

# **Dutchess County Water & Wastewater Authority**

## Table of Contents

Comptroller's Summary .....	3
Background .....	3
Organization.....	3
Audit Scope, Objective and Methodology.....	3
Summary of Findings.....	4
Expenses .....	4
County Appropriation .....	4
Detail of County Appropriations .....	6
Salaries .....	6
Operating Expenses .....	6
Professional Services .....	6
Service Fees .....	6
Capital Project – Central Dutchess Water Transmission Line.....	7
Addendum 1 .....	9
Addendum 2 .....	10
Exhibit 1 .....	11

## Comptroller's Summary

### Background

The Dutchess County Water & Wastewater Authority (WWA) is a public benefit corporation established in 1991 under Section 1123 of the New York Local Water and Sewer Act to assist the County and its municipalities in managing water supplies and wastewater disposal. The Act empowers WWA to fix rates and collect charges for water supply and sewage disposal services; to issue bonds and notes for financing; to acquire or lease real or personal property; to develop, construct, maintain, operate and manage properties of the authority; to make plans, studies and recommendations. The Act also empowers the County to appropriate funds by resolution to defray WWA's costs of providing the services for which it was established. Dutchess County is also authorized to impose and collect taxes on WWA customers; these taxes are paid to WWA. DC guarantees debt service payments for WWA. Additional information is available at the website:

[www.co.dutchess.ny.us/CountyGov/Departments/WaterandWaste/WRIndex.htm](http://www.co.dutchess.ny.us/CountyGov/Departments/WaterandWaste/WRIndex.htm)

Currently, WWA owns and operates seven water and three sewage systems. WWA provides water from the Hyde Park Regional Water System to the Hyde Park Service area (zones A & B), the Staatsburg service area (zone C) and the Zone D service area; Valley Dale; Schreiber; Rokeby and Dalton Farms. The sewer systems consist of: Chelsea Cove, Valley Dale and Dalton Farms.

WWA was responsible for the construction and maintenance of the Central Dutchess Water Transmission Line (CDWTL) that became operational in 2007.

### Organization

WWA is a distinct entity which is included in Dutchess County's financial statements as a component unit. WWA is governed by a Board of Directors which includes appointments from the Dutchess County Legislature and the Dutchess County Executive. WWA's operations are financed primarily through user charges as well as a subsidy and operating grants from Dutchess County. WWA's Water Resource Manager and Assistant Water Resource Manager were employees of Dutchess County\*; Dutchess County Department of Planning and Community Development has oversight for WWA funding.

### Audit Scope, Objective and Methodology

The 2005 and 2006 county appropriations of \$688,794.00 and \$693,570.00 respectively to WWA, as well as, \$10,575,000.00 in capital appropriations provided for the Central Dutchess Water Transmission line project were reviewed. Documentation reviewed included:

- Claims including invoices and contracts

---

\* During the audit period

- Payroll records, 1099s
- Financial reports

## **Summary of Findings**

### County Appropriations

- WWA did not have a cost allocation plan to allocate expenses to water and wastewater systems.
- Expenses paid directly by Dutchess County were not identified in WWA's financial statements.
- All Professional Service contracts were not reconciled in time to be included in WWA's audited financial statements. This resulted in the amounts due from WWA being understated in Dutchess County's audited financial statements by \$12,363.98 for 2005 and \$11,024.55 for 2006.

### Capital Project – Central Dutchess Water Transmission Line

- As of August 2007, the project had a tentative surplus of \$4,510,760.48. The surplus resulted due to WWA over estimating expenses when requisitioning funds from the funding entities.
- Since 2002, a \$200,000.00 cash advance for the capital project was not reported on WWA's audited financial statements as a liability of monies due to Dutchess County. Additionally, the advance was not returned to the County until the audit review.

## **Expenses**

### **County Appropriation**

WWA is a public corporation operating water and wastewater systems that are financed through user charges. WWA also assists the County in managing its water supplies and wastewater disposal, for these purposes the County appropriates money for WWA. WWA incurs centralized expenses that benefit all aspects of its operation, this requires expenses be equitably charged to each function.

WWA's audited financial statements are included in Dutchess County's financial statements as a component unit. There are contracts between WWA and Dutchess County that require reconciliation to establish money due to Dutchess County; reconciliation must be performed in a timely manner for accurate reporting.

