URBAN COUNTY COUNCIL

BUDGET & FINANCE COMMITTEE SUMMARY

January 27, 2009

First order of business was to elect a new chair for the Budget & Finance Committee. Vice Mayor Gray called for a motion to nominate and elect a chair.

Motion by Ed Lane to nominate and elect Kevin Stinnett as chair of the Budget & Finance chair, seconded by Tom Blues, motion passed without dissent.

Chairman Stinnett thanked the committee for their vote and asked Ed Lane to serve as Vice Chair of the Budget & Finance Committee. Ed Lane accepted.

The meeting was called to order at 1:10 pm with all committee members present.

I. Financial Discussions - Koch

Report of revenue and expenditures, November and December 2008 – started with the December report saying when the "big four" sources of revenue were dissected, the overall picture looks good and the initial analysis of the numbers appears that Lexington is doing much better than other cities. However, she added can not survive unscathed in these volatile economic times. She told the committee, employee withholdings are maintaining, but with the exceptional number of pay outs for retirees during November and December, this number is subject to change. The government sector strength is in payouts and even though those numbers might not reflect a problem now, this sector will look more realistic in Feb. She added there is a concern about payroll withholdings making budget.
Also cautioned in reference to the business numbers, net profit business returns, there could be substantial refunds for year end Dec. 08. There could be an extreme hit on revenue when these potential refunds have been completed. She covered insurance and franchise fees saying they are tracking higher and should make budget. She said the administration is making plans for significant reductions and have instructed directors to begin looking at cuts in preparation for the FY10 budget. In order to manage our way through 2009, they are implementing a "freeze" on some accounts such as professional services and food/household.

CM James referred to business returns asking what was budgeted for franchise fees. She also asked if refunds were taken into account during budget preparation.

Koch did not have a breakdown on franchise fees at this time. She said a trend was used to forecast business returns, explaining the software defaults to prior years profit so even though there is a budget for refunds, they could be much higher this year. She again mentioned reduction plans for FY09.

CM Gray asked about net profit taxes and the magnitude in absolute dollars. He refereed to the Nov. 08 asking for number of refunds, loses and payroll withholdings.

Koch told the committee she would prepare a chart highlighting licenses and permits and email it to council members. She explained LFUCG is on the same schedule as federal and state. She was asked about the capability of having a property tax line item for future budgets.

CM Gorton asked if there were any accounts "frozen" other than professional services and food/household.

Koch said she was not aware of any other accounts involved, but would advise council member if that was not the case. She added there are certain accounts that reductions will not be used in the calculation for budget reductions, such as grant match accounts. She added they are working with each director on their budget plans and reductions to insure any recommended reductions do not effect any operations government wide.

CM Lane asked if it was possible to provide a break down of license fees and corporate taxes. He also asked if funds paid out to retirees could be segregated from personnel cost. He stated it would be helpful to look at retirement cost as a separate line item.

Koch said her staff is looking at a new report that would provide that information. She added the retirement cost has been budgeted centrally.

CM Ellinger referred to FY09 budget assumptions, i.e. retirements and sale of certain properties. He asked how things stand against those assumptions stating he would like to see some type of report on that.

Koch said we would have to plan a budget with a much lower personnel base since there were only 178 retirees.

CM Beard asked Koch for more specifics or guidelines on food/household spending. Saying the council office would like to comply wherever possible. He also inquired about employees paying parking fees and if that option had been explored as a revenue option.

Koch stated she would speak to the Council Administrator with details and guidelines on food/household budget. Koch said employee parking was part of the benefit structure and she would not like to exercise that as an option. She added no such proposal is in the works at this time.

CM Stinnett asked about changing a column on the monthly budget report. And wanted to confirm there is no money being put into the rainy day fund.

Koch stated the current balance of that account is approx. $13 million and that no retiree payouts had to be taken from it. However, she cautioned that if the "bottom drops out" of the economy and a quick recovery has to be made by the end of the fiscal year, they may have to draw from it.

