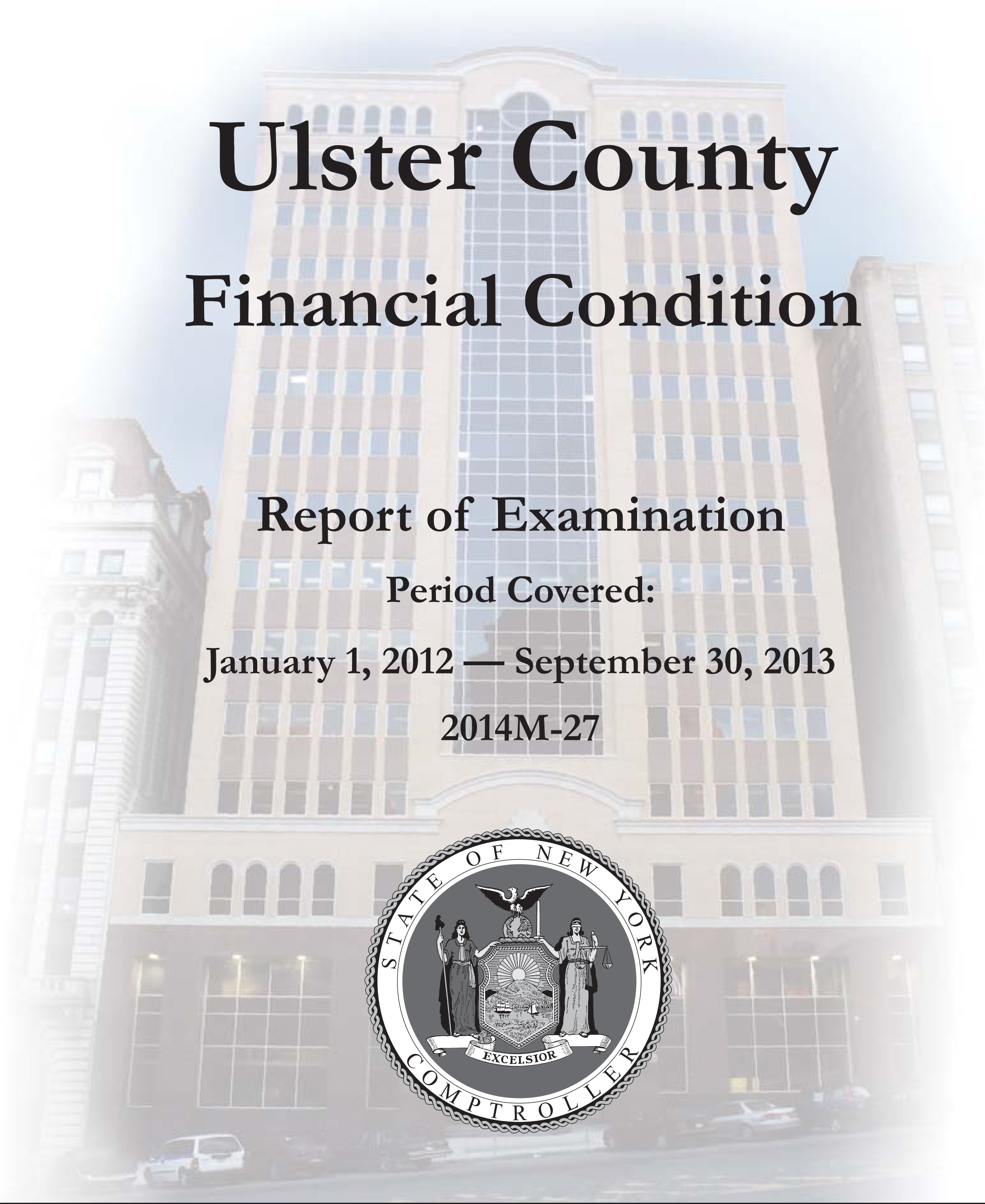
OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT & SCHOOL ACCOUNTABILITY



Ulster County

Financial Condition

Report of Examination

Period Covered:

January 1, 2012 — September 30, 2013

2014M-27

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

May 2014

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 Ulster 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 recommendation 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

Ulster County (County) covers an area of approximately 1,161 square miles and has a population of approximately 182,000. The County is governed by the County Legislature (Legislature), which includes 23 elected legislators. The Legislature is the County's legislative, appropriating and policy-determining body. The County Executive is the County's chief executive officer and administrative head and is responsible for overseeing all County affairs. The Commissioner of Finance is appointed by the Executive, is the County's chief fiscal officer, and is responsible for accountability of County moneys and accounting for receipts and expenditures.

