Office of the New York State Comptroller

Division of Local Government & School Accountability

Sullivan County

Fiscal Stress

Report of Examination

Period Covered:

January 1, 2011 — August 8, 2012

2013M-81

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

July 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 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 Sullivan 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

Sullivan County (County) has a population of 77,547, is located in the southeastern part of New York State, and includes 15 towns and six villages. The County is governed by a nine-member Legislature (Legislature) and provides various services to residents, including public health, social services, public safety, and public works. The County's total 2013 appropriations for all funds was approximately $192.7 million, to be funded primarily by real property taxes, sales and use taxes, State and Federal aid, and various user charges. The Legislature appoints a County Manager who is the Chief Executive and administrative head of the County in accordance with the County Charter. The County Manager is responsible for the overall administration of County government and providing and coordinating staff services to the Legislature and its committees. The County Manager's duties include preparing the County's operating and capital budgets.

Expenditures by function and object, as a percent of total expenditures, were similar in 2000 and 2011, except for employee benefits, which increased from 8 to 16 percent, and contractual expenditures, which decreased from 64 to 57 percent.

The County's population – much of which is currently high needs (e.g., disabled, elderly, and/or on public assistance) – steadily increased from 1920 to 2010. The County's median household income of $48,103 is below the average of all other counties in the State (excluding the five counties in New York City) of $52,225. Similarly, with 10.7 percent of its families living below the poverty level, the County fares worse compared to the average of all other counties in the State (excluding the five counties in New York City) of 8.5 percent.

Since 2006, the County's unemployment rate also has been above the Statewide average. The annual average for 2012 (through October) for the County was 9.7 percent, which was above the State rate of 8.7 percent during the same period (a variance of 564 jobs).

Objective

The objective of our audit was to determine the financial health of the County and identify causes of any identified fiscal stress. Specifically, our audit sought to answer the following questions:

- Did County officials properly develop, monitor, and control operating budgets?

Scope and Methodology

We reviewed the County's financial condition from January 1, 2011, through August 8, 2012. We also reviewed certain select financial information for periods from December 31, 2001, to December 31, 2012, to provide current, relevant information.

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. County officials generally agreed with our recommendations and indicated that they plan to initiate corrective action. Appendix B includes our comment on an issue 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 County Clerk's office.

Fiscal Stress

Financial condition may be defined as the ability of a county to balance recurring expenditure needs with recurring revenue sources, while providing services on a continuing basis. A county in good financial condition generally maintains adequate service levels during fiscal downturns, identifies and adjusts to long-term economic or demographic changes, 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 a difficult time adjusting to socioeconomic forces, and has limited resources to finance future needs. Maintaining or restoring sound financial condition requires local officials to adjust to long-term socioeconomic and demographic changes, respond to the economic impact of the business cycle, and plan for the future.

Multiyear financial planning is a tool local governments can use to improve financial planning. Planning on a multiyear basis allows County officials to identify developing revenue and expenditure trends, set long-term priorities and goals, and avoid large fluctuations in tax rates. It also allows County officials to assess the affect and merits of alternative approaches to address financial issues, such as the use of surplus fund balance to finance operations and changes to the service levels provided to residents. Any long-term financial plan should be monitored and updated on an ongoing basis to provide a framework for preparing budgets and to ensure that decisions are guided by the most accurate and current information available.

The County is fiscally stressed. While the Legislature and County management are aware of the County's financial position, and they have developed reasonable budgetary estimates for most major revenues and expenditures, the County's financial condition has declined over the last few years. For the years between 2007 and 2011, the County has spent $6.7 million more than it received;[1] during three of those five years, the County has suffered operational deficits. Also, while the County does include a five-year capital plan in its adopted budget, it does not use a multiyear financial plan for estimating operating revenues and appropriations. In addition, general fund balance is artificially inflated due to a $4.5 million nursing home receivable that is unlikely to be collected.

