THE DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

Suggestions for the
Consideration of Management
June 2007

Bonadio & Co., LLP
Certified Public Accountants

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To the Board of Directors of
The Development Authority of the North Country:

In planning and performing our audit of the financial statements of The Development Authority of the North Country (the Authority) as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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.

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 was for the limited purpose described in the first paragraph 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 that we consider to be material weaknesses, as defined above.

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

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THE DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

SUGGESTIONS FOR THE CONSIDERATION OF MANAGEMENT
JUNE 2007

INTRODUCTION

The year ended March 31, 2007 was our initial audit engagement for the Development Authority of the North Country (the Authority). The Authority's management implemented many new accounting policies and procedures during the fiscal year. These changes were prompted, in part, by a New York State Comptroller's Office audit of the Authority that took place in fiscal 2006. Had these changes and Board policies and procedures not been implemented by the Authority, the following management letter suggestions would most likely be very similar to those included in the Comptroller's audit report. However, because of the diligent and disciplined response of the Authority's management to the Comptroller's Office audit report, the comments which follow represent matters that we consider to be a refinement and/or increased sophistication with respect to the current accounting policies and procedures.

INTERNAL CONTROL RELATED MATTERS

We have identified the following control deficiency that we consider to be a material weakness:

1. PRIOR PERIOD ADJUSTMENTS

Observation
During fiscal 2007, in connection with our initial audit of the Authority, we identified and recorded the following prior period adjustments that increased the Authority's net assets:

The Authority's net assets were restated to record funds set aside by the Board for liner expansion and replacement of equipment at the solid waste management facility as restricted reserves instead of liabilities, as the funds are not owed to any particular organization.	$ 13,390,288
The Authority's net assets were restated to record funds set aside by the Board for repayment of debt and working capital needs at the solid waste management facility as designated net assets, as no actual liability exists, above repayment of the bonds.	10,162,106
The Authority's net assets were restated to recognize funds that were previously reported as deferred revenue for the U.S. Army (the Army) water and sewer lines.	3,453,203
	$ 27,005,597

The prior period adjustments were made to ensure compliance with current accounting standards. The adjustments do not impact the budgets, user rates or cash flow of the Authority.

Recommendation
The Authority has addressed all matters related to the financial reporting changes that resulted in the recognition of the reclassification of previously reported liabilities as net assets, effective with the March 31, 2007 financial statements. No further action is required on this matter by the Authority and the circumstances giving rise to the material weakness have been fully and adequately addressed by management of the Authority.

1. PRIOR PERIOD ADJUSTMENTS (Continued)

Management Response

The Development Authority of the North Country set up these funds consistent with accounting rules and standards at the time they were established. The funds and the accounting for these funds have been reviewed annually by our Independent Auditors and found compliant. These adjustments are accounting reclassifications only, and do not impact the budgets, user rates or cash flow of the Authority.

We have identified the following control deficiencies that we consider to be neither significant deficiencies nor material weaknesses:

2. DOCUMENTATION OF ACCOUNTING POLICIES AND PROCEDURES

Observation

As indicated above, the Authority has made significant improvement and process changes during the past year in part in response to the Comptroller's audit report. We noticed that during our audit process, additional work remains to be done in terms of documenting policies and procedures of the organization.

Recommendation

There are a number of areas in the individual departmental operations of the Authority as well as the Finance Office, which require formal documentation. The Authority had previously identified the need for a more formal policies and procedures manual for the finance department and had included it as part of the annual finance goals for 2007-2008.

Management Response

The Authority had previously identified the need for a more formal policies and procedures manual for the finance department and had included it as part of the annual finance goals for 2007-2008. This will be completed and implemented in 2007-2008.

3. JOURNAL ENTRY APPROVAL AND AUTHORIZATION PROCESS

Observation

We noted during our audit that documentation of Journal Entries and related support is properly maintained. However, there is no current procedure for supervisory review and authorization of individual journal entries that are prepared by Finance staff and recorded in the Authority's general ledger system.

Recommendation

In order to protect the Authority from processing erroneous or inappropriate journal entries, we recommend that the Finance Director be responsible, on a monthly basis, for review and documented authorization in terms of sign off on individual journal entries that are prepared by accounting personnel. Standard monthly recurring journal entries do not have to be included in this procedure. A procedure of this nature requiring supervisory review and authorization of journal entry postings should reduce the possibility of errors in journal entry processing and the resulting inaccuracies that could occur in the interim financial statements.

Management Response

The Finance Director will review and approve all journal entries prepared by accounting personnel beginning in 2007-2008.

4. INFORMATION TECHNOLOGY SECURITY

Observation
We noted that a number of duties (system administration and rights authorization, client additions and system administration, security privileges administration) are being performed a single individual with limited audit and controls in place. The Authority has general IT policies; there were however a number of areas where policies and procedures were not documented. This would include change controls, transaction authorization, security assignment, user access, user termination, third party access, security roles, application and systems patches, technology direction goals, service level agreements and document retention. Also a number of standard IT/IS industry security policies and procedures were not present and the format of the existing policies and procedures in some areas lacked industry standard language and expected standard format.

