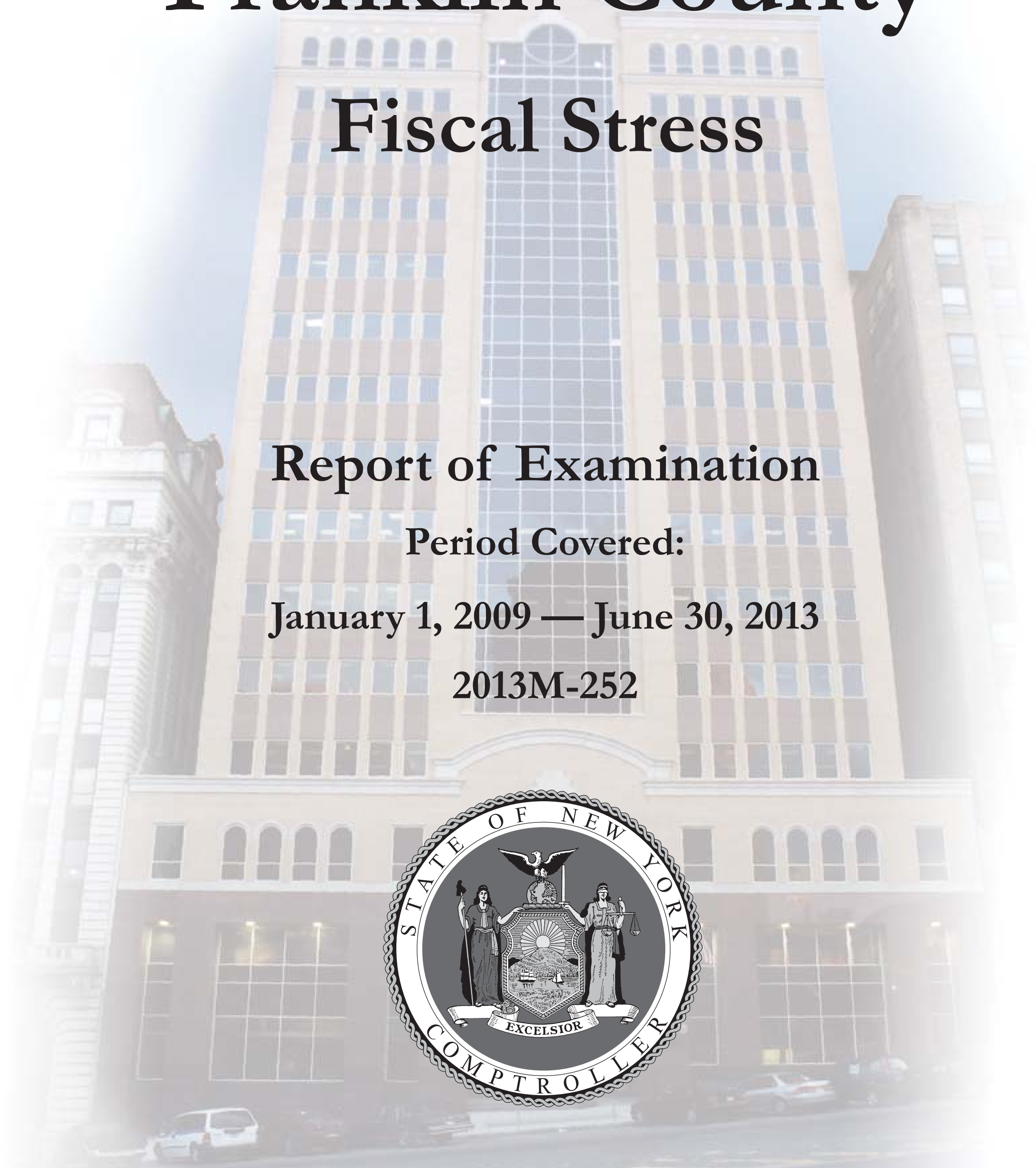
OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT & SCHOOL ACCOUNTABILITY



Franklin County

Fiscal Stress

Report of Examination

Period Covered:

January 1, 2009 — June 30, 2013

2013M-252

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

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Dear County Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and County Legislature governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of Franklin County, entitled Fiscal Stress. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government
and School Accountability

Introduction

Background

Franklin County (County) is located in northeastern New York State and has a population of approximately 51,600. The County encompasses 19 towns and six villages.[1] The County is governed by the County Legislature (Legislature) which is composed of seven members, one of whom also serves as the Chairman. The Legislature is responsible for the general oversight of the County's financial affairs and for safeguarding its resources. The Chairman is the chief executive officer and the elected County Treasurer (Treasurer) is the chief fiscal officer. The Treasurer is responsible for maintaining the County's central accounting system, providing timely and accurate financial reports, processing payroll, and investing idle moneys. The County Manager is the chief administrative officer of the County and is charged with the County's overall administrative operation under the direct supervision of the Legislature. The County Manager is the budget officer and is also responsible for the general supervision and coordination of the activities of all County departments to efficiently implement the Legislature's directives.

