Office of the New York State Comptroller

Division of Local Government
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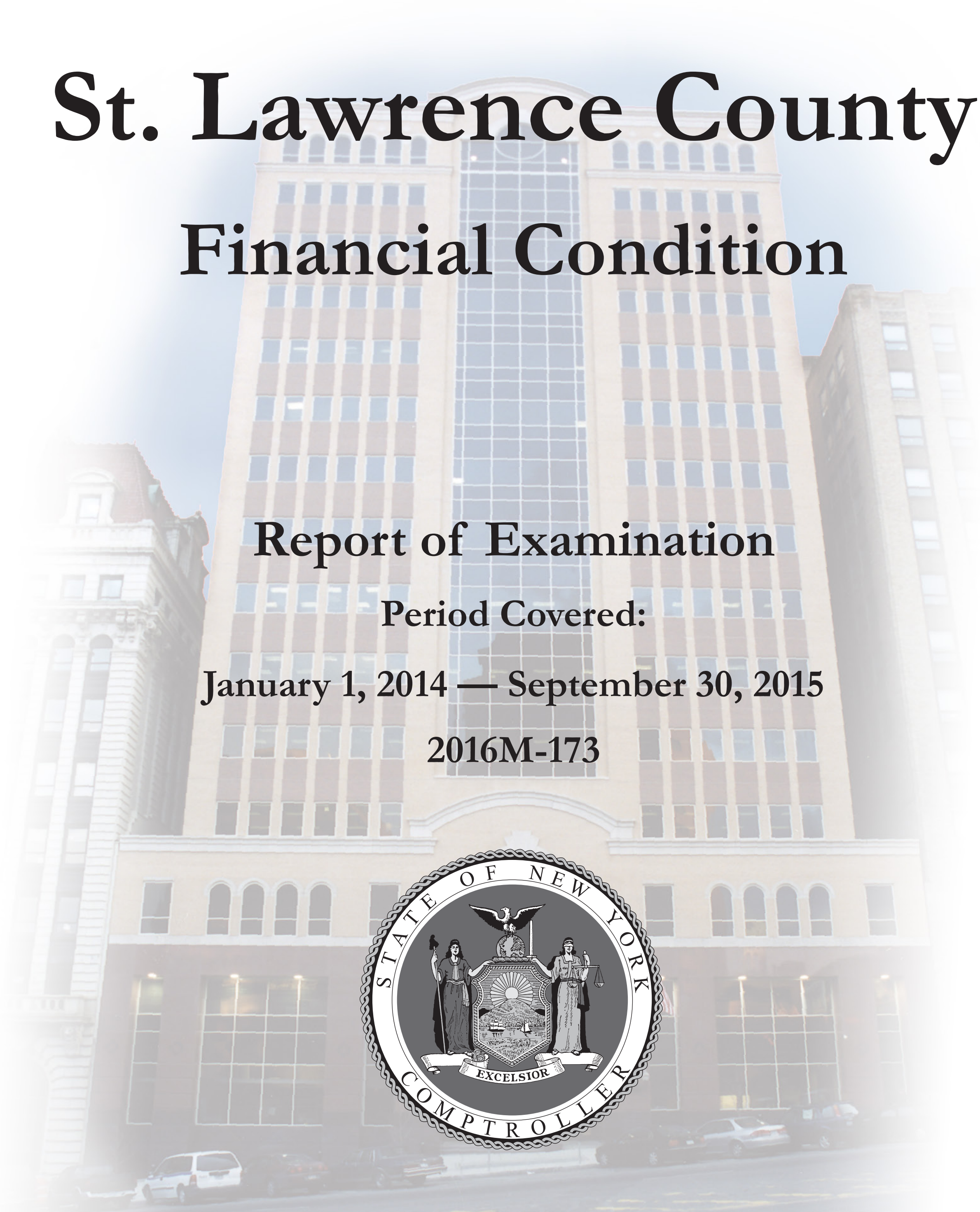

St. Lawrence County

Financial Condition

Report of Examination

Period Covered:

