

# **Dutchess County, New York**

**EIN# 14-6002566**

**Reports of Independent Auditors**

**Required by Office of Management and Budget**

**Circular A-133**

**December 31, 2006**

**Dutchess County, New York**  
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**December 31, 2006**

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**Report of Independent Auditors on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of the Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Honorable Members of the  
County Legislature and the  
County Executive  
Dutchess County, New York:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Dutchess County, New York (the "County") as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 5, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Dutchess Community College, the Dutchess Resource Recovery Agency, the Dutchess County Water and Wastewater Authority and the Dutchess County Industrial Development Agency, which represents 99 percent of the total assets, net assets and net expense of the aggregate discretely presented component units, as described in our report on the County's financial statements. As described in Note 2 to those financial statements, the financial statements of the Dutchess Community College have been adjusted for the presentation of long-term liabilities and net assets included in the financial statements; and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based upon the reports of the other auditors. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 06-01 and 06-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

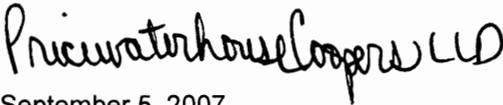
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County in a separate letter dated September 5, 2007.

The County's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the County's audit committee, directors, management, and legislature, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

  
September 5, 2007

**Report of Independent Auditors on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133**

To the Honorable Members of the  
County Legislature and the  
County Executive  
Dutchess County, New York:

Compliance

We have audited the compliance of Dutchess County, New York (the "County") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006, except as described in the second paragraph of this report. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

The County's basic financial statements include the operations of the Dutchess Community College ("DCC"), which received \$3,102,055 in federal awards, which is not included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2006. Our audit, described below, did not include DCC because DCC engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

#### Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Dutchess County, New York (the "County") as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 5, 2007. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of the Dutchess Community College, the Dutchess Resource Recovery Agency, the Dutchess County Water and Wastewater Authority, and the Dutchess County Industrial Development Agency, which represent 99 percent of the total assets, net assets and net expense of the aggregate discretely presented component units, as described in our report on the County's financial statements. As described in Note 2 to those financial statements, the financial statements of the Dutchess Community College have been adjusted for the presentation of long-term liabilities and net assets included in the financial statements; and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based upon the reports of the other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the County's audit committee, management, the legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*PricewaterhouseCoopers LLP*

September 5, 2007

**Dutchess County, New York**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2006**

Grant Title	Pass-through Entity Identifying Number	CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services			
HIV Emergency Relief Formula Grants		93.914	\$ 1,323,645
Pass-Through Programs From State Office for the Aging:			
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services		93.043	17,202
Centers for Medicare and Medicaid Services (CMS) - Research, Demonstrations, and Evaluations		93.779	31,130
National Family Caregiver Support		93.052	116,628
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers		93.044 (2)	281,108
Special Programs for the Aging - Title III, Part C - Nutrition Services		93.045 (2)	363,978
Nutrition Services Incentive Program		93.053 (2)	66,300
Pass-Through Programs From:			
Office of Children and Family Services			
Foster Care - Title IV-E		93.658	7,696,131
Adoption Assistance		93.659	31,077
Chafee Foster Care Independent Living		93.674	45,435
Office of Temporary and Disability Assistance			
Child Support Enforcement - Administration		93.563	1,745,129
Low-Income Home Energy Assistance		93.568	2,769,166
Social Services Block Grant		93.667	5,522,627
Temporary Assistance for Needy Families	C022699 TR400221/71	93.558	7,134,388
Pass-Through Programs From State Division of Alcoholism and Alcohol Abuse:			
Block Grants for Community Mental Health Services		93.958	122,700
Block Grants for Prevention and Treatment of Substance Abuse	BINYSAPT	93.959	320,327
Pass-Through Programs From State Department of Health:			
Medical Assistance Program		93.778	6,056,919
Pharmaceutical Assistance Programs		93.786	99,622
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	CO17986	93.116	8,470
Preventative Health and Health Services Block Grant	CO20240 CO20121 CO19068	93.991	40,657
HIV Prevention Activities - Health Department Based	002195-02	93.940	131,749
Maternal and Child Health Services Block Grants to the States	CO16095 CO17598	93.994	59,679
Immunization Grants	CO18660	93.268	74,600
Centers for Disease Control and Prevention - Investigations and Technical Assistance	001600-04	93.283	274,435
Subtotal Pass-Through Programs			<u>33,009,457</u>
Total U.S. Department of Health and Human Services			<u>34,333,102</u>