The County's budgeted appropriations for the 2013 fiscal year are approximately $100.5 million,[2] which are funded primarily with revenues from real property taxes, sales tax, and State and Federal aid. The County employs approximately 550 full- and part-time employees who are assigned to various departments that provide services including general government support, road maintenance and snow removal, economic assistance, public safety services through the Sheriff's Department and County Jail, and various public health services including the County Nursing Home.

Fiscal stress is a judgment about the financial condition of an individual entity that must take into consideration the entity's unique circumstances, but can be generally defined as a local government's inability to generate sufficient revenues within a fiscal year to meet expenditures. The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments (counties, cities, towns, and villages), based on both financial and environmental indicators, to determine if these entities are in or nearing fiscal stress. The County has been classified as being in significant fiscal stress.

[1] Only a portion of the Village of Saranac Lake is in the County.

[2] The budgeted appropriations are $83,584,751 for the general fund, $3,522,617 for the county road fund, $1,148,539 for the road machinery fund, $8,232,626 for the enterprise infirmary fund, $3,400,000 for the capital projects fund, and $632,519 for the debt service fund.

Objective

The objective of our audit was to review the County's financial condition. Our audit addressed the following related question:

- Does the Legislature adopt realistic budgets that are structurally balanced and take appropriate actions to maintain the County's fiscal stability?

Scope and Methodology

We examined the County's financial condition for the period January 1, 2009, to June 30, 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with County officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, County officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on issues raised in the County's response letter.

The Legislature has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Legislature to make this plan available for public review in the Clerk of the Legislature's office.

Fiscal Stress

Financial condition may be defined as a County's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A County in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a County in fiscal stress usually struggles to balance its budget, suffers through disruptive service level declines, has limited resources to finance future needs, and has minimal cash available to pay current liabilities as they become due.

The Legislature is responsible for the financial planning and management necessary to maintain the County's fiscal health. As such, an essential component of the Legislature's duties and responsibilities is to make sound financial decisions that are in the best interest of the County and the taxpayers that fund its operations. This responsibility requires Legislators to balance the level of services desired and expected from County residents with the ability and willingness of the residents to pay for such services. To maintain good fiscal health, it is imperative that the Legislature adopt realistic and structurally balanced budgets, manage both fund balance and cash balance levels, identify and adjust to long-term changes, and plan for service and capital needs beyond the current year by developing and adopting comprehensive, multiyear financial and capital plans.

The Legislature adopted budgets for the general fund that were not structurally balanced; instead, the Legislature routinely relied on appropriating significant amounts of fund balance and reserves to finance operations. In addition, the County's enterprise infirmary fund was not self-sufficient, and therefore required subsidies from the general fund through both interfund transfers and advances. The Legislature also had not adopted a policy establishing a reasonable level of unexpended surplus funds[3] to maintain and had not developed and adopted comprehensive, multiyear financial and capital plans. As a result, the general fund realized annual operating deficits, a

[3] The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

declining fund balance, and a declining cash balance over the last four fiscal years (2009 to 2012). In fact, the general fund's cash balance was so depleted over the last four fiscal years that the County could not transfer cash to the county road, road machinery, and enterprise infirmary funds for the entire amounts that were included in the general fund budgets for interfund transfers to these funds. In addition, we found that the County's financial condition declined further during 2013 to a position that the County did not have sufficient cash to pay its bills and other obligations when due, resulting in the County issuing short-term debt in the form of a tax anticipation note for $4 million on May 31, 2013.

The County's financial condition will likely decline further during 2013 because the general fund budget is not structurally balanced. This is the result of the Legislature again appropriating reserves as a financing source to support operations, and also because the County incurred expenditures totaling $1,452,000 during the first six months of 2013 that were not included in the adopted budget. As a result, we consider the County to be fiscally stressed at this time, and these declining trends could result in fiscal instability if allowed to continue.

General Fund

One of the key measures of a municipality's financial condition is its fund balance, which is the difference between revenues and expenditures accumulated over time. It is the responsibility of County officials to ensure that the level of fund balance maintained is sufficient to provide adequate cash flow, but not so excessive as to withhold funds that could be put to productive use. A continuous decline in unexpended surplus funds indicates a deteriorating financial condition.

