

Commonwealth of Massachusetts
Town of Egremont
Finance Committee

Proposal: Audit of Egremont Water Enterprise Fund Scope of Work

Introduction

An Enterprise Fund is established to essentially allow a town to track the total cost and revenues of “business type services (e.g., water sewer, trash disposal, ambulance services, skating rinks, pools, golf courses, airports, docks and wharf facilities).”¹ It allows cities and towns to run certain departments essentially like a business, accounting for the total cost of running a department or delivering a service with all costs and revenues accounted. The town may choose to either subsidize part of the enterprise, or position the enterprise to be self funding.

The performance of the Enterprise Fund is measured by either its *deficit* or *surplus* at the end of the fiscal period. *Deficits* must be made up by the added taxes. *Surpluses*, if any, are put into retained earnings (similar to any business) to be used only by the Fund at a future time and can not be used in other areas.

The Commonwealth of Massachusetts Department of Revenue advises: “Establishing an enterprise does not create a separate or autonomous entity from the municipal government operation. Like every other department, a budget is prepared that is reviewed and analyzed by the finance committee.”² Action regarding the fund must go through the town government (mayor, council, select board, or town meeting).

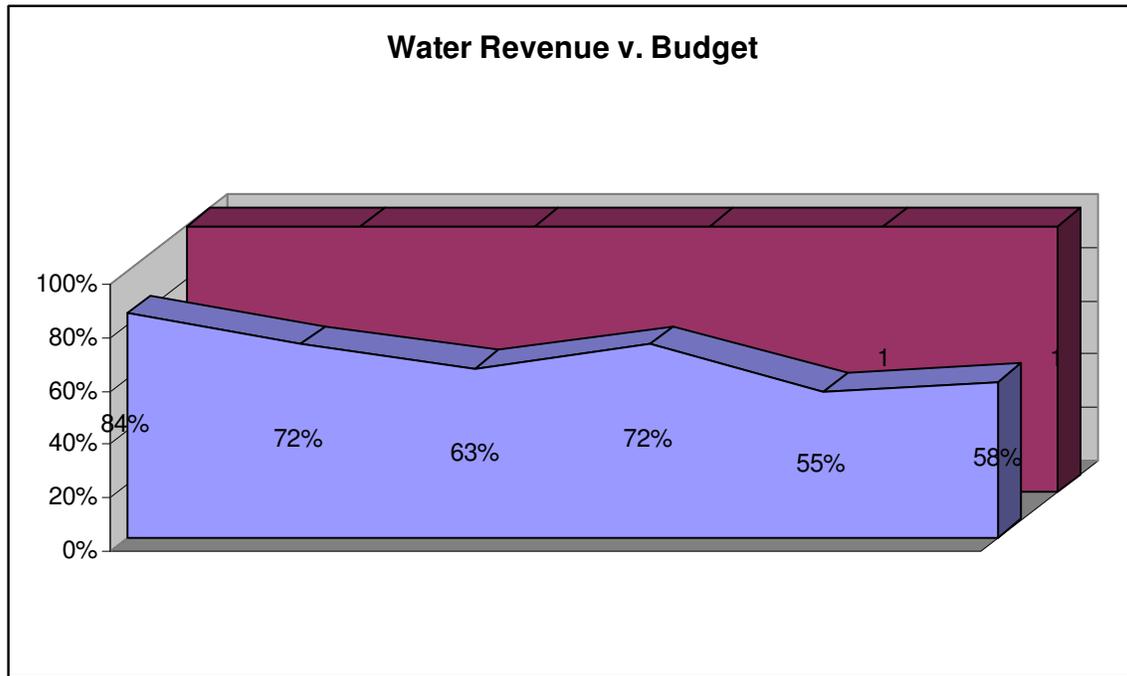
Egremont Water Enterprise Fund

The Town of Egremont acquired the operations and assets of a commercial water enterprise and adopted an Enterprise Fund in May 1996.³ Voters authorized the sum of \$585,000 in borrowing to be repaid through water charges.⁴ On that same warrant voters approved an Article #15 which states in part... “and to set user rates to pay 100% of said water system costs.”⁵

Over time the Water Enterprise Fund has produced budgets designed to cover the annual expense of water operations. Over time, the Town has come to subsidize some amounts for the Water Enterprise Fund. These subsidies notwithstanding, the Egremont Water Enterprise Fund has struggled to actually achieve budgeted revenues, often requiring emergency, additional tax subsidies. In effect, water operations for a client base of about 200 customers, which were envisioned to be self-financed are dependent upon taxes from the entire community, the majority of which absorbs their own cost of private wells.

Data from records of the Egremont Water Enterprise Fund from FY 2007 through FY 2012 (the latest complete FY reported) show consistent, persistent deficits due to

shortfalls in revenue collection. The table below shows the percent shortfall of revenues received in a given FY period.