January 1, 2014 — September 30, 2015

2016M-173

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

June 2016

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 Board 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 St. Lawrence 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 New York State 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

St. Lawrence County (County) is located in northern New York, has a population of approximately 112,000 and encompasses 32 towns, one city and 12 villages. The County is governed by the Board of Legislators (Board), comprising 15 elected members, one of whom serves as the Chair. The Board is responsible for the general oversight of the County's financial affairs and for safeguarding its resources. The Chair is the chief executive officer, but the County's day-to-day management is the County Administrator's (Administrator) responsibility. The Administrator is appointed by the Board. The elected County Treasurer (Treasurer) is the chief fiscal officer.

The County provides various services to its residents, including general government support, road maintenance and snow removal, economic assistance, law enforcement and social services. The County's budgeted expenditures for fiscal year 2015 totaled approximately $198.2 million for the general fund, $20.2 million for the County road fund, $3.7 million for the road machinery fund and $3.8 million for the solid waste fund. These expenditures were funded primarily with real property and sales taxes, State and federal aid and user fees.

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 for the general fund and 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, 2014 through September 30, 2015. We also reviewed certain select financial information for periods back to 2012 to analyze historical fund balance, budget estimates and financial trends. We reviewed December 31, 2015 revenue and expenditure account balances as of April 12, 2016 and the 2016 adopted budget.[1]

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.

[1] As of April 12, 2016, the County Treasurer's office has not yet closed the 2015 accounting records, so the balances reviewed are subject to change.

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 plan 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 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 Clerk of the Board'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 that usually struggles to balance its budget can suffer through disruptive service level declines, may have limited resources to finance future needs and may have minimal cash available to pay current liabilities as they become due.

The Board is responsible for the financial planning and management necessary to maintain the County's fiscal health. As such, an essential component of the Board's duties and responsibilities is to make sound financial decisions that are in the best interest of the County and its residents. This responsibility requires Board members 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 Board 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.

In May 2013, the Office of the State Comptroller issued an audit report[2] that addressed the County's declining general fund balance and weakening financial condition. The audit recommended that the Board develop a fund balance policy that establishes a reasonable amount of fund balance to be maintained to meet the County's needs and provide sufficient cash flow and that the Board develop a long-range plan to ensure that sufficient resources would be available to meet future operational and capital needs. The Board has not implemented either of these recommendations.

Since our last audit, the general fund's unassigned fund balance has continued to decline to a deficit of nearly $2.9 million as of December 31, 2014. In addition, the County did not have sufficient cash to pay its bills and other obligations when due, resulting in the County issuing $10 million in short-term debt in the form of revenue anticipation notes in fiscal years 2013, 2014 and 2015. Although the County has consistently spent less than it budgeted each year, the Board has overestimated revenues such as sales tax and State and federal aid in

[2] 2013M-46: St. Lawrence County, Financial Condition, May 2013

the adopted budgets. As a result, the County has made little progress in rebuilding its fund balance.

The County wrote off $1.7 million in uncollectible accounts receivables in 2014, which also has contributed to the decline in fund balance. Preliminary figures for 2015 indicate the County may generate a small operating surplus due, in part, to its cost cutting efforts. However, this is unlikely to eliminate the cumulative unassigned fund balance deficit. Unless County officials take additional action to increase recurring revenues or cut additional costs and to develop a long-range financial plan to address the County's financial challenges, the County remains at risk of continued fiscal stress.

Fund Balance and Budgeting

The total fund balance in the County's general fund has decreased $3.9 million, or approximately 57 percent, over the last three fiscal years, from $6.9 million at the start of the 2012 fiscal year to $3 million at the end of the 2014 fiscal year. This is primarily a result of a planned operating deficit[3] of $2.3 million in 2012 and an unplanned operating deficit of $1.9 million in 2014. Figure 1 illustrates general fund balance trends over the last three fiscal years.