To assist in managing financial operations and ensuring the continued orderly operation of government, the County should maintain a reasonable level of unexpended surplus funds which allows it to hedge against unanticipated expenditures and/or revenues shortfalls. This reasonable amount should consider various factors such as timing of receipts and disbursements, volatility of revenues and expenditures, contingency appropriations, and reserves that have been established for various purposes. While fund balance can be appropriated in the budget to help finance operations, consistently doing so – instead of planning to use recurring revenue sources – can deplete the fund balance to levels that are not sufficient for contingencies and cash flow. The Legislature should adopt a policy that establishes a reasonable level of unexpended surplus funds to maintain and use the policy in the annual budgeting process to ensure that unexpended surplus funds are always maintained at an adequate level.

A County is considered to have a sound cash position when it routinely has sufficient cash to pay its bills and other obligations when due, without needing to rely on short-term borrowings. At a minimum, the County should have enough available cash to pay its bills, meet payroll and any other required disbursements for a 30 - to 60-day period. When a fund does not have sufficient cash to meet its current obligations, governing officials are often forced to explore options such as obtaining interfund advances or other authorized short term borrowing options. Generally, results of operations directly impact cash balances, and as a result, each fund's cash position must be considered when budgets are prepared, especially when fund balance is appropriated.

Fund Balance — The total fund balance in the County's general fund has decreased $10,826,130 or approximately 65 percent over the last four fiscal years, from $16,536,686 at the start of the 2009 fiscal year to $5,710,556 at the end of the 2012 fiscal year. This is primarily a result of the Legislature appropriating unexpended surplus funds and reserves as a financing source to support operations during the 2009 through 2011 fiscal years. The following table illustrates general fund balance trends over the last four fiscal years.

Table 1: General Fund - Fund Balance

	2009	2010	2011	2012
Beginning Fund Balance	$16,536,686	$14,126,953 [a]	$9,684,080	$5,778,668
Operating Surplus/(Deficit)	($2,655,258)	($4,442,873)	($3,905,412)	($68,112)
Ending Fund Balance	$13,881,428	$9,684,080	$5,778,668	$5,710,556
Less: Restricted Fund Balance	$3,065,713	$2,248,904	$2,916,375	$4,131,264
Less: Appropriated Unexpended Surplus for Ensuing Year	$2,680,000	$1,575,000	$0	$0
Unexpended Surplus Funds	$8,135,715	$5,860,176	$2,862,293	$1,579,292 [b]

[a] The difference between the beginning fund balance and prior year ending fund balance is due to a prior year adjustment.

[b] For consistency we excluded from the unexpended surplus funds various miscellaneous reserves that were classified as assigned in 2012, but were classified as restricted fund balance in prior years.

Over the last four fiscal years, the Legislature has adopted general fund budgets that have resulted in no significant budget variances in total. However, the Legislature budgeted for planned operating deficits[4] in three of the last four fiscal years by appropriating both fund balance and reserves to help finance the 2009 through 2011 budgets, which consisted of $5,441,747 during 2009, $3,980,000 during 2010, and

[4] A planned operating deficit occurs when the Legislature intentionally adopts a budget in which estimated revenues are less than appropriations, with the difference to be funded with appropriated fund balance and/or reserves.

$2,475,000 during 2011, for a combined total of $11,896,747.[5] As a result, we found that the County experienced operating deficits totaling $11,003,543 in those same years (see Table 1), resulting in the decline in total fund balance in the general fund.

We also found that the operating deficits that were realized during 2010 and 2011 exceeded the planned operating deficits by $462,873 and $1,430,412. This resulted because expenditures were underestimated throughout the budget in 2010, and because the County did not realize any of the casino compact revenues[6] that were budgeted in 2011. In fact, although tribal officials stopped paying the State in late 2010 because of a dispute regarding exclusivity rights, the 2011 budget contained estimated revenues of $3,500,000 for casino compact revenues and a corresponding appropriation of $1,750,000 for the disbursement of 50 percent of the County's share to the Towns of Bombay and Fort Covington. As a result, when the County did not realize any of the budgeted casino compact revenues during 2011, the County also did not incur any of the budgeted expenditures for the disbursement of the Towns' share, resulting in a net revenue shortfall of $1,750,000 during 2011.

