

**Herkimer County Legislature
Ways & Means Committee Meeting
Friday, August 21, 2020
Via Teleconference
9:30 a.m.**

Persons Attending:

Kurt J. Ackerman (committee member)
Raymond Smith (committee member)
Raymond Johnson (committee member)
Frederick J. Shaw, Jr. (committee member)
John P. Stephens (committee member)
Vincent J. Bono, Chairman of the Legislature
James W. Wallace, Jr., County Administrator
Sheri Ferdula, Budget Officer/Purchasing Agent
Michele Gilbert, Jr. Accountant
Tricia Lucas, D'Arcangelo

(Non-Committee Members Signed In)

Legislator Gregory Malta, Sr.
Legislator Robert J. Schrader
Legislator Bob D. Hollum
Legislator William E. Keeler, Sr.
Legislator John L. Brezinski
Legislator Ray Donley
Legislator Peter Campione
Legislator William Weakley

Absent:

Patrick E. Russell (Committee Chairman)

Mr. Smith called the meeting to order at 9:31 a.m.

Items discussed:

WAYS AND MEANS:

1. Acceptance of 2019 Audit
2. Other

Committee Vote Record:

WAYS & MEANS:

Mr. Smith: "First thing on the agenda is to accept the 2019 Audit. Ok, go ahead."

Tricia Lucas: "Good morning everybody. Thank you for having me again this morning in these unprecedented times. Jim and I did distribute two documents, the Bound Financial Statements and then the management letter. We are going to be reviewing the Bound Financial Statements first. So this is the external audit for the year ended December 31, 2019. If you turn to pages one and two, this is the Independent Auditors report. So D'Arcangelo and company did audit the records of the County for the 2019 year. There are some additional components included as well. The IDA is included which we did not audit, we rely on the other auditors for their opinion and then there is the College which we did audit and HTASC which we audited as well. HTASC is a blended component unit so it is blended in with your numbers. The other two component units are separate component units so their numbers are stated separately. Those financial statements were reviewed with those boards independently but have to be included in accordance with the standards for your financial statements. We did perform your audit in accordance with generally accepted auditing standards and government auditing standards and you also had a single audit which is a separate audit of your federal funds and that's in the back of these financial

statements so we will look at those in a moment. The last paragraph on page one is the opinion paragraph. I'm happy to report that once again the County received an unmodified opinion which is a clean opinion and it is the highest level you can receive and it's what you're custom to receiving in the past. Page 2, there's a few paragraphs here, the Other Matters paragraphs and then the other reporting required by GASB and basically it's just stating that all of your required supplementary schedules and all of your other supplemental schedules are included in here as well. In addition to the Government Auditing Standards Report which we will look at in the back of the Financial Statements. Page three starts the MD&A. The MD&A really gives you an overview or a summary of the Financial Statements themselves so it's a more condensed version and it is in comparative format so you will see 2018 versus 2019. We are going to focus most of our attention here. If you turn to page four, there is two different ways of reporting. There are your Fund Financial Statements which are your day to day and then your government-wide. The first charts we are going to look at are your government-wide statements which condense all of your funds together and include all of your long term debt as well as your fixed assets. Once we look at these we will go to the Fund Financial Statements. We will look at your fund balance on an individual fund by fund basis. So page four, in the middle of the page, note four gives you your assets, deferred outflows, liabilities, deferred inflows and then your net position. This is on a government-wide basis. Your total assets at the end of 2019 were \$174.9 million versus \$167.3 million in the previous year. You will notice your current and other assets decreased from \$88 million to almost \$67 million. A lot of that had to do with the fact that you had almost \$20 million in cash in the Capital Fund at the end of 2018 that was reserved for the jail project. That money was unspent at the end of 2018 and during 2019 that money was spent and it was actually added to your fixed assets which is the line below it. Your Capital Assets of \$108 million versus \$79 million in the previous year. You will see that not only that \$20 million in cash from 2018 was invested but you also had some additions as well totaling about \$36 million, most of that being the jail and then that was offset by depreciation expense of \$7 million. So once again you had total assets of almost \$175 million. Your Deferred Outflows of Resources is at \$26.4 million. You will notice a significant increase from the previous year. That \$26 million has to do with your pension and OPEB or Other Post-Employment Benefits. Those are deferred outflows that we get straight from the actuaries that are independently hired by the County for OPEB. The pension actuary is actually independent. We hired by the pension plans themselves and these deferred inflows and outflows are used kind of as a holding account to even out the effects to your revenue expenses from year to year for changes in actuarial assumptions. Those come directly from the actuaries and will be advertised over a five year period in the future. Your total liabilities are \$197.3 million. You will notice a pretty significant increase from \$168 million the previous year. Your current and other liabilities are about \$20.1 million up slightly from the previous year. A lot of that is your accounts payable and your accrued liabilities. Your accounts payable was increased at the end of the year which was just a timing issue and most of that had to do with the jail project for capital expenditures. It was just money owed at the end of the year. Then your non-current liabilities were \$177.2 million, up over \$27 million from the previous year. The line of that increase is your OPEB increase. Once again that OPEB is Other Post-Employment Benefits that is the health insurance that you provide to your retirees upon retirement from the County. This liability is actuarially determined by an actuary that you contract with through the County. Your total OPEB liability is \$123 million up significantly from about \$98 million in the previous year. Also included in that \$177 million are your bonds of about \$44 million and then you have a pension liability as well for about \$4.7 million that once again is actuarially calculated by the pension's actuaries. Deferred Inflow of Resources is at \$8.1 million. That is mostly due to the pension calculation and then you Net Position. You have total Net Position of \$2.2 million. Your Net Investment and Capital Assets is about \$64 million. That is your investment in all of your infrastructure and all of your buildings less any debt. You had restricted amounts of \$21.1 million. You will notice it is down about \$6.6 million from the previous year. That is because you used \$6 million of it for the jail project. So \$6 million was transferred out of one of those restricted amounts to use for the jail and transferred over to the capital fund. And then you had an unrestricted deficit of \$82.5 million. Keep in mind you do have that \$123 million recorded for the OPEB liability so that's really what puts you in that deficit position. I can tell you, you, and just about every other governmental entity is in a deficit position at this point due to that OPEB being recorded."

