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Dear Ms. Jablonski,

We are in receipt of the Draft Findings Report of your audit of the Dutchess County Water and Wastewater Authority and your Findings and Recommendations addressing issues that you raised during the audit of the Authority for the fiscal years ending December 31, 2005 and 2006. We have consulted with the other members of the management team and the Authority Board and would like to address these issues as follows:

Background

The statement that, "DC guarantees debt service payment for WWA," is incorrect. However, the County is contractually obligated, pursuant to the existing Service Agreements by and between the County and the Authority, to make Service Fee Payments to the Authority. The Authority uses the Service Fee Payments to make debt service payments on Authority bonds.

Organization

The statement is made (page 3) that "WWA's operations are financed primarily through user charges as well as a subsidy and operating grants from Dutchess County". The subsidy is a result of a contractual obligation by Dutchess County due to the 1998 acquisition of the water system assets of the Hyde Park Fire and Water District. This subsidy ceases to exist in the 2008 budget year, and will be repaid according to the terms and provisions of the Service Agreement between the County of Dutchess for and on behalf of the Dutchess County Water District and the Dutchess County Water and Wastewater Authority (dated June 1, 1998). Grant dollars that are provided have excess dollars returned, or when possible, additional project dollars reimbursed to Dutchess County when other funding sources are realized, unless through some contractual obligation we are unable to do so.

County Appropriations:

On Page 4 the statement is made that “WWA also assists the County in managing its water supplies and wastewater disposal.” This statement can be misleading, in that it could be interpreted to imply ownership of water supply and wastewater disposal systems by Dutchess County which the Authority assists in operating. Rather, the Authority was established as the agency to assist with, on a county-wide basis, the appropriate management of county water resources and wastewater disposal by both public and private systems. It became apparent in 1995 that this included acquisition by the Authority of systems that were not in a position, either financially or otherwise, to continue under their current ownership.

Finding 1. WWA’s audited financial report did not reference expenses paid directly by Dutchess County.

This statement is correct. The reference is to those items that are in the Dutchess County budget allocated to the Division of Water Resources. This included salaries for two Dutchess County employees that provide staffing services to the WWA and expenses that were incurred for functions pertaining to the Division of Water Resources and utilized or supervised by these positions. As none of these dollars are ever directly received or spent by the WWA, they have never been reflected in our annual financial statement.

Recommendation: WWA’s audited financial statements should reference expenses paid directly by Dutchess County.

We have discussed this with our auditor and we will make this information part of our Management Discussion and Analysis section of our annual financial statement. We do not see any other way of presenting it, as we do not have physical access or control of the funds, and are therefore, not able have them audited by our independent auditors.

Finding 2. WWA did not have a documented cost allocation plan for allocating centralized expenses, as such the water and 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 Street; however WWA did not charge the systems for occupancy costs.**

This statement is correct. However, these expenses were never presented to the Authority as a “charge”, but were part of the County support provided in order to assist the Authority in moving forward with the joint County/Authority effort of providing the services for which it was established. The ability of the County to provide such support is acknowledged in the Background section of this Draft Findings Report, which notes that, “The Act (establishing the Authority) 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 paid for certain operating expenses of WWA, however WWA did not allocate these expenses to the water and wastewater systems.**

This statement is correct regarding the use of the telephones, water cooler and copier machine expenses. Again I would like to reference the above statement concerning the Act empowering the County to appropriate funds by resolution (budget process) to defray WWA's cost of providing services. To date, the County has never requested reimbursement for providing this assistance. For 2006 and 2005, these expenses totaled \$8,912 and \$8,655 respectively. The systems of the WWA are charged for their postage/ mailing expenses, they purchase their own supplies (pens, pencils, etc, which are also used by Division of Water Resource staff). In addition, the WWA purchased a fax machine which is used by the county staff for the Department of Planning, for which the WWA pays the annual maintenance fee.

- **Dutchess County directly paid for salaries and fringe benefits of the Water Resource Manager and Assistant Water Resource Manager of the WWA; however, no portion of these salaries was allocated to the water and wastewater services.**

This statement is not completely accurate in its presentation. The Water Resource Manager and Assistant Water Resource Manager are Dutchess County staff positions and titles. These Dutchess County staff provide staff services to the WWA where they carry the titles of Executive Director and Deputy Director. Although they fulfill Authority functions, the positions are funded by the Dutchess County Division of Water Resources in order to advance the purposes for which the Authority was established, as the County is empowered to do by the Authority's enabling legislation.

Recommendation: WWA should ensure all costs associated with water wastewater systems are allocated to user fees.

- We have, prior to this recommendation, instituted a rent payment to Dutchess County for use of the facilities at 27 High Street beginning with the 2008 fiscal year.
- It has been recommended through this report that all costs associated with water and wastewater systems be allocated to the system users. As many of our employees perform functions for both the Division of Water Resources and the WWA, it would not be cost effective to track it in a manner based on actual time. Instead, we will use the ratio that has been provided to Dutchess County for staff support purposes to

provide a reimbursement for the operating expense items referenced above.

- It was recognized in 2006 that a portion of the duties of the Deputy Director would involve more oversight of existing Authority systems, and a percentage of that salary for 2007 was then allocated as a cost to be covered by the WWA owned systems and will continue to be, moving forward.