The total fund balance in the County's general fund decreased only slightly during 2012 because the general fund realized a small operating deficit of $68,112; a more significant operating deficit was avoided due to the County recording a receivable of $3,750,000 for casino compact revenues[7] and a corresponding liability of $1,875,000 for the Towns' share at the end of 2012. Without the recording of the receivable, and related revenue, the County would have realized

[5] In total, the Legislature appropriated fund balance and reserves as a financing source in its 2009 through 2011 budgets of $11,896,747. Specifically, the Legislature appropriated fund balance as a financing source in its budgets of $1,661,747 for 2009, $2,680,000 for 2010, and $1,575,000 for 2011, for a combined total of $5,916,747; and appropriated reserves as a financing source in its budgets of $3,780,000 for 2009, $1,300,000 for 2010, and $900,000 for 2011, for a combined total of $5,980,000.

[6] A casino compact agreement is in place between the St. Regis Mohawk Tribe and the State of New York. Under the casino compact, the State receives a share of slot machine revenues earned at the Akwesasne Mohawk Casino, and distributes 25 percent of their share equally to Franklin and St. Lawrence Counties. The counties then distribute 50 percent of their shares to the affected towns within their respective counties, which consists of the Towns of Bombay and Fort Covington in Franklin County.

[7] On May 21, 2013, the State and Saint Regis Mohawk Tribe signed an agreement that ended a three-year standoff over payments owed to the State. Under the agreement, the Tribe paid the State $30 million in back payments and will pay 25 percent of future gaming revenues. As a result, Franklin County received $3,750,000 in back payments in July 2013, of which $1,875,000 was the County's share. In addition, under the agreement, an additional $30 million in back payments will remain in escrow while the State, impacted towns and the Tribe try to settle a longstanding land-claim dispute involving parcels in what is known as the Bombay Triangle.

an operating deficit of approximately $1.94 million during 2012, which would have significantly decreased the total fund balance in the County's general fund at the end of 2012. The County did receive $3,750,000 in back payments during July 2013, of which $1,875,000 was the County's share.

We also found that although the adopted budgets for 2009 through 2011 contained the appropriation of reserves totaling $5,980,000, the corresponding reserve balances only decreased by $2,526,034 during the same time period due to the County not incurring expenditures for which the reserve proceeds were appropriated to finance. In addition, despite the financial condition decline of the general fund, the County's recorded reserve balances were increased by $1,151,763 from 2011 to 2012.

The failure of the Legislature to adopt a fund balance policy that establishes a reasonable level of unexpended surplus funds to maintain, the over-reliance on the appropriation of unexpended surplus funds and reserves as a financing source to fund recurring expenditures during 2009 through 2011, and the funding of reserves during 2012, have all contributed to the significant decrease in unexpended surplus funds in the County's general fund over the last four fiscal years. In fact, the unexpended surplus fund balance of only $1,579,292 at the end of 2012 is only 1.9 percent of the 2013 general fund adopted appropriations of $83,584,751. The unhealthy depletion of the County's unexpended surplus funds has resulted in undesired constraints on the County's financial flexibility.

<u>Cash Balances and Short-Term Borrowing</u> — The general fund's cash balance[8] declined from $5,441,993 as of December 31, 2009 to only $1,414,531 as of December 31, 2012, representing approximately 1.75 percent of the 2013 general fund adopted appropriations of $83,584,751. The general fund's cash balance was depleted over the last three fiscal years to a point that the County could not transfer cash to the county road, road machinery, and enterprise infirmary funds for the entire amounts that were included in the general fund budgets for interfund transfers to these funds.[9] As a result, the County established an interfund receivable in each of the funds for the amount of cash that was not transferred and a corresponding interfund liability in the general fund, which the following table illustrates.

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[8] We used the general fund's cash balances that were recorded as unrestricted for our analysis.

[9] The budgeted interfund transfers from the general fund to the county road, road machinery, and enterprise infirmary funds totaled $5,119,778 for 2010, $5,284,360 for 2011, and $4,007,214 for 2012.

Table 2: General Fund Interfund Liability				
Date	County Road Fund Receivable	Road Machinery Fund Receivable	Enterprise Infirmary Fund Receivable	General Fund Liability
12/31/10	$0	$545,000	$0	$545,000
12/31/11	$950,000	$643,000	$410,000	$2,003,000
12/31/12	$396,500	$975,000	$0	$1,371,500

As a result, although the county road fund and road machinery fund appeared to have healthy fund balances at the end of 2012 of $1.6 million[10] and $1.3 million,[11] respectively, they only had cash balances of $31,534 and $48,323, respectively. Although there are other factors[12] that contributed to the minimal cash balances, a significant factor was the inability of the general fund to transfer cash to these funds for the entire amounts that were included in the general fund budgets for interfund transfers to these funds.