Findings:

- 1) WWA's audited financial report did not reference expenses paid directly by Dutchess County.
- 2) WWA did not have a documented cost allocation plan for allocating centralized expenses, as such the water wastewater systems were not charged for all costs associated with the delivery of service. Examples of such expenses follow:
  - Dutchess County provides WWA with occupancy at High St, however WWA did not charge the systems for occupancy costs.
  - Dutchess County paid for certain operating expenses of WWA, however WWA did not allocate these expenses to the water wastewater systems.
  - Dutchess County directly paid for salaries and fringe benefits of the Water Resource Manager and Assistant Water Resource Manager of WWA; however no portion of these salaries were allocated to the water and wastewater services.
- 3) Contracts between WWA and Dutchess County were not reconciled in a timely manner. This resulted in Dutchess County's financial statements having partial data reported.
  - Dutchess County's 2005 audited financial statements reported \$17,501.00 due to the County from WWA, representing reconciliations for 2003, 2004 and 2005 contracts. The \$17,501.09 was received by Dutchess County in July 2006. Three additional 2005 contracts amounting to \$12,363.98 were later reconciled and also paid in July 2006; this additional amount was not included in Dutchess County's 2005 financial statement as due from WWA.
  - Dutchess County's 2006 audited financial statements reported \$101,366.00 due to the County for 2005 and 2006 contracts. Dutchess County received \$101,366.00 in May 2007. Review of contracts resulted in an additional amount of \$11,024.55 due to the County representing one contract adjustment for \$223.25 and two additional 2006 contracts reconciliations totaling \$10,801.30.

Recommendations:

- 1) WWA's audited financial statements should reference expenses paid directly by Dutchess County.
- 2) WWA should ensure all costs associated with water wastewater systems are allocated to user fees.
- 3) Reconciliation must be completed in a timely manner. WWA must return \$11,024.55 to the County.

## Detail of County Appropriations

The County annually appropriates money to WWA under Department A8791 Water and Wastewater Authority. Below are amounts appropriated and expended in 2005 and 2006 to this department.

<b>Appropriation</b>	Budget 2005	Expended 2005	Budget 2006	Expended 2006
<b>Salaries</b>	\$150,625.00	\$150,625.17	\$163,145.00	\$163,050.48
<b>Operating Expenses</b>	14,655.00	9,891.70	17,555.00	13,930.38
<b>Professional Services</b>	413,450.00	312,200.00	403,870.00	400,000.00
<b>Service Fees</b>	<u>110,064.00</u>	<u>107,032.79</u>	<u>109,000.00</u>	<u>108,739.77</u>
<b>Total</b>	<u>\$688,794.00</u>	<u>\$579,749.66</u>	<u>\$693,570.00</u>	<u>\$685,720.63</u>

Note: Fringe benefits and occupancy costs were incurred by the County for WWA but not appropriated to Department A8791 Water and Wastewater Authority. Based on the County fringe benefit rate, WWA's costs for the above salaries are \$63,754.52 and \$63,923.29 for 2005 and 2006 respectively. Occupancy costs could not be readily identified since the Dutchess County Department of Public Works does not formally separate costs associated with WWA's occupancy at 27 High Street.

Salaries represent the Water Resource Manager and Assistant Water Resource Manager of WWA. Both are paid as County employees.

Operating Expenses which include supplies, postage, telephone, conferences, travel and equipment are paid directly to WWA vendors by the County.

Professional Services represent direct contract payments made to the WWA. WWA administers the contracts and upon completion reconciles the funds received from the County and returns remaining balances to the County. WWA contracts with outside professionals to provide services such as legal, financial, technical and engineering. In addition, there is a contract for the salaries and fringe benefits of WWA employees. See Addendum 1 for details of contracts budgeted, expended and reconciled.

Service Fees - The Dutchess County Legislature via Resolution # 980096 authorized the County to pay the net difference between revenues collected from the benefit assessment and expenses paid for debt service of the Hyde Park Service Area (A&B zones). Benefit assessment is a tax imposed on users of a system to cover debt service expenses which consists of principal and interest; trustee fees and a WWA administrative fee. The administrative fee is comprised of salaries, legal fees, engineering fees, advertising and mailing for the preparation of the benefit assessment tax roll. The net

service fees paid by Dutchess County amounted to \$107,032.79 and \$108,789.77 in 2005 and 2006 respectively.

## **Capital Project – Central Dutchess Water Transmission Line**

The Central Dutchess Water Transmission Line (CDWTL) runs 13 miles from Overocker Road in the Town of Poughkeepsie along the County owned former Maybrook railroad corridor to IBM Hudson Valley Research Park on Route 52 in the Town of East Fishkill. The source of water is the Hudson River.

A Memorandum of Understanding (MOU) dated May 6, 2002 was made and entered into by and between the Dutchess County Water and Wastewater Authority, the City of Poughkeepsie, the Town of Poughkeepsie, the Poughkeepsie Joint Water Board and International Business Machines (IBM).

The Dutchess County Legislature at its May 13, 2002 meeting via resolution authorized funding for the CDWTL.