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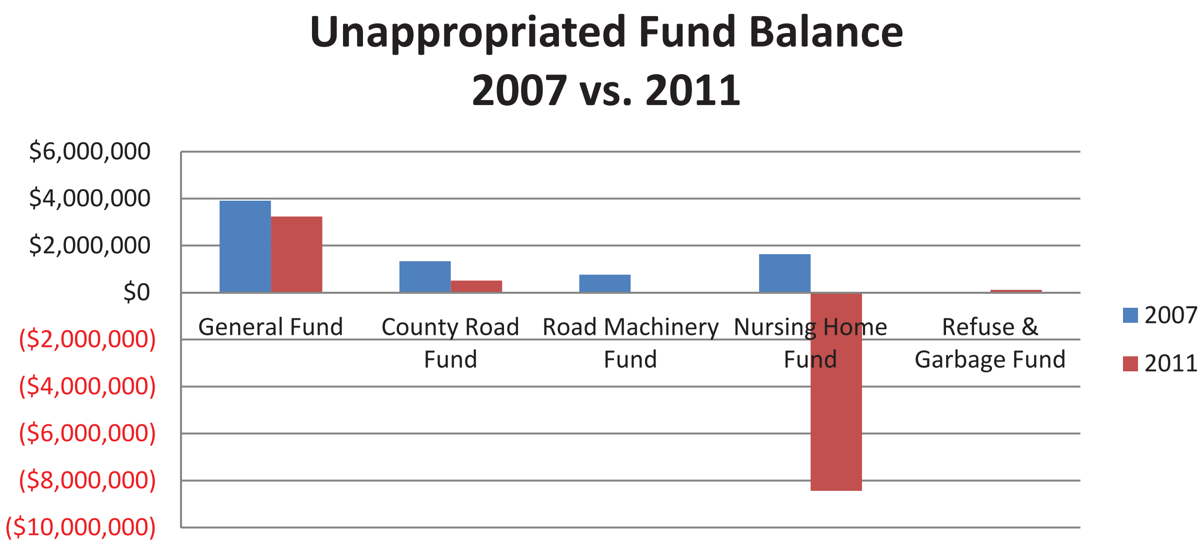
[1] We compared the revenues to the expenditures reported in the general, special grant, refuse, county road, road machinery, debt service, nursing home, self insurance, and worker's compensation funds from 2007 through 2011.

Because of these shortfalls, County management has eliminated 188 positions over the last three years. These staff reductions could result in significant delays for necessary services and an increased workload for the remaining staff. The chart below illustrates the impact the County's fiscal stress has had on its operating funds' balances.



Use of Fund Balance

Fund Balance – the difference between revenues and expenditures that accumulates over the years – is key to financing County operations and providing sufficient cash flow. Reserved fund balance represents moneys that the County has set aside and may use only for specific purposes. A portion of the unreserved, or uncommitted, funds is often used to help finance the ensuing fiscal year's budget and is referred to as appropriated fund balance.[2] The remaining unassigned, unappropriated fund balance is used for cash flow purposes and as a hedge against unanticipated expenditures and/or revenue shortfalls. A continuous decline in the unassigned, unappropriated fund balance indicates a deteriorating financial condition. The resulting cash flow stresses may require the County to take various measures such as liquidating assets, reducing services, raising taxes, or issuing debt. When the fund balance of a given fund contains significant interfund receivables, it is important to evaluate the likelihood that these receivables will actually be collected.

The Legislature adopted a general fund budget for 2012 that included using $7.7 million of fund balance. However, this fund balance was not actually available. The County reported the general fund balance at the end of the 2011 fiscal year as $10.9 million, leaving $3.2 million of unassigned, unappropriated fund balance. However, this is artificially inflated with a significant receivable from the County's

[2] Uncommitted fund balance should only be appropriated when it is available.

nursing home fund of more than $4.5 million. That same year, the nursing home had reported an accumulated deficit of more than $10 million[3] because it has consistently spent more money than it received. It is highly unlikely that the nursing home fund will be able to repay the general fund the moneys owed, or the total accumulated deficit. Thus, the nursing home's entire deficit is a general fund liability and could cause the general fund's balance to decrease by that amount. Further, the Legislature and County management do not have a plan to address this issue, and the general fund's financial position will only continue to deteriorate.

The general fund's fiscal stress is ultimately the responsibility of the Legislature and County management. While the nursing home has been segregated in the budget, the adopted budgets have not considered and, therefore, have not been reflective of the actual results. In addition, while the County does include a five-year capital plan in its adopted budget, it does not use a multiyear financial plan for estimating operating revenues and appropriations. The County will not be able to sustain operations without significantly increasing revenues (i.e., real property taxes, if no alternative revenues are found) or reducing expenditures (i.e., cutting programs, if no alternative expenditure reductions are found).

While the County's 2012 budget had a planned structural deficit of $7.7 million in the general fund, it finished the 2012 fiscal year with an operating surplus of $1.3 million, which increased its unassigned fund balance to approximately $12.4 million, or 7.9 percent of the 2013 general fund's budgeted appropriations.[4] The County's 2013 general fund budget plans to use only $1.5 million in fund balance, which is an improvement compared to the 2012 budget.

Departmental Operations

County officials should ensure departmental operations and functions are operating at the lowest possible cost to taxpayers and the users of those services. While the Legislature has the discretion to allow some operations to be subsidized by real property taxes, for proper equity among County residents, fee-based services provided by the County should generate revenues that are sufficient to cover the costs of the program to that extent determined by the Legislature.

