SUFFOLK COUNTY LEGISLATURE

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Director

BUDGET REVIEW OFFICE

June 19, 2013

To: William J. Lindsay, Presiding Officer and
All Suffolk County Legislators

From: Robert Lipp, Director
Budget Review Office

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Subject: **Creating a Unified County Department of Financial Management and Audit**

Introductory Resolution No. 1567-2013, sponsored by the County Executive, creates a unified County Department of Financial Management and Audit by merging the Departments of Audit and Control and Finance and Taxation. At the request of the Legislature's Chief of Staff and the minority leader, the Budget Review Office has prepared this memo to provide the Legislature with an analysis of this bill.

In preparing this analysis, the Budget Review Office reviewed several documents that have been written on consolidation of the two departments:

1. the 1997-1999 Charter Revision Commission Report,
2. the June 7, 2006 memo from BRO to all Legislators,
3. the 2008-2009 Charter Revision Commission Report,
4. the June 13, 2013 memo from the County's financial advisor, Capital Markets Advisors (CMA), to the County Executive et al.,
5. Introductory Resolution No. 1567-2013 (as amended on July 19, 2013) along with the accompanying fiscal impact statement and Performance Management Report, and
6. the June 26, 2013 memo from the County Attorney to the Presiding Officer.

In addition, we have discussed the proposed legislation with:

1. the Department of Audit and Control,
2. the Department of Finance and Taxation,

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3. the Deputy County Executive (Admin.) in charge of Performance Management,
4. the County's independent outside auditor, Ernst & Young, and
5. the County's financial advisor, Capital Markets Advisors (CMA).

1. Overview

The Budget Review Office makes no definitive recommendation in favor or against consolidation. While a case can be made for consolidation, there are concerns brought out in this memo that need to be weighed before making a determination. Savings are predicated on cutting seven positions from what are already historically low staffing levels. We do not dispute that the County would realize monetary savings from the proposed reduction in staff, but those savings may be at the expense of service provision. Unfortunately, any loss in service provision cannot readily be quantified. That being said, the contention made in the Performance Management Report that economies of scale from consolidation would prevent such a loss is also not quantified.

In our view, what is lacking from the debate on this issue is a study of restructuring the County's financial functions, including a detailed description of reporting lines. While the Department of Audit and Control does make a case for consolidation in a draft of their organizational chart, we do not believe this to be sufficient to demonstrate that the consolidated department would operate efficiently with seven fewer filled positions.

In past years, when staffing levels were considerably higher, cutting seven positions could be accomplished with fewer consequences; we believe that is no longer the case. As a result, the savings noted in the fiscal impact statement may be at the expense of service provision. If the proposed reduction in staff results in the inability of the Chief Financial Officer to responsibly and effectively execute his/her duties, additional personnel may be required, reducing the more than $1 million in savings.

2. Organizational Structure

While Suffolk County is the last county in New York State to have a separately elected Comptroller and Treasurer, many counties, as well as the State, still maintain separate and distinct departments to perform the respective duties of Comptroller and Treasurer. For instance, the organizational structures of municipalities in NYS (with populations over 500,000) are:

- New York State has <u>separate</u> offices for the Comptroller and Treasurer functions. The Comptroller is elected. The New York State Department of Taxation and Finance carries out the functions of the Treasurer and is headed by a commissioner who serves at the pleasure of the governor. It should be noted that the Performance Management Report incorrectly stated that the Treasurer's responsibilities were transferred to the Comptroller (pp. 4-5).
- Nassau County has <u>separate</u> offices for the Comptroller and Treasurer functions. The County Comptroller is elected. The County Treasurer, who serves as the Chief Fiscal Officer (CFO), is appointed by the County Executive without legislative approval, and serves at the pleasure of the County Executive.

- Westchester County has a single office that is run by the Commissioner of Finance who is appointed by the County Executive with legislative approval, and serves at the pleasure of the County Executive.
- Erie County has a single office that is run by an elected Comptroller.
- Monroe County has a single office, the Department of Finance that is headed by a Director of Finance, who is the Chief Financial Officer (CFO). The CFO is appointed by the County Executive without legislative approval.

In summary, two of the five municipalities have separate offices for the two functions, while the remaining three have single offices.