We also found that the County had to issue a tax anticipation note (TAN) for $4 million on May 31, 2013 because the County incurred a cash-flow shortage. Specifically, as of May 31, 2013, the general, county road, and road machinery funds had a combined negative cash balance of $1,402,038.[13] The Treasurer and Deputy Treasurer stated that the County had a combined negative cash balance in these funds because the County had generated checks during the month of May 2013, but did not disburse them until the County received the $4 million TAN. In addition, we found that the cash-flow shortage prevented the County from being able to make its nine school districts and six villages whole[14] during the month of April 2013. In fact, we found that the County owed $8,844,485 to the nine schools and $859,766 to the six villages, for a combined total of $9,704,251, but only disbursed $4,902,326 to the nine schools and six villages during the month of April 2013, representing only about 50 percent of the

[10] The county road fund's total fund balance at the end of the 2012 fiscal year represented approximately 46 percent of the 2013 county road fund budgeted appropriations of $3,522,617.

[11] The road machinery fund's total fund balance at the end of the 2012 fiscal year represented approximately 110 percent of the 2013 road machinery fund budgeted appropriations of $1,148,539.

[12] Another factor contributing to the minimal cash balance in the county road fund is that the county road fund advanced a significant amount of cash to the County's capital projects funds during the 2012 fiscal year. As of December 31, 2012, $445,111 was still owed to the county road fund from the capital projects funds.

[13] The combined negative cash balance of $1,402,038 consisted of a negative balance of $1,465,045 for the general fund, a positive balance of $52,174 for the county road fund, and a positive balance of $10,833 for the road machinery fund.

[14] The County guarantees the school and village real property tax levy and is ultimately responsible for collection and enforcement of unpaid, delinquent taxes. On or before April 1 following the date the taxes are levied, the County is required to remit to the schools and villages the balance of the outstanding taxes plus any accrued interest.

total amount owed. The County disbursed the remaining $4,801,925 to the nine schools and six villages during the month of June 2013 once it received the $4.0 million TAN. The County is expected to pay interest charges totaling $25,600 on the TAN if it holds the TAN until its maturity date of May 30, 2014.

Had the County maintained healthier cash balances, it could have had sufficient resources to sustain operations and would not have needed to issue short-term debt. If the County does not take action to improve its cash-flow situation, its cash position will deteriorate further, resulting in continued cash-flow shortages and reliance on short-term debt to finance operations.

<u>2013 Adopted Budget</u> — We reviewed the County's 2013 general fund budget to determine whether budget estimates were reasonable based on historical data and the actual results of operations through June 30, 2013, and whether the budget was structurally balanced. We found that the budgeted revenues were reasonable, but we question the reasonableness of certain budgeted appropriations. Specifically, we found that there was a $540,961 decrease in the 2013 budgeted appropriations of $6,170,000 for claims for the County's self-insured health plan compared to the $6,710,961 in expenditures that were incurred during the 2012 fiscal year. The County Manager stated that the decrease was made because the County received health insurance cost projections for 2013 from its third-party administrator that indicated that costs for claims should be reduced by approximately $1,000,000. As a result, the County Manager stated that he used a conservative approach and decreased the budgeted appropriations by $626,394 from the 2012 budgeted appropriations of $6,796,394 to the 2013 budgeted appropriations of $6,170,000. Although we determined that the expenditures that were incurred for claims through June 30, 2013 were in line with the 2013 budgeted amount, we question the reasonableness of this budgeted amount due to the risk and volatility of these expenditures.

We also found that the 2013 budget only included $483,222 in contingency appropriations,[15] which represents approximately 0.5 percent of the total budgeted appropriations of $83,584,751. As a result, we consider these amounts not to be reasonable because they provide the County with limited flexibility in the event of unforeseen circumstances that require additional funds. In addition, the County's collective bargaining agreement for the Sheriff's Department expired on January 1, 2013, and according to County officials, the 2013 budget does not contain provisions for any potential increased costs

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[15] Contingency appropriations may be added to the County budget to provide a cushion or safety net for unexpected events or where budget estimates prove unfavorable.

associated with settling this collective bargaining agreement. By underfunding the contingency appropriations, the County's ability to pay any liabilities which may arise from contract negotiations in 2013 will be limited. Furthermore, the 2013 budget is not structurally balanced because the Legislature again appropriated reserves, totaling $683,237, as a financing source to support operations. As a result, the County continues the budgetary practice of reliance on fund balance as a means to finance recurring expenditures, which will likely result in the further decline of the general fund's financial condition during 2013.