The County provides various services including, but not limited to, law enforcement, educational assistance, highway maintenance and improvements, public health, public transportation, economic assistance and social services, recreation and cultural activities, public safety and general government support. The County's general fund appropriations for 2013 were approximately $290 million, funded primarily by sales taxes, real property taxes, State aid and Federal aid.

Objective

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

- Do County officials ensure that budget estimates and levels of fund balance are reasonable to maintain fiscal stability?

Scope and Methodology

We examined the County's financial condition for the period January 1, 2012 through September 30, 2013. We expanded our scope to analyze the County's fund balance trends for the period January 1, 2008 through December 31, 2011.

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 recommendation 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 recommendation and indicated they planned to initiate corrective action.

The Legislature has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the finding and recommendation 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's office.

Financial Condition

Financial condition may be defined as the 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, can suffer 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 monitor budgets and operations throughout the year.

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 surplus[1] 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.

County officials adopted budgets and monitored budgets and operations throughout the year, resulting in available surplus funds at the end of 2013 totaling $10.8 million. Surplus funds are below 5 percent of the 2014 adopted budget, which is the minimum required by the County's own policy. In addition, the County's revenues for 2013 included moneys raised by an additional 1 percent sales tax that is subject to reapproval from the State Legislature every two years.[2] The reapproval was not provided for a nearly two-month period beginning in December 2013.

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[1] 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).

[2] Every two years, the County must seek approval from the State Legislature to increase the County's portion of sales tax by an additional 1 percent.

We reviewed the annual budgets and corresponding results of operations for 2008 through 2012 and the projected results of operations for 2013. We found that County officials adopted budgets that allowed the unexpended surplus fund balances to remain relatively stable and that the County had adequate unexpended surplus funds to support planned operating deficits for the 2009 and 2013 fiscal years. As of September 30, 2013, the County had a planned operating deficit that was projected to be $6.9 million for 2013. Because the County's fund balance policy states that fund balance should be maintained at 5 to 10 percent of current operating expenditures, the surplus fund balance was used to cover the deficit.

As a result, the County's available surplus funds at the end of 2013 were projected to be approximately $10.8 million. This amount is 3.7 percent of the 2014 adopted budget, which is below the desired minimum 5 percent threshold in the County's policy.

The State Legislature reapproved the County's additional 1 percent sales tax levy in January 2014. The State Legislature's prior reapproval for the County to keep its additional 1 percent sales tax ended on November 30, 2013. As a result, the County could not levy additional sales tax after November 30, 2013. County officials explained that the County would experience a revenue shortfall due in part to the loss of approximately $2 million of sales tax revenue for December 2013.

Because of the uncertainty regarding the sales tax extension, the County budgeted to use $13.2 million of the County's unexpended surplus funds to balance[3] the 2014 Executive budget. We conducted a review of the County's proposed budget for 2014 and found that the significant revenue and expenditure projections in the budget are reasonable. As a result, the County may not have to use all of the fund balance that it appropriated for 2014 and its surplus fund balance at the end of 2014 may be higher than initially expected.

Recommendation

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.

[3] 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.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

ULSTER COUNTY DEPARTMENT OF FINANCE
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Commissioner of Finance

C. J. Rioux, CPA
Deputy Commissioner of Finance

Kenneth J. Juras
Deputy Commissioner of Finance

Thomas Jackson
Deputy Commissioner of Finance /
Director of Real Property Tax Service

April 18, 2014

Tenneh Blamah
Chief Examiner of Local Government and
School Accountability
New York State Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear Chief Examiner Blamah:

I am submitting this response to the New York State Comptroller's Financial Condition Audit of Ulster County for the period covering January 1, 2012 – September 30, 2013 on behalf of County Executive Michael Hein. We are pleased that after a thorough and complete review of the County's financial condition with the addition of a review of the Executive Budget for calendar year 2014 that the audit resulted in a positive assessment of Ulster County's financial condition with no findings.

