



Saratoga County Financial Condition

Report of Examination

Period Covered:

January 1, 2010 — May 31, 2013

2013M-235



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2013

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 the Board of Supervisors 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 Saratoga County, entitled Financial Condition. 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

Saratoga County (County) covers an area of approximately 840 square miles and has a population of approximately 220,000. The County is governed by the Board of Supervisors (Board) which comprises 23 members, one of whom also serves as the Chairman of the Board. The Board is the legislative and executive authority of County government, which includes the responsibility of overseeing all County operations and the general management and control of the County. The County Administrator (Administrator) is the chief administrative officer of the County and is charged with the County's overall administrative operation under the direct supervision of the Board. The Administrator serves as the budget officer, is responsible for the supervision of department heads, and coordinates the activities of all County departments to efficiently implement the Board's directives. The County Treasurer is the County's chief fiscal officer and is responsible for maintaining accountability over all County money and accounting for all County receipts and expenditures.

The County provides various services to its residents including, but not limited to, highway maintenance and improvements; social services for the poor, the elderly, and veterans; recreation and cultural activities; public safety; sewer; and general government support. The County's general fund appropriations for the 2013 fiscal year adopted budget are approximately \$234 million, funded primarily by real property taxes, sales taxes, and State and Federal aid. The County's 2013 budget for Maplewood Manor Nursing Home is approximately \$26 million, funded primarily by resident service revenue and interfund transfers from the general fund.

Fiscal strength 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 ability to generate enough revenues within its current fiscal period to meet its expenditures.

Due to the substantial operating deficits incurred by Maplewood Manor, resulting from inadequate revenues to offset increasing expenses, the County is experiencing increasing levels of fiscal stress related to operating Maplewood Manor. County officials have been closely monitoring this issue, and the Maplewood Manor Local Development Corporation (LDC) was created in early 2013 to help facilitate the sale of Maplewood Manor.

Objective

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

- Does the Board adopt realistic budgets that are structurally balanced, and do County officials adequately monitor the County's financial operations to ensure fiscal stability?

Scope and Methodology

We examined the County's financial condition for the period January 1, 2010, to May 31, 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 B 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. County officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action.

The Board 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 Board to make this plan available for public review in the County Clerk's office.

Financial Condition

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. County officials have a responsibility to taxpayers to ensure that their tax burden is not greater than necessary. To fulfill this responsibility, it is essential that County officials develop reasonable budgets and manage fund balance responsibly.

County officials can legally set aside, or reserve, portions of fund balance to finance future costs for a specified purpose, or can designate the unexpended surplus¹ portion of fund balance to either help finance the next year's budget or be retained for future use. The County may retain a reasonable level of unexpended surplus funds as a financial cushion in the event of unforeseen financial circumstances. Maintaining a reasonable level of unexpended surplus funds is a key element of effective long-term financial planning.

The Board adopts realistic budgets and, along with the Administrator, continually monitors the budgets and results of operations throughout the year. However, even though the Board adopted realistic budgets, the general fund's financial position and the fund used to account for the operations of Maplewood Manor (the County-run nursing home) have shown negative trends from 2010 through 2012. The negative financial trends realized by the County are a result of the operating deficits in Maplewood Manor caused by the increasing costs to run the facility. Due, in part, to subsidizing Maplewood Manor, the total general fund balance decreased 41 percent, from \$24.7 million at January 1, 2010, to \$10.3 million at December 31, 2012. In fact,

¹ The Governmental 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).

during this period, the general fund subsidized Maplewood Manor by a total of \$13.7 million. While this decline in fund balance was planned by County officials to help keep property taxes down, it is important that County officials continue to monitor the general fund's results of operations on a regular basis. Further, County officials have been closely monitoring Maplewood Manor's results of operations, and the Maplewood Manor LDC is currently reviewing proposals for the sale of Maplewood Manor.

General Fund — We reviewed the annual budgets and corresponding results of operations for fiscal years 2010 through 2012 and found that the County relied on the appropriation of fund balance to finance operations in the general fund's budgets. When fund balance is appropriated to finance operations, officials plan on incurring an operating deficit, as the amount of estimated revenues are less than appropriations, with the difference being funded by a portion of fund balance. As a result, the general fund experienced planned operating deficits in fiscal years 2010 through 2012, totaling \$7,338,947, \$3,572,517, and \$3,475,677, respectively, as indicated in Table 1. These results of operations resulted in the total general fund balance decreasing 58 percent, from \$24.7 million at January 1, 2010 to \$10.3 million at December 31, 2012.