Mr. Wallace: “Do you want to talk about that now or do you want to wait on that? Explain to them what the factor is that makes the difference there.”

Tricia Lucas: “We will look at the note that gives all of that detail. Thank you Jim. So you had \$2.2 in Net Position. Just below that chart are your revenues of \$110 million, up almost \$8 million dollars from the previous year. So your charges for services were pretty consistent. You will notice your operating grants and contributions are up from \$26.9 million to \$31.7 million. Your State Aid was up about \$4.5 million. There were a few different reasons for that. Your Education/Handicapped grants were up about \$450,000. You had a Homeland Security Grant of \$200,000. Childcare was up about \$1.6 million so that was one of the bigger reasons. The Frankfort project was over \$560,000 and then you had a little bit of a new grant in there, Raise the Age, that contributed to that increase as well. Your property taxes, very consistent. Only up about \$100,000. And then your other taxes and items increased to \$39.8 million. That increase is due to an increase in sales tax of about 5%. Your sales tax was up about \$1.6 million in 2019 from 2018. You had total revenues of \$110 million. If you turn to the next page your total expenses were \$107 million. So you had \$110 million in revenues, you spent \$107 million so your net position actually increased from year to year \$2.7 million. Let’s just look at a couple of the expenditure items. Your General Government support, that was up. A lot of that had to do with sales tax distribution. Your revenues are up therefore you are distributing more out to the towns and villages as well. Education was up as well. A lot of that had to do with the Education/Handicapped Program. And then your Economic Assistance and Opportunity, once again, once your revenues are up, your expenses are up and as we said a moment ago your OPEB liability was up as well which means the allocation for that expenditure which is allocated amongst all of these programs increases each of these individual line items as well and that’s allocated based on salary. So again, your net position on a government wide basis increased \$2.7 million. If you turn to page six, page six is more on a fund by fund basis, here they are all consolidated into one column but here there are no fixed assets included and no long term debt. So this does not take into consideration any of the capital projects. All of those expenditures are still included within these funds. Your total revenues were \$109.9 million and keep in mind on this bottom chart we are comparing the first and the third columns, not the first and the second. So your Real Property Taxes have been very consistent. Only a \$100,000 increase. Then you had your Net Property Tax. I’m sorry, your Non Property Tax. Once again, that increased to \$35.4 million due to sales tax. Your Departmental Income, Fees and Interest was up about \$1.3 million. Your interest increased year over year of about \$300,000 to \$400,000 and then there was some additional revenue for snow removal of about \$600,000. Your State and Federal Aid actually increased \$4.8 million. A lot of that had to do with the State Aid that we just spoke about a minute ago. And then in the Federal fund the Federal actually decreased. You had a highway grant in the previous year of about \$1.4 million that you did not have in the current year so that was a one year type grant that you had. So State Aid increased but Federal Aid actually decreased. You have total revenues of \$109.9 million and if you turn to the next page your expenditures were \$132.4 million. Keep in mind this across all of the funds. In the previous year you had \$101.4 million in expenditures. The Public Safety line item increased from \$13 million to \$38.8 million. Most of it had to do with your capital projects. In total the jail was about \$26 million and you had an E911 project as well for about \$2.6 million. That’s why your expenditures are so much higher than in the previous year. So that kind of gives you an overview of both the Government Wide and the Fund Financial Statements. If you turn to page ten, page ten are the numbers we just went over but it’s in much greater detail. I kind of gave you the overview from the management’s discussion and analysis but there is one thing that I really wanted to point out on page thirteen. So this is the Fund Financial Statements but on an individual basis and if you look toward the bottom of page thirteen, that first left hand column, which is the General Fund, that third number up shows that the General Fund lost \$2,168,000. I thought it was important to just go over why there was a loss there. Keep in mind you transferred over to the Capital Fund \$6 million to use towards the capital project. That was really a designed deficit in the General Fund because you moved that money over to use on that capital project. If you didn’t have that transfer you would have been up about \$4 million which are the numbers we just went over in the MDNA. I just wanted to point that out so nobody panicked when they saw that deficit of the \$2 million. Any questions so far? I’m not going to go over the component unit numbers just because once again those financial statements are reviewed at those boards at individual

