

Budget Trends

Attestation Engagement—Review



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www.claycountymo.gov/departments/auditor

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I. Introduction and Scope

A government budget represents such an entity's spending power and capability in any given fiscal year. Generally speaking, nothing is allowed to be purchased by the public sector unless specifically spelled out in its annual budget. The Auditor's office in particular ensures that any spending request from the County treasury is in fact within budget as well as cash available (see Revised Missouri Statute, or RSMo, 55.160). This makes logical sense in order to account for every taxpayer dollar.

It further is the core duty of the governing board overseeing its respective jurisdiction to approve a budget document (RSMo 50.590). The budget symbolizes said board's values, interests, and positions on a variety of issues. For Clay County, the governing board is the County Commission. The Commission is currently comprised of three members, each serving four year terms—a Presiding Commissioner elected countywide, an Associate Western Commissioner, and an Associate Eastern Commissioner (RSMo 49.010). Of note, the three members sitting at present on the Commission have been together since the 2014 election cycle.

Consequently, and with the Associate Commissioners opting to not run for reelection in 2020, it makes sense to look back and evaluate their respective budgets approved for the six years of 2015-2020. Such an effort could be valuable to the incoming mix of Commissioners. Plus, the 2015-2020 budget years were certainly with quite a bit of controversy in an historical perspective of County government.

Indeed, notable headlines include removal of positions in the Clerk's office for 2018—a cut of \$77,237. Then there was the Commission majority decision to underfund the Sheriff's detention center contract budget by \$1,182,130 for inmate health care and food during 2019. Both cuts appeared linked as probable retaliation for investigation of document tampering (the Presiding Commissioner's signature was cut off a warrant batch of payments). The Clerk notified the Sheriff of the tampering and the Sheriff had the Missouri Highway Patrol conduct an investigation. Importantly, the Sheriff sued the Commission in 2019 and won in court to receive those detention funds from the County's Contingency Reserve.

Due to the 2021 budget preparations just beginning to start this summer, the most appropriate type of audit for this subject is a Review form of Attestation Engagement. According to Generally Accepted Government Auditing Standards, in a Review the auditor reaches conclusions based on sufficient evidence. No opinions are given for findings with the necessary elements of criteria, conditions, causes, and effects. Furthermore, auditee management's responses are not sought in a Review as no recommendation is delivered by the auditor.

Another reason for the selection of a Review, rather than a Performance Audit with the above mentioned features, is that physical fieldwork is not needed. All information regarding the intangible budgets is found in the County's accounting system, which the Auditor maintains as Accounting Officer (RSMo 55.150 and 50.530.1). There is therefore little need to interrupt staff with questions and be beholden to their cooperation along with responses, or lack thereof.

In addition, the underlying context behind County government audits deserves some discussion. The annual financial statement Single Audit, done by an external independent auditing firm, is underway for calendar year 2019. Also, the citizens petitioned a comprehensive Performance Audit from the State Auditor's office. It has been ongoing since late 2018, but is held up in lawsuits. The 2018 financial statement audit is not complete because the previous audit firm, RSM, chose not to issue it with the State Audit pending. The subsequent firm, CHV, has agreed to complete it. These audits are required in order to receive Federal and State grants.

II. Background and Audit Plan

By way of extra background, more explanation of the budget process is warranted. As alluded to in the introduction, Clay County operates on a calendar year fiscal year and budget year (January 1st-December 31st). Consequently, budget preparations begin by the summer in order to ideally have everything ready for Commission approval before year end. Should the Commission “term” change, however, then the budget is to be passed by thirty days after the fiscal year start—meaning January 31st (RSMo 50.610).

The first step is for the Auditor to open the general ledger’s upcoming fiscal year. The Budget Team then prepares an electronic template in the accounting software for individual departments to enter their requests with line item detailed justifications. The prevailing practice right now is to essentially keep payroll and personnel expenditures (100s in the chart of accounts) level from the preceding year. Any annual COLAs, new hires, terminations, pay changes made throughout the year, and so forth are taken into consideration. Thus, the departments are really only entering their non-personnel budget requests for contractual services (200s), commodities (300s), and capital encumbrances (400s). Their previous year non-personnel amounts are the baseline beginning point, too.

