



Dutchess County

Financial Condition

Report of Examination

Period Covered:

January 1, 2012 — November 30, 2013

2013M-370



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 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 Dutchess 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

Dutchess County (County) has approximately 297,000 residents, 20 towns, eight villages and two cities, and covers approximately 802 square miles. County government is divided into two branches: legislative and executive. The executive branch is headed by the County Executive (Executive), who is the County's chief executive and chief budgetary officer. The County has three financial officers: the Comptroller, the Commissioner of Finance and the Budget Director. The Budget Director is responsible for the preparation and implementation of the County's annual budget.

As of November 2013, the County had approximately 1,800 employees. Budgeted appropriations for the 2013 and 2014 fiscal years were approximately \$409 and \$411 million,¹ funded primarily with real property taxes, sales and use taxes and State and Federal aid. The County provides services for its residents including general government support, road maintenance and snow removal, economic assistance and public safety services through the Sheriff's Department and County Jail. The County has two enterprise funds to account for airport and bus transportation operations.

Objective

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

- Does the County Legislature (Legislature) properly manage County finances by ensuring budgets are realistic and structurally balanced?

Scope and Methodology

We examined the County's financial condition and budgeting practices for the period of January 1, 2012 through November 30, 2013. We extended our scope period back to January 1, 2010 to analyze budgetary trends.

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 is 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 indicated that they were in the process of taking corrective action.

¹ \$411 million represents the 2014 proposed budget amount. The budget was adopted on December 5, 2013 with an amount totaling \$439 million.

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

The County's financial condition determines its ability to finance services on a continuing basis, maintain adequate levels of service and survive economic disruptions. A county in sound financial health adopts structurally balanced budgets for all of its operating funds and can consistently generate sufficient, recurring revenues to finance anticipated expenditures and maintain sufficient cash flow to pay bills and other obligations when due. To assist in managing financial operations and ensuring the continued orderly operation of government, the County should maintain a reasonable level of unexpended surplus funds (fund balance), which allows it to hedge against unanticipated expenditures and/or revenue shortfalls. A proactive approach to fiscal management is especially important for municipalities that have sizable operations and/or a declining financial position.

The County's general fund balance at December 31, 2011 was restated from \$64.6 million to \$45.5 million (a decrease of \$19.1 million) due to a change by County officials in revenue recognition and a net outstanding receivable balance that was recorded in error. At December 31, 2012, fund balance was 12 percent of the \$409 million budgeted for 2013.

Although the Legislature adopts realistic budgets based on historical or known trends, it appropriates general fund balance every year to subsidize the airport and bus transportation enterprise funds.² As a result, \$3.5 million in operating surplus in 2012 resulted in fund balance increasing by \$2 million because \$1.5 million was needed to subsidize the enterprise funds. While the County's budgeting practices have improved financial condition, the continued subsidizing of the enterprise funds will impact these efforts. An additional \$5.7 million was budgeted in 2013 and in the 2014 proposed budget to subsidize both funds.

Budgeting and Fund Balance – We reviewed the County's 2014 general fund proposed budget to determine whether budget estimates were reasonable, based on historical data and the actual results of operations. We found that the budgeted revenues and expenditures for the 2014 proposed budget totaling \$411 million were reasonable and the budget was structurally balanced. However, the general fund balance was used to cover shortages in the enterprise funds. The general fund balance decreased by approximately \$9.4 million from 2010 to 2012³ as depicted in Table 1.

² The general fund's total subsidy to both enterprise funds was approximately \$5.6 million from 2010 to 2012.

³ Fiscal year 2013 numbers were not available at the time of our audit.

Table 1: Change in Fund Balance			
	2010	2011	2012
Beginning Fund Balance	\$56,835,570	\$56,563,017	\$45,464,389 ^a
Operating Surplus	\$2,097,623	\$9,823,775	\$3,471,383
Total	\$58,933,193	\$66,386,792	\$48,935,772
Less: Subsidy to Enterprise funds	\$2,370,176	\$1,820,834	\$1,451,938
Ending Fund Balance	\$56,563,017	\$64,565,958	\$47,483,834
^a Fund balance at December 31, 2011 was restated by (\$19,101,569). The adjustment consists of \$12,380,001 to remove revenues recognized in the prior year beyond the 90 day availability period due to a change by the County Legislature in revenue recognition period for governmental funds to 90 days and a \$6,721,568 net outstanding receivable balance, which was determined to be recorded in error in the 2010 fiscal year.			