levels. The notes to the financial statement start on page twenty-one. I am happy to report that there are no new standards that had to be implemented or that were affected for the current year. A lot of these notes are very consistent with the previous years. I'm just going to go over the more significant ones or ones that may have had some changes that would be important to bring forth in this meeting. The first one I would like to look at is on page thirty-seven. This is your Capital Asset note and up at the top is your governmental activities. There are four columns here. Your beginning balance, increases, decreases and your ending balance. I just want to point out that construction in progress of the \$28 million once again, most of that is just the jail project that has been on going and that's where most of the additions came into play and then down in that third section the Accumulated Depreciation section you will see that's almost \$7.1 million, that's the depreciation for the current year. On the next page, page thirty-eight note eleven is your Noncurrent Liabilities. That first chart is the governmental activities. The bonds, although it increased almost \$700,000, that relates wholly to the HTASC bonds because they have zero coupon bonds. You did not take out any additional bonds of the County but HTASC had an increase in the bonds and then you did pay down almost \$1.7 million in your bonds from the current year and almost \$20 million of that is the new bond that you took out last year for the jail. Page thirty-nine just gives you a detail of all of the different bonds and then it gives you your maturity schedule down at the bottom of the page. Next we are going to turn to the OPEB note which was the note that Jim was asking about just a moment ago. Please turn to page fifty-two. The second section down, it's labeled F, changes in the total OPEB Liability. So your total OPEB Liability was almost a \$100 million at the beginning of the year, that \$99.9 million at the top of that chart. There were net changes of \$26.2 million which were additions to that liability. You had some service cost, some interest on the total OPEB Liability but you will notice that next number down is change in assumptions or other inputs. That increased \$23.8 million. Now those come directly from the actuaries but one of the most significant assumptions you can see changed was they decreased the rate from 3.8% to 2.9%, the discount rate that they used to apply to this liability. When they decrease the rate your liability increases. If you look at letter G just below that, this is a sensitivity chart. In that middle column, the current assumption 2.9%, that's where you will see your \$126 million liability. If they had used a 1.9% your liability would have jumped up to over \$164 million and if they had use 3.9% it would have decreased to \$100 million so you can see just how important that discount rate is and what an impact it has on that liability. These are rates that they use. They are certified. They use mortality tables, discount rates but that is one of the main reasons that your OPEB Liability increased so significantly from year to year. There were no significant changes to the benefits that you offer or to the census data, meaning that the people that participate in the OPEB Liability, most of it was just actuarial assumptions that had changes in them. Some of these notes include the college notes as well. Again these are very consistent from year to year. I'm going to move next to page sixty-one. Page sixty-one is a chart of your Fund Balance and it details it out by fund and by type. You had Restricted, Assigned and Unassigned Fund Balance at the end of the year and it goes by fund across the columns. The one that I would like to point out is in the General Fund column about midway down, its \$11.6 million. That's the Correctional Facilities Sales Tax. That is down \$6 million from the previous year. Once again that was transferred over to the Capital Fund to be used for the construction of the jail. Just below that is New County Jail line item of \$3,356,000. That is the tobacco money that is sitting in a Restricted Fund Balance in the General Fund. That was very consistent from year to year. Overall you have restricted amounts of \$16.6 million. The two main categories were the ones we just looked at. You had assigned amounts of \$538,000 which consisted of encumbrances and then amounts designated for subsequent year's budget. And then you had an unassigned fund balance amount of \$20.5 million which is up about \$4 million from the previous year which we just spoke about in the Fund Financial Statements. Then lastly on page sixty-three I just wanted to point out there is a Subsequent Event note in here. Due to the current circumstances that we are all encountering due to the pandemic it was important to put Subsequent Event note in here. We have all seen a decrease in revenues at the governmental level especially with the sales tax collections so there is just a new note in here just explaining to the reader that the pandemic is going to have an impact on the County. Not exactly sure what the severity is going to be at this point but it is disclosed in here. Page sixty-four starts the required supplementary information. Page sixty-five really reiterates the OPEB note we looked at just a moment ago in the 2019 column but this is a newer schedule that came into effect when you implemented GASB75 last year and eventually the schedule will be a ten year history of your OPEB information. So this year we just added 2019 and