Next, the Administration and Commission-appointed Budget Team (Finance Department) schedules preliminary budget meetings with every department head—to include elected officials. The Budget Team asks questions about each office’s requests so as to gather adequate input for their decisions. By September 1st, the Auditor is to provide the Budget Officer estimates of the following year’s anticipated revenues for consideration (RSMo 50.540.1 and 55.161.2). Today the Budget Officer is an Assistant County Administrator (ACA), but in most other counties in Missouri with an Auditor the Auditor will fill that role (RSMo 50.530.2).

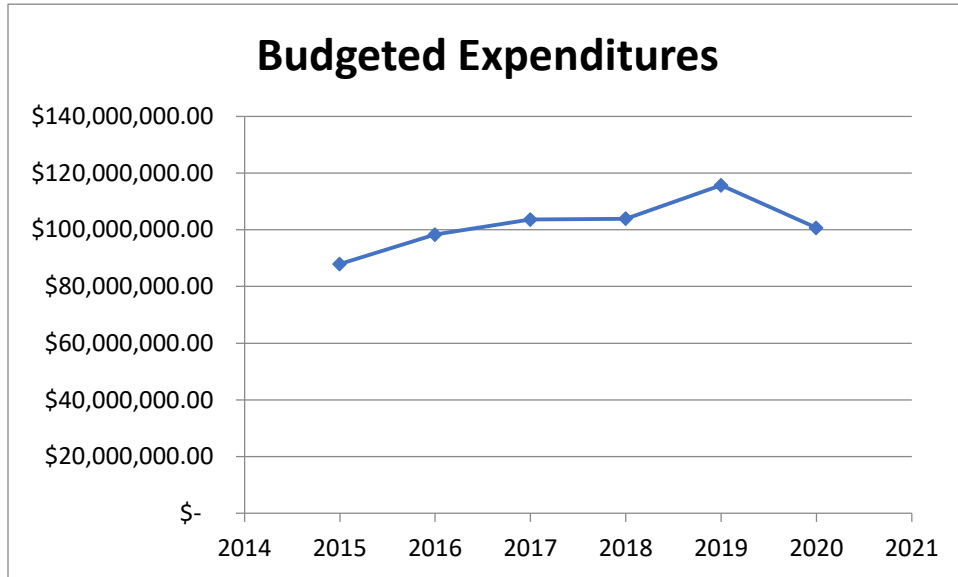
The Budget Officer and Budget Team then match the requested expenditures with anticipated revenues in order to achieve a balanced budget proposal (RSMo 50.540-50.550). A public hearing or hearings must be held regarding these plans and deliberations (RSMo 50.540.5). That Proposed Budget has a deadline of November 15th to submit to the Commission (RSMo 50.540.4). The Proposed Budget has to be made public ten days before another hearing and the hearing has to have at least a five days’ notice (RSMo 50.600). The Commission then votes to adopt the Proposed Budget and make it official as the Adopted Budget.

The Audit Plan for how this process and the results evolved over the past five budget years will involve a high level analysis of changes in the total budget during that timeframe. This will be broken down into revenue and expenditure patterns. We aim to explore any surpluses versus deficits in terms of spending more than revenues. The Commission has the ability to amend the budget twice when unforeseen drops in revenue of more than two percent occur (RSMo 50.622). Fortunately this has not been necessary even amid potential income shortfalls so far in 2020 owing to the coronavirus stay-at-home orders. Such surpluses or deficits obviously affect the County’s cash balance on hand, so that too will be highlighted. Finally, the Audit Plan covers a comparison of budgets for all non-Commission elected officials against Commission department budgets. We seek to mention outlier changes in any department budget when viewed through the lens of percentage swings above or below a chosen filter for deviation.

