecasting revenues becomes more difficult. High levels of consumption are generally more affected by weather fluctuations and increasing block rate structures rely more on the revenue generated from high volume consumers. However, as indicated WAGNN has already established a rate stabilization fund that can be used to compensate for deviations in forecasted revenues.

WAGNN officials indicated that prior to the change to a uniform rate structure in 2008, WAGNN had a block rate structure in place for 20 years. After concerns from ratepayers and its own analysis, the board determined such structure was not appropriate for the authority to foster water conservation. Officials indicated that the bulk of the cost of water is derived from indebtedness for the acquisition of the system and subsequent upgrades, the need for adequate fire protection and other ongoing costs to maintain the system. The public felt, and the board agreed, that the water rates should be evenly applied to all ratepayers receiving the benefit of the new system. As a result they implemented the uniform rate structure. However, we believe this rationale is the basis and premise for implementing an increasing block rate structure: the bulk of the cost of water is billed uniformly to all customers, while the added costs attributed to certain users (such as higher usage customers) is billed at a higher rate, to recover the costs and encourage the high volume users to conserve. As indicated, the cost of water increases during periods of high demand due to higher consumption customers, and a uniform rate structure does not take into account the additional operating and capital costs associated with supplying water to high consumption customers.

WAGNN officials stated that additional costs associated with higher consumption customers is minimal and that water consumption was reduced by 11.44 percent since WAGNN implemented the current uniform rate structure in 2008. However, we believe that the reduction in consumption is not due to the change in rate structure, but is more likely attributable to the 20 to 46 percent increase in the base rate in 2008. The most significant reduction in use occurred immediately after the rate change in 2008 and 2009 and water use has remained relatively unchanged since then.

WAGNN officials responded that water rates have been properly set to meet the authority's operating, capital, debt and reserve requirements, and contractual requirements to its bond holders. They stated that rates have been adequate to meet all costs for the past six years, and have allowed for numerous improvements to the infrastructure totaling approximately $25 million without the need to incur additional indebtedness. However, according to a report by the Nassau County Comptroller in 2007, WAGNN was rated as one of the most expensive water service areas in the county, even before the 2008 rate increase. WAGNN officials indicated that such study did not take into consideration that certain water districts recover costs through tax levies that WAGNN is unable to do. However, this is not correct: the study considered the total costs to users, comprised of both water charges and property taxes. Further, the study also included other water authorities and private suppliers, which are unable to levy taxes. WAGNN officials stated that under the current rate, high volume users that produce higher revenues for the authority in fact subsidize the increased costs placed on the system to meet significant fire flow requirements of commercial users; charging these high volume users a higher rate would further penalize them for high usage. WAGNN officials were unable to support or substantiate this assertion by any data or management analysis. As indicated, these high volume users pay the same amount per ccf, regardless of the amount used.

Reserve Funds

An important element of financial planning is to ensure that sufficient funds are available for current operating, capital and debt related costs, as well as to anticipate and prepare for future funding needs and likely to occur events. Both the Office of the State Comptroller (OSC) and the Government Finance Officers Association (GFOA) have issued guidelines that require public entities to establish a reserve fund policy, and to specify the size of the reserve fund, and how and when it is to be used. WAGNN has established certain reserve funds in accordance with its bond official statement. These include reserve funds for annual debt service payments, capital construction (which is the balance of the bond proceeds), renew and replacement of capital repairs and equipment, and rate stabilization to ensure operating funds are available for unforeseen losses of revenue. However, we found WAGNN has not established a reserve fund policy for its unrestricted reserve funds and has not determined the amount of reserve funds to be set aside or how and when the funds are to be used. As a result, WAGNN currently has $10 million of reserve funds with little guidance from the board as to how the funds are to be managed. These unrestricted reserves are continually growing: WAGNN's 2014 budget indicates that it plans to generate an additional $2 million from operating surpluses between 2014 and 2016.