3. Charter Revision Commissions

Approximately every ten years the County puts together a taskforce to study the County Charter and recommend beneficial changes. The Performance Management Report cites the 1997-1999 Charter Revision Commission's support for a merger of the Departments of Audit and Control and Finance and Taxation. To provide a more complete picture, the Performance Management Report should have mentioned:

1. that the 1999 report suggested an alternative to consolidation, which kept the departments separate, but abolished the elected office of Treasurer and established a County Executive appointed commissioner and
2. the decision of the most recent 2008-2009 Charter Revision Commission, which explored the issue of consolidation, but decided against it.

4. 2006 BRO Memo on Consolidation

On June 7, 2006 BRO issued a memo on consolidation that was prepared in response to Introductory Resolution No. 1069-2006. Our office concluded that *"there is insufficient justification to support the consolidation of the financial administration of the County as proposed in IR 1069-2006. It is unclear what problems exist and would be resolved by this consolidation. Even the efficiencies associated with abolishing five positions are offset by the need to create a minimum of two higher level accountants to absorb their work."* We still have some concerns, but having reviewed the preliminary plans for restructuring, several of our concerns regarding checks and balances have been satisfied.

5. Technology

The Performance Management Report asserts that a consolidated financial department will achieve efficiencies in the area of information technology by cancelling contracts with offsite vendors and applying the federated IT model to the new department. While savings may be achievable, we believe that there are operational circumstances that should be acknowledged before proceeding.

The Performance Management Report contends that $200,000 in annual savings can be realized by reversing the decision of the Department of Finance and Taxation to move the hosting of the tax parcel database, MUNIS, from the County Department of Information Technology Services (ITS) to an offsite location supported by Tyler Technologies (p. 11). We do not believe this is relevant to the consolidation debate, since any potential savings from cancelling the contract could be realized with or without consolidation. In fact, the decision to contract with Tyler Technologies was years in the making and was approved by the Treasurer, the previous County Executive, and the IT Steering Committee because ITS was unable to provide adequate support and maintenance. Since the transfer, the Treasurer reports more reliable operation of the MUNIS system and better access to support services. According to the Treasurer, the contract with Tyler Technologies also provided disaster recovery for the tax parcel system, which was previously lacking. We do not dispute the ability of the administration to achieve the $200,000 annual savings by cancelling the Tyler contract, but careful consideration should be given to whether the resumption of local hosting will result in additional equipment and personnel costs that erode the savings and whether operational improvements will be reversed. It should also be noted that the current contract with Tyler Technologies does not expire until 2015.

The Performance Management Report asserts that efficiencies can be realized by adopting a federated approach to technology. Once again, we do not believe that this is relevant to the consolidation debate. Past County Executives, as well as the current County Executive, have pursued a model of unifying IT operations and purchases across departments under a federated approach headed by the Commissioner of Information Technology. Notwithstanding the obstacles presented by aid claiming procedures and the mandated use of State approved software, the initiative is a good one, as there are efficiencies to be gained by operating the County's IT infrastructure under one cohesive plan. That being said, departments headed by elected officials have typically been excluded from IT federation. The newly elected Chief Financial Officer may assert, as current elected officials have, that he or she is entitled to independently make his or her own decisions about IT policy and procurement.

6. Evaluation of Savings

According to the fiscal impact statement prepared by the County Executive's Budget Office, the merger of the two departments will result in $1.07 million in savings from eliminating seven positions. Cost avoidance for salaries and benefits in subsequent years is estimated to be moderately more due to expected growth in salary and benefit costs. The fiscal impact statement identifies five of the positions to be abolished, but refers to the other two positions as "one professional and one support position." Without identifying the specific titles, it is difficult to determine exactly how the $1.07 million estimate was calculated. Depending on which "professional" or "support" positions are abolished, the estimated savings in the fiscal impact statement may be attainable on an annualized basis; however, we have several reservations, which would reduce the estimated savings. We believe that the savings may be overstated for the following reasons:

- It does not appear that costs for terminal pay or unemployment insurance were subtracted from the Executive's analysis.
- A reduction in the County contribution to the NYS Retirement System from layoffs at the end of 2013 would not be realized until 2015 and 2016 because the County's 2014 retirement bill covers salaries between 4/1/2012 and 3/31/2013. These layoffs would reduce the County's 2014 retirement bill for only the first quarter of 2015 salary savings and would not see a full year's savings until the 2016 retirement bill.

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- A reduction in health insurance costs should be discounted to the extent that any of the seven individuals being laid off are eligible to retire and exercise that option.

When taking these factors into account, the 2014 savings from some combination of seven layoffs and retirements is approximately $700,000, not $1.07 million. The full savings is not realized until 2016.