Figure 1: General Fund Unassigned Fund Balance at Year End

	2012	2013	2014
Total Beginning Fund Balance	$6,881,902	$4,599,667	$4,830,353
Add: Operating Surplus/(Deficit)	($2,282,235)	$230,686	($1,875,285)
Total Ending Fund Balance	$4,599,667	$4,830,353	$2,955,068
Less: Nonspendable Funds (Prepaid Expenses)	$2,275,714	$2,319,582	$2,252,713
Less: Restricted Funds[a]	$2,318,345	$2,605,771	$2,896,920
Less: Assigned Funds[b]	$899,079	$485,016	$695,623
Less: Appropriated Fund Balance for the Ensuing Year	$0	$0	$0
Total Unassigned Funds at Year-End	($893,471)	($580,016)	($2,890,188)

[a] Restricted for the payment of liability and casualty claims (the County is self-insured). The County maintains a separate insurance reserve fund in the accounting records, but the activity is included in the general fund in the audited financial statements and this analysis.

[b] Includes encumbrances and funds assigned for various purposes such as sheriff equitable sharing, Stop DWI program, Drug Enforcement Agency, Fort La Presentation and environmental remediation.

The County has historically relied on appropriated fund balance to finance its annual general fund budgets. The Board appropriated an average of $4.4 million of fund balance as a financing source in the 2008 through 2011 adopted budgets, which resulted in the gradual

[3] A planned operating deficit occurs when a municipality purposely adopts a budget in which expenditures are greater than anticipated revenues, with the difference to be funded with appropriations from fund balance.

depletion of fund balance prior to the start of our audit period. In the 2012 adopted budget, the Board appropriated $4 million, all of its remaining available fund balance, to finance operations. This final appropriation of fund balance represented a one-shot financing source, as the County no longer had fund balance available to help finance future budgets.

Although the County did not use all $4 million of the fund balance that was appropriated in the 2012 budget, it generated a planned operating deficit of $2.3 million because total expenditures exceeded total revenues for the year. The County ended 2012 with a reported total fund balance of about $4.6 million. However, about $3.2 million of this fund balance was restricted or assigned to be used for specific purposes, such as to pay self-insured liability claims and encumbrances. Another $2.3 million of the fund balance was classified as nonspendable because it represented expenditures that the County prepaid prior to the end of the fiscal year (a nonspendable asset). This left the County with an unassigned fund balance deficit of about $893,000 at the end of 2012.

In 2013, the Board relied on an increase in revenues from real property taxes to help fill the budget gap that resulted from having no more fund balance available to finance the budget. The County increased real property taxes by $6.7 million, or 14 percent from the previous year. To help reduce its heavy reliance on real property taxes, the Board requested State legislation to increase the local sales tax rate from 3 to 4 percent. The State Legislature authorized the County to increase the local sales tax rate in August 2013, and the increase took effect in December 2013. The County currently retains about 58 percent of total sales tax receipts and shares the remainder with the City of Ogdensburg (City) and all of its towns and villages. The County ended 2013 with a small operating surplus of $230,686; however, this was not enough to replenish the County's depleted fund balance, and it ended the year with a deficit unassigned fund balance of about $580,000.

When County officials advocated for the sales tax increase, they pledged to reduce real property taxes by the amount they were increased in 2013. The Board followed through on that pledge by reducing the tax levy by about $7.6 million, or 14 percent in the 2014 budget. The Board was able to compensate for the property tax reduction in the 2014 budget by increasing budgeted sales tax revenue (net of distributions to the City, towns and villages) by $13.1 million, or 62 percent. However, the County did not realize all the revenues it budgeted, which contributed to the unplanned operating deficit in 2014. In total, actual revenues were about $8 million (4.5 percent) less than estimated revenues in the general fund's modified budget.[4] The County realized significant revenue shortfalls in the following categories:

- Federal aid – $2.9 million under budget (11 percent)
- State aid – $2.7 million under budget (12 percent)
- Sales tax – $2 million under budget (3.5 percent)[5]

The overestimated revenues were largely offset by the County spending $6.8 million, or 4 percent, less than the modified budget appropriations of $177.4 million. The County would have ended 2014 with an operating deficit of about $175,000 had it not been for the write-off of $1.7 million in uncollectible accounts receivable related to the public health department. The Board decided to eliminate the County's Certified Home Health Agency and Long Term Home Health Care Program in 2013, effective February 2014. The closed programs' final reconciliation disclosed errors and invalid accruals, which required adjustment prior to closing the 2014 records. This adjustment contributed to the $1.9 million reported operating deficit in 2014, which reduced the unassigned fund balance to a deficit of nearly $2.9 million as of December 31, 2014.