We also reviewed the general fund's actual results of operations through June 30, 2013 to determine if the County incurred any expenditures that were not included in the 2013 adopted budget that could significantly impact the general fund's financial condition during the 2013 fiscal year. We found that the County incurred expenditures totaling $1,452,000 that were not included in the adopted budget. These payments were made to the Franklin County Industrial Development Agency as the County's contribution for the construction of a natural gas pipeline through the northern portion of the County for economic development purposes. We determined that the County did not budget for these expenditures, although the Legislature passed a resolution on April 21, 2011, authorizing the County to make a contribution not to exceed $1,452,000 to the Franklin County Industrial Development Agency for this project. County officials stated that they anticipated issuing debt for $1,000,000 of the expenditures, but were informed that the County could not issue debt for this project because the County did not own the infrastructure. As a result, County officials stated that these expenditures will be funded with $1,000,000 of unexpended surplus funds,[16] $422,000 from the County's economic development reserve, and the remaining $30,000 was transferred from the County's contingency appropriation that was included in the 2013 budget.

As a result, these unbudgeted expenditures will have a significant impact on the general fund's financial condition at the end of the 2013 fiscal year. County officials should closely monitor the general fund's operations during the remainder of the 2013 fiscal year and make any adjustments that are necessary to prevent a further decline in the general fund's financial condition.

Enterprise Infirmary Fund

The County created and uses an enterprise fund to account for the County nursing home's operations, which are financed and operated in a manner similar to private business. The intent of the County is that the cost (expenses, including depreciation) of providing services

[16] The $1,000,000 was allocated from the $1,875,000 in casino compact revenue back payments that were received by the County in July 2013.

to the general public on a continuing basis is to be financed and recovered primarily through user charges. Operating revenues and expenses generally result from providing services in connection with ongoing operations. If the enterprise infirmary fund is not self-sufficient, it must rely on the general fund to maintain fiscal stability.

General Municipal Law (GML) allows the County to temporarily advance moneys held in one fund to another fund. However, the County must maintain suitable records, and the advances must be authorized by the County Manager prior to being made. Interfund advances are intended to address short-term cash-flow needs of operating funds and/or proprietary funds and are, in effect, short-term borrowing arrangements between the operating funds and/or proprietary funds. Repayment of the borrowed cash must be made as soon as moneys are available, but no later than the close of the fiscal year in which the advance was made.

The County's nursing home is a New York State licensed 80 bed skilled nursing facility owned and operated by the County. Although this fund is intended to be self-sufficient, it experienced operating losses during three of the last four fiscal years because operating revenues were substantially below the level required to finance operating expenses, which the following table illustrates.

Table 3: Enterprise Infirmary Fund Operating Revenues and Expenses

	2009	2010	2011	2012
Operating Revenues	$5,508,803	$5,188,696	$8,162,203	$6,967,314
Operating Expenses	$6,538,076	$6,604,763	$7,284,811	$7,601,240
Operating Income (Loss)	($1,029,273)	($1,416,067)	$877,392	($633,926)

The operating revenues that were recorded for the enterprise infirmary fund over the last four fiscal years included Federal subsidies totaling $4,225,172.[17] Without these subsidies, the enterprise infirmary fund would have experienced operating losses during each of the last four fiscal years consisting of $1,207,388 for 2009, $1,416,067 for 2010, $1,855,308 for 2011, and $1,948,283 for 2012, for a combined total operating loss of $6,427,046. County officials stated that Medicaid reimbursement rates for eligible services have not kept pace with the expenses necessary to operate the nursing home, resulting in the enterprise infirmary fund not being self-sufficient.

As a result, the County's general fund has had to subsidize a significant portion of the enterprise infirmary fund's operations over the last four fiscal years through interfund transfers, which consisted of $1,297,845

[17] The $4,225,172 in Federal subsidies consisted of $178,115 for 2009, $0 for 2010, $2,732,700 for 2011, and $1,314,357 for 2012.

during 2009, $1,259,677 during 2010, and $1,252,398 during 2011, and $0[18] during 2012, for a combined total of $3,809,920. In addition, the general fund subsidized the enterprise infirmary fund by making interfund advances to the fund for cash-flow purposes, so that the fund could pay its operating expenses. However, we found that none of the interfund advances were approved by the County Manager nor did the enterprise infirmary fund have enough cash on hand to repay these balances by the close of the fiscal year, as required by GML, which the following table illustrates.

Table 4: Enterprise Infirmary Fund Interfund Advance Year-End Balances

Date	Cash on Hand	Due To General Fund
12/31/09	$606,829	$1,433,000
12/31/10	$269,264	$1,293,000
12/31/11	$900,449	$0[a]
12/31/12	$2,904	$50,000

[a] The interfund advance balance was eliminated from fiscal year-end 2010 to 2011 because the County received a Federal subsidy of $2,732,700 during 2011, which was used to repay the advance from the general fund.

