URBAN COUNTY COUNCIL

BUDGET & FINANCE COMMITTEE SUMMARY

September 30, 2008

Dr. Stevens chaired the committee meeting, calling it to order at 1:00 pm. All committee members were present.

I. Internal Auditing Action Plan Tracking Matrix – Bruce Sahli

Mr. Sahli reviewed the action plan matrix which was included in the committee packet and explained the process which includes findings, recommendations, management action plans, follow up and status.

CM Gorton asked about follow up and was told that while it was not practical to revisit all audits conducted, all responses are validated by an internal audit field review.

CM Myers suggested presenting final audit reports to council for approval and was advised that was the responsibility of the chief audit executive. Myers asked Mr. Sahli about staffing needs.

CM Lane asked Mr. Sahli if any council action was required in order to support the efforts of the internal audit department. Mr. Sahli said his request for additional staff has been approved by council. Lane said he would like to see a memorandum to council on final audit reports and any follow up. Mr. Sahli said those reports were already being provided.

CM Stevens asked about audits pending. Mr. Sahli said 2 or 3 were currently up for review but that many times special request are inserted into their program on an as needed basis. Mr. Stevens said the Audit Board of which he is a member is also in favor of additional support and staff for internal audits.

II. Revenue Report for the Month of August, 2008 – Commissioner Koch

Commissioner Koch told the council copies of the August 08 report were distributed to all CM's last week. She stated all three situations were not where they needed to be suggesting it could be attributed to a timing issue and may be resolved in September's numbers. However, if that was not the case, recommendations for actions may have to be brought before the council to pull things back in a little. She talked about improvement in the expenditure side saying lots more money is going out in the first two months since we are doing a better job at getting funds encumbered earlier in the area of Purchase or Service agreements and Outside Agency's.

CM Lane referred to the current economic crisis asking Koch to address the government's cash management policy. Koch responded that all cash and investments were currently secure.

CM Gorton asked about collection of fees and getting them in a timely fashion, referring to payments from the state and other counties. She also asked about property sales and if Koch could provide a list of what property had been sold and is earmarked to sale. Koch told the committee the property list consists of all equipment including vehicles. She committed to provide a list and any pertinent details.

CM Stinnett asked about license fees/permits, employee withholding and business returns stating it appeared we are up approx. $90K from last year and wondered if it should be more. He also about the time line for retirements, stating there were only 34 employees on the current list. Koch replied they would know more by mid October since the first of November was an important date for those considering retirement. She predicted to have a better picture and full fledged retirement report by the end of October adding there is currently no lay off plan in the works. He also clarified the pension savings from the state is not a lump sum of $1.7 million but rather a monthly savings. Koch said the final audit numbers from FY08 would be available in mid October with the final report in November.

CM Stevens asked if the revenue report is posted on LFUCG web site. Koch replied no and suggested a "dashboard" type report which consists of one page. Stevens said the footnotes were useful and it might also be helpful to define terms like year to date or accumulative. Koch asked if the graphs and charts that are originally included in the report were necessary and was told no.

Commissioner Koch advised the committee that a working capital reserve of $12.9 million had been discovered. The administration is recommending that the funds be utilized to pay negative balances in health insurance of $3.959 million and risk management fund of $8.9 million. She said the state has mandated LFUCG devise a plan to correct the negative condition in the risk management fund. She strongly recommended both negative amounts be satisfied from this reserve.

CM Gorton asked how the working capital reserve came to be and how it was used in the past. Koch responded there was not an ordinance to cover the reserve and was driven by a decision of a prior Mayor. It was created before the rainy day fund existed. There is an extensive calculation formula done every year to fund the reserve. CM Gorton was told the fund has never been used, was started in 2000 and is not a GASB requirement. Gorton wanted to know if the carry forward projection of $4.1 million was used along with the reserve to settle the negative

balances what would the new projected carry forward number be. Koch said $3.0 million.
Koch referred to the health insurance short fall reminding the committee that open enrollment is coming up soon and this might affect rates.