Recommendation
The Authority may be exposing itself to additional risks when a single individual has access to all system and security levels with limited auditability. This is an area where additional segregation of duties may be considered or it may be appropriate for the Authority to consider exploring an additional resource where management documents the authorization of all changes. Proactive regular upper management involvement with IT, including communication of corporate direction to assure policy and procedures address the direction set, documentation is done and adherence to corporate, regulatory and mandated standards are areas where the Authority may consider review. The lack of formal procedures and documentation may be exposing the Authority to risks in the areas of confidentiality, integrity and availability of critical business assets. The cross functional participation with users and their management in reviewing/refining the overall strategy/objectives can be beneficial in defining long term actionable IT/IS goals that are in alignment with the needs of the users and stakeholders.

Management Response
The Authority will continue to write and implement new security policies and procedures in 2007-2008. These written documents will contain “industry standard” language. In 2007-2008, the Authority will also implement segregation of duties and/or a management approval process for all changes to systems and security levels.

Observation
Infrastructure risk assessment and Business Impact Analysis (BIA) has not been done. User Access and Authorization structure for the company may be considered less then optimum when compared to technical security best practices.

Recommendation
The Authority potentially being subject to numerous laws and regulations of various regulatory bodies including DHS Critical Infrastructure status, NY State Privacy laws and Gram-Leach-Bliley Act may require the Authority to perform and document formal regular risk assessments and perform a BIA along with having additional user access policies and procedures in place. One of the standard practices is for an organization to develop and maintain a risk/incident response process or team whose goals could include the inception of a regular BIA that includes assurance that appropriate assessments and security measures mitigate risk based on the Authority’s goals, policies, procedures and risk acceptance criteria.

Management Response
The Authority will enhance the User Access and Authorization structure by implementing new security appliance(s) in 2007-2008. Further, during 2007-08, the Authority staff will evaluate and address the remaining IT recommendations of the auditors.

5. **DOCUMENTATION OF PURPOSE AND METHODOLOGY – SPREADSHEET ANALYSIS**

Observation
The Authority and the Finance Office complete a significant number of spreadsheet analyses to support various account balances and related reconciliations. The spreadsheets do not always include a narrative description of the purpose of the schedule and the methodology used for purposes of completing the analysis.

Recommendation
We recommend, as a standard practice, that all spreadsheets and supporting schedules and reconciliations include a narrative purpose section and a methodology description, if appropriate and necessary related to the particular schedule. This will facilitate ease of review and transition of responsibilities in the event of unanticipated absence or turnover.

Management Response
The Finance Department will include a narrative purpose section and a methodology description, if appropriate and necessary, to all spreadsheets and supporting schedules in 2007-2008.

6. **DUAL CHECK SIGNING PROCESS**

Observation
Currently, the Authority's practice is to have the Executive Director sign all checks in excess of $15,000. We believe a dual signature requirement on large dollar checks over $15,000 would be appropriate to strengthen internal controls over check disbursements.

Recommendation
We recommend that the procedure for checks in excess of $15,000 include a requirement that a second signature be obtained. This procedure will strengthen controls with respect to large expenditures. In addition, the need for dual signatures on large expenditure checks will typically increase the level of scrutiny and review to prevent errors or omissions in the disbursement function.

Management Response
The Development Authority will require dual signatures for check over $15,000 in 2007-2008.

OTHER MATTERS

7. **GASB NO. 45 TO BE ADOPTED AND REQUIRED FOR FISCAL YEAR ENDING MARCH 31, 2008**

Observation
Government Accounting Board (GASB) Opinion No 45 will be applicable to the Authority for the fiscal year ended 3/31/2008. The provisions of this statement require specific adoption of standard procedures and practices, including actuarial assumptions, related to the calculation and recognition of post retirement obligations. We understand that the Authority has voluntarily been allocating dollars to fund post retirement obligations over the past several years.

7. GASB NO. 45 TO BE ADOPTED AND REQUIRED FOR FISCAL YEAR ENDING MARCH 31, 2008 (Continued)

Recommendation

We will provide the Authority's finance personnel with a summary of the requirements of GASB No. 45. The process of adoption begins with the identification of an actuarial consultant who can perform the necessary calculations in accordance with the provisions of the GASB statement. We have provided a recommendation to the Authority's management regarding a provider of actuarial services who is knowledgeable in this area. The calculations necessary should be completed prior to Dec. 31, 2007 so that the adjustment required can be quantified and recorded in the fourth quarter of fiscal 2008.

Management Response

The Authority will contact an actuarial consultant who can perform the necessary calculations in accordance with the provisions of the GASB statement in 2007-2008.

8. COMPLIANCE WITH NYS ABANDONED PROPERTY LAW

Observation

In 2005, former New York State Comptroller Hevesi initiated a Voluntary Compliance Program for all New York State corporations to meet the requirements of the New York State Abandoned Property Law. The Law requires that organizations holding unclaimed property report on such property and transfer amounts that have reached specified dormancy thresholds to the State Comptroller. The Comptroller serves as custodian of the funds until their rightful owner claims them. Examples of accounts that may be abandoned include uncashed payroll checks, vendor payments, billing refunds, etc.

Recommendation

We have provided the Authority's management with information regarding the Voluntary Compliance Program. We recommend that current procedures in this area be addressed and modified accordingly to comply with the terms and conditions of this Voluntary Compliance Program.

Management Response

The Development Authority will review the Voluntary Compliance Program in 2007-2008.