On June 27, 2002 WWA signed an agreement with Dutchess County for \$3,000,000.00 in funding for the CDWTL. On November 19, 2004 the County amended the contract to \$10,375,000.00. The project was estimated to cost \$33,269,000.00 with funds coming from Dutchess County \$10,375,000.00, New York State \$11,375,000.00, IBM \$11,250,000.00 and Town of East Fishkill \$269,000.00.

**Contract # 04-0730-WA** - This contract was for the Central Dutchess Water Transmission Line (CDWTL). An amount of \$10,375,000.00 was committed for construction with an advance of \$200,000.00 for cash flow purposes until NY State funds were received. The advance was to be credited to Dutchess County's total commitment of \$10,375,000.00. In addition, the contract provided \$5,000.00 to be retained in the Firematic Water Fund and \$40,000.00 to be retained in an Operation and Maintenance Fund; interest earned was to be credited back to the respective funds.

The County contract was reviewed, County payments were traced to financial records and invoices were verified. Exhibit 1 provides detail as of August 31, 2007.

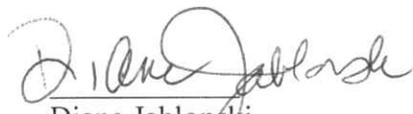
### Findings:

- Dutchess County paid WWA a total amount of \$10,575,000.00 resulting in an over payment of \$200,000.00. This overpayment represented the \$200,000.00 advance that was not returned upon receipt of funds from New York State. The advance was booked as revenue in 2002 by WWA; the liability for the \$200,000.00 was not identified in WWA's audited financial statements as a Due to Dutchess County.

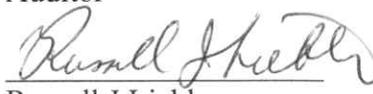
- WWA over estimated costs when requisitioning payments. This resulted in a surplus of \$4,510,760.48 as of August 2007. Per Section 3.2 of Contract #04-0730 WWA was to requisition once every calendar quarter an installment portion of the County's Acquisition Price as WWA reasonably determined to be necessary to timely pay costs. In 2005 WWA requisitioned and was paid \$9,693,877.25; \$881,122.75 was requisitioned and paid in 2006. WWA's bank accounts for the project reported balances totaling \$5,806,093.67 at December 31, 2005 and \$4,502,179.07 at December 31, 2006. The project earned \$594,773.37 in interest which is included in the current surplus. This demonstrates WWA requested funds when they had a surplus on hand.
- Prior to the MOU, costs were incurred by WWA for research and development of the CDWTL. Per work sheets provided by WWA, prior costs totaling \$261,360.85 can be identified as funded by Dutchess County. Funds for these costs were in addition to the \$10,375,000.00; revenue and expenses related to these costs are not included in Exhibit 1. An additional \$30,000.00 in prior costs was funded by WWA; WWA was reimbursed \$30,000.00; these costs are included in Exhibit 1.

Recommendations:

- The \$200,000.00 for cash flow purposes was returned to Dutchess County in November 2007. It should have been returned to Dutchess County sooner.
- Contracts should be reviewed by legal counsel. A coordinated determination based on a final accounting of project costs and revenues should be conducted in a timely manner. Excess funds should be distributed.
- If unexpended funds are available, consideration should be given by all parties to the contract to reimburse Dutchess County for research and development costs funded by them.

  
 Diane Jablonski  
 Comptroller

  
 Cordelia Shemain  
 Auditor

  
 Russell J Liebler  
 Auditor

Addendum 1

**Dutchess County Contracts with WWA**

<b>2006 Contract #</b>	<b>Provider of Service</b>	<b>Purpose</b>	<b>Amount</b>	<b>Expended</b>	<b>Refunded</b>	<b>Due To County</b>
06-0037 WWA	Chazen Environmental Services, Inc.	Salaries & Fringe Benefits	\$275,000.00	\$228,686.02	\$46,090.73	\$223.25
06-0063 WWA	Environmental Services, Inc.	Groundwater supply Tracking Program	35,000.00	25,379.34	00.00	9,620.66
06-0243 WWA	Corbally, Gartland and Rappleyea, LLP	Legal Services	5,000.00	148.50	4,851.50	0.00
06—0243 WWA	Drake, Loeb, Heller, Kennedy, Gogerty, Gaba & Rodd, PLLC	Legal Services	5,000.00	4,865.00	135.00	0.00
05-0031 WWA	Van DeWater & Van DeWater, LLP	Legal Services	10,000.00	1,177.50	8,822.50	0.00
06-0242 WWA	Environmental Capital	Technical assistance and financial advice	5,000.00	937.50	4,062.50	0.00
06-0055 WWA	Savin Engineers, PC	Engineering and technical assistance	20,000.00	740.00	19,260.00	0.00
06-0148 WWA	Savin Engineers, PC	Engineering and technical assistance. Reagon's Mills Water & Sewer Systems	10,000.00	8,819.36	00.00	1,180.64
06-0488 WWA	Morris Associates	Hyde Park sewer Project	45,000.00	45,000.00	00.00	0.00
<b>Total</b>			<b><u>\$410,000.00</u></b>	<b><u>\$315,753.22</u></b>	<b><u>\$83,222.23</u></b>	<b><u>\$11,024.55</u></b>

