



March 27, 2009

Members of the Authority
Montgomery, Otsego, Schoharie Solid Waste
Management Authority
Attn: Gilbert Chichester, Executive Director
P.O. Box 160, Route 7
Howes Cave, New York 12092

Dear Members of the Board:

This letter includes comments and suggestions with respect to certain matters that came to our attention in connection with our audit of the financial statements of Montgomery, Otsego, Schoharie Solid Waste Management Authority (MOSA) for the year ended December 31, 2008. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving MOSA's practices and procedures.

Use of GAT Proceeds

Observation: During 2008, MOSA billed Montgomery and Otsego Counties for the GAT shortfalls recognized during the year. These billings, totaling \$1,047,090 and \$237,633, respectively, are due from the Counties in the first quarter of 2009. These billings are reported as accounts receivable in the December 31, 2008, financial statements.

Payments received from the Counties related to the GAT shortfall are considered revenue as defined by MOSA's Bond Indenture, and must be deposited into MOSA's Revenue Fund. Cash balances in the Revenue Fund must be used for transfers to MOSA's operating account, Debt Service and Sinking Fund, Debt Service Reserve Fund, and Bond Redemption and Improvement Fund. At the end of each year, each one of these funds must be fully funded in accordance with the Bond Indenture. Any remaining funds in the Revenue Fund would be clear of any Bond Indenture liens; however, in past years it has been MOSA's practice to fund the Rate Stabilization Fund with any excess cash balances.

Based on various covenants of the Bond Indenture, MOSA must continue to assess its foreseeable capital needs with respect to proper maintenance of its operating facilities, plus the maintenance and monitoring needs of its closed landfills. Specific covenants in the Bond Indenture require MOSA to fix tipping fees to produce a sufficient amount of revenues to provide operating expenses plus 115% of Debt Service Requirements, plus any amounts necessary to restore the Debt Service Reserve Fund, as defined by the Bond Indenture.

MOSA should be aware that the current general disruption in the municipal capital markets, coupled with the short remaining term of the Service Agreement may make it very difficult, if not impossible, for MOSA to obtain any financing. As a result, MOSA will likely need to rely on tipping fees, the Service Agreement subsidy and shortfall payments, and its reserves for the remaining term of the Bonds.

Suggestion: As you can see from the above discussions, MOSA's Bond Indenture governs the use of all revenues. The Bond Indenture calls for specific covenants related to the deposit and transfer of funds and rate setting, as well as the maintenance of the facilities and the processing of waste.

As always, the contractual and statutory obligations of the Bond Indenture should be considered in the context of the Board's fiduciary responsibilities and the purposes of MOSA. As such, the Board should carefully consider its options for the use of its revenues, including the GAT shortfall payments as described above.

COMMENTS RELATED TO SAS 99

As required by the Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, we performed certain procedures to inquire as to the existence of any fraudulent activity and of management's opinion regarding the possibility of fraud occurring. As a result of these inquiries, we noted the following:

Changing of Passwords

Observation: During our interviews with management, it was noted that computer passwords are not changed on a regular basis.

Suggestion: The changing of passwords will help prevent unauthorized entrance to and usage of the systems, thus reducing the possibility of tampering with information. MOSA may want to consider requiring all employees to periodically change passwords which are used to access the system.

COMMENTS RELATED TO SAS 99 - PRIOR YEAR

In our correspondence dated March 13, 2008, related to our audit of the December 31, 2007, financial statements, we made certain comments related to our SAS 99 procedures. Except for two comments reported in that correspondence (see below), we did not find it necessary to repeat the remaining comments within this writing. We suggest that you refer to that correspondence for further discussion on these "best practices" and suggestions.

Hotline for Instances of Misconduct

1. Although MOSA has recently adopted a whistle blower policy, studies reveal that anonymous reporting mechanisms are the primary conduit by which misconduct is reported. In order to reach a greater number of individuals with information, MOSA may want to consider a hotline by which its employees, vendors, contractors, and/or other third parties can anonymously report suspected instances of misconduct. The hotline will most likely result in an increase in the number of calls received by MOSA and the earlier detection of suspected employee misconduct. The hotline will also reinforce management's attitude toward misconduct.



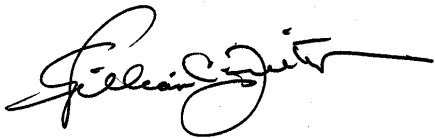
Conflicts of Interest

2. The disclosure of potential conflicts of interest is a good business practice and reinforces an organization's commitment to integrity. Presently, MOSA is requiring Board members to sign a conflict of interest every four years. MOSA should annually require its Board members and senior manager to sign a statement regarding potential conflicts of interest.

This letter is solely for the information and use of the management and others within the MOSA and is not intended to be and should not be used by anyone other than the specified parties. We appreciate serving Montgomery, Otsego, Schoharie Solid Waste Management Authority and would be happy to assist you in addressing and implementing the comment and suggestion in this letter.

Very truly yours,

BOLLAM, SHEEDY, TORANI & CO. LLP



William C. Freitag, Partner

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