We believe that the lack of policy has led WAGNN to accumulate unrestricted reserves that are significantly greater than necessary. According to AWWA guidelines, water companies should establish an operating reserve of up to 90 days of operating costs. For WAGNN, this would call for a reserve fund of about $1.1 million. However, WAGNN currently has $10 million available.

These excessive reserves have accumulated because WAGNN routinely budgets and funds capital projects that exceed actual capital costs. For example, in 2008 WAGNN issued bonds to fund $19.5 million in capital improvements. The capital improvements included well rehabilitation, water main replacements, water treatment and other system upgrades. Through July 2014, WAGNN has spent $17.7 million on these improvements with about $5.5 million in bond funds still available. Although WAGNN determined that it needed to issue bonds to make the necessary capital improvements, it used funding streams other than the bond proceeds to pay for these projects. For example, almost $2 million was to be used to rehabilitate four wells. However, through July 2014, WAGNN has only spent $460,000 on these projects of which only $233,000 of bond funds were used; the rest was funded using other funds. It is not an effective use of funds by the board to incur costs associated with bonding and then not use the funds for their intended purpose.

WAGNN officials stated that they have no plans to use the remaining funds in the bond account on additional bond related projects. Instead, officials indicated that they plan to maintain the current value of the bond account until the portion of the bond that was refinanced is repaid. This is unnecessary, since the bond funds that were issued to refinance the previous debt issuance are held in a separate account. WAGNN's approach results in over $5 million of reserves being held as restricted funds, without a specific plan for using those funds.

In addition to projects funded by the bond issuance, WAGNN has identified other capital improvement projects. WAGNN prepares a capital improvement plan as part of its annual budget and prepares a five year capital plan that is updated annually. The 2012 – 2016 five year plan and the 2013 and 2014 annual plans include eight additional projects with an estimated cost to complete totaling $4.6 million as of July 2014. As indicated, WAGNN has more than twice the amount of funds available to cover the costs of such projects through existing reserves and projected surpluses. Rather than continue to build up reserves with no intended purpose or plan the board should reconsider the size of its reserve funds. These excess reserve funds and anticipated operating surpluses could be used to reduce the rates charged to WAGNN's customers for water.

WAGNN officials indicated that the authority establishes its five year capital improvement plan on an annual basis. This plan identifies all anticipated capital costs and the funds available, considering bond funds, cash available and projected surpluses over the five year period. However we found that WAGNN routinely does not spend the amount that has been budgeted.

WAGNN officials further indicated that the board will adopt a formal policy with regard to its reserves and attempt to assure that its reserves are maintained at the appropriate level needed to meet the intended purpose.

Operating Costs

WAGNN's board has an obligation to ensure that the Authority is operating as efficiently as possible. We found that WAGNN is incurring excessive or unnecessary insurance, payroll, and vehicle costs.

Insurance
We found that WAGNN provides generous health insurance benefits to its employees. From January 2012 through April 2014, insurance costs accounted for 10 percent of all payments made by WAGNN (excluding payroll costs). During this period, WAGNN spent a total of $1.7 million on property and health insurance, of which $1.1 million (64 percent) was for employee related health insurance (medical, dental, and vision). WAGNN purchases employee health insurance from the New York State Health Insurance Plan. For the period January 2012 through April 2014, WAGNN paid over $1 million for the plan.

Typically, employees share in the cost of health insurance. For example, New York State employees generally contribute 16 to 31 percent of the costs of insurance, depending on whether it is individual or family coverage. Per WAGNN's 2014 union contract, union employees contribute 14 percent regardless if they have individual or family coverage. Management employees are not required to contribute at all to the cost of their plans. As a result, the average contribution rate for all employees is less than 11 percent.

We compared WAGNN's average health insurance contribution rates for its current employees to a national survey conducted by the Kaiser Family Foundation in 2013. The survey analyzed the change in health insurance costs and employee contributions for various public and private entities. The survey found the average employee contribution for health insurance is 18 percent for individual coverage and 29 percent for family coverage. If WAGNN required its employees to contribute to the cost of health insurance at these national averages, it could have saved over $65,000 in 2013.

