



Office of Business Services
P.O. Box 1800, 244 Fair Street
Kingston, NY 12402-1800
Tel: 845.340.3556

Memorandum

To: The Board of Directors, Ulster County Economic Development Alliance
CC: Suzanne Holt, CEO
From: CJ Rioux, CFO
Date: 6/26/2014
Re: 2013 Auditor Observations and Recommendations

As you are aware, our auditors, Pattison, Koskey, Howe & Bucci, CPA's, P.C., made notes of a few observations and recommendations regarding the financial status of the Ulster County Economic Development Alliance, Inc. (UCEDA) (formerly the Ulster County Development Corporation). Below is a listing of their observations and recommendations, along with our planned course of action to address these observations.

1.) Accounting for HUD Section 108 Loan.

Auditor 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.

Auditor Recommendation

Since the accounting for this liability changed in 2013, we recommend 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.

"This institution is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form, found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov.

UCEDA Planned Course of Action

The accounting records have been 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. 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

Auditor 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 has 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.

Auditor Recommendation

We recommend 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.

UCEDA Planned Course of Action

Ulster County's Office of Economic Development has recently hired a Business Services Administrator, who will assume 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.

Auditor Observation

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.

Auditor Recommendation

We recommend 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.

UCEDA Planned Course of Action

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, will monitor loan fund balances and the possibility of loan losses, and determine an adequate loan loss allowance based on a full assessment of the borrower at year end.

3.) Financial Reporting to the Board of Directors

Auditor Observation

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

Auditor Recommendation

We recommend 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.

UCEDA Planned Course of Action

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 is 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. A draft will be presented to the Board for approval.

4.) Record Retention Policies and Procedures

Auditor Observation

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

Auditor Recommendation

We recommend 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 recommend 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.

UCEDA Planned Course of Action

The Organization's records have been disrupted by the changed in location from the County's Business Resource Center to the County Office Building. Due to staffing and time constraints, the physical move of historical documents has been delayed. Currently, staff is moving and organizing documents as time allows, and all records are planned to be moved by this summer. 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.

This planned course of action is subject to board approval, and any feedback regarding the planned course of actions is greatly appreciated.