CM Stinnett asked about plans to change the budget format or to prepare it with fixed versus variable cost.

Koch stated that kind of information has to come from individual divisions, the budget needs individual cost analysis and they don't have that capability right now but are working to educate more about the budget.

CM Henson asked for a report on year to date expenditures for each division. Koch promised to provide saying this type of report can be generated by PeopleSoft but must be run as individual reports by department or division.

VM Gray suggested putting any ICMA updates on a regular agenda. He noted there are test runs being currently conducted by different departments on fixed and variable costs. He thought the ICMA data might be able to provide some information. Koch asked if Paul Schoninger could coordinate that task. Gray said Mr. Schoninger might assist that effort, but that Joe Kelly would be the contact person and should coordinate from the administration side.

II. Internal Audit Reports - Sahli

Bruce Sahli covered the audit process, stating the mission and objectives of his department which is to track activities, follow SOP's, insurance compliance, make recommendations and provide follow up on them. He provided the committee with a summary of audit results from the Division of Community Corrections. He referred to an ordinance covering Community Corrections siteing an extraordinary amount of discretion being given the director. He talked about expenditures of 8 ½ years, exceeding $8.5 million that was not subject to LFUCG Division of Purchasing standards. He said the C.A. P. expenditures were handled internally with almost non existent oversight by the administration or council. Other observations and recommendations included involvement of the IT division and computer services to evaluate a system to approve expenditures and a new jail management system. He said after performing a preliminary review of the current jail management system, there needs to be more care taken to protect sensitive information and insure security measures are present...

CM Ellinger asked how recommendations and actions are tracked after implementation. Sahli said after an action plan and tracking matrix are developed he asks the director to report on progress of those action items. This follow up typically takes place within six months of the initial audit. He said it is management's responsibility to come up with specific action items based on internal audit recommendations.

Bishop, Director of Community Corrections told the committee, many of the action items and recommendations have already been started. He said he is currently working with IT, Accounting and Budgeting to have funds which had historically been solely under a directors oversight now be tractable via People soft or a shared computer system of some kind.

CM Gorton asked if any other departments or division were not using LFUCG Purchasing standards and policies. Sahli said he did not know if other divisions were exempt but would provide information if applicable. She also asked if there were other divisions using other computer systems, like the jail management system and was told there is a strategic plan to identify other systems in use and review them for changes if need be adding that many computer systems/services have been de-centralized for quite some time. CM Gorton asked if the jail management system was part of a bid process and was told no, however, there is currently an RFP to begin the process to bid on such a system. She expressed concern there might have been sensitive data on inmates while using the city in Florida's system.

Bishop explained their system started to malfunction in 2005, the process was slow and labor intensive and as a fix the computer system vendor recommended downloading a similar system being used in Florida. It seemed that system worked for Community Corrections and was left on their server and not deleting that information was an oversight by the vendor.

CM James asked Sahli if the full audit report was made public and was told the report in its entirety was on the Internal Audit website. She also asked that any future committee packets always include full details reports and not just a summary. She asked if PeopleSoft had a module to accommodate jail management and was told no. This type of software if unique and typically has to be custom designed. She asked Bishop if he was satisfied with the results/outcome of the audit.

Bishop said he was concerned about the amount of discretion given to the director and agreed with the need to have controls and oversight on accounts. He welcomed the changes for transparency, safe guards and protocol. He did recommend a way to insure the money generated by the jail is able to be used for the jail and development of a way to handle the high volume of the PAF account.

He was asked about security concerns and monitoring the security of the entire data base.

CM Stinnett said the administration is changing the existing ordinance and those changes will be brought before council via the blue-sheet process. There will also be changes to update the policy and procedures manual and bringing those Community Corrections accounts into PeopleSoft will allow for oversight. CM Stinnett had to leave chambers and turned the chair over to CM Lane.