The total fund balance in the County's general fund has decreased by 16.45 percent. This decrease was partially due to subsidies to the two enterprise funds. Of the \$9.4 million fund balance decrease, \$5.6 million resulted from subsidies to the two enterprise funds and the remainder was caused by a change in accounting in 2012.

Enterprise Funds – Enterprise funds are used to account for government operations which are financed and operated in a manner similar to private business. The County's intent is that the cost of providing airport and bus transportation services to the general public on a continuing basis will be financed and recovered primarily through user charges in each fund. If the airport and bus transportation funds are not self-sufficient, they must rely on the general fund to subsidize operations.

The enterprise funds users' charges have not been sufficient to cover their respective expenses. The County Legislature has appropriated general fund balance to offset operating deficits from the two enterprise funds as illustrated in Table 2.

Table 2: Enterprise Funds							
	2010		2011		2012		Totals
	Airport	Mass Transportation	Airport	Mass Transportation	Airport	Mass Transportation	
Revenues	\$1,655,394	\$5,380,476	\$1,678,777	\$4,794,994	\$1,845,942	\$5,298,525	\$20,654,108
Expenditures	\$3,527,455	\$7,193,128	\$3,761,912	\$7,616,965	\$4,127,838	\$8,067,586	\$34,294,884
Operating Income (Loss)	(\$1,872,061)	(\$1,812,652)	(\$2,083,135)	(\$2,821,971)	(\$2,281,896)	(\$2,769,061)	(\$13,640,776)
Appropriation from General Fund	\$575,047	\$1,795,129	\$793,403	\$1,027,431	\$730,786	\$721,152	\$5,642,948

The County's general fund has had to subsidize a significant portion of both enterprise funds' operations over the last three completed fiscal years through appropriations totaling \$5,642,948. Furthermore,

the Legislature has appropriated \$2,818,125 to subsidize the two enterprise funds in the 2014 proposed budget.

The continued reliance on the general fund to subsidize both enterprise funds will in the long run impede County officials from maintaining a reasonable general fund balance. The County's Budget Officer informed us that the Legislature is currently looking into alternative means through studies that will help make the enterprise funds self-sufficient.

Recommendations

1. The Legislature should continue efforts to maintain the general fund balance at a reasonable level.
2. The Legislature should review the enterprise funds' operations and consider actions which will help make the funds more self-sufficient and less reliant on general fund subsidies.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



March 6, 2014

COUNTY OF DUTCHESS
DEPARTMENT OF FINANCE

Tenneh Blamah
Chief Examiner of Local Government and School Accountability
Office of the State Comptroller
110 State Street
Albany, NY 12236

Re: Response to Dutchess County Fiscal Stress Report of Examination regarding the County's Budgeting practices.

Dear Ms. Blamah:

I am submitting this response on behalf of County Executive Marcus Molinaro. We appreciate the opportunity to respond to your audit. It will be a valuable tool in our preparation for the 2015 budget. We would like to thank the team of auditors sent to Dutchess County for their courteous and professional manner.

Outlined below is the Corrective Action Plan in response to the Office of the State Comptroller's audit of Dutchess County's financial condition for the period January 1, 2012 to November 30, 2013.

Recommendations:

1. *The Legislature should continue efforts to maintain the general fund balance at a reasonable level.*

Corrective Action Plan to Maintain Reasonable Levels of General Fund Balance.

Dutchess County will continue as a stable and efficient organization through controlled spending and fiscal responsibility. Effort is being made to reduce the County's reliance on use of fund balance to balance the annual budget. There is no use of General Fund balance in the 2014 budget. With continued cooperation of all the County Departments, it is the County Executive's intent to present to the Legislature a balanced budget with the intent to appropriate as little fund balance as possible if at all allowing for the possible replenishment of the general fund balance. Legislators will continue to be provided data and summaries to better understand the tough decisions being made to provide the citizens of Dutchess County the best services possible.

We continue to lobby the State Legislature urging them to provide needed mandate relief to counties. The state mandated Preschool Special Education Program will cost Dutchess County taxpayers an estimated \$7 million this year. The State is considering a proposal to provide state funding for Universal Pre-K including coverage for pre-kindergarten special education programs. Adoption of this proposal is crucial to provide the mandate relief needed to preserve important optional county programs and services and replenish and maintain reasonable levels of fund balance.