Addendum 2

**Dutchess County Contracts with WWA**

2005							Due To
Contract #	Provider of Service	Purpose	Amount	Expended	Refunded	County	
05-0050 WWA	WWA	Advisory	\$250,000.00	\$250,000.00	\$0.00	\$0.00	
05-0086 WWA	Corbally, Gartland and Rappleyea, LLP	Legal services	5,000.00	322.00	4,678.00	0.00	
05-0085 WWA	Drake, Sommers, Loeb, Tarshis & Catania, PC	Legal services	5,000.00	2,314.02	2,685.98	0.00	
05-0087 WWA	Environmental Capital, LLC Van DeWater & Van	Technical assistance and financial advice	5,000.00	0.00	5,000.00	0.00	
05-0048 WWA	Dewater, LLP	Legal services	10,000.00	283.00	9,717.00	0.00	
05-0088 WWA	Savin Engineers PC	Engineering and technical assistance	10,000.00	1,625.66	8,374.34	0.00	
05-0586 WWA	Savin Engineers PC	Evaluation of Birch Hill Estates Water System	7,700.00	7,687.34	12.66	0.00	
05-05685 WWA	Savin Engineers PC	Evaluation of Shorehaven Water System	9,500.00	9,460.05	39.95	0.00	
	<b>Total</b>		<b><u>\$302,200.00</u></b>	<b><u>\$271,692.07</u></b>	<b><u>\$30,507.93</u></b>	<b><u>\$0.00</u></b>	<b><u>\$0.00</u></b>

# Exhibit 1

## Central Dutchess Water Transmission Line Revenue/Expense Summary as of August 31, 2007

<u>REVENUE</u>	Budget	Actual	Variance
<b>Budgeted Revenue</b>			
IBM	11,375,000.00	\$11,375,000.00	\$0.00
Dutchess County—Capital Environmental Facilities Corp (NYS)	10,375,000.00	10,575,000.00	\$200,000.00
Town of East Fishkill	<u>269,000.00</u>	<u>269,000.00</u>	<u>\$0.00</u>
<b>Sub Total Budgeted</b>	<b><u>\$33,269,000.00</u></b>	<b><u>\$33,469,000.00</u></b>	<b><u>\$200,000.00</u></b>
<b>Subsequent Applicable Revenue</b>			
Interest		\$594,773.37	\$594,773.37
Cruz/Waltech for water use		19,120.08	19,120.08
Bid Document deposits		16,100.00	16,100.00
Lake Walton Water System		10,000.00	10,000.00
Other		<u>91.00</u>	<u>91.00</u>
<b>Sub Total Subsequent Applicable Revenue</b>		<b><u>\$640,084.45</u></b>	<b><u>\$640,084.45</u></b>
<b>Due to Dutchess County</b>		<b><u>(\$200,000.00)</u></b>	<b><u>(\$200,000.00)</u></b>
<b>Total Project Revenue</b>	<b><u>\$33,269,000.00</u></b>	<b><u>\$33,909,084.45</u></b>	<b><u>\$640,084.45</u></b>
 <b><u>EXPENSES</u></b>			
Construction Contracts	24,504,864.71	\$24,060,472.26	(\$444,392.45)
Technical Consultants	3,989,901.77	3,678,200.05	(\$311,701.72)
Administrative	683,384.77	683,877.32	\$492.55
Land/Easement/ROW Acquisition	350,000.00	277,077.00	(\$72,923.00)
Investigation Contracts	301,097.00	301,097.00	\$0.00
Legal	264,146.58	237,880.23	(\$26,266.35)
Financial	40,815.83	20,965.83	(\$19,850.00)
Contingencies	3,115,789.34	22,939.28	(\$3,092,850.06)
Willkie Farr Legal Services		115,815.00	\$115,815.00
<b>Sub-Total</b>	<b><u>33,250,000.00</u></b>	<b><u>29,398,323.97</u></b>	<b><u>(\$3,851,676.03)</u></b>
 <b>Surplus/(Deficit)</b>	 <b><u>19,000.00</u></b>	 <b><u>\$4,510,760.48</u></b>	