CM Stinnett asked about $2.0 million reduction in risk management funds and how that played into the $8.9 million catch up needed. Koch responded she still doesn't know what the situation for any FY09 claims against it, but this action would bring it current for now. Stinnett asked for a risk management assessment explaining what $8.9 million involves. He was told the bulk of this issue is with the state. Koch promised a presentation to the full council with details. She indicated that by reducing the negative balances in both funds would improve the government's bonding position. She is expecting the market to correct itself in mid November and is checking daily with the city's financial advisors.

CM Ellinger asked if health insurance rates are based on a calendar year and would they need to be looked at again. He wanted to know if the working capital reserve has been funded every year, how does it not show up on the budget or council is not make aware of it during the budget preparation cycle. Koch said the reserve is designated on the balance sheet not the budget. She added this year's contribution to the reserve was $2.4 million and reiterating again this must be taken care of as it's just not good business management. Ellinger asked if that would do away with the reserve, the answer was yes.

CM Lane was shocked this reserve has been on the balance sheet for 8 years and has not been brought to the council's attention. He was part of the review committee for the rainy day fund and this information was never disclosed. He thanked Koch for bringing the details forward and expressed concern about lack of or poor financial management. Lane asked Koch to look at the issue of accruing or pay as you go, when to reserve policy and include clarification in her upcoming presentation to the council on this matter.

CM Myers referred to an Outside Agency spreadsheet, asking Koch to compare how the top two funds related to that spread sheet. Koch explained outside agencies use the health insurance at a larger percentage than LFUCG and asked the question should their premiums be different and should we even subsidize satellite agencies at all. She explained the claims are higher by outside agencies and she did not fully understand the issue, but it will need to be addressed before open enrollment. She reminded the council; a large number of agencies are social services and asked if we wanted to ask them to pay more in mid stream. Myers asked Koch to provide the percentage of claims and include in her upcoming report/presentation.

CM Blevins asked to see the balance sheet and wanted to know the total investment. Koch did not have that information, but said it would be included on the balance sheet. He asked if the $2.4 million contribution in FY08 was budgeted for and was told it is provided by segregating portions of license fees, net profit and the last pay roll and it does not impact cash, can even be from receivables, etc.

Koch suggested a monthly health insurance report be presented to council.

VM Gray recognized the good intentions and sharing of this information today. He expressed the need to get a better understanding and suggested the audit firm might confirm and translate $12.9 million surplus on the balance sheet, identified as working capital. He questioned why the red flag now if the negative balances in health insurance and risk management were not alerted in the past. Koch explained since they do not show up on a budget report only on a balance sheet. She said by brining the balance sheet to the committee it could provide another view. It would be prudent to deal with these negative balances now and this could easily have an ordinance behind it for the future.

CM Ellinger asked if the council should have been made aware of this when the budget was in process, referring to the lack of the total work of work increase and possible work force reductions pending. Koch acknowledged the oversight and greed that if council had the balance sheets they would have seen it. She said the reserve does put LFUCG in a stronger position when selling bonds.

CM James asked to include all ordinances related to the budget and if they might be combined in a budget document as an appendix. She said it was important to see the separate amount of outside agencies referring to the health insurance and was concerned about the possibility of increasing premiums when the system may be flawed when it comes to calculating the pool & numbers of claims.

Mary Fister told the committee the council should review the balance sheets and does not need to include in a budget since it's about accruals. Koch recognized the need to highlight the working capital reserve in the future.

III. UDAG Utilization Fees and Projects – CM James

CM James told the committee she was working with Commissioner Koch to develop a regular report out to track funds available and expended. She suggested an informal report mechanism, perhaps via email. This would tract the status of UDAG accounts for projects like the streetscape committee that would like to utilize those funds.

CM Stevens asked James if the UDAG issue should remain on the Budget and Finance agenda and if perhaps more work was needed by the committee. James replied she did not foresee any further work required on this matter for now.

Meeting adjourned 2:38 pm