2. *The Legislature should review the enterprise funds' operations and consider actions which will help make the funds more self-sufficient and less reliant on general fund subsidies.*

Corrective Action Plan to Reduce Enterprise Fund Subsidies

Outlined below is the Corrective Action Plan in response to the Office of the State Comptroller's audit of Dutchess County's financial condition for the period January 1, 2012 to November 30, 2013. County government continues to evaluate and implement measures to make our enterprise funds more self-sufficient and less reliant on general fund subsidies:

DPW-Airport (EA Fund)

- An operational and financial assessment of the Dutchess County Airport was recently completed to analyze various operational models at other Airports and review potential options available to the county. This study was initiated to meet the county's goal of finding the most effective ways for the Airport to become financially self-sustaining positioning the Airport as both a transportation resource for the region, as well as a source for increased opportunities for economic development. A draft report is currently under review by the County Executive's Office and Commissioner of Public Works. The final report is expected by the end of the month with the goal to begin implementation of recommendations identified within the study in 2014.
- The Administration is also working with the Dutchess County Water & Wastewater Authority and the Dutchess County Planning & Development Department to develop plans to provide municipal water service to the Airport in order to promote future development and associated revenues. The County has secured a \$750,000 NYS economic development grant for a water infrastructure project at the Dutchess County Airport and continues to look for additional funding opportunities.
- The Airport is managing tenant leases to retain and promote maximum occupancy of lease spaces in the terminal building, outbuildings, hangars and tie-downs.
- An Open House will be held again this year to promote Airport awareness and foster a positive public image of the Airport.
- The Airport continues to focus on grant opportunities, setting competitive aviation fuel pricing and periodically adjusting user fees to maximize revenues while remaining competitive with other similar size airports in the region.

- Debt service previously budgeted in the EA fund for the county bale fill project has been transferred to the general fund, resulting in a decrease in the airport subsidy of \$154,800. Although the bale fill is located on Airport property, this project was not related to the operations of the Airport. Therefore, it's more appropriately budgeted in the general fund.
- Over the last three years, the adopted general fund contribution to the Airport has decreased by \$314,949, going from \$793,403 in 2011 down to \$478,454 for 2014.

Public Transportation (ET Fund)

- The largest growing expenditure for the Public Transportation Division is the payment to our transportation management contractor for their employee salaries and fringe benefits. In 2014, the County plans to evaluate other models for the provision of public transportation, including the option to hire in-house staff, instead of using a contractor. If it is determined that a contractor is more cost effective, an RFP may be issued and the 90 day termination clause activated if proposals are received for a more efficient and cost effective service provider. If an in-house operation is determined to be more cost effective, a plan will be developed to begin implementation in the 2015 budget.
- Units installed in the fare boxes in 2013 will be activated in 2014, facilitating change in the form of a debit card for passengers who do not have exact change. This will also reduce the opportunity for potential fraud and cash handling errors insuring that all revenues collected are accounted for.
- The Public Transportation Division will continue to pursue all grant opportunities. Bus fares, routes and schedules will continue to be evaluated and adjusted periodically as needed to maximize ridership and revenue.
- A contractor has been selected to manage the transit system advertising programs. External advertising frames will be installed on all existing and new buses in 2014 with the goal to generate advertising revenue and reduce the general fund contribution.

Our goal is to deliver quality transportation services at a reasonable cost to the public who rely on these services, while minimizing the impact to our taxpayers and fund balance.

Very truly yours,

Pamela Barrack
Commissioner of Finance

cc: Marcus Molinaro, County Executive
Robert Rolison, Chairman of the Legislature
Carolyn Morris, Clerk of the Legislature
Valerie Sommerville, Budget Director

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:

- We reviewed the County's policies and procedures for developing and reporting information relevant to financial and budgeting activities. This included gaining information on the fiscal responsibilities of County officials.
- We interviewed County officials to determine what processes were in place and gain an understanding of the County's financial situation and budget.
- 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 and independent audit reports for the general fund for fiscal years 2010 through 2012 to determine if the financial condition of the general fund had declined. We also evaluated any factors contributing to the decline.
- We compared the adopted budgets for the general fund for fiscal years 2010 through 2012 with the actual results of operations to determine if the budgets were realistic and structurally balanced.
- We reviewed the adopted budget for fiscal year 2014 to determine whether revenues and appropriations budgeted were reasonable, based on historical data and the actual results of operations for 2012 and the previous two years and whether the budget was structurally balanced.
- We analyzed the County's financial records and independent audit reports for the bus transportation and airport funds for fiscal years 2010 through 2012 to determine if the fund was self-sufficient. We also evaluated any factors contributing to the funds not being self-sufficient.

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
Gabriel F. Deyo, Deputy Comptroller
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