III. Audit

- **Budget Growth 2015-2020**

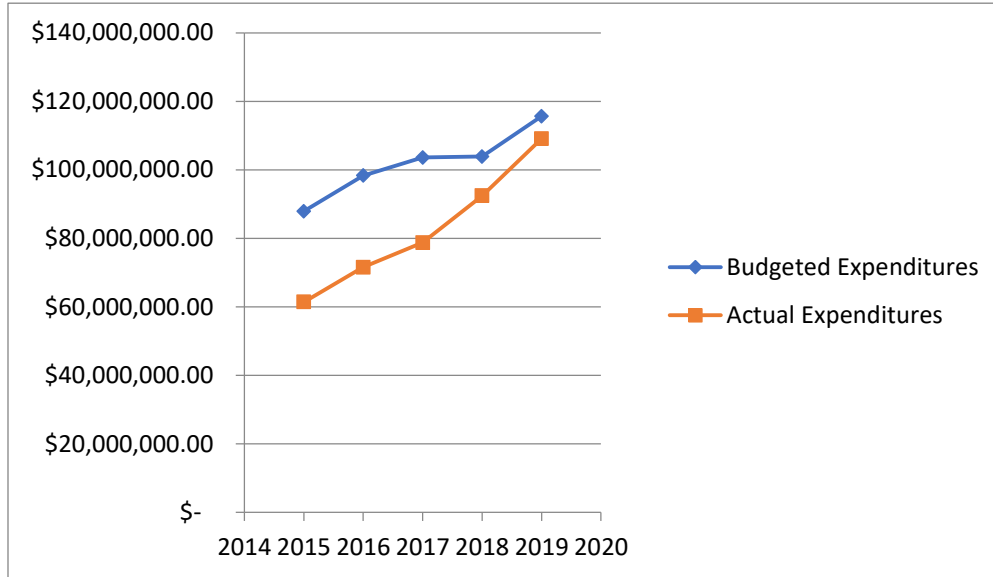
The most reasonable place to start is showing the budget's growth over the years with this Commission in charge. This can be reflected in a number of ways. The simplest and most straightforward is budgeted expenditures, as seen below with an accompanying table:



Year	Budgeted Expenditures
2015	\$ 87,906,446.00
2016	\$ 98,313,192.00
2017	\$ 103,603,826.00
2018	\$ 103,868,576.00
2019	\$ 115,660,061.00
2020	\$ 100,685,948.00*

These figures were derived straight from the budget documents themselves as adopted by the Commission majority. The immediately apparent anomaly that needs to be addressed is the sudden drop from the increasing pattern in the 2020 budget. That was merely a result of the County no longer budgeting the Children's Services Fund, and its 0.25% sales tax revenues and corresponding transfers to the Board, on the County's books. The County is now viewed for financial purposes as a fiscal agent and pass-through only for that separate entity. The Board was set up after Proposition 1 passed before the Clay County voters in the August 8th, 2017, election (RSMo 67.1775 and 210.861). To be fair, however, the County only budgeted Children's Services in 2019 alone at \$8,158,000 total and no other year.

Given that budget quirk, it would be wise to then reveal the actual expenditures that happened those years regardless of budget. Just because a certain total budget amount is set does not mean it all has to be spent. This is depicted as follows:



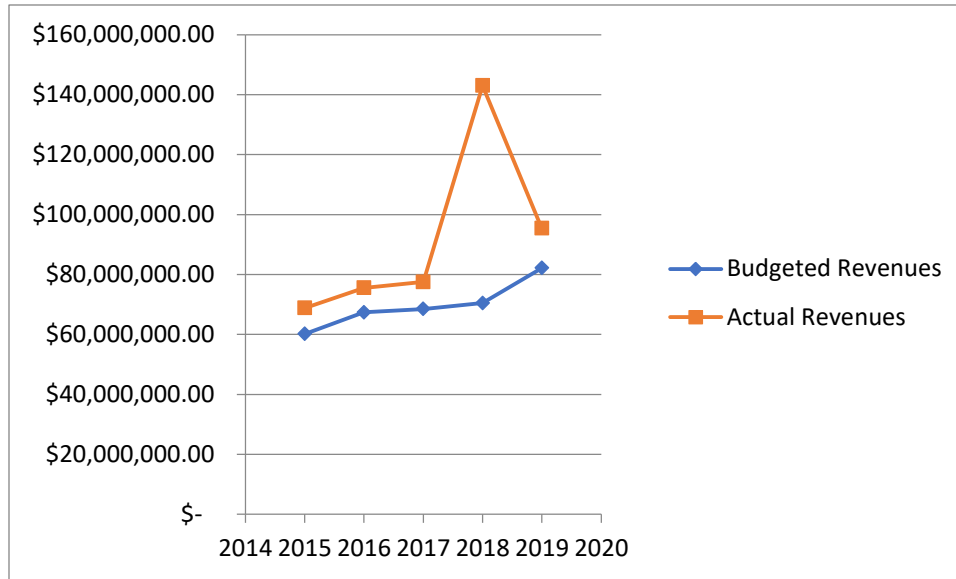
Year	Budgeted Expenditures	Actual Expenditures	Difference	%
2015	\$ 87,906,446.00	\$ 61,433,373.84	\$ 26,473,072.16	69.9%
2016	\$ 98,313,192.00	\$ 71,532,727.52	\$ 26,780,464.48	72.8%
2017	\$ 103,603,826.00	\$ 78,743,026.00	\$ 24,860,800.00	76.0%
2018	\$ 103,868,576.00	\$ 92,412,495.96	\$ 11,456,080.04	89.0%
2019	\$ 115,660,061.00	\$ 109,123,688.98	\$ 6,536,372.02	94.3%