We reviewed the County's 2013 enterprise infirmary fund budget and determined that it did not include an interfund transfer from the general fund, but instead includes the appropriation of fund balance of $1,132,012, or almost 60 percent of the enterprise infirmary fund's total fund balance of $1,965,919[19] at the end of 2012. As a result, the enterprise infirmary fund will likely be self-sufficient during 2013 and will not require subsidies from the general fund. Nonetheless, the enterprise infirmary fund's continued reliance on the general fund to cover operating expenses over the last four fiscal years has contributed to the general fund's declining financial condition.

County officials stated that they were aware of the inability of the enterprise infirmary fund to be self-sufficient. As a result, the County has an agreement to transfer all of its nursing home operations to Alice Hyde Medical Center[20] and anticipates that the transfer will be finalized by the end of 2014. Although the transfer of nursing home operations will help the financial condition of the County in

[18] The general fund did not have to subsidize the enterprise infirmary fund during 2012 because the County received a Federal subsidy of $2,732,700 during 2011, which increased the enterprise infirmary fund's total fund balance to $2,425,471 at the end of the 2011 fiscal year.

[19] The enterprise infirmary fund's total fund balance was $1,965,919 at the end of 2012 because the County recorded a receivable for a Federal subsidy of $1,314,357 at the end of 2012, which was received by the County during the month of February 2013.

[20] County officials stated that Alice Hyde Medical Center is building a new facility to accommodate the transfer. The new facility is planned to have 135 beds plus space for 30 assisted-living residents.

the long-term, as part of the agreement, the County will be required to contribute $1 million annually to the Medical Center for the first 10 years after the transfer of operations is completed. In addition, the general fund will assume all remaining expenditures that are incurred related to the nursing home after the transfer of operations (i.e., separation payments to employees for unused leave time, utilities, etc.).

Long-Term Planning

An important oversight responsibility of the Legislature is to plan for the future by setting adequate long-term priorities and goals. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Planning on a multiyear basis allows County officials to identify developing revenue and expenditure trends and set long-term priorities and goals. Any long-term financial plans should be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Legislature did not develop and adopt comprehensive, multiyear financial and capital plans. Had such plans been adopted, the Legislature would have had a valuable resource that would have allowed it to make more informed financial decisions, which may have prevented the County's declining fiscal health during our audit period. Nonetheless, the development and adoption of multiyear plans would be a useful tool for the Legislature to identify recurring sources of revenue sufficient to finance anticipated recurring expenditures to maintain a reasonable level of unexpended surplus funds at year end. The failure of the Legislature to develop such plans may lead to the further depletion of the County's fund balance, continued cash-flow shortages and reliance on short-term debt, and undesirable constraints on the County's financial flexibility in future years.

Recommendations

1. The Legislature should adopt budgets for the general fund that include realistic estimates for revenues and expenditures and that are structurally balanced.

2. The Legislature should develop and adopt a fund balance policy that establishes a reasonable amount of unexpended surplus funds to be maintained in order to meet the County's needs, provide sufficient cash flow, and avoid reliance on short-term borrowing.

3. The Legislature should evaluate the sufficiency of the County's contingency appropriations to ensure they are sufficient for unexpected events.

4. The County Manager should authorize all interfund advances and the Legislature should develop a plan to ensure that all outstanding interfund advances are repaid by the close of the fiscal year.

5. The Legislature should develop and adopt comprehensive, multiyear financial and capital plans to provide a framework for preparing future budgets and managing the financing of future capital needs. The Legislature and County officials should frequently monitor and update the plans to ensure that its decisions are based on the most accurate and up-to-date financial information.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following pages.

Office of Franklin County Manager

355 West Main Street, Suite 456, Malone, New York 12953

Tele: 518/481-1693 Fax: 518/483-0141

Thomas J. Leitz
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Shannan L. Gordon
Sec. to County Manager
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Denise Russell
Asst. Purchasing Agent
drussell@co.franklin.ny.us

September 30, 2013

[redacted]
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear [redacted]

Please find the County's response to your audit findings below.

The full Board of Legislators has not yet met to review the full findings of your audit. However, we do not principally disagree with the audit findings and acknowledge the financial problems facing Franklin County. We do disagree with some technical details, including your characterization of the $1 million appropriation for the natural gas pipeline and your concerns associated with our health insurance expenditures, which continue to show a favorable balance relative to budget expectations.