Table 1: General Fund - Results of Operations			
	FY 2010	FY 2011	FY 2012
Beginning Fund Balance	\$24,733,260	\$17,394,313	\$13,821,796
Operating Deficits	(\$7,338,947)	(\$3,572,517)	(\$3,475,677)
Ending Fund Balance	\$17,394,313	\$13,821,796	\$10,346,119
Less: Restricted Fund Balance	\$371,352	\$0	\$0
Less: Nonspendable Fund Balance	\$0	\$31,167	\$26,849
Less: Appropriated, Unexpended Surplus	\$3,400,966	\$7,233,721	\$1,907,597
Unexpended Surplus Funds	\$13,621,995	\$6,556,908	\$8,411,673

In addition to the annual operating deficits, the general fund owed the sewer fund approximately \$9 million at the beginning of 2012. This interfund loan had been accumulating over the past several years and was the result of the County recording the sewer fund property tax levy as a liability in the general fund and a receivable in the sewer fund. During 2012, the general fund fully paid its obligation to the sewer fund and no longer had a liability to the sewer fund at the end of 2012. This payment significantly contributed to the decrease in the cash balance reported in the general fund from approximately \$22 million at the end of 2011 to approximately \$8.7 million at the end of 2012.

We reviewed the 2013 adopted general fund budget and found that the County continued to rely on fund balance to fund operations.

However, the County has reduced the amount it appropriated to \$1.9 million, an amount much smaller than in previous years. We found that the County continues to regularly monitor the budget and amend it as necessary. The County should ensure it maintains an adequate level of unexpended surplus fund balance. The depletion of unexpended surplus funds could limit its options to finance unanticipated costs or revenue shortfalls that may arise in the future. This ultimately could result in the County either increasing taxes and/or reducing services.

Another factor that has impacted the general fund's financial stability is the fund's regular contribution to support Maplewood Manor. The general fund regularly budgets for and transfers funds to subsidize operations at Maplewood Manor. The general fund contributed approximately \$6.5 million in 2010 and \$7.2 million in 2012. The general fund did not transfer money in 2011 because Maplewood Manor received \$9.6 million in the form of an intergovernmental transfer from New York State.² The annual contribution from the general fund is generally made to close the operating deficit that is incurred as a result of Maplewood Manor not generating enough revenue to cover annual costs.

The combination of appropriating fund balance to finance annual operations and making significant transfers to fund Maplewood Manor's operations have caused the general fund's negative financial trends. However, County officials regularly monitor the annual budget and results of operations, and make appropriate adjustments when necessary.

Maplewood Manor—Maplewood Manor is a New York State licensed, 277-bed, skilled nursing operation which provides rehabilitation services and skilled nursing care. Although this operation is intended to be self-sufficient, it experienced operating losses during each of the past three fiscal years we reviewed because operating revenues were substantially below the level required to finance operating expenditures, as illustrated in Table 2. From the beginning of 2010 to the end of 2012, the total net deficits have increased by 192 percent, from a \$6.0 million deficit at the beginning of 2010 to a \$17.7 million deficit in 2012.

² The Inter-Governmental Transfers (IGT) program provides Medicaid rate enhancement to all non-State operated publicly sponsored nursing facilities. Annual State legislation and the approval of the IGT program by the centers for Medicare and Medicaid Services are required; therefore the availability, timing, and amount of this funding is not always available in the year the expenditures are incurred by Maplewood Manor.

Table 2: Maplewood Manor - Results of Operations			
	FY 2010	FY 2011	FY 2012
Net Position at Beginning of Year	(\$6,060,407)	(\$13,967,156)	(\$16,019,352)
Operating Revenue	\$16,926,728	\$19,858,880	\$18,335,784
Operating Expenses ^a	\$31,335,166	\$31,452,459	\$31,998,674
Operating Income/(Loss)	(\$14,408,438)	(\$11,593,579)	(\$13,662,890)
Transfer from General Fund	\$6,547,652	\$0	\$7,236,297
Inter-governmental Transfer	\$0	\$9,595,577	\$4,739,473
Other Non-operating Revenues ^b	(\$45,963)	(\$54,194)	(\$6,756)
Net Position at End of Year	(\$13,967,156)	(\$16,019,352)	(\$17,713,228)
^a The operating expenses include future other post employment benefit costs of \$4,955,178 for 2010, \$4,936,581 for 2011 and \$5,289,552 for 2012. ^b This includes the net amount of interest income and interest expense reported.			

County officials indicated that Medicaid reimbursement rates for eligible services have not kept pace with the expenses necessary to operate Maplewood Manor, resulting in the operation not being self-sufficient. As a result, the County's general fund has had to subsidize a significant portion of the operations over the past three fiscal years through interfund transfers, which consisted of \$6.5 million in 2010 and \$7.2 million in 2012,³ for a combined total of \$13.7 million over the past three fiscal years. The County's 2013 budget includes an estimated interfund transfer totaling \$2.7 million. As detailed in Table 2, Maplewood Manor continues to realize significant operating losses even with an annual subsidy from the general fund, and the net deficit grows at the end of each year.

County officials have established a plan to sell Maplewood Manor with a goal of completing the sale during the second half of 2014. The sale will eliminate the need for an annual transfer from the general fund to subsidize operations.

Recommendations

1. County officials should continue to closely monitor the level of unexpended surplus funds in the general fund and continue to ensure that budgets are structurally balanced without depleting the unexpended surplus funds.
2. County officials should continue to closely monitor results of operations at Maplewood Manor and be prepared to make decisions to minimize the impact of any potential negative financial occurrences.

