



JANET COWELL
TREASURER

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

T. VANCE HOLLOMAN
DEPUTY TREASURER

March 7, 2012

Mr. Charles Nichols, Finance Officer
Scotland County
P O Box 489
Laurinburg, North Carolina 28353

Dear Mr. Nichols:

Thank you for meeting with Becky Dzingeski and Melinda Canady on Friday, February 10, 2012. As you know, staff visited with you in June of 2011 to review the 2012 budget the County was preparing to adopt. The purpose of this most recent visit was to assess actual revenues and expenditures as they compare to the 2012 budget to date.

First, we want to commend the Board for taking serious actions to reduce County expenditures. You have indicated to us that the board has lowered departmental expenditures, reduced salaries, eliminated longevity payments and reduced 401(k) contributions to reduce the County's budget by \$4.5 million. The following discussion outlines the areas we reviewed and actions we believe the unit needs to take to improve its financial condition.

- One area of concern is the financial condition of the water and sewer districts. The County explained that a rate increase in July of 2011 was the second step in a three step process to improve the financial condition of the Districts. An interim review of the districts showed that both districts are poised to end the 2012 fiscal year with positive cash flow after debt principal and interest payments. The board needs to keep a close watch on these funds to determine if any other steps are necessary.
- Fiscal issues surrounding the landfill also are a concern. We confirmed with you our understanding that the landfill has approximately 30 additional years of life remaining and is approximately 50% full. To date the County has recognized \$1,594,750 in closure and post-closure costs, but has funded very little of this expense. The landfill fees collected should be structured to fund this future liability. The County should take immediate steps to review the tipping fee so that it can begin funding the estimated \$2,966,234 total closure and post-closure costs the landfill is expected to incur in the future. The County has the estimated 30 years of landfill life to address this situation; however, since the landfill is already 50% full, steps to correct this situation should begin immediately.
- The overall financial condition of the General Fund was the final major area of discussion during my staff's meeting with you. The primary revenue sources of sales tax and property tax were analyzed. At the time of the meeting, the County had only received four months of sales tax receipts that are recognized in the current budget year (the prior three months were accounted for as income in 2011). It is too soon to determine if sales tax estimates for the year are accurate or not. This revenue source bears monitoring closely; adjustments

must be made to the budget if it becomes apparent that the County overestimated this revenue.

- The review of property tax collections disclosed a significant challenge to the County. It appears that unless there is significant improvement in collections, the County will fall short of its budgeted receipts for property taxes. County staff needs to perform a detailed analysis in conjunction with the County Tax Collector to determine an estimated collections amount at June 30, 2012. We further recommend that the Tax Collector provide the Board and the Finance Officer a monthly update on the status of billing and collecting. Property taxes are the single largest source of revenue for the County and collections must be monitored and the budget adjusted accordingly in order to improve the County's overall financial position.
- We also reviewed the budgetary appropriations at the department level. We believe that this too needs closer examination. We recommend that the Finance Officer ask that all department heads report monthly for the remainder of the fiscal year with their estimate of how much money they will spend for the remainder of the year ending June 30. We also recommend that the Finance Officer implement measures to account for the year-end spending that occurs outside of the encumbrance system. Many times department heads spend down their budgets without taking into account these transactions, which later causes them to exceed their appropriations.
- The 2012 budget should be immediately amended to reflect the County's current revenue and expenditure projections. Please email us a copy of the draft as soon as it is prepared and another email containing the board adopted amendment.

In order to assist us in our monitoring of the County's financial condition, please submit to us a monthly projection using actual revenue and expenditures to-date and forecasting the remaining months through June 30, 2012. This projection should be update monthly using the best information available and clearly identify any significant trend information that is either better or worse than anticipated as compared to the currently adopted budget. Please also forward to us a copy of your proposed 2012-2013 budget as soon as it is available. In order to increase reserves the County should not appropriate any fund balance in the General Fund for 2012 or 2013 budget years. Melinda Canady will continue to confer with your Finance Officer in order to continue monitoring your progress. Should you have any questions please contact Melinda at 919-807-2384 or me at 919-807-2380.

Sincerely,



Sharon G. Edmundson, CPA
Director, Fiscal Management Section

cc: Kevin Patterson, County Manager
Bob Davis, Chairman, Scotland County Board of Commissioners