See Notes 1 and 2 Page 20

We note that your audit did not address the primary cause for the County's level of fiscal stress, namely increases in costs associated with state mandates. While your findings related to our declines in fund balances are technically correct, these fund balances have been deliberately decreased to alleviate the burden on taxpayers caused by mandates beyond our control. We believe the concerns raised in your own fiscal stress tests with respect to environmental indicators justify this past practice. We have also seen recent declines in real property tax collections, and subsequent increases in delinquencies, which further justifies the use of fund balance. In summary, we believe an explanation of state mandates and their burden to County government would have provided valuable context to your audit findings.

See Note 3 Page 20

Office of Franklin County Manager

355 West Main Street, Suite 456, Malone, New York 12953

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The Board of Legislators has established an audit findings committee and this audit will become a part of future agendas. Following a review by the committee we will begin the process of creating a corrective action plan for review by the full Board of Legislators.

Please do not hesitate to contact me with any questions.

Best Regards,

Thomas J. Leitz
County Manager

APPENDIX B

OSC COMMENTS ON THE COUNTY'S RESPONSE

Note 1

At the exit discussion we held with County officials on September 9, 2013 to review the audit report's findings and recommendations, there was disagreement amongst County officials relating to the ability of the County to borrow $1 million to finance the natural gas pipeline expenditures. Nonetheless, the fact remains that the County paid for these expenditures by using unexpended surplus funds that were not appropriated in the 2013 budget.

Note 2

As indicated in our report, health insurance expenditures that were incurred for claims were in line with the 2013 budgeted appropriations as of June 30, 2013. However, we continue to question the reduction of budgeted appropriations by approximately 9 percent from 2012 to 2013 ($6.8 to $6.2 million) at a time when most local governments are experiencing increases to their health insurance costs.

Note 3

We agree that the County, like most other counties, has been impacted by increased costs and environmental factors that affect its budget from year to year. While fund balance is deliberately being used to address these increased costs, it has also resulted in the fiscal stress that required the County to issue short-term debt in order to pay its regular operating costs.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the County's financial condition and identify areas where the County could realize efficiencies and protect assets from loss or misuse. To accomplish this, our initial assessment included a comprehensive review of the County's financial condition.

To achieve our financial condition objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed the Chairman and other County officials to gain an understanding of the County's financial management policies and procedures. This included inquires about the County's budgeting practices, the adoption of a fund balance policy, the preparation of multiyear financial and capital plans, and the development of plans to maintain the County's fiscal stability.

- We analyzed the County's financial records and independent audit reports for the general fund for fiscal years 2009 through 2012 to determine if the financial condition of the general fund had declined. We also evaluated any factors contributing to the decline.

- We compared the adopted budgets for the general fund for fiscal years 2009 through 2012 with the actual results of operations to determine if the budgets were realistic and structurally balanced.

- We analyzed the County's financial records and independent audit reports for the general fund, county road fund, road machinery fund, and enterprise infirmary fund for fiscal years 2009 through 2012 to determine the effect that the declining cash balance in the general fund had on the other funds.

- We reviewed the County's financial records for the period January 1, 2009 through June 30, 2013, and interviewed County officials to determine the type and amount of short-term debt that was issued and the reason the short-term debt was issued.

- We reviewed the adopted budget for the general fund for fiscal year 2013 to determine whether budgeted revenues and appropriations were reasonable based on historical data and the actual results of operations through June 30, 2013, and whether the budget was structurally balanced.

- We reviewed the general fund's actual results of operations through June 30, 2013 to determine if the County incurred any expenditures that were not included in the adopted budget for fiscal year 2013 that could significantly impact the general fund's financial condition during the 2013 fiscal year.

- We analyzed the County's financial records and independent audit reports for the enterprise infirmary fund for fiscal years 2009 through 2012 to determine if the fund was self-sufficient. We also evaluated any factors contributing to the fund not being self-sufficient.

- We reviewed the County's accounting records to determine all of the interfund transfers and interfund advances that were made from the general fund to the enterprise infirmary fund during fiscal years 2009 through 2012. We then reviewed the interfund advances to determine if they were approved by the County Manager and were repaid by the close of the fiscal year, in accordance with GML. We also compared the cash balance of the enterprise infirmary fund at fiscal year-end 2009 through 2012 to the corresponding amount that the fund owed the general fund for advances that it had received to determine if the fund had sufficient cash on hand to repay these balances.

- We reviewed the adopted budget for the enterprise infirmary fund for fiscal year 2013 to determine if the fund would be self-sufficient or would require subsidies from the general fund.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

APPENDIX D

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APPENDIX E

OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Nathaalie N. Carey, Assistant Comptroller

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