WAGNN retirees contribute a greater percentage toward their health insurance. Union retirees contribute 50 percent for single coverage and 53 percent for family coverage, while management retirees contribute 50 percent for single coverage and various percentages for family coverage. However, in 2011, 2012 and 2014 WAGNN provided an incentive to certain employees to encourage retirement. The retiree incentive included lump sum payments annually that could be used to help offset the retiree's cost of insurance. Such incentive effectively reduced the contribution rate for some retirees to as low as 20 percent for 2014. These incentive payments cost WAGNN $16,000 in 2013, and will cost the Authority $24,000 for 2014.

In addition to health insurance, WAGNN also provides all employees with free long term disability insurance, and all management employees are provided free life insurance. In comparison, Nassau County does not provide employees with free long term disability or life insurance. WAGNN officials indicated that WAGNN provides enhanced benefits to employees in order to attract and retain good talent, and that life insurance is provided to management employees as a perquisite. They also stated that disability insurance is provided to union employees because this benefit was carried over from the private water utility company WAGNN took over. The total cost of these benefits in 2013 was $21,765.

WAGNN officials responded that the board considers the overall compensation provided to employees in light of the costs incurred for providing specific enhanced benefits. The authority considers compensation packages provided by other local public bodies as well as the private sector, both of which the authority competes with for qualified employees. WAGNN officials indicated that the authority sets benefits below those of other county, town and local village governments. WAGNN officials also indicated that they recently had trouble filling a vacant account clerk union position, citing the available benefits as the reasons candidates declined the position.

Payroll Costs

We found that WAGNN pays to staff redundant positions. WAGNN's enabling legislation provides for five officer positions: chairperson, vice chairperson, deputy chairperson, treasurer, and secretary. The officers do not need to be board members and can be compensated. The enabling legislation specifies the duties for each position, except for the vice chairperson and deputy chairperson; their duties are to be determined by the chair or vice chair. WAGNN has not formally established any written duties or responsibilities for the officers, other than what is specified in the enabling legislation.

We found that WAGNN provides compensation to the deputy chairperson although that position has no established duties. WAGNN officials told us that although there are no established responsibilities, the deputy chairperson reviews designs for construction projects, oversees the construction of capital projects, reviews WAGNN's public relations documents, assists in the preparation of annual and operating budgets, interviews candidates for management positions, and represents WAGNN in negotiations with organizations liable for water contamination. However, all of these activities are also performed by either the Superintendent or the Assistant Superintendent. In addition, WAGNN contracts with an engineering firm to design and oversee capital projects and with legal counsel to assist WAGNN in negotiations.

Prior to 2010, WAGNN did not compensate the deputy chairperson. Instead, the former superintendent was designated as the deputy chairperson and compensated as the superintendent. However, when that individual retired in 2009, WAGNN continued to designate this individual as the deputy chairperson. At that time, the deputy chairperson became a compensated position. WAGNN currently compensates the deputy chairperson $40,000 a year, which is a 43 percent increase from his 2010 compensation.

WAGNN's vice chair position was compensated $2,000 a year until March 2013 when the incumbent requested to continue to serve as vice chairperson, but with no salary.

WAGNN officials responded that the work performed by the officers is neither redundant nor unnecessary. They indicated that the deputy chairperson's compensation is for his experience and historical knowledge of the system and to supplement the work of the superintendent. However, they failed to address the specific functions performed by the deputy chairperson we identified that are also performed by the superintendent, assistant superintendent, or contracted engineer and counsel, and failed to identify any other job duties performed by the deputy chairperson that are not currently performed by paid full-time staff or are unique to officers.

Management Vehicles

WAGNN provides three of its managers (Superintendent, Assistant Superintendent, and Supervisor of Water Plant Operations) with authority owned vehicles because these individuals are required to be on call to respond to emergencies that may arise. WAGNN allows these vehicles to be used for personal and business purposes. For the period January 2012 through April 2014, each of the three managers drove authority owned vehicles on average 17,300 miles per year. Of this, approximately 53 percent was reported as business mileage and 47 percent was reported as personal mileage.

