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To the Board of Directors and  
CJ Rioux of Ulster County Economic Development Alliance, Inc.:

In planning and performing our audit of the basic financial statements of Ulster County Economic Development Alliance, Inc. as of and for the year ended December 31, 2014, 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, we considered Ulster County Economic Development Alliance, Inc.'s internal control over financial reporting (internal control) 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Ulster County Economic Development Alliance, Inc.'s internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the board of directors and others within the Corporation, and is not intended to be and should not be used by anyone other than these specified parties.

*Pattison, Koskey, Howe & Bucci, CPAs, P.C.*

March 26, 2015  
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## ATTACHMENT

### CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

None

### PRIOR YEAR OBSERVATIONS AND RECOMMENDATIONS

#### 1.) Accounting for HUD Section 108 Loan

##### Observation:

During our audit of the Corporation's financial statements for the year ended December 31, 2013, we determined that the Corporation should not record the full liability outstanding on the County's Section 108 HUD loan. The only obligation the Corporation has is to Ulster County as Ulster County has the obligation to service the HUD loan and administer the program. As a result, the Corporation had been paying interest on the full amount of the obligation instead of the portion it owes to the County.

##### Recommendation:

Since the accounting for this liability changed in 2013, we recommended the Corporation ensure it implements a procedure to address this change, including the need to re-run the amortization schedule and update its payment schedule.

##### Management's Updated Response:

The accounting records were updated to reflect the change in the liability of the Section 108 HUD loan. Ulster County is responsible for the entire Section 108 HUD loan, and UCEDA is only responsible for the amount it originally drew down from these funds, less payments it has already made to Ulster County. The U.S. Department of Housing and Urban Development, through their administrative agent, has developed an amortization schedule for the payments of the drawn down funds that UCEDA is responsible for, and UCEDA will maintain and monitor this schedule for all future payments.

#### 2.) Monitoring Loans Receivable

##### Observation:

The Corporation loans money to local businesses in Ulster County through a number of loan programs. Each of the loan agreements has compliance requirements including the submission of annual financial statements and/or tax returns and job creation statistics. During the year ended December 31, 2013, the Corporation had an individual working for the Corporation who was responsible for obtaining and maintaining this information, however; subsequent to year end this individual left the Corporation and was yet to be replaced. During our audit procedures, we were unable to verify if the Corporation had been successful in obtaining this information from the borrowers each year. This information is critical to ensure the loan recipient is complying with the terms of its loan agreement and information is available to make a determination as to collectability.



Management is also responsible for determining the adequacy of its allowance for loan losses at year end. Historically, management has determined the allowance for loan losses by reserving a percentage of the receivable balance (approx. 4%). Given the nature of the Corporation's loan portfolio, this may not be the best method.

Recommendation:

We recommended management implement a policy and procedure to ensure that each loan is monitored for compliance with the terms of the loan agreement including the gathering of job related data and requested financial information.

We recommended management prepare its allowance for loan losses on a loan by loan basis. This analysis should include an assessment of the following types of information to determine the appropriate amount of loan loss allowance: 1) quality of collateral, 2) quality of the borrower's cash flow and financial position, 3) past performance, 4) economic and industry trends, and 5) other pertinent factors.

Management's Updated Response:

Ulster County's Office of Economic Development has hired a Business Services Administrator, who assumed the role of monitoring loan funds for compliance with the terms of the loan agreements including the gathering of job related data and financial information such as financial statements and tax returns.

Loans to business have in the past been provided a loan loss of approximately 4%. UCEDA, through the collaborative efforts of the Chief Financial Officer and the newly hired Business Services Administrator, have monitored loan fund balances and the possibility of loan losses based on factors such as current outstanding balance, history of payments, and strength of the borrower's financial operations, and determined an adequate loan loss allowance based on a full assessment of the borrower at year end.

3.) Financial Reporting to the Board of Directors

Observation:

Each month the Corporation's Chief Financial Officer presents to the Board of Directors current financial statements. The financial statements have been comprised solely of the Operating Fund and have not included activity related to other funds. In addition, the budget was not used as a tool during this presentation to compare actual results against plan.

Recommendation:

We recommended the Chief Financial Officer include a budget to actual comparison as part of the monthly financial reports that are presented to the Board of Directors. Also, at a minimum, when significant activity occurs in the other funds this should be communicated to the Board for their consideration.

#### Management's Updated Response

UCEDA's Chief Financial Officer has begun preparing "Loan Status" reports which details a loan by loan status including past due amounts, late fees, and accrued interest. Also included are cash balances by fund, original amounts of each loan and maturity dates. Operating financial statements have been modified to reflect budgetary data in the operating funds.

#### 4.) Record Retention Policies and Procedures

##### Observation

The majority of the Corporation's records have been maintained in paper form and the organization of such documents has been disrupted as a result of changes in personnel and physical location.

##### Recommendation

We recommended management create a database of all relevant agreements of the Corporation focusing on contracts, loans, policies, financial documents (i.e. audit and tax), and organization type documents. We recommended this database is organized using a logical numeric system and that the database is subject to the same information technology general computer controls as Ulster County.

#### Management's Updated Response

The Organization's records were temporarily disrupted by the change in location from the County's Business Resource Center to the County Office Building. Due to staff and time constraints, the physical move of historical documents was delayed. All documents and records have now been moved to the County's office building and are maintained in a centralized location. Currently, staff is organizing documents, as time allows, and plans are also in the works with the County Clerk's Records Management Division to electronically scan all documents that are not required to be maintained in a hard copy format, thus digitalizing and organizing the historical documents of the Ulster County Economic Development Alliance, Inc.