**Dutchess County, New York**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2006**

Grant Title	Pass-through Entity Identifying Number	CFDA Number		Federal Expenditures
U.S. Department of Transportation				
Formula Grants for Other than Urbanized Areas		20.509		54,500
Airport Improvement Program		20.106		1,088,504
Federal Transit Capital Investment Grants		20.500		810,265
				<u>1,953,269</u>
Pass-Through Programs From State Department of Transportation:				
Federal Transit metropolitan Planning Grants	D000190	20.505		61,781
Highway Planning & Construction	D000126	20.205		1,980,846
	8755.85			
	8755.82			
	8755.88			
	8755.89			
	8756.01			
	8757.25			
	8757.27			
	8755.38			
	8755.40			
	8755.41			
	8755.44			
	8758.69			
	8758.71			
	8755.42			
	8757.53			
	8758.45			
	8758.74			
State and Community Highway Safety	CP-1400213	20.600	(1)	98,339
	PT-1400261			
Occupant Protection	CS-1400251	20.602	(1)	12,851
Safety Incentive Grants for Use of Seatbelts	PT-1400241	20.604	(1)	50,249
Subtotal Pass-Through Program				<u>2,204,066</u>
<i>Total U.S. Department of Transportation</i>				<u>4,157,335</u>
U.S. Department of Labor				
Pass-Through Program From State Department of Labor -				
Workforce Investment Act Cluster:				
Workforce Investment Act - Adult Program	80060	17.258	(4)	369,844
Workforce Investment Act - Youth Activities	80060	17.259	(4)	381,085
Workforce Investment Act - Dislocated Workers	80060	17.260	(4)	401,531
<i>Total U.S. Department of Labor</i>				<u>1,152,460</u>
U.S. Department of Agriculture				
Pass-Through Program From Office of Children and Family Services-				
Food Stamp Cluster:				
State Administrative Matching Grants for Food Stamps		10.561	(3)	1,680,219
Food Stamps		10.551	(3)	12,070,043
<i>Total U.S. Department of Agriculture</i>				<u>13,750,262</u>

**Dutchess County, New York**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2006**

Grant Title	Pass-through Entity Identifying Number	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Community Development Block Grants (Entitlement Grants)		14.218	1,957,302
Supportive Housing Program		14.235	171,184
Shelter Plus Care		14.238	191,853
HOME Investment Partnerships Program		14.239	1,429,414
<i>Total U.S. Department of Housing and Urban Development</i>			3,749,753
U.S. Department of Justice			
Sex Offender Management Discretionary Grant		16.203	38,642
Bulletproof Vest Partnership Program		16.607	9,406
State Criminal Alien Assistance Program		16.606	61,138
			109,186
Pass-Through Program From State Division of Criminal Justice Services:			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		16.580	30,716
Violence Against Women Formula Grant	VW05548939	16.588	68,416
Subtotal Pass-Through Program			99,132
<i>Total U.S. Department of Justice</i>			208,318
U.S. Department of Education			
Pass-Through Program From State Department of Health	CO17598	84.181	167,965
<i>Total U.S. Department of Education</i>			167,965
U.S. Department of Homeland Security			
Assistance to Firefighters Grant		97.044	(1,572)
Pass-Through Program From State Emergency Management Office:			
Emergency Management Performance Grants		97.042	46,057
Emergency Food & Shelter National Board Program	615400-016	97.024	1,000
Subtotal Pass-Through Program			47,057
<i>Total U.S. Department of Homeland Security</i>			45,485
<b>Total Expenditures of Federal Awards</b>			<b>\$ 57,564,680</b>

- (1) Highway Safety Cluster
- (2) Aging Cluster
- (3) Food Stamp Cluster
- (4) Workforce Investment Act Cluster

**Dutchess County, New York**  
**Notes to Schedule of Expenditures of Federal Awards**  
**December 31, 2006**

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**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the primary government of Dutchess County, New York ("the County"), an entity as defined in the basic financial statements and does not include Dutchess Community College ("DCC"), Dutchess County Resource Recovery Agency, Dutchess County Water and Wastewater Authority, Dutchess County Industrial Development Agency, and Dutchess County Soil and Water Conservation District (the "Component Units"). The information in this schedule was prepared on the accrual basis of accounting and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Negative amounts represent adjustments to expenditures reported in prior years in the normal course of business.

Pass through entity identifying numbers were included on the schedule where available.

**2. Subrecipients**

Of the federal expenditures presented in the schedule, the County provided the following to subrecipients:

<b>Program Title</b>	<b>Federal CFDA Number</b>	<b>Amount Provided to Subrecipients</b>
Temporary Assistance for Needy Families	93.558	\$ 1,706,414
HIV Emergency Relief Formula Grants	93.914	36,690
National Family Caregiver Support	93.052	14,955
Low Income Home Energy Assistance	93.568	198,087
Block Grants for Community Mental Health Services	93.958	122,700
Block Grants for Prevention and Treatment of Substance Abuse	93.959	254,027
Preventive Health & Health Services Block Grant	93.991	15,029
Medical Assistance Program	93.778	159,131
Food Stamp Program	10.561	283,529
Community Development Block Grant (Entitlement Grants)	14.218	1,652,190
Supportive Housing Program	14.235	171,184
Shelter Plus Care	14.238	191,853
Home Investment Partnership Program	14.239	1,381,734
Sex Offender Management Discretionary Grant	16.203	38,642
Assistance to Firefighters Grant	93.044	30,908
Total		<u>\$ 6,257,073</u>