you will notice the changes from year to year whereas that change and assumptions from the actuary was almost at \$24 million but there was not change in the previous year due to it being the first year of implementation. This just kind of gives you an overview of that liability that is very significant to the County. Page sixty-eight starts the single audit section of the financial statements. So pages sixty-eight and sixty-nine are the Independent Auditor's Report on Internal Control over financial reporting and compliance and then pages seventy and seventy-one are the Independent Auditor's Report on Compliance for each major program. I am happy to report that there were no significant findings. No significant deficiencies or material weaknesses noted in the current year that needed to be reported in this section of the report. Page seventy-two starts the actual schedule of the Expenditures of Federal Awards. This is all of the Federal money that the County spent in the current year and if you turn to page seventy-five there was \$13.8 million spent in Federal monies in the current year. In each year we come in and we do a risk assessment and determine what programs need to be tested. This year we tested your TANF cluster and the Foster Care program. Those programs change every year depending on the numbers and the risk assessment performed. Page seventy-seven gives you an overview of the results of the audit for the single section audit. Once again, unmodified opinions, there are no significant deficiencies and no material weaknesses. I do always like to point out number nine below that you are determined to be a low risk auditee which is a little feather in your cap. It means you have had clean audits over the past two years and all of your reports have been filed on time for the data collection form and therefore we are able to audit less Federal programs, only 20% of the Federal monies instead of 40%. You have been a low risk auditee over the past few years. If you turn to page seventy-nine it gives you a status of the prior year findings. Last year there was a finding that was noted in this report and it had to do with Federal Uniform Guidance. We were recommending that you put in to place a training program as well as documented internal controls over your Federal programs for the compliance requirements that relate directly to the individual programs and I am happy to report that that has been cleared up during the current year. The County developed a program and rolled it out to those that it affected for the Federal funds and are monitoring the internal controls over those individual programs. That has been cleared up and is no longer included in this report. And then last but not least, page eighty starts the separate audit that had to be conducted over the transportation. There were no findings here as well. If you turn to page eighty-two, this is the schedule. There was a little over \$8 million that was subject to audit and we did audit the top one, the consolidated Highway improvements money. That was a clean audit as well. So overall, unmodified opinions and no reportable conditions that we were required to be included in this report. Any questions so far? I know that's a lot to take in. I did distribute one other document. This is the required communications at the conclusion of the audit and the first two to three pages, actually three pages, is the actual letter. Most of it is template wording. In the middle of the first page, just describes the estimates that are inherent in your financial statements. Once again, that OPEB liability is a large estimate as well as the capital assets and depreciation. The estimates used by the pension actuaries to record your asset or your liability in regards to the pension plans that you participate in. The next couple of pages basically say that there were no disagreements with management and there were no discrepancies in opinion. There were some journal entries that were posted throughout the audit. Those were agreed to by management and posted to the books and are included in your financial statements and on your books so all of those were corrected. That fourth page starts the schedule of findings and recommendations. There were three recommendations that we were making in the current year. One had to do with Payroll. There were some discrepancies that we noted when we were looking at the internal controls over Payroll as far as authorizations on change reports and hire reports so we are just recommending that the policies and procedures over those payroll controls just be reviewed and adhered to on a consistent basis. Cash, this relates to the bank reconciliations. The bank reconciliations did not always reconcile to the general ledger and were not always performed timely. In addition, you have been investing frequently in Certificates of Deposits and sometimes when those were rolled the interest was not being recorded into your books when that CD was rolled. We did notice there was no review procedure in place over these bank recs. We are recommending that bank recs. be performed in a timely manner, they are reconciled to the GL and they are being reviewed on a monthly basis to ensure that they are being done timely and that they are accurate. And then Fixed Assets, this year there was a little glitch odd thing with the system. Some of the reports were not agreeing to others so we are working on that to make sure we can get that cleared up.