Ulster County, through continued stable financial operations, including proactive management, reductions in contingent liabilities, and the County's low overall debt, has been able to deliberately use unexpended surplus funds to create structured and balanced budgets, thereby creating a fiscally sound financial environment in Ulster County, all while alleviating the financial burden on taxpayers caused by State mandates and other actions beyond the County's control.

Ulster County is committed to maintaining the County's strong financial position. Outlined below is the Corrective Action Plan in response to the recommendation made by your office:

Recommendation: 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.

Response: Ulster County has a strong fund balance policy in an effort to ensure financial security through the maintenance of a fiscally responsible unrestricted fund balance that guides the creation, maintenance and use of resources for financial stabilization purposes. The County's primary objective is to maintain a prudent level of financial resources to protect against reducing service levels, raising taxes and fees, and/or borrowing to meet cash flow needs due to revenue shortfalls or unanticipated one-time expenditures.

As highlighted in the audit report, Ulster County was negatively impacted when the New York State Assembly delayed the extension of the County's additional 1% rate of sales tax, resulting in a loss of approximately $5.4 million from December 1, 2013 to February 1, 2014. Since this additional sales tax has been authorized by the New York State Legislature and included in the County's revenue base for over 20 years, this unprecedented delay qualified as an unanticipated event that justified the use of additional fund balance to protect the County's taxpayers and ensure the ongoing delivery of County services. To buffer against this loss of revenue and protect County taxpayers against any prolonged delay in State Legislative action the 2014 budget sequestered funds contingent on the County having the authority to impose the sales tax by February 1, 2014. Conservative budget management and spending reductions to be incorporated into the 2015 Executive Budget will help replenish the fund balance to desired levels consistent with our fund balance policy.

Thank you again for your examination of Ulster County's financial condition and your positive assessment of our financial management.

Sincerely,

Burton Gulnick, Jr.
Commissioner of Finance

cc: Michael P. Hein, County Executive

APPENDIX B

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 for the period January 1, 2012 through September 30, 2013; we expanded our audit period to include the fiscal years ended 2008 through 2011 for fund balance trending:

- 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 and analyzed the County's financial records, including fund balance accounts, operating deficits, cash balances and interfund transfers and advances from January 2008 through December 31, 2012 and the projected fiscal year end data for 2013 for the general fund to determine if the County's financial condition has declined.

- We reviewed and analyzed the County's September 30, 2013 budget-to-actual report and budget amendment resolutions for the general fund to determine if there were any significant unbudgeted revenues and expenditures in the current year fiscal year.

- We analyzed and compared actual revenues and amended estimated revenues for fiscal years 2008 through 2012. We performed trend analysis of the actual revenues year over year to identify any significant change to the revenue amounts and to determine if the County's revenue estimates in the 2014 adopted budget appeared reasonable.

- We analyzed and compared actual expenditures and amended budget appropriations for fiscal years 2008 through 2012. We performed trend analysis of the actual expenditures year over year to identify any significant change to the expenditure amounts and to determine if the County's appropriation estimates in the 2014 adopted budget appeared reasonable.

- To determine if the amounts appropriated from fund balance to balance each year's budgets were available and reasonable, we reviewed and compared the 2008 through 2012 fiscal years' financial information and the projected financial information for 2013.

- To determine if the 2014 Executive budget was reasonable, we reviewed the proposed budget, salary schedules, debt payment schedules and other pertinent information. We identified and examined significant estimated revenues and expenditures for reasonableness, with emphasis on significant or unrealistic increases or decreases. We analyzed, verified and corroborated trend data and estimates, where appropriate. We identified any significant new or unusually high revenue or expenditure estimates, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items and to assess whether the estimates were realistic and reasonable. We also evaluated the amount of fund balance appropriated in the proposed budget to be used as a financing source and determined if the amount of fund balance was available and sufficient for that purpose.

We conducted this performance audit in accordance with 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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APPENDIX D

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