**Dutchess County, New York**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2006**

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**I. Summary of Auditors' Results**

*Financial Statements:*

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified that are not considered to be material weaknesses	06-01 and 06-02
Noncompliance material to financial statements	No

*Federal Awards:*

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified that are not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings required to be reported in accordance with Section 510(a) of Circular A-133	No

<b>Major Programs:</b>	<b>CFDA Numbers</b>	<b>Expenditures</b>
Medical Assistance Program	93.778	\$6,056,919
Temporary Assistance for Needy Families	93.558	7,134,488
Low-Income Home Energy Assistance	93.568	2,769,166
Highway Planning and Construction	20.205	1,980,846
Block Grants for Prevention and Treatment of Substance Abuse	93.959	320,327
Dollar threshold used to distinguish between Type A and Type B programs		\$1,726,940
Auditee qualified as a low risk auditee?		Yes

**Dutchess County, New York**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2006**

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**II. Findings Related to the Financial Statements Which are Required to be Reported in Accordance with Generally Accepted Auditing Standards.**

06-01 Recognition of Mental Hygiene Revenue

In December 2006, the County received and recorded as revenue \$13.8 million from Medicaid related to services rendered by the Dutchess County Department of Mental Hygiene. Upon review of the supporting detail, it was determined that approximately \$6.1 million of the \$13.8 million was related to reimbursement for services that were rendered prior to fiscal year 2006 that were not accrued in those years. Therefore, the fiscal year 2006 financial statements included \$6.1 million of mental hygiene revenue that should have been recorded in prior year's (2003, 2004 and 2005) financial statements. We understand that management of the Department of Mental Hygiene experienced difficulty reconciling revenue due to a system conversion in 2003 which caused revenue to be understated in prior years.

Although total revenue for the Department of Mental Hygiene only represents approximately 2% of the County's total revenue, the accumulation of this error resulted in a material adjustment to the 2006 financial statements. We recommend the Department of Mental Hygiene reconcile revenue and perform detailed analytics on a monthly or quarterly basis to ensure the recognition of revenue in the County's financial statements is complete and accurate. In addition, Finance, the Comptroller and/or Budget should consider providing oversight of the Department of Mental Hygiene's monthly or quarterly revenue analysis and recognition.

Management's Views and Corrective Action Plan

Management's views and corrective action plan is included on page 13 of this document.

06-02 Obtaining Appropriate Cut-off

During the course of the audit, we noted that the County recorded in 2006, the impact of the final CSEA contract negotiations, which occurred in September, 2006, that included a \$1.9 million retroactive payment related to fiscal year 2005. In addition, we noted that in January, 2007, the County determined that certain capital assets that were complete and in service were not being depreciated and recorded the catch up of depreciation expense of \$1.5 million in 2007 as opposed to in 2006.

The recording of transactions in the appropriate period is critical to accurate cut-off and overall complete and accurate financial statements. We recommend management perform the necessary control procedures to ensure that all transactions (or reasonable estimates) are recorded in the correct period. These controls should include quarterly communication with key department constituencies within the County to discuss status of issues, projects, etc., analytics on material AFR financial captions to identify any unusual trends and an overall budget to actual analysis on the AFR.

Management's Views and Corrective Action Plan

Management's views and corrective action plan is included on page 13 of this document.

**Dutchess County, New York**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2006**

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**III. Federal Award Findings and Questioned Costs**

None

**Dutchess County, New York**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2006**

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**Dutchess County**  
**Office of the**  
**Commissioner**  
**of Finance**

**Dutchess**

**William R. Steinhaus**  
County Executive

**Pamela Barrack**  
Commissioner

**Corinna C. Wu**  
First Deputy

**Carmela Morley**  
Deputy

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September 24, 2007

**RE: Management's Views and Corrective Action Plan for Dutchess County OMB Circular A-133 Compliance for the Year Ended December 31, 2006**

**I. Federal award findings and questioned costs**

**Current Year Significant Deficiencies**

**06-01 - Recognition of Mental Hygiene Revenue**

**06-02 - Obtaining Appropriate Cut-off**

**II. Management's response and corrective action plan**

**06-01 - Management's Response**

Mental Hygiene software will be able to report accrued revenue in an accurate and timely manner. This will match Mental Hygiene's mid-year and year end fiscal report to the State. Mental Hygiene will submit revenue accruals to Finance on a quarterly basis and perform detailed analytics on a quarterly basis to Finance and Budget.

**06-02 Management's Response**

Control procedures will be in place to ensure that all transactions (or reasonable estimates) are recorded in the correct period.

**III. Responsible Individual**

06-01: Pamela Barrack, Commissioner of Finance

06-02: Pamela Barrack, Commissioner of Finance

**Dutchess County, New York**  
**Prior Year Findings**  
**December 31, 2006**

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**IV. Update of Prior Year Findings**

None