2015 Budget − The Board did not appropriate any fund balance in the 2015 adopted budget, and it increased the general fund real property tax levy by $1.7 million, or 3.8 percent. According to the Treasurer's computation of the tax levy limit,[6] this was the maximum amount the County could increase the levy without passing a local law to override the limit. County officials also took various measures to cut costs during 2015. For example, County officials told us they revived the Vacancy Review Committee in August 2015 to study the need

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4 The County budgets fringe benefit costs and certain costs associated with the human service building in individual departments and also budgets the same costs in undistributed accounts, resulting in the costs being budgeted twice. During the year, the costs are allocated to departments and an interdepartmental revenue is recorded. The revenue and double recording of the expenditures are eliminated in year-end financial reports. We adjusted for this in our budget versus actual analysis. Also, our analysis of 2014 budget variances includes the financial activity related to the insurance reserve fund.

5 This represents the variance in gross sales tax revenues. The variance in the County's share of the sales tax revenue, net of distributions to the City, towns and villages, was about $1.2 million.

6 Chapter 97 of the Laws of 2011 established a tax levy limit for local governments in New York State. This law generally limits the amount by which local governments can increase property tax levies to 2 percent or the rate of inflation, whichever is less. The law does provide exclusions for certain specific costs and allows the governing board to override the tax levy limit with a supermajority vote.

to fill vacancies, and they eliminated certain positions and delayed filling vacant positions to reduce personnel costs.

As of April 12, 2016, the County had not yet closed the 2015 accounting records, so the general fund's final year-end results of operations and fund balance are unknown. The Treasurer resigned in January 2016 and the Deputy Treasurer has been working to record year-end accruals and other adjustments. The records as of April 12, 2016 show that the general fund has an operating surplus of about $963,000 for 2015; however, this amount will change as the County continues to record year-end revenue accruals and adjustments. In addition, the independent accounting firm hired to conduct the County's annual financial statement audit may also recommend changes to account balances as part of its audit, which is scheduled to start in June 2016.

The preliminary financial records for 2015 show that the County received $55.1 million in gross sales tax revenue, which was about $1.3 million less than the amount received in 2014 and $2.9 million (5 percent) less than budgeted.[7] Records also show the County has recorded about $1.7 million (8 percent) less State aid than estimated in the modified budget, about $500,000 less in tribal compact moneys[8] (17 percent) and $450,000 (2 percent) less federal aid than budgeted. However, the County has not yet recorded all revenue accruals, so actual revenues may increase prior to finalizing the 2015 records.

In addition, the County's self-insured health insurance expenditures increased by about $2.5 million (12 percent) from 2014 to $23.7 million in 2015, and they exceeded the 2015 original budget appropriation by nearly $3 million.[9] Despite this increase in health insurance costs, the County's preliminary records show that total general fund expenditures for 2015 were $8.8 million, or 4 percent less than the total appropriations in the modified budget.[10]

Because the County spent less than the total budgeted appropriations, it should be able to withstand the potential revenue shortfall in 2015 and begin to rebuild some of its fund balance. However, going forward,

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[7] The County's share of the sales tax revenue net of distributions was about $1.7 million less than budgeted.

[8] Tribal compact moneys are categorized as State aid, but we analyzed this revenue separately from other State aid revenues.

[9] The County initially records health insurance expenditures for all funds in the general fund and then it adjusts revenues and expenditures to break the costs out by fund for year-end financial reporting purposes. Because the County has not yet made its year-end adjustments for 2015, we reviewed the expenditures and variances for all funds combined.