In addition, current staffing levels are at historic lows in both departments, calling into question the wisdom of cutting staff further. On the surface it would appear that eliminating the Treasurer, two deputies, an assistant and secretary could be accomplished, as these functions would be absorbed by the consolidated department. However, this conclusion is predicated on the assumption that the positions being eliminated are entirely duplicative.

Due to the fact that staffing levels have declined in both departments, the Treasurer and Comptroller have had to be innovative in their deployment of human resources, meaning that deputies are involved in more than just supervising staff. Employees, who support departmental operations like payroll and budget management, have also taken on additional responsibilities. Consequently, the ability for one employee to assume the primary functions currently performed separately in each department may be possible, but the full range of duties being performed by the respective positions may be incompatible. In our view, the individuals that are proposed to be laid off currently fulfill valuable functions. With staff in both existing departments at low levels, it is unclear how economies of scale from consolidation would free up sufficient time for remaining staff to fill the void without a reduction in service provision, especially if a unified department would continue to operate in two separate geographic locations.

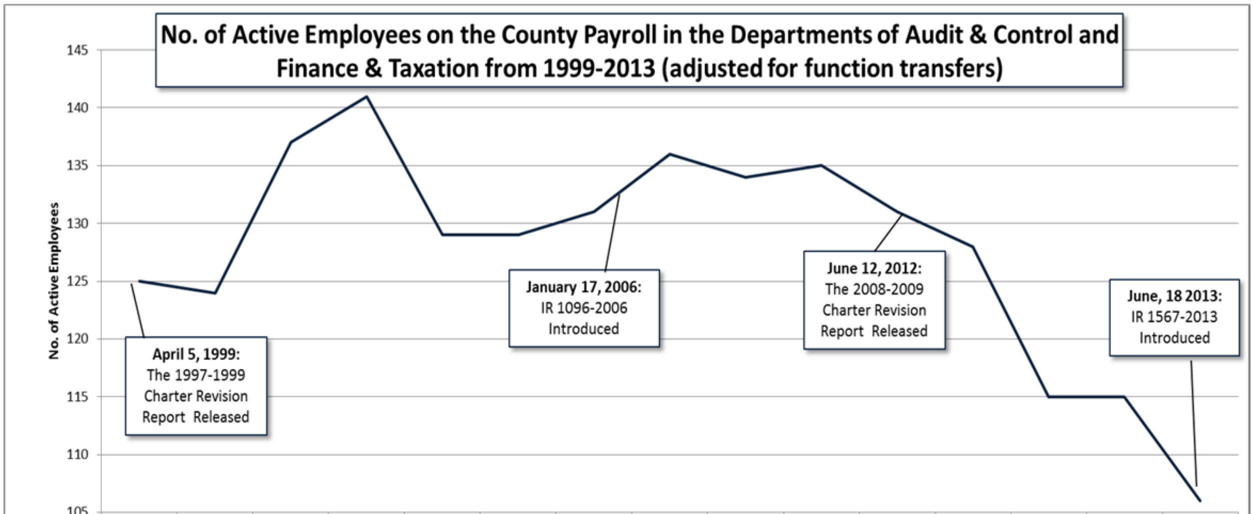
Reducing the number of deputies from four to two and eliminating the Treasurer's position may not provide sufficient managerial oversight. Consolidating the two departments does not reduce the number of functions. It is unclear whether two deputies and one department head can provide sufficient oversight for their expanded roles without compromising operations. It may also be problematic to have only two deputies and one department head with two locations. Unless one deputy is permanently assigned to Riverhead and the other to Hauppauge, with each deputy responsible only for the functions in those locations, a lack of hands-on oversight could lead to problems.

The loss of service provision resulting from the proposed seven layoffs cannot readily be quantified. That being said, the contention made in the Performance Management Report that economies of scale from consolidation would prevent such a loss is also not quantified. Our concern is that current low staffing levels could make it challenging to avoid a reduction in service. The County could realize some monetary savings, but those savings may be at the expense of service provision.

7. Staffing

The following chart provides a more complete picture of the staffing in the two departments. Employment levels in June of each year are graphed from 1999 to 2013. Staffing in the

Department of Audit and Control has been adjusted to account for various transfers of functions over time. Adjustments include (1) the 2001 transfers of the Division of Risk Management and the Employee Benefits Unit to Civil Service and the transfer of the Purchasing Division to Public Works and (2) the return of Risk Management from Civil service in January 2007 and the reversal of that transfer in August 2007.