As the above chart shows realized revenue has fallen from 84% of budget to 58% of budget. The trend overall is negative requiring increasing levels of taxes to cover the operating budget deficit. This means tax payers have not realized the planned 100% coverage of either debt or annual operating costs. Tax subsidies over the last 6 years alone total in excess of one half million dollars, approximating the total cost of borrowings to acquire the water rights and the initial purchase of physical assets as approved in 1996.⁶

A “Water Department Review Committee” was established and issued a report to the Selectboard in February of 2012. This committee included members of the Board of Selectmen, Finance Committee, and Commissioners of the Egremont Water Enterprise Fund itself. After careful review and consideration the several recommendations considered including:

- Retention of the “Water Enterprise Fund” (not create a Water Department)
- Town assume Fund debt service obligations
- Increase water billing rates to cover operating costs
- Increased cost controls on wages and salaries
- Intensify examination of existing infrastructure (leak detection)
- Address very large discrepancy between gallons pumped and gallons billed
- Revise and simplify billing system
- Better collection of past due fees
- Review billing bracket rate structure
- Identify and train personnel to strengthen operator capability and backup

- Work to secure funding for infrastructure from the Commonwealth
- Consider alternate power sources
- Audit plant equipment

Not all of these recommendations were presented as the final set to the Selectboard.

Subsequent to this report the Finance Committee issued a report in May of 2013 which detailed deficiencies in the collected revenues based on budgeted financial plans of the Water Enterprise Fund. The Finance Committee developed this report as part of its fiduciary responsibility to detail and illustrate significant financial issues to the taxpayers and Town Officers.

Taxpayer Directive

On 7 May 2013 at a Special Town Meeting taxpayers authorized the Finance Committee to produce an independent audit of the Town of Egremont Water Enterprise Fund. It was also clear that the town's taxpayers wished to retain the Fund structure.

It is therefore the obligation of the Finance Committee to analyze this situation in order to allow the community (townspeople) "to have useful information to make decisions on user charges and other budgetary items."⁷ This will tell us what can be supported by operating revenue and what may be required in taxes to cover current and future deficits.

Audit Scope

The data suggest an operational audit is required to review a series of factors:

1. Appropriateness of Enterprise Budgeting
2. Accuracy of data used to prepare the budget
3. Processes, policies and procedures used to collect revenues
4. Adequacy of any software employed and % capability utilized
5. Accuracy of enterprise customer lists used for budget basis
6. Status of customer accounts as current or delinquent
7. Projected future capital needs and operating costs

It is preferred that the audit be as impartial and independent as practicable in order that a series of things may be addressed and accomplished including but not limited to:

1. Improved revenue projections
2. Procedures helpful to the employees of the enterprise
3. Best practices and ideas used at other similar water enterprise funds
4. Streamlining and simplification of procedures
5. Methods for monitoring and addressing changes in revenue flows

The Finance Committee wishes that the audit be comprehensive and inclusive of the knowledge and insights of the employees, Commissioners, Selectman, and customers of the water enterprise fund in order to achieve clear conclusions and best practices for going forward. In this way, the Finance Committee can make its recommendations

regarding the future funding and taxing to be appropriate for the operating of the water enterprise fund.

Timing

The Finance Committee wishes the audit be completed and disclosed to the Water Enterprise elected Commissioners and (town) employees, Egremont elected officials, and Townspeople prior to the start of the FY2015 budgeting process which begins in the fall of 2013. The audit should be completed by November 1, 2013.

Engagement

The Finance Committee wishes to have a portion of the winning firm's principals or partners talents employed during this audit, especially as this may relate to the presentation of the audit results to Town of Egremont Officials and Townspeople.

It is expected that the selected firm will exercise its efforts in line with its institutional integrity in the pursuit of facts and data and advise the client of abnormalities, discrepancies, or other findings unexpected but linked to the scope of the audit.

It is the desire of the Finance Committee that the audit, more than any other outcome, represent a plan for a way forward to remediate the several challenges facing the Egremont Water Enterprise Fund.

Further, the Finance Committee recognizes that the employees and customers of the Water Enterprise Fund wish to be associated with an efficient, public service organization operating at a high level in spite of its modest size.

The financial circumstances surrounding this important public service compel an honest assessment, clear conclusions, and factual presentation to the taxpayers of Egremont.

Copies of several documents will be made available for inclusion in the independent audit as will access to the employees, customers, and commissioners of the Fund, the members of the Board of Selectmen and Finance Committee members.

Notes:

¹ Title VII Chapter 44 Section 53F1/2 Enterprise Funds

² Commonwealth Department of Revenue "Technical Assistance Section" pp. 1, 2

³ Egremont Special Town Meeting of 23 August 1996 Article #1 & #4

⁴ Ibid. Article #2.

⁵ Ibid. Article #15.

⁶ Schedule #1 "Summary of Subsidies" Finance Committee Water Enterprise Fund Report 3 May 2013.

⁷ Commonwealth Department of Revenue "Technical Assistance Section" pp. 1, 2