The primary tool used in the financial management of these functions is an operating budget for each. While the Budget Commissioner and Deputy Budget Commissioner told us they consider past results in developing budget estimates each year, those actual results were not included in the budgets presented to the Legislature for review and final adoption.

[3] Net of capital assets and accumulated depreciation
[4] This information is based on the County's 2012 annual financial report filed with our office.

Nursing Home – The County nursing home's budget for the fiscal years ending between 2008 and 2011 included revenue estimates of $5.5 million more than the actual revenues earned. The nursing home also spent $1.7 million more than was included in its budgeted appropriations (excluding depreciation). At the end of our fieldwork, County staff provided us with year-end (unaudited) budget-vs.-actual reports for 2012. These reports showed actual revenues fell short of budgeted revenues by $1.7 million; however, expenditures came in under budget by $2.4 million.

Table 1: Nursing Home Fund – Revenues Budget-vs.-Actual			
Fiscal Year End	**Estimated Revenues**	**Actual Revenues**	**Difference**
2008	$12,923,211	$12,488,800	($434,411)
2009	$14,578,561	$14,932,875	$354,314
2010	$15,328,931	$11,022,788	($4,306,143)
2011	$15,216,722	$14,098,519	($1,118,203)
2012	$16,815,465	$15,113,929	($1,701,536)
Total	**$74,862,890**	**$67,656,911**	**($7,205,979)**

Table 2: Nursing Home Fund – Expenditures Budget-vs.-Actual[a]			
Fiscal Year End	**Appropriations**	**Actual Expenditures**	**Difference**
2008	$13,923,211	$14,614,716	($691,505)
2009	$14,578,561	$14,529,926	$48,635
2010	$15,328,931	$15,919,528	($590,597)
2011	$15,980,254	$16,522,083	($541,829)
2012	$16,815,465	$14,461,630	$2,353,835
Total	**$76,626,422**	**$76,047,883**	**$578,539**
[a] Excluding depreciation			

Our analysis of the nursing home's actual results of its operations showed expenditures have consistently exceeded its revenues. It has spent nearly $23 million more than it has earned from operations[5] over the last 10 years. The nursing home has an occupancy rate that is nearly the same as the average of 30 other counties that reported occupancy data to the New York State Department of Health as of July 2012. In 2011, these 30 counties spent, on average, approximately 36 percent more than Sullivan County in nursing home expenditures. However, they also received approximately 53 percent more in average revenue per nursing home resident, resulting in Sullivan County's net loss

[5] From 2003 to 2007, other operating funds have transferred more than $10 million to subsidize the nursing home's operations. These transfers ended in 2007 when the County began to record these subsidies as interfund liabilities.

being more than twice the average loss of the other 30 counties. The nursing home received revenue of approximately $0.84 per dollar expended, while the average for the 30 counties was $0.95 per dollar expended.

Other Departments – Similarly, we compared the financial results of other County departments[6] for 2011 and found that Sullivan County's results varied considerably from the results of other counties in New York State.

Table 3: County Comparison[a]			
		Other Counties Average % of Sullivan	
Function	Basis for Comparison	Expenditures	Revenues
Courts	Per Capita	80%	109%
Economic Development	Per Capita	62%	141%
Elections	Per Eligible Population	85%	63,099%
	Per Registered Voter	90%	64,295%
Mental Health	Per Capita	58%	67%
Nursing Home	Per Occupied Bed	136%	153%
Probation	Per Probationer	114%	143%
Public Safety	Per Capita	99%	330%
Social Services	Per Caseload Total	187%	204%
[a] Comparison includes all counties outside of New York City, except for Columbia and Schuyler Counties (no annual report was provided).			

Table 3 show that the average public safety related expenditures in 2011, per capita, for the average of other counties was 99 percent of Sullivan County, but those other counties also received more than triple what the County did in average public safety related revenues, per capita. The net result is the other counties received triple the average revenue per dollar spent than the County did for public safety in 2011. Specifically, other counties received significantly more revenues, per capita, in account codes relating to "other public safety departmental income," Federal aid, State aid, public safety services for other governments, and emergency telephone system surcharges.

While 16 of the 30 counties that reported occupancy data to New York State had spent more money on, than they received for, their respective nursing homes, Sullivan County has several departments and operations that have a far greater net cost to their taxpayers than all of the other counties in New York State (excluding the five counties in New York City).

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[6] The nursing home is included in the chart on page 6 for comparison to other departments.

Jail[7] – The County's jail is the oldest jail in New York, constructed in 1909. The antiquated design requires more staff to supervise the inmates. Also, the County has to pay other counties to house inmates that the County does not have room to house. The County will not be able to sustain operations without significantly increasing revenues or reducing expenditures.