According to Internal Revenue Service (IRS) guidelines, personal use of an employer-provided vehicle by an employee is considered taxable income. The IRS also defines commuting between one's residence and business to be considered personal use and taxable as income to the employee. To substantiate business mileage, the IRS requires that written records be maintained that show the date of travel, destination, purpose of the business trip, and the total miles traveled. IRS guidelines also require that records be maintained in a timely manner, to ensure the accuracy and reliability of the records. However, we found that the vehicle logs maintained by WAGNN's managers do not comply with IRS guidelines. The vehicle logs do not specifically state the destination, purpose for the travel, or the mileage for each trip taken. Instead the vehicle logs simply provide a general description such as "various trips throughout the service area" and only indicate the total business miles driven for the day, regardless of the number of trips. Furthermore, the vehicle logs are not always completed in a timely manner.

WAGNN officials provided a statement from its external auditor that the vehicle usage log used by WAGNN management is sufficient for record keeping purposes. We do not disagree. However, while the form used may be sufficient, WAGNN's managers do not adequately provide the information necessary to substantiate the business mileage being recorded, such as the business destination.

Further, we believe that the amount of business miles reported by WAGNN's managers is overstated. We reviewed the business miles reported by the three managers for January 2012 through April 2014. In general, the three managers reported between 14 and 71 business miles traveled per day, with the average being 41 miles per day. This amount seems to be inordinately high, given that the purpose for the travel is for general trips throughout the service area and the service area is only 7.5 square miles. This would equate to driving from one end of the service area to the other three times a day, nearly every day.

We reviewed the job description for the Superintendent and Assistant Superintendent to determine why this amount of travel was necessary. Their job duties require travel to construction and repair sites within the district to oversee WAGNN's professional engineer contractor and to supervise WAGNN staff as necessary at construction locations. However, we found that the amount of mileage reported does not correspond to the number of active construction projects. For example, during January and February 2012, the two managers reported an average of 37 business miles per work day when no construction projects were in process. Yet, the two managers reported only an average of 28 business miles per work day during June and July 2012 when there were three construction projects occurring at the same time.

More significantly, we reviewed a sample of 18 different time cards for the three managers over the period we reviewed and identified 12 instances where managers reported not working but still reported business mileage (see table below). We also found two instances where managers recorded mileage for March 1, 2013 on both the February 2013 mileage report and the March 2013 mileage report. One of the managers reported 24 business miles in the February report and 49 miles in the March report. WAGNN officials reviewed their records and indicated that, on four of the instances we identified, although managers did indicate that they were not working, they actually did work on those days and used vehicles to take care of work related duties. However, they were unable to provide us with records that clearly indicate work was done. WAGNN officials indicated that manager 2 did not work on March 18, 2013, but did attend that night's board meeting, and that manager 3 worked on April 6, 2012 to supervise the installation of office flooring by contractors. However, these instances would be considered personal use of the vehicle, since they consisted solely of commuting between the managers' residences and the office, and as such should not be reported as business mileage. WAGNN officials indicated that they report any mileage outside of normal business hours as business mileage even if it is commuting between the employees' residences and the place of business. However, this violates IRS guidelines that state that an employee that drives from his residence to his principal workplace, regardless if during or after work hours and whether or not required by the employers is taxable.

Manager 1

Date	Time Card Description	Business Mileage Reported
01/02/12	Holiday - New Years day	39
09/03/13	Off - Comp. day	40
09/07/13	Off	52
01/10/14	Sick day	38

Manager 2

Date	Time Card Description	Business Mileage Reported
03/18/13	Family Sick Day	42
03/29/13	Holiday - Good Friday	39
08/22/13	Took Comp. Day	53
08/23/13	Took Comp. Day	48
08/26/13	Vacation day	45
08/27/13	Took Comp. Day	36

Manager 3

Date	Time Card Description	Business Mileage Reported
04/06/12	Holiday - Good Friday	51
07/25/13	Sick day	49