Keep in mind here that 2020 sums were not added since the year isn't over yet. This information provides greater explanatory depth, enough so to arrive at a conclusion.

Conclusion: The budget grew an overall \$12,779,502 from 2015-2020 or 14.5%, far outstripping the very low inflation and interest rates in these years (0-2%). Actual spending during this period increasingly closed the gap of the budget on hand.

- **Surplus or Deficit Spending and Cash Position**

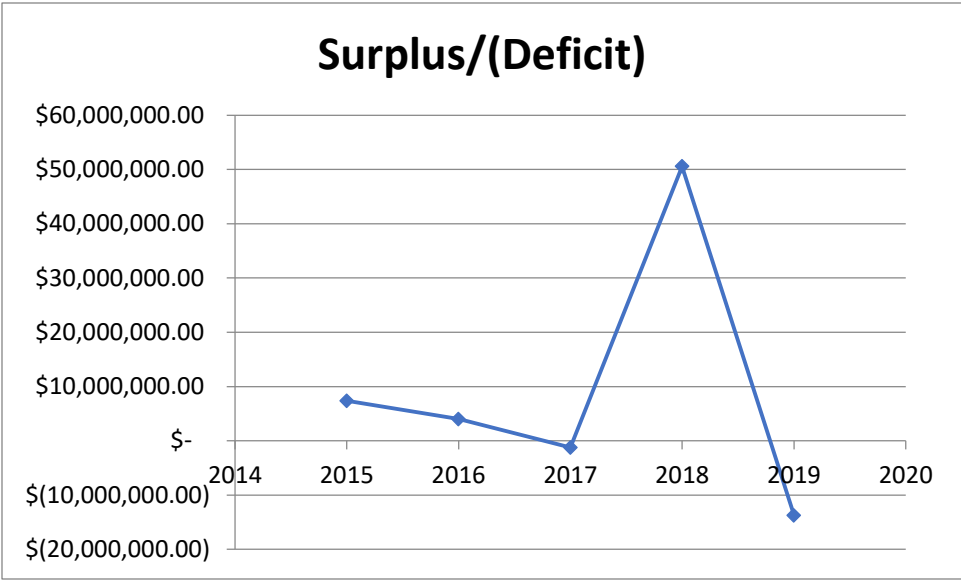
On the other side of the ledger are revenues. With expenditures having increased over 2015-2020, revenue would've theoretically had to increase as well. Indeed they did:



Year	Budgeted Revenues	Actual Revenues
2015	\$ 60,168,475.00	\$ 68,812,107.24
2016	\$ 67,345,708.00	\$ 75,550,017.96
2017	\$ 68,467,259.00	\$ 77,498,864.10
2018	\$ 70,448,048.00	\$ 142,974,641.23*
2019	\$ 82,169,267.00	\$ 95,377,024.92