[10] We did not include the activity in the County's insurance reserve fund in this analysis. The County accounts for this fund separately in the accounting records and combines it with the general fund in the year-end audited financial statements.

the County needs to carefully monitor revenue estimates throughout the year and modify the budget when revenues fall short of estimates because it may not have the unused appropriations or cash available to withstand continued shortfalls in budgeted revenues.

Short-Term Debt − While short-term borrowing such as revenue anticipation notes (RANs) may be used to alleviate temporary cash flow shortages, RANs should not be routinely relied upon to finance County operations. The depletion of fund balance in the general fund has resulted in cash flow shortages and a pattern of routine short-term borrowing through RANs for at least the past four years. From 2012 through 2015, the County has incurred interest and other related debt costs totaling $542,350, as illustrated in Figure 2.

Figure 2: General Fund RANs Outstanding At Year-End

	2012	2013	2014	2015	Total
RAN Amount	$12,000,000	$10,000,000	$10,000,000	$10,000,000	
Interest Expense	$116,875	$143,583	$94,804	$138,333	**$493,595**
Other Debt Issue Expenses[a]	$12,200	$12,105	$11,937	$12,513	**$48,755**
Total Cost of Debt	$129,075	$155,688	$106,741	$150,846	**$542,350**

[a] Includes expenses for bond counsel, fiscal advisors and printing

The County's ongoing reliance on short-term debt indicates that its cash flow issues are not being resolved. The County issued RANs in late September or early November each year and paid them off in late August of the following year, approximately one month prior to maturity.

According to the County's records, the general fund's unrestricted[11] cash balances have almost doubled from about $3.9 million at the end of 2014 to about $7.1 million at the end of 2015. However, these cash balances were impacted by the $10 million increase in cash from the RAN proceeds received about two months prior to the end of each fiscal year. Going forward, County officials will need to rebuild fund balance and cash balances in the general fund to provide adequate cash flow and reduce reliance on short-term debt to pay bills and other obligations when they become due.

2016 Budget − We reviewed the County's supporting documentation and calculation for the 2016 tax levy limit and determined that the 2016 adopted budget is not within the tax levy limit because it includes a tax levy of $50.5 million,[12] which, at the time of our review, exceeded

[11] This does not include cash related to the County's insurance reserve fund.

[12] This amount includes the County's adopted budget tax levy, omitted taxes and chargebacks, less the portion of towns' sales tax allocation applied to reduce the County levy (sales tax offset).

the tax ley limit allowed by law by $331,286. This overage primarily occurred because some of the chargeback and sales tax offset amounts the Treasurer used when computing the expected tax levy changed after the Board adopted the budget, which resulted in a higher tax levy than anticipated. Also, the Treasurer did not factor in a reserve that was required due to an error in the calculation of the prior year's tax levy limit. The Board did not pass a local law to override the tax levy limitation, and it did not adjust the tax levy prior to issuing the tax bills. As a result, the County is required to place these excess funds into a reserve and use them to offset the 2017 property tax levy. These funds will not be available to fund operations during 2016, which will further impact the County's cash flow.

The Board did factor in some of the significant 2014 and 2015 budget variances when developing and adopting the 2016 general fund budget. The total budgeted revenues and appropriations for 2016 are $193 million, or $5 million (3 percent) less than the 2015 adopted budget.[13] On the revenue side, the Board reduced its estimated gross sales tax revenues by $2.9 million (5 percent) to $55.1 million, which is essentially the same amount of sales tax revenue recorded as received in 2015.[14] It also reduced interdepartmental revenues by $1.1 million (100 percent) because it will no longer charge individual departments for centralized information technology services.[15] The Board also reduced estimated revenues from federal aid by about $950,000 (4 percent) and tribal compact moneys by $800,000 (27 percent).

However, the Board budgeted about $1.1 million (5 percent) more State aid revenue in 2016 than the County actually received in 2015.[16] Based on our comparison of actual State aid revenues to estimated revenues in the modified budgets from 2012 through 2014, the County has historically overestimated State aid by an average of 9.5 percent. Our analysis of preliminary 2015 results (discussed previously) also indicates that the County may not receive all the State aid it budgeted in 2015. The consistent overestimation of State aid revenues in past years has diminished the gains the County could have realized by spending less than it has budgeted each year. County officials should closely monitor State aid revenues during 2016 and adjust the budget as necessary if the revenues are not received as planned. In addition,

[13] The Board did not appropriate any fund balance to finance the 2016 adopted budget.