WAGNN provides its managers with vehicles due to the on-call nature of their positions. However, we found that the need for managers to be called-in is limited. Managers rotate responsibility for being on-call. Each is on-call for an entire month every third month, so there is only a need for one of them to have access to a vehicle at a time. WAGNN officials indicated that the authority wants to ensure that its management staff are properly equipped to respond without delay to any emergencies even during severe weather conditions such as those caused recently by Hurricane Irene, Superstorm Sandy, and various Nor'easters and other situations. We believe that the extraordinary circumstances that might arise from severe weather conditions does not justify providing vehicles to all three managers for full time use.

We determined that WAGNN could reduce its costs if it reimbursed managers for business use of their personal cars, rather than providing vehicles for their use. The total cost of purchasing the three management vehicles was $102,094. WAGNN depreciates these vehicles at a rate of $16,494 per year. Including the cost of gasoline, insurance, and repairs and maintenance spent on these vehicles, the total annual cost of providing these vehicles is $39,800. Even though the business mileage reported is inaccurate and excessive, if WAGNN reimbursed these managers at the federal rate of $0.565 per mile for the 29,318 miles reported as business use for 2013, it would have paid a total of $16,565. WAGNN would have saved over $23,000 in 2013. WAGNN officials indicated that they will review the usage of the three management vehicles to ascertain if their costs are financially beneficial to the authority.

Recommendations

1. WAGNN should enforce its Rules and Regulations regarding restrictions on the use of outdoor irrigation systems to advance water conservation.

2. WAGNN's board should adopt an increasing block rate structure to encourage water conservation.

3. WAGNN should establish its water rates at a level necessary to meet operating, capital, debt and reserve requirements.

4. The board should adopt a reserve policy that specifies the reason for the reserve, the amount of reserves needed, and when and how reserve funds should be spent.

5. Reserves should be maintained at the level needed to meet the intended purpose.

6. The board should re-evaluate the benefits provided to employees in light of the costs incurred for providing enhanced benefits.

7. The board should reduce costs by eliminating unnecessary compensated officer positions.

8. The board should re-evaluate the need for providing management with Authority owned vehicles since it is not cost beneficial.

9. The Board should implement internal controls to ensure that business mileage reported by managers is accurate.

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Date: **September 23, 2014**

To: **Authorities Budget Office**

From: **Gregory C. Graziano**

Re: **Response to ABO Draft**

Since 1989, the Water Authority of Great Neck North has continuously strived to meet public demand for potable water by providing an uninterrupted supply that meets or exceeds all federal, state and local standards. Additionally, adequate pressure and an ample quantity of water is provided for firefighting purposes. The Authority is unwavering in its commitment and obligation to make decisions in the best interest of protecting public health, safety and wellness – first and foremost.

The Board of the Authority works to ensure that stringent government regulations are met, its use of the groundwaters within the supply area are properly managed and important watershed areas are protected. The Board of the Authority continually scrutinizes its operating budget and plans and anticipates Capital Improvement projects to maintain and improve the distribution system for today and in the future. It assures the requirements of its bond resolution are met, sets policy regarding public education and stays abreast of the latest industry standards and improvements – among numerous other activities.

Citing legislative findings when The Authority was enacted by state law in 1985: "It is hoped that the authority created by this act will not only protect, preserve and enhance the quality and quantity of the water within its supply area, but that it will also serve as a model and as a leader in fostering cooperation with other water suppliers to better manage, conserve and protect the groundwaters within and outside its supply area."