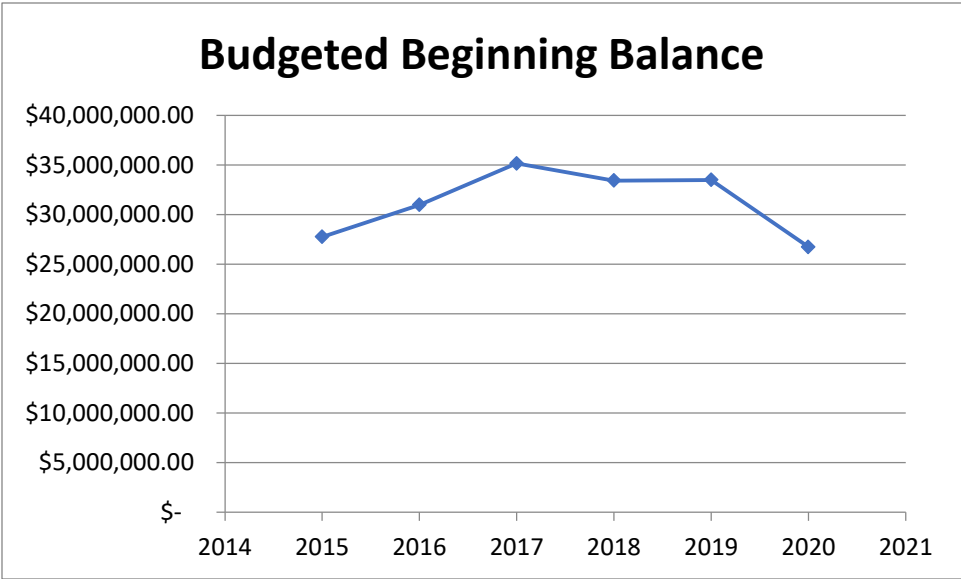
Another asterisk of sorts belongs on 2018 for revenues. In that year the Commission majority approved nearly \$52 million in Certificates of Participation (COPs) debt. These revenues were recognized for accrual accounting purposes only, hence not within the County's operating budget. The funds are in fact held in trust with a different bank than the County treasury bank. The only operation expenditures incurred by the County are annual debt costs of around \$3.5 million for 20 years. Accrual accounting adds in the bond project costs spent per year, \$10,470,442.69 recorded so far as of 6/30/2020.

A quick glance at the prior section of budgeted and actual expenditures shows a dramatic shortage between the two against budgeted and actual revenues and wouldn't intuitively seem possible. Shown visually those contrast of actual numbers (revenues minus expenditures) are:



Year	Surplus/(Deficit)
2015	\$ 7,378,733.40
2016	\$ 4,017,290.44
2017	\$ (1,244,161.90)
2018	\$ 50,562,145.27
2019	\$ (13,746,664.06)

Notice again the 2018 COP variation from the otherwise overwhelming straight-line regression downward trend. The only method this math is feasible for a government lies in the way the budget is calculated. Namely, one takes the beginning cash balance and adds anticipated revenues. This provides the overall potential expenditure budget. As a ramification, the County's cash on hand has on the whole been falling after initially increasing from 2015-2017:



Year	Budgeted Beginning Balance	Actual Cash Carryover	Difference
2015	\$ 27,737,973.00	\$ 27,561,355.32	\$ 176,617.68
2016	\$ 30,967,484.00	\$ 33,414,400.44	\$ (2,446,916.44)
2017	\$ 35,136,567.00	\$ 36,343,751.90	\$ (1,207,184.90)
2018	\$ 33,420,528.00	\$ 34,261,072.67	\$ (840,544.67)
2019	\$ 33,490,794.00	\$ 33,490,794.00	\$ -
2020	\$ 26,735,956.00	\$ 26,270,554.98	\$ 465,401.02