Finding 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 \$17,501.09 due to the County from WWA, representing reconciliation from the 2003, 2004 and 2005 contracts. The \$17,401.09 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.**

Contracts between the WWA and Dutchess County are evaluated when preparing the annual financial statement. The dollars remaining at the end of each fiscal year are categorized either as "Due County" if the contract is closed, or "Deferred Revenue" if there is still ongoing work or the potential for vendor bills against that contract to be received. The amount referenced above (\$12,363.98) was shown in WWA's 2005 financial statements as "Deferred Revenue". However, after closing out our 2005 year we were able to determine that these contracts could now be closed and there were not more bills against them forthcoming. Rather than wait until 2007 to return these dollars, we transferred them back to Dutchess County with the dollars that had already been determined to be due in our 2005 financial statements.

- **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 \$11,024.55 due to the County representing one contract adjustment for \$223.25 and two additional 2006 contract reconciliation totaling \$10,801.30.**

This is correct. During the audit, we determined an adjustment to one contract which resulted in additional dollars in the amount of \$223.25 due to Dutchess County. A second contract, which was

the 4th in a series of Groundwater Supply Tracking contracts, was written as an annual contract. The prior three (3) contracts of this series had been project contracts (defined by a specific scope of work rather than a specific time period) and were therefore not closed until the dollars had been fully spent. The difference was not realized until after the "Due County" dollars for the 2006 financials had been determined and therefore was represented in our books as "Deferred Revenue" in the amount of \$9,620.66. Finally, a project contract with remaining dollars of \$1,180.64 was determined, after the 2006 financials were completed, to be able to be closed.

Recommendation: Reconciliation must be completed in a timely manner. WWA must return \$11,024.55 to the County.

The recommendation that reconciliation must be completed in a timely manner is recognized as important and appropriate and we will endeavor to determine closed contracts in order to process any remaining funds as soon as possible. The total of the above noted "Deferred Revenue" amounts of \$11,024.55 will be returned to Dutchess County.

Capital Project – Central Dutchess Water Transmission Line:

Finding 1. Dutchess County paid WWA a total amount of \$10,575,000.00 resulting in an overpayment of \$200,000. 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 financial statements as a Due to Dutchess County.

This statement is only partially correct. Contract 04-0730-WA, Section 4.2 states in part that, "The County agrees, in accordance with the terms of this Agreement, to acquire from the Authority the County Reservation of Capacity by paying to the Authority the County Acquisition Price..." The County Acquisition Price is defined (in Article 1) as "being the sum of "\$10,375,000, as the same may be adjusted pursuant to Sections 4.6 and 4.7 hereof. *The County Acquisition Cost shall be in addition to any moneys paid by the County to the Authority pursuant to the Prior County/Authority Agreement.*" (emphasis added) The "Prior County/Authority Agreement" is the agreement dated June 27, 2002 relating to the Central Dutchess Utility Corridor. Pursuant to this Agreement, the County advanced to the Authority the amount of \$200,000.

Accordingly, the County's total Acquisition Price, paid to the Authority for the purchase of the reservation of 5 MGD of capacity in the Central Dutchess Water Transmission Line, is the sum of the \$10,375,000 plus the \$200,000, for a total of \$10,575,000.

As a further note, the original agreement (2002), in Para. 4, notes that, "The County will be entitled

to a credit for all moneys so advanced against its total commitment to pay \$3,000,000.00, or such additional sum as hereinafter provided.” The 2004 Agreement (In Article 7) amended this Para. 4 and, most notably, deleted any language regarding a credit for the advance.

However, it is correct to say that this additional \$200,000.00 was identified in the WWA’s financial statements as revenue. Based on the above referenced contract, it should not have been booked as “Due to Dutchess County” but possibly as “Deferred Revenue.

Finding 2. 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 report balances of \$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.

The IBM Agreement included a specific schedule of payments. The Authority had the ability to modify the amounts of the quarterly payments, but could not reduce the County payment without also reducing the IBM payment. Invoices were required to be submitted to IBM forty five (45) days in advance of the payment date. Accordingly, it was necessary for the Authority to project expenses four and a half months in advance. We were at all times conservative with these projections to ensure funds were always available to pay expenses on a timely basis. At this time, the final project cost and any “surplus amount” still remain to be determined due to open construction contracts, administrative expenses, any claims against the project and survey work requested by Dutchess County to prepare final easements.

With each payment requisition, the Authority provided to the County, also 45 days in advance of the payment date; eligible project costs paid to date; eligible costs expected to be paid during the remainder of the current quarter; eligible costs expected to be paid in the upcoming quarter, and the amount of IBM Contribution, State Assistance funds, and County contribution then held by the Authority, which included the \$200,000. At no time was the amount being requisitioned from the County questioned.

Finding 3. 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 theses 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.

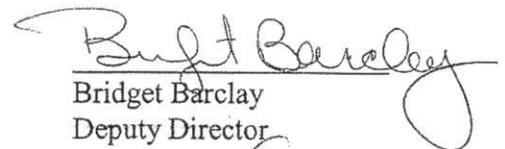
If unexpended funds are available, consideration should be given by all parties to the contract to reimburse Dutchess County for research and development costs funded by them.

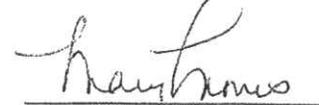
We anticipate final close-out of the CDWTL Project in early 2008, and will endeavor to work with all parties in evaluating all project expenses including the contribution of the funds utilized for research and development. In addition, we are currently in the process of reviewing all CDWTL funding contracts with Authority counsel and the County Attorneys office in order to ensure that the final accounting of project costs and revenues is in accordance with the Authority's contractual obligations. Our response to your other recommendations will be dependent upon the completion of the above referenced contract review

We would like to take this opportunity to thank you and your staff for the appreciation of our operational schedules as we proceeded through this audit.

If you have any questions concerning the information provided in these pages, please feel free to contact us.

Very Truly Yours,


Bridget Barclay
Deputy Director


Mary Morris
Fiscal Officer/Treasurer