	27-Jun-99	25-Jun-00	24-Jun-01	23-Jun-02	22-Jun-03	20-Jun-04	19-Jun-05	18-Jun-06	17-Jun-07	29-Jun-08	28-Jun-09	27-Jun-10	26-Jun-11	24-Jun-12	23-Jun-13
FIN	56	56	58	59	52	53	49	51	50	47	48	47	45	44	43
AAC	69	68	79	82	77	76	82	85	84	88	83	81	70	71	63
Total	125	124	137	141	129	129	131	136	134	135	131	128	115	115	106

As noted above, staffing levels are currently at historic lows in both departments. The combined number of employees has declined by 25% from June 2002 to June 2013 from 141 to 106. Reasons for the decline include:

- From 2002-2012 there have been four early retirement incentives; two State incentives (2002 and 2010) and two local incentives (2008 and 2012).
- Further reductions in staff occurred in July 2012 from countywide layoffs.
- Additionally, budgetary constraints since 2008 have led to a policy of strict position control related to the filling of vacancies.

When consolidation was previously considered, the departments were better situated to absorb workforce reductions:

- The Charter Revision Commission recommended consolidation in 1999 when there were 56 employees in the Department of Finance and Taxation and 69 employees in the Department of Audit and Control.
- The previous administration proposed consolidation in 2006 when there were 51 employees in the Department of Finance and Taxation and 85 employees in the Department of Audit and Control. The proposal to consolidate would have abolished five positions reducing the combined staff by 3.6% from 136 to 131.

There are currently 43 employees in the Department of Finance and Taxation and 63 employees in the Department of Audit and Control. The current proposal abolishes seven positions, which would reduce the combined staff by 6.6% from 106 to 99. The consolidated department would be operating with 70% of the total number of employees that were in the separate departments in 2002.

Based on historically low staffing levels, we are concerned that the proposal to eliminate seven positions will have deleterious effects on service provision and financial management. While the consolidation should provide some efficiencies, it is unclear whether or not the reduction in staff would sustain existing functions without compromising effectiveness. If backlogs cause the need for additional personnel, the savings related to the consolidation will be eroded.

8. Checks and Balances

Discussions with the County's independent outside auditor, Ernst & Young, and the Department of Audit and Control, indicate that sufficient checks and balances are currently in place and could be maintained should consolidation occur. For instance, computer access privileges would prevent those with access to recording and depositing revenue from having access to the approval of payments.

Also, the County's independent outside auditor comes in after the year ends and carries out several checks and balances, including reconciling cash accounts, conducting financial audits, and testing internal controls for errors. We should note that this may not be as thorough as the daily checks that two separate departments would be able to perform on each other.

In our discussion with the Department of Audit and Control we were briefed on a draft organizational chart that they are preparing to present to the Legislature. It is our understanding that the presentation will be made at the Monday, July 22, 2013 public hearing and will provide the Legislature with a broad outline of the lines of responsibility under a consolidated department and demonstrates that sufficient checks and balances could be maintained. This view is somewhat of a departure for BRO from our 2006 memo in that our previous concerns over checks and balances would appear to be minor given the points made here.

For purposes of completeness it should also be noted that:

- The County's financial advisor, Capital Markets Advisors (CMA), in a June 13, 2013 memo to the County Executive, gave the opinion that consolidation should not have an impact on the County's credit rating *"as long as there are no negative consequences such as a reduction in services or an inability to meet important deadlines"*.
- The County Attorney, in a June 26, 2013 memo to the Presiding Officer, opined that the proposed local law duties prescribed to the County Treasurer in the Suffolk County Tax Act do not preempt the Legislature from adopting a local law abolishing the offices of the County Treasurer and the County Comptroller and merging their respective Departments into a new single Department of Financial Management and Audit headed by an elected County Chief Financial Officer.

9. Concluding Remarks

As stated in the overview, the purpose of this memo is not to make a recommendation in support or against consolidation, but to provide independent analysis to assist the Legislature in its deliberation. Whether or not to consolidate is an important policy issue. We are not conceptually opposed to the merger, but neither are we convinced that consolidation is necessary to achieve many of the targeted efficiencies. In either case, our chief concern is that financial management not be compromised by reducing staff below the level needed to sustain operations.

cc: Honorable Steven Bellone, Suffolk County Executive
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