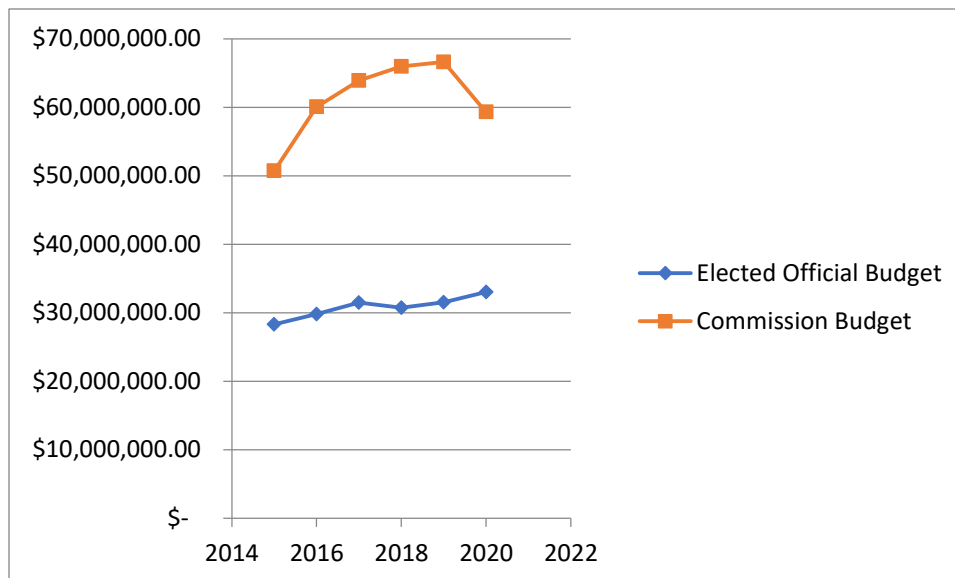
Added here are the actual cash carryover tallies. The relative differences are so minute that they wouldn't appear on the graph. If budgets are passed before year end, the final balance is unknown and thus estimated. A "true-up" is conducted when carryover comes in different than planned, making reductions or additions to the budget as the Budget Team sees fit. The flip side, though, is that, if passed in January, the County has to operate for an interval with no budget. RSMo 50.620 indicates that only "operation and maintenance expenses" based on the prior year's adopted chart of accounts are allowed.

Another contextual explanatory comment to add is that the only reserve requirement for counties is in the above referenced Contingency Reserve Fund—3% of anticipated general fund revenues (RSMo 50.540.4). Other governmental bodies will voluntarily restrict themselves to a fund balance of a percentage of its budget. The County also maintains a Rainy Day account, albeit less has been budgeted there than in the Contingency Reserve from 2016-2020.

Conclusion: County budgeted and actual spending exceeded revenues on a typical annual basis from 2015-2020. The effect has been a depletion of the County's cash position to about \$1 million less than the beginning point of the 2015 budget. No amount of legally permissible investment returns for local governments from that sitting cash could exceed a spending rate far above inflation and prevailing interest rates.

- **Elected Official versus Commission Administrative Budgets**

In light of the heretofore discussed budget cuts for the Clerk and Sheriff, we would do well to get a handle on the entire budget for all elected officials as compared to the Commission appointed Administration from 2015-2020. Upon doing so, we obtain the following results:



Year	2015	2016	2017	2018	2019	2020
Elected Official Budget	\$ 28,305,164.00	\$ 29,791,221.00	\$ 31,469,739.00	\$ 30,736,534.00	\$ 31,523,025.00	\$ 33,027,782.00
Commission Budget	\$ 50,691,673.94	\$ 60,048,619.00	\$ 63,892,700.00	\$ 65,957,558.00	\$ 66,600,505.00	\$ 59,300,083.00

Notably we did not account for the court system, as it is neither elected nor appointed by the Commission. We also left off the Contingency Reserve as it is a set figure without discretion. The net effect when using these filters from 2015-2020 was a \$4,722,618 and 16.7% increase for elected officials contrasted with a \$8,608,409.06 and 17.0% increase for the Commission appointed Administration.

When we drill down to specific department level—our chart of accounts nomenclature is Fund > Department > Account/Line—or a Fund that is not the General Fund, we discovered more drastic percentage and dollar swings:

Fund/Department	2015	2016	2017	2018	2019	2020	% Change	\$ Change
Treasurer (100-502)	\$ 159,238.00	\$ 206,900.00	\$ 221,662.00	\$ 243,173.00	\$ 255,237.00	\$ 265,493.00	66.7%	\$ 106,255.00
Rainy Day (100-511)	\$ 6,237,033.00	\$ 2,216,691.00	\$ 1,783,353.00	\$ 1,330,575.00	\$ 1,080,550.00	\$ 735,000.00	-88.2%	\$ (5,502,033.00)
Indigent Board & Care (100-524)	\$ 133,000.00	\$ 78,000.00	\$ 78,000.00	\$ 78,000.00	\$ 10,000.00	\$ 10,000.00	-92.5%	\$ (123,000.00)
Medical Examiner (100-534)	\$ 270,585.00	\$ 284,114.00	\$ 290,000.00	\$ 444,055.00	\$ 400,000.00	\$ 450,000.00	66.3%	\$ 179,415.00
Administration (100-600)	\$ 869,046.00	\$ 291,600.00	\$ 167,052.00	\$ 401,295.00	\$ 386,141.00	\$ 239,125.00	-72.5%	\$ (629,921.00)
Purchasing (100-601)	\$ -	\$ 233,175.00	\$ 388,104.00	\$ 483,776.00	\$ 407,229.00	\$ 425,132.00	82.3%	\$ 425,132.00
Finance (100-603)	\$ -	\$ 425,980.00	\$ 690,857.00	\$ 820,717.00	\$ 1,036,325.00	\$ 1,088,272.00	155.5%	\$ 1,088,272.00
County Counselor (100-604)	\$ 280,555.00	\$ 277,812.00	\$ 278,940.00	\$ 291,135.00	\$ -	\$ -	-100.0%	\$ (280,555.00)
P&Z (100-605)	\$ 345,477.00	\$ 352,456.00	\$ 357,528.00	\$ 428,113.00	\$ 516,519.00	\$ 560,972.00	62.4%	\$ 215,495.00
Central Services (100-606)	\$ 58,500.00	\$ -	\$ -	\$ -	\$ -	\$ -	-100.0%	\$ (58,500.00)
IT (100-607)	\$ 1,796,473.00	\$ 2,610,671.00	\$ 2,631,698.00	\$ 2,861,136.00	\$ 2,992,653.00	\$ 3,021,107.00	68.2%	\$ 1,224,634.00
Outside Agencies (100-630)	\$ 575,977.00	\$ 650,978.00	\$ 382,946.00	\$ 382,946.00	\$ 382,946.00	\$ 255,246.00	-55.7%	\$ (320,731.00)
Public Services (100-900)	\$ 219,077.00	\$ 424,209.00	\$ 607,123.00	\$ 756,097.00	\$ 978,186.00	\$ 1,002,430.00	357.6%	\$ 783,353.00
Tourism (100-902)	\$ 158,610.00	\$ 187,357.00	\$ 440,833.00	\$ 440,375.00	\$ 443,501.00	\$ 522,366.00	229.3%	\$ 363,756.00
Airport Operations (100-920)	\$ 138,406.00	\$ 179,213.00	\$ 285,968.00	\$ 362,559.00	\$ 372,579.00	\$ 923,438.00	567.2%	\$ 785,032.00
Health Benefits (315)	\$ 1,561,010.00	\$ 7,214,626.00	\$ 8,000,118.00	\$ 7,920,662.00	\$ 7,288,530.00	\$ 5,881,893.00	276.8%	\$ 4,320,883.00
Airport (401)	\$ 1,713,381.00	\$ 2,518,843.00	\$ 3,263,000.00	\$ 2,969,647.00	\$ 2,847,839.00	\$ 2,616,706.00	52.7%	\$ 903,325.00
Special Road Districts (641)	\$ 435,889.94	\$ 348,371.00	\$ -	\$ -	\$ -	\$ -	-100.0%	\$ (435,889.94)

If we apply say a 50% change threshold, the elected officials' category had one applicable department with the Treasurer at a \$106,255 and 66.7% increase. As far as for the Administration, 17 departments or non-General Funds met the bill. The largest percentage increase was the General Fund's Airport Operations department at 567.2%, mainly because of a Land Improvements Grant in the 2020 budget. The largest dollar increase was in the Health Benefits Fund (315) of \$4,320,883, most likely caused by the County's decision in 2014 to self-insure.

The largest percentage decrease at -100% was tied between the County Counselor (now paid out of HR or Finance or Public Services), Central Services (now performed in other Administration departments), and Special Road Districts (now paid by the Highway Department). The greatest dollar decrease of \$5,502,033 was in the Rainy Day Department, for

no apparent reason other than how the annual COLA for 2015 was budgeted there. Since then it was budgeted in Benefits & Insurances (100-680-107), at least until it wasn't budgeted in 2020 but still authorized at 2%. Non-Commission Departments had to come up with a salary COLA from their own budgets, if so desired and if even possible.

Conclusion: The Commission appointed Administration has a much larger budget than elected officials. Over the course of the Commission-approved 2015-2020 budget years, however, the percentage and dollar changes were about proportional. When observed at the individual department level, more volatile changes occurred within the Administration than with elected officials.

IV. Overall Rating for this Audit



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