Fixed Assets are properly stated. We just don't want this to accumulate from year to year so that will be looked during the 2020 year. Then the next two pages are just a status of prior years. I'm happy to say a lot of these were cleared up but let's go over them quickly. Letter A is the reporting schedule of expenditures of Federal Awards. A lot of time you get grant money in and it is a little convoluted to determine whether it is State or Federal money and sometimes that money is being reported as State when it should be Federal and vice versa so we are just asking that people are a little more cognizant of the money coming in and we have given you some tips and tricks to try to figure out what type of money that is so it can be recorded properly. Deferred inflow and outflows for unavailable resources, this is just a matter of making sure that the revenue that comes in after or subsequent to year end meets the measurable and available criteria for being recorded as revenue. The TANF cluster, there was one instance in the prior year that was noted testing the files. It was not noted in the current year. Last year we had noted something in the HEAP program. We did not test HEAP. Once again we rotate those programs so it was not noted in the current year. Letter E the Agency fund is a repeat. There is a Trust and Agency account that does not reconcile to the detail so that once again was noted in the current year. Then the census data for the actuaries. You send them census data every other year. Last year was your census data year. This year was not so we did not test census data and therefore we did not have any findings."

Mr. Bono: "Can you give me an example of when you mentioned Federal versus State as far as grants can you give me an example of how you wouldn't know...."

Tricia Lucas: "I know it sounds funny but a lot of times the Federal Government will pass it through the State."

Mr. Wallace: "It happens a lot, Jim."

Tricia Lucas: "So it comes from the State and kind of disguises itself as State money."

Mr. Wallace: "And the State likes to take the credibility, we are giving you this money, you know what I am saying but it's not really that. It could be CDBG money it could be you know stuff like that. It's coming from the State but it is really Federal money."

Tricia Lucas: "Correct. It does get a little convoluted. There is a CFPA number that you can look for and there are a couple other little things you can look for on the grant documentation and that will help determine whether it is State or Federal and that's what we look at to make that determination. Every once in a while once your report is issued we will get a call, the Federal grant isn't included in your SEFA. It was miscoded as State and sometimes it's just very difficult to kind of pin point it. Any other questions?"

Mr. Schrader: "Tricia, I know it was a few years back as far as the sales tax distribution. I know it's not on your radar so you are not really looking at that correct?"

Tricia Lucas: "Yes. We are looking at that and I should have mentioned it and I didn't. So we look at that. It is one of our risks. Every year we come in and do a risk based audit approach and we identify the higher risk areas and ever since that has occurred we identify it as a risky area and we do additional procedures on the sales tax. Yes I look at all of the revenue coming in and the accruals and I actually recalculate the distributions to all of the towns and villages."

Mr. Schrader: "So everything was good with it."

Tricia Lucas: "Yes. I did not find any discrepancies."

Mr. Schrader: "Thank you. I appreciate it."

Tricia Lucas: "You are welcome. Any other questions or comments?"

Mr. Smith: "Thank you. Good job. Well done. Can I get a motion?"

Item #1 - On motion of Mr. Bono, seconded by Mr. Johnson, Item #1 was voted on and approved.
Unanimous. Absent: 1.

Item #2 – N/A

On motion of Mr. Bono, seconded by Mr. Stephens, the Ways & Means committee adjourned at 10:06
a.m.