[14] Based on the 2015 accounting records as of April 12, 2016 (prior to year-end closing)

[15] This reduction in interdepartmental revenues is offset by a corresponding reduction in interdepartmental costs.

[16] 2015 actual revenues are based on the accounting records as of April 12, 2016 (prior to year-end closing). Also, this State aid comparison does not include tribal compact State aid moneys, which we analyzed separately.

the Board should consider using more conservative estimates of State aid in future budgets.

The 2016 adopted budget includes 23 positions eliminated in the Social Services, Public Health and Community Services Departments, which County officials estimate will save about $682,000 in personal service costs. The Board increased appropriations for health insurance (for all funds) by $2.25 million to $23 million, which is 3 percent less than the County's 2015 actual health insurance costs of $23.7 million. It reduced appropriations for the distribution of sales tax by $1.2 million (5 percent) and the distribution of tribal compact moneys by about $400,000 (27 percent).[17] The Board also reduced appropriations for contractual payments to various outside agencies, such as the St. Lawrence County Industrial Development Agency and the Chamber of Commerce, by about $390,000 (38 percent).

In addition, the Board reduced its contingency appropriation by $1.2 million to $1.4 million. Pursuant to County Law, the County could have budgeted up to about $5 million in contingency appropriations. The County's low contingency appropriation provides it with a limited amount of flexibility in the event of unforeseen circumstances that may require additional funds or if revenue estimates prove unfavorable.

Plan to Restore General Fund Balance − According to the Administrator, the 2016 adopted budget does not include any specific provisions to eliminate the County's cumulative deficit unassigned fund balance. The Board adopted a resolution in January 2016 to restore a minimum of $3 million to fund balance during 2016 by moving funds to unassigned fund balance every month. The resolution directs the Administrator to work with department heads to identify budget reductions, unspent budgeted funds (including unspent personnel funds that result from the current practice of delaying hiring) and the receipt of unanticipated revenues that can be used to replenish the fund balance.

It is unclear how the Board intends to move funds to unassigned fund balance each month. To restore $3 million to fund balance in 2016, the County will need to generate $3 million more in revenues than it has in expenditures during the year (an annual operating surplus). As of April 12, 2016, the Board has not formally identified any specific budget reductions or unbudgeted revenues that will help it to generate this $3 million operating surplus. Also, to the extent the Board identifies unanticipated revenues during the year and earmarks

[17] The County reduced distributions to the Towns of Brasher and Massena from $750,000 each ($1.5 million in total) in the 2015 budget to $550,000 each ($1.1 million in total) in the 2016 budget.

these revenues to increase unassigned fund balance, it will also need to factor in any potential shortfalls in other budgeted revenue sources such as sales tax and State aid. If material revenues fall significantly short of budget estimates in 2016, as they have in prior years, it may offset any unanticipated revenues received, resulting in the County not meeting its goal to add $3 million to fund balance by year-end. Unless County officials take specific actions to increase recurring revenues or reduce costs, the County will remain at risk of continued fiscal stress.

Long-Term Planning

The Board's important oversight responsibility 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 officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of current budgeting decisions on future fiscal years. Any long-term plans should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that decisions are guided by the most current and accurate information available.

The Board has not developed or adopted comprehensive, multiyear financial and capital plans, and it has no other mechanism in place to adequately address the County's long-term operational and capital needs. The development and adoption of multiyear plans would be a useful tool for the Board to identify recurring revenue sources sufficient to finance anticipated recurring expenditures to maintain a reasonable level of unassigned fund balance at year-end. The lack of a financial plan and a comprehensive capital plan could contribute to the further depletion of the County's fund balance, continued cash flow shortages and reliance on short-term debt, and continued constraints on the County's financial flexibility in future years.

