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March 12, 2012

To the Members of
Orange County Industrial Development Agency
Goshen, New York

In planning and performing our audit of the financial statements of the governmental activities of the Orange County Industrial Development Agency as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Agency's internal control over financial reporting 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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified the following deficiencies in internal control during the audit and would like to provide updates to our prior year comments.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency numbered 2011-01 to be a significant deficiency in Orange County Industrial Development Agency's internal control over financial reporting.

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2011-01 **INADEQUATE SEGREGATION OF DUTIES**

CONDITION: The Agency has not developed a strong internal control structure as an inadequate segregation of duties exists.

CRITERIA: A fundamental element of a strong internal control environment is segregation of duties so that no one individual can perpetuate and conceal errors and irregularities in the normal course of their duties. Strong internal controls require the segregation of responsibilities for collecting and depositing receipts, generating and mailing disbursements, and the related record keeping.

CAUSE: During our audit, we noted that the individual tasked with the responsibility of maintaining the general ledger, was also responsible for depositing funds, generating and mailing checks, and reconciling the bank accounts.

EFFECT: Inadequate segregation of duties increases the risk of errors and irregularities, as well as, the risk of fraud or illegal activities going undetected by Agency management.

RECOMMENDATION: The Agency should evaluate the current responsibilities of all employees to determine the best way to segregate the duties. The segregation of duties should remove the ability for all employees to perpetuate and conceal errors and irregularities in the normal course of their duties.

CORRECTIVE ACTION PLAN: The IDA has reviewed its operations and has taken actions to negate situations of inadequate segregation of duties. We will continue to monitor and modify the operations as necessary. The IDA has engaged an outside accountant to assist and review the financial records of the Business Accelerator and the IDA.

2011-02 **PREPARING FINANCIAL STATEMENTS AND DISCLOSURES**

CONDITION: The auditor made adjustments to properly record certain transactions, and prepared the financial statements for external reporting.

CRITERIA: The auditor cannot function as part of the Agency's internal control system over financial reporting. The auditor's preparation of the financial statements and disclosures would not be reported as a significant deficiency if the Agency had internal controls in place to prevent, detect, and correct a potential misstatement in the financial statements or notes.

CAUSE: Revised audit standards state that if the Agency does not implement procedures to prevent, detect, or correct a potential misstatement in the financial statements or notes, the deficiency constitutes a significant deficiency in internal control. The Agency relies on the external auditor to prepare the financial statements and related disclosures, and to assist with properly recording certain transactions.

EFFECT: The financial statements could have been significantly misstated without audit adjustment.

RECOMMENDATION: Although the independent auditor cannot be a part of the Agency's internal control, relying on the auditor to assist with preparation of the Agency's financial statements and help guide management through complex accounting standards is acceptable under current prescribed standards.

CORRECTIVE ACTION PLAN: The IDA has engaged an outside accountant to assist and review the financial records of the Business Accelerator and the IDA.

2011-03 **MANAGEMENT OVERSIGHT AND MONITORING**

CONDITION: The auditor found instances where oversight and monitoring by management were not documented, particularly regarding the Orange County Business Accelerator.

CRITERIA: Effective internal control over financial reporting requires management oversight and monitoring to establish reasonable assurance that financial reporting is being reliably and accurately completed. Documentation of this oversight and monitoring is necessary to insure that this criteria is met.

CAUSE: These activities are often informal and performed as a part of the overall management of the entity's operations. Management's close involvement in operations will typically identify inaccuracies in financial data.

EFFECT: The financial statements could be significantly misstated without adequate performance of oversight functions, which should be fully documented.

RECOMMENDATION: The auditor recommended that management formally document its review of all elements of the financial data reflected in financial reporting. This would include, but not be limited to, ledger account reconciliations, journal entries, and trial balances.

CORRECTIVE ACTION PLAN: The IDA has engaged an outside accountant to assist and review the financial records of the Business Accelerator and the IDA. Additionally, the IDA will review the financial oversight of the Business Accelerator and the IDA to strengthen the monitoring of both.

Orange County Industrial Development Agency's response to the findings identified in our audit is described in the accompanying schedule of management responses. We did not audit Orange County Industrial Development Agency's response and, accordingly, we express no opinion on it.

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

Very truly yours,

Judelson, Giordano & Siegel, P.C.

March 12, 2012