³ There was no subsidy in 2011 due to a \$9.6 million intergovernmental transfer.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

SAMUEL J. PITCHERALLE
Treasurer

CYNTHIA J. BAKER
Deputy Treasurer

D'ARCY L. PLUMMER
Deputy Treasurer



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Unit Name: Saratoga County

Audit Report Title: Saratoga County Financial Condition Report of Examination

Audit Report Number: 2013M-235

Recommendations:

1. County officials should continue to closely monitor the level of unexpended surplus funds in the general fund and continue to ensure that budgets are structurally balanced without depleting the unexpended surplus funds.
2. County officials should continue to closely monitor results of operations at Maplewood Manor and be prepared to make decisions to maximize the impact of any negative financial occurrences.

RESPONSE/ CORRECTIVE ACTION PLAN:

The elected officials, as well as the administration of Saratoga County, want to express satisfaction with the professional staff from the Comptroller's Office who conducted the examination of the financial condition of the County. They were knowledgeable and helpful.

Historically, Saratoga County government has kept a very healthy fund balance throughout all of the funds maintained by the County. These balances were in recognition of the business cycles for which there are highs and lows. In the eventuality of economic stress, those balances could be used to offset lower revenue from the State, as well as the Federal government, without burdening the county tax payers with more of a drain on their resources through taxation.

Those healthy balances were criticized as being excessive in years past.

It is gratifying to have the acknowledgement that the "Board adopts realistic budgets". The budget process is extensive and involves all department heads as well as other staff in developing realistic budgets that help guide the County throughout the year. Economic factors at all levels: national, state, and local are considered in the preparation of the budgets.

Through various procedures and policies, on a monthly basis, the Treasurer's Office monitors the finances of all the funds of the County. The County Administrator reports financial information to the Board quarterly. Because there is a strong link between many of the funds and the General Fund there has been and continues to be a requirement that all funds be monitored.

As issues arise, appropriate action is taken by the Administration and the Board. This has certainly been demonstrated over the past several years.

Maplewood Manor is expected to be sold in 2014.

Over the next few years it is expected that the fund balance in the General Fund will be brought back to a more robust amount without the need to excessively tax the county residents. The speed at which this occurs depends upon many economic factors: inflation, unemployment, and rising costs of operations throughout the County government.

The decisive actions taken by the Board and the Administration over the past few years demonstrate the commitment to thoughtful and responsible stewardship of the resources of the County.

This response, which also serves as the county's corrective action plan, agrees with and enhances the issues noted by the auditors in their review of Saratoga County. Again, it is gratifying to note that the Comptroller's Office realizes the financial oversight and professionalism of all levels of Saratoga County government.

Samuel J. Pitcherelle, Saratoga County Treasurer

9-12-13

Date

Spencer P. Hellwig III, Saratoga County Administrator

9-12-13

Date

Alan R. Grattidge, Chairman of the Saratoga County Board of Supervisors

9/12/13

Date

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments based on financial and environmental indicators. These indicators are calculated using a local government's annual update document⁴ and information from the United States Census Bureau, the New York State Department of Labor, and the New York State Education Department, among other sources. The County has demonstrated signs of fiscal stress in several areas. Due, in part, to these fiscal stress indicators, we selected the County for audit.

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 for the audit period January 1, 2010, through May 31, 2013:

- We interviewed County officials to gain an understanding of the County's financial situation and to determine what processes were in place to develop, monitor, and amend the budget.
- We reviewed Board meeting minutes from January 2010 through May 2013 to obtain information related to the Board's financial oversight and future financial plans.
- We reviewed and analyzed the County's financial records, including fund balance accounts, operating deficits, cash balances, and interfund transfers and advances from January 2010 through May 2013 for the general fund and Maplewood Manor to determine if the County's financial condition has declined.
- We reviewed and analyzed the 2010, 2011, and 2012 audited financial statements for revenue and expenditure trends for the general fund and Maplewood Manor and to calculate the change in fund balance between those years.
- We reviewed and analyzed the County's May 31, 2013, budget-to-actual report and budget amendment report for the general fund and Maplewood Manor to determine if there were any significant unbudgeted revenues and expenditures in the current year, fiscal year 2013.
- We reviewed and analyzed the interfund transfers during the scope of our audit period to determine if funds that are intended to be self-sufficient are relying on support from other funds.
- We analyzed and compared adopted budget revenues to actual revenues and amended budget revenues to actual revenues for fiscal years 2010 through 2012 to determine if the County's estimations of revenues in the adopted budgets appeared reasonable.

⁴ Required to be submitted annually by the County to the Office of the State Comptroller

- We analyzed and compared adopted budget appropriations to actual expenditures and amended budget appropriations to actual expenditures for fiscal years 2010 through 2012 to determine if the County's estimations of appropriations in the adopted budgets appeared reasonable.
- We reviewed and compared the 2010 through 2013 fiscal years' adopted budgets and annual update document five-year comparison to identify the amounts of fund balance being appropriated for the general fund and Maplewood Manor to verify realistic and available appropriations were included in the budgets.

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 C

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

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