While County management and staff have evaluated certain aspects of various programs, such as the size of its road patrol and staffing of mandated services, in comparison to other counties, no one has compared all individual program costs to their respective revenues to show the net impact of those programs on the County's overall financial condition, especially in comparison to other counties. Moreover, County management has not taken any formal steps to identify particular operations that unduly drain County resources.

Recommendations

1. The Legislature should develop a plan to address the general fund's overstated fund balance resulting from a very significant liability of the nursing home receivables that will not be received and consider the collectability of those receivables when estimating fund balance that is available for appropriation.

2. The Legislature should develop a comprehensive multiyear financial plan to establish objectives for funding long-term needs.

[7] We released a separate audit of the County's jail operations. See Report #2013M-33, released June 2013.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Scott B. Samuelson, Chairman
Legislator, District One

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July 11, 2013

[redacted]
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear [redacted]

Sullivan County Government appreciates the opportunity to respond to your draft Report of Examination for Fiscal Stress, January 1, 2011 to August 8, 2012. Your report highlights the fact that the County is fiscally stressed and that the County should develop a long range financial plan.

The Comptroller's stated objective (page 4 of draft examination) was to determine the financial health of the County and identify causes of any identified fiscal stress. The audit addressed the related question: "Did County officials properly develop, monitor, and control operating budgets?"

On Monday, June 17th, 2013 County staff met with representatives from your office to review the draft report and discuss any concerns. As a result of that meeting you updated fund balance information on page 7 of the draft report. Staff also expressed our disagreement with recommendation number 1 on page 10 of the draft report. The Nursing Home has recorded a payable to the General Fund in the amount of $4.6 million. This payable exists due to the fact that the Nursing Home budgeted Intergovernmental Transfer (IGT) revenue in 2010 and 2011 totaling $5.5 million, but had yet to receive the funds before the end of 2011. Upon receipt of the funds and the other past due IGT payments the Nursing home will be able to pay back the General Fund. We do not agree that the fund balance in the General Fund is overstated.

See Note 1 Page 13

Staff will discuss with the Legislature the development of a comprehensive multi-year financial plan, as your number 2 recommendation suggests. We will discuss this recommendation and the entirety of the report with the Legislature and begin the process of creating a corrective action plan for submission to your office.

In conclusion, I would like to thank you once again for the opportunity to comment on the draft report. I would also like to commend the staff of the New York State Comptroller's Office who conducted the field work for the professionalism and courtesy that they exhibited while working with County staff.

Sincerely,

Scott B. Samuelson, Chairman
Sullivan County Legislature

APPENDIX B

OSC COMMENT ON THE COUNTY'S RESPONSE

Note 1

According to the County's annual financial reports filed with our office, the nursing home fund has recorded a liability owed to the general fund dating back to 2008. Subsequent to our audit fieldwork, the liability increased from $4.5 million at the end of 2011 to $5.8 million at the end of 2012. During our fieldwork, County officials expressed that there was no plan in place to liquidate the balance owed by the nursing home fund, and Nursing Home officials did not know where funds would come from to liquidate the liability.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine the financial health of the County and identify causes of any identified fiscal stress. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We reviewed the financial condition and trends of the County's operating funds from 2007 through 2011, including revenue, expenditure, and fund balance analyses.

- We reviewed the interfund payables and receivables and compared these balances to the available fund balance in each fund to determine the likelihood of repayment.

- We compared the budget-vs.-actual revenues and expenditures for the County's operating funds to determine if the budgets were reasonable.

- We interviewed County management to gain an understanding of their budgeting process and determine if they use a multiyear financial plan when estimating operating revenues and appropriations.

- We compared the County's operating funds' available balance to their appropriated balance to determine if the amounts appropriated were actually available.

- We interviewed County management and reviewed the trend of numbers of full-time equivalent employees at the County for the period 2002 to 2011 to determine if management had cut back on personnel and, if they had, the reasons why these cuts were made.

- We included relevant financial condition information from our audit of the County's jail.

- We interviewed certain department heads to determine the effects the financial condition has had on their departments, what the potential causes of the financial condition were, and if they had any plans to address the financial condition.

- We reviewed the nursing home's results of operations for the period 2002 to 2011, including the use of interfund revenues to fund operations, to determine the net effect of operations during that period.

- We categorized the individual revenue and expenditure account codes into specific operational departments/programs as reported to us by all counties in New York State (excluding the five New York City counties) for the 2011 fiscal year. We then compared the County's expenditures and revenues, per capita (or other representative comparison basis), to those of the other counties to determine how well financially the County's programs/departments were performing in comparison.

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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