CM Beard asked for details on a small local developer and wanted to know if this vendor was the original developer of the jail management software. He expressed concern with no bid process and not coming before either the Mayor or Council for approval.

CM Myers asked Sahli about the process to change an ordinance and SOP's for a division. Sahli replied the recommendations come from his departments' years of experience in audit and internal controls. He added that all his recommendations and findings come to council routinely through the internal audit reports. He also asked Bishop for a brief overview of the accounts involved.

Bishop explained there were three major accounts unique to Community Corrections.

PAF – money inmates can deposit for purchases or to conduct business while incarcerated, which is withdrawn upon their release. This is a high volume account with a large turnover.

CAP (Community Alternative Programs)
Revenues from drug testing and fees from electronic monitoring. This is a self sustaining account with unpredictable volume since the court control the growth of this program by mandating drug test and monitoring.

Phone
Revenue generated from phone calls made by inmates which equates to a considerable revenue stream and allowed for the most discretion on the part of the director.

The recommendation is to move these to the general fund in order to address oversight and control issues.

Bishop added another control mechanism being looked at is installation of a Kronos time keeping system to better assist with payroll and time keeping.

CM Myers asked about funding for these changes and was told an assessment of the software needs to be completed before cost would be available.

CM Beard asked if there was an annual maintanance fee on the existing software and was told no there was not, it was based on fee for service. However, typically most software maintanance fees can run about 20-25 %

CM Beard asked Bishop about charging inmates for phone calls, and profiting from it. Bishop responded this is a common practice in many cities and phone companies. Beard asked if a signed agreement existed with the phone service provider and was told yes, the provider is Evercom. He wanted to know if the contract had been approved by Council. Bishop said he thought it was.

CM Henson wanted to know if any type of service fees were charged to inmate accounts. Bishop said there was no actual service fees changed, except a booking fee which is required by state statue. She asked if booking fee was shown as revenue and was told yes, it appears in the general fund. She noted holding federal inmates as another way of generating revenue.

CM James asked if the phone account contract included service and maintenance of equipment and was told it did.

CM Lane had several procedural questions, asking if the phone service contract was completive bid and how long the current vendor has been on board. Bishop responded Evercom has been the vendor during his tenure. Lane asked that council receive a copy of the 2005 internal audit findings/results. He referred to cash management and asked Bishop how accounting & revenue were advised of balances of cash accounts. Bishop explained all transactions to these accounts are done manually, since they did not come "on line" during People soft installation. Lane asked if these accounts show as a line item on their budget. The answer was no. Lane referred to a CIO memo requesting any independent computer systems being used by LFUCG be looked into, asking Bishop why that memo did not prompt an investigation of the jail management system. He also wanted to know if Bishop was confident with his approval of $120K project and given the opportunity would handle any of these issues differently. Bishop explained he was reasonably confident with purchase of the software, adding the requirements of the Memorandum of Understanding were satisfied and work completed successfully. However, Bishop maintained, the amount of director discretion and handling large cash funds, did require more oversight and direction than the ordinance provides for. Lane then turned the chair back over to CM Stinnett for wrap-up.

Mr. Sahli asked to clarify conditions surrounding the 2005 audit of Community Corrections, reminding the committee there were only two auditors on staff and since this is such a large and diverse division the scope of that audit was limited. The 2005 audit was actually done as three separate audits. He said the decision was made to focus only on those accounts with significant receipts of cash, which he felt had the most potential for tremendous exposure.

CM Myers thanked Mr. Sahli and his staff for its work adding this might be an appropriate time to mention their budget and need for additional staff. Mr. Sahli responded by saying there are vacant positions which have not been filled due to the current financial situation. However, he will be requesting another auditor for FY2010.

CM Stinnett asked for further questions or comments and a motion to adjourn.
No motions came from either presentation on today's agenda.

Meeting adjourned 2:58 pm