1. **The Board of the Authority will review the reasonable options available to it for the enforcement of its Rules & Regulations regarding restrictions on the use of outdoor irrigation systems to advance water conservation, including, but not limited to, encouraging enforcement by the municipalities within the District of those rules in accordance with their respective municipal codes.**

2. **After implementing a block rate structure for some 20 years, based upon the legitimate concerns of its rate payers and a more careful analyses, the Board of the Authority determined that a block rate was not an appropriate manner for the Authority to foster water conservation.**

The bulk of the cost of water is derived from the balance of the Authority's indebtedness for the acquisition of the water system from a private company; upgrading the system which includes water mains constructed more than 100 years ago that are beyond their life expectancy; and the need for adequate fire protection, which is supported by underground wells, large diameter transmission mains, booster pumps, water storage tanks and generators for power outages. The public felt, and the Board of the Authority agreed, that water rates should be evenly applied to all the ratepayers receiving the benefit of the new system and fire protection and cost of debt service for the purchase of the system.

Under the block rate structure, the average daily water use per account was 534.705 gallons from 1998 to 2007. Since the block rate structure was suspended in 2008, average daily water use has been reduced 11.44 percent to 473.533 gallons; the Authority has met its financial obligations and water rates have remained the same as a result of good fiscal management.

3. The Board of the Authority, in consultation with its accountants, engineers, and professional staff, has determined that water rates have been properly set to meet the Authority's operating, capital, debt, and reserve requirements, and the contractual requirements to its bond holders. Rates have been adequate to meet all costs for the past six years, and have allowed for numerous improvements to the infrastructure totaling approximately $25 million, without the need to incur additional indebtedness.

4. The Board of the Authority will consult with its accountants, engineers, and professional staff, and adopt a formal policy with regard to its reserves.

5. After a formal policy is adopted with regard to its reserves, the Board of the Authority will attempt to assure that reserves are maintained at the appropriate level needed to meet the intended purpose. Consideration will be given to the Authority's need to continually meet strict government standards, health department regulations and the public's desire of setting non-detect standards that exceed what government standards require; an existing aging infrastructure; long-term capital improvement plans; bond obligation; short response times and high costs often associated with unanticipated emergency repairs and the need to provide potable drinking water and adequate fire protection around-the-clock for the protection of public health and safety.

6. The Board of the Authority has always considered overall compensation provided to employees in light of the costs incurred for providing specific enhanced benefits. As a public body, the Authority considers compensation packages provided by other local public bodies as well as the private sector, both of which the Authority competes with for qualified employees. Additionally, as required by civil service regulations, the Authority hires individuals that live in Nassau County where a higher than average cost of living is another market indicator that increases competition. Despite these challenges, the Authority has set benefits below those of other County, Town, and Local Village Governments.

7. The job duties for officer positions are pursuant to New York State Public Authorities Law, Section 1197-d (5), and were approved by Nassau County Civil Service. The compensation package of the officers is appropriately related to the amount of work required, the knowledge and experience of the individual, the length of time the individual has been employed by the Authority, and the market place. Although there may be the appearance of redundancy by virtue of those statutory definitions, the work that is performed by the individuals in those positions is neither redundant nor unnecessary. The Authority is currently working and in compliance with the job descriptions of both the NY State Public Authority Law and competitive civil service requirements.

8. The Board of the Authority will review the usage of three management vehicles to ascertain if their costs are financially beneficial. At the same time, weight will be given to the Authority's

mission of providing an uninterrupted supply of water for domestic use and firefighting purposes in the interest of public safety. With the difficulties of travelling about the service area during severe weather conditions, such as those caused recently by Hurricane Irene, Superstorm Sandy, various Nor'easters and other situations, the Authority is of the mind to ensure that its management staff is properly equipped to respond without delay when duty calls, regardless of weather conditions and the time of day, as these vehicles are also equipped with emergency radios for reducing response time, and computers to operate the entire system remotely, to assure proper water supply needs to the public are met.

9. The Board of the Authority will review its internal controls to ensure that business mileage reports continue to meet IRS standards and that they are properly completed and filed. The Board has recently consulted with its Internal Auditor and confirmed that the form continues to meet IRS standards. While more than 2,100 entries indicating business mileage were made by managers during the 28 months of logs reviewed, 13 entries appear to be in question – less than ¾ of a percent. In summary, those entries were logged during periods when management was not clocked in for compensation to work but used vehicles to take care of work related duties such as attending board meetings and making site visits.

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