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April 11, 2014

Robert Pasinella Jr., Chairman
and Authority Board Members
Rensselaer County Water and Sewer Authority
1600 Seventh Avenue
Troy, New York 12180

Report Number: 2014M-17

Dear Chairman Pasinella and Board Members:

The Office of the State Comptroller works to identify areas where authority officials can improve their operations and provide guidance and services that will assist them in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage local government officials to reduce costs, improve service delivery and account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Rensselaer County Water and Sewer Authority (Authority) which addressed the following question:

- Did Authority officials properly authorize and account for debt proceeds?

We discussed the findings and recommendation with Authority officials and considered their comments in preparing this report. The Authority's response is attached to this report in Appendix A.

Background and Methodology

The Authority was established by the New York State Legislature in 1986 and its powers and duties are set forth under Title 8-D of the Public Authorities Law. The mission of the Authority is to promote economic development through financing, managing and operating public water and sewer utilities in Rensselaer County and neighboring local governments. For example, the Authority manages the sewer system of a 15-unit residential development in the Town of Schodack.

The Authority is governed by a five-member appointed Board and other such officers as the Authority may determine. The Chief Executive Officer is appointed by the Board and oversees the Authority's day-to-day operations. The Chief Financial Officer (CFO) ensures that the financial transactions are completed and accounted for in a timely manner.

We examined the internal controls over the issuing and accounting for water and sewer bond proceeds for the period of June 1, 2008 through May 31, 2013. We interviewed appropriate Authority officials and reviewed financial records and Board minutes. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Audit Results

The Board is responsible for ensuring that debt issuances are properly authorized in accordance with statutes, and the CFO is responsible for ensuring that the debt proceeds are properly accounted for, including the allocation of the debt proceeds and expenditures of such to the various projects authorized by the Board.

In 2008 the Authority issued water and sewer revenue bonds totaling \$14,560,000 on behalf of the Town of East Greenbush (Town). The bonds were issued to upgrade the water supply and distribution system and to improve the efficiency of the Town's sewage system. The Authority issued \$8,005,000 in water revenue bonds for the construction and improvement of water supply and distribution projects in the Town and in the City of Rensselaer. Projects completed with the water bond proceeds included the construction of two water tanks and a pump station, installation of water meters and the relocation of a water line. The various water projects were completed between December 2008 and August 2011.

The Authority also issued \$6,555,000 in sewer revenue bonds, in part, to construct a sewer bypass line to take the overflow from the Town's wastewater treatment plant (WWTP) and redirect it to the sewage treatment plant of the Rensselaer County Sewer District No. 1. The proceeds were also intended to be used to upgrade the Town's WWTP and various Town pumping stations and construct storm sewers to reduce the inflow and infiltration¹ into the Town's WWTP. Since 2000 the Town has been under a New York State Department of Environmental Conservation Order of Consent (Order) due to the excess inflow and infiltration in the WWTP.

As of April 30, 2013, the Authority had disbursed only approximately \$3.4 million of the debt proceeds because several projects were not completed. Completed projects included the purchase and installation of an ultra-violet disinfection system, upgrades to existing storm sewers, construction of new storm sewers and upgrades to sewage pumping stations.

The sewer bypass line was a major component of the sewer facilities to be financed with the bond proceeds. The Authority's consulting engineer estimated the cost of the bypass line to be approximately \$1.5 million. However, as of May 31, 2013 the construction of the bypass line had not begun. Authority officials indicated that the Town had determined that it would be more cost

¹ Infiltration/inflow creates dilution in sanitary sewers. Dilution of sewage decreases the effectiveness of treatment, and has the potential to exceed the system's design capacity. Infiltration is groundwater entering sanitary sewers due to defects in pipe joints and broken pipes. Inflow is the water entering sanitary systems from inappropriate sources such as sump pumps, roof drains, cellar drains and yard drains.

effective to upgrade its existing facilities and to remove inflow and infiltration from its collection system rather than constructing the bypass line. The Board disclosed in the 2012 Annual Report, which is published on its website and was filed with the Office of the State Comptroller, that the bypass line project had been delayed and the Town plans to instead upgrade the WWTP to comply with the Order instead of constructing the bypass line.

We reviewed the various resolutions, minutes of Board meetings and bond statements to ensure that the Board took appropriate actions to authorize the issuance of the water and sewer revenue bonds. Furthermore, we examined the CFO's financial records to ensure that the debt proceeds were properly allocated and expended from the various capital projects. We found that the issuance of debt proceeds was properly authorized by the Board and the proceeds and related expenditures were appropriately accounted for by the CFO.

We thank the officials of the Authority for the courtesies and cooperation extended to our auditors during this audit.

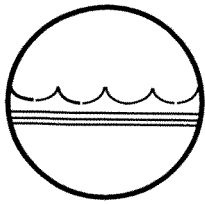
Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

The Authority officials' response can be found on the following page.



Rensselaer County Water and Sewer Authority

1600 Seventh Avenue, Troy, NY 12180

(518) 270-2914 (voice) (518) 270-2981 (facsimile)

Robert L. Pasinella, Jr., Chairman

John J. Bonesteel, C. E. O.

NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801
Attn.: Jeffrey P. Leonard, Chief Examiner

April 4, 2014

Dear Mr. Leonard:

The Office of the State Comptroller recently completed an audit of the Rensselaer County Water & Sewer Authority (Authority). We have thoroughly reviewed the preliminary draft audit report dated March 14, 2014; we believe that the facts on which your auditors have relied in preparing the draft report are accurate and complete. We also agree with the findings of the audit, specifically that debt proceeds of the Authority “were properly authorized by the Board and the proceeds and related expenditures were properly accounted for by the CFO”.

We appreciate this opportunity to cooperatively meet the goals of the Office of the State Comptroller in conducting such audits. Further, we pledge to continue our successful efforts to control costs and to responsibly safeguard Authority assets. Please let us know if we can be of any further assistance to your office.

Very truly yours,

John J. Bonesteel
Chief Executive Officer

cc: Robert L. Pasinella, Jr., Chairman