Recommendations

The Board should:

1. Develop a fund balance policy that establishes a reasonable amount of fund balance that the County should maintain.

2. Adopt comprehensive, multiyear financial and capital plans to provide a framework for preparing future budgets and managing the financing of future capital needs. The Board should frequently monitor and update the plans to ensure that their decisions are based on the most accurate and up-to-date financial information.

The Board and County officials should:

3. Develop a plan for the repayment of the RANs and for the long-term management of the County's cash flow requirements.

4. Closely monitor budget-to-actual revenues during 2016 and adjust the budget if actual revenues fall short. Also, consider using more conservative estimates of State aid in future budgets.

5. Evaluate the amount in the County's contingency account to ensure it is sufficient for unexpected events.

6. Continue to evaluate and explore ways to reduce costs, increase recurring revenues or both.

The Treasurer should:

7. Record the excess tax levy in a reserve and use the excess funds (including any interest) to reduce the tax levy for the 2017 fiscal year.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

St. Lawrence County
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RUTH A. DOYLE
County Administrator

JOHN BURKE
Chair, Board of Legislators

June 9, 2016

Chief Examiner Rebecca Wilcox
Office of the State Comptroller – Regional Office
State Office Building Room 409
333 East Washington Street
Syracuse, New York 13202-1428

RE: Acknowledgement of Receipt of the Preliminary Findings for St. Lawrence County Financial Condition Period Covered: January 1, 2014 – September 30, 2015 by the New York State Comptroller's Office

Dear Chief Examiner Wilcox:

St. Lawrence County received the preliminary draft findings of the Audit of the St. Lawrence County Financial Condition for the period January 1, 2014 – September 30, 2015. A meeting was held with [redacted] the Comptroller's Office on Monday, May 16, 2016 which included myself, the Chair of the St. Lawrence County Board of Legislators John Burke, and Deputy Treasurer Renee Cole. The elected County Treasurer departed county service early in 2016, since that time the Deputy Treasurer has been fulfilling the obligations of the office without additional assistance as the County awaits an appointment by the Governor until the election in the fall.

We reviewed the draft document and preliminary draft findings and in general terms agreed with the recommendations, the suggestions, and the required reserve that needs to be created. The recommendation for the creation of a fund balance policy is already underway with the assistance of the Finance Chair Don Hooper. Once a policy can be forwarded to the Board of Legislators for consideration, if adopted a copy will be forwarded with the Corrective Action Plan. The recommendation for a financial and capital plan is also of great interest to the Board of Legislators.

The aforementioned items and the additional items included in the preliminary draft findings will be discussed with the Board of Legislators and their appointed Audit Committee. We will begin preparing a Corrective Action Plan for submission to your office. If there are other questions or concerns, please do not hesitate to contact me.

Kindest regards.
Sincerely,

Ruth A. Doyle
County Administrator

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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 inquiries about the County's budgeting practices and the development of plans to restore the County's fiscal stability.

- We reviewed and analyzed the County's financial records and reports for all funds, including balance sheets, budget reports and statements of revenues and expenditures.

- We analyzed the County's financial records of the general fund for fiscal years 2013 through 2015 and independent audit reports for fiscal years 2012 through 2014. We evaluated factors contributing to the general fund's declining financial condition.

- We compared the general fund's adopted budgets for fiscal years 2013 through 2015 with the actual results of operations to determine if the budgets were realistic and structurally balanced.

- We reviewed the County's financial records and Board resolutions for fiscal years 2012 through 2015 to determine the type, amount and purpose of short-term debt that was issued.

- We reviewed the general fund's December 31, 2015 revenue and expenditure budget versus actual results in the accounting records as of April 12, 2016 to determine if the County incurred any budget variances that could significantly impact the general fund's financial condition during the 2015 fiscal year.

- We reviewed the adopted budget for the general fund for fiscal year 2016 to determine whether budgeted revenues and appropriations were reasonable based on historical data and whether the budget was structurally balanced.

- We reviewed the County's documentation and calculation of the 2016 tax levy limit.

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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DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller

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