

**Finance Committee Minutes  
Joint with School Finance Committee  
February 3, 2009**

**Attendees:** Finance Committee & Councilors: Chairman Nick Mavodones, Councilor Anton, Councilor Waxman and Councilor Skolnik. City Staff: Joe Gray, Anita LaChance, Ellen Sanborn, Suzanne Knight, Paul Colpitts. Auditors from Runyon Kersteen Ouellette: Kathy Tyson and Greg Chabot. Financial Advisor: Joe Cuetera from Moors & Cabot. School Committee members: Peter Eglinton, Jamey Caron, Kathleen Snyder, Robert O'Brien and Simon Thompson. School staff: Herbert Hopkins and Jeanne Wynot-Vickers.

Chairman Mavodones opened up the meeting and introductions were made.

**4:00 p.m. – 5:00 p.m. – Joint with School Finance Committee**

**Item 1: Runyon, Kersteen Ouellette presentation of FY08 audit report**

**Comprehensive Annual Financial Report (CAFR):**

Kathy Tyson explained that the CAFR is annually brought to the Finance Committee who acts as the Audit Committee. Financial statements and information is provided by City staff and are audited in accordance with accepted auditing standards. The audit includes the School Department as they are part of the City's general fund. The City has received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for over 13 years. Kathy said that Portland was one of the first communities in Maine to receive this award and have continued to get it year after year. Kathy said that her firm looks at control systems and internal controls as they relate to financial transactions that result in the numbers in report. They also look at compliance with grants and are required to look at federal funding.

**Management Letter:**

Kathy explained that they consider history, as well as annual results, when preparing the management letter. These issues are discussed with various City and School personnel and their responses are included in this letter. There were no material weaknesses. She said there were two significant deficiencies in internal control which were repeated from 2007.

**(1) School Department Accounting System Reconciliation.** The City and School have different accounting systems and the school does not maintain a separate self-balancing double entry accounting system. Whenever you have two different systems monthly reconciliation needs to be done and adjustments should be made promptly. This is not currently being done, and was an issue in 2007.

Jamey Caron asked if things have settled down and where is the School Department in terms of correcting these deficiencies. Herb Hopkins said that a lot of this was due to the work needed and set up of the new chart of accounts, and is disappointed that they have not performed the reconciliation. He announced that they are looking to fill an

accounting position to improve their ability to keep up to date, and probably should have filled this position sooner. Suzanne has been helping with setting up their balance sheet accounts, as well as reconciliation process. He said that balance sheet should be done fairly soon and they will continue to work with the City.

Chairman Mavodones asked about where they are with the hiring and Herb said they need to advertise next week and are hoping to have someone by March 1<sup>st</sup>. Jeannie said that they have someone with an accounting background in payroll that they tried to share with other duties, but it was too much for one person. Chairman Mavodones would like to follow up on this at the next joint meeting.

Jamey asked if once someone was hired would this deficiency come up again next year. Herb felt that would be up to the auditors. Greg Chabot explained they would look be looking at this again next year to see what systems were put in place to address this.

Councilor Anton is interested in getting a deadline on when this issue will be resolved and having a goal to work towards. He would like to have some communication on a deadline. Jeannie explained that when they began a year ago last October they knew that the chart of accounts was going to be time consuming and was a priority in order to get subsidy. She said now they can focus on other pieces and turning their attention back to how they can get their internal workings so that they can align with the city. It is her hope that will have an accountant in early March and have picked someone that can turn their full attention to this. Councilor Anton asked for report back.

*(2) School Department Budget Compliance.* Kathy explained that it was 2007 when this originally became an issue and that was the year that the school was over expended and this happened again in 2008. She said schedules on pages 86-88 in the CAFR show these figures.

Councilor Anton asked the last issue in the management letter pertaining to accrued payroll and related liabilities. Discussion was held on how salary accruals are budgeted. Ellen explained that the school contracts span two fiscal years. Jeannie said that the full amount was budgeted for in FY09 so there should not be an additional accrual issue but they were unable to address the previous years. She said the FY10 budget will not have any additional gap issue. Regarding the liabilities, Herb said at the end of the year they had to provide the City with accruals and amounts were initially incorrect. He said there were inconsistencies as some bills like Anthem were paid in June, and they included them as accrual because they thought they were paid in July. He said before they get into the audit process this year they need to review what year bills are being paid in. Some bills were not paid in the correct month. Councilor Anton asked if the business manager was meeting regularly with staff as stated in the response. Herb said that he has not yet and that some of his staff is taking on more than what they can do. Jeannie explained that they have had issues with staff last year and are now assigning certain things. Chairman Mavodones asked about the recommendation in the management letter pertaining to job descriptions and wanted to know where they were in terms of updating, aligning or creating. Herb said that before the end of the year Human Resources will have a

checklist and he plans to follow their format so that he can put together formal job descriptions. He said that they need to get this done this year and that it has not been a priority as getting the subsidy reinstated was the most important. He said he will take the initiative to get it completed before year end. Jeannie said they have job descriptions but they do not have identified duties within the finance department.

Peter Eglinton asked the auditors if any of the comments could become significant deficiencies. Kathy answered that they could and went on to explain that auditors by nature do not like to see the same issue continue. Peter asked what the next step is for the School Committee. Kate said that they will be reviewing the management letter as a priority at the February 23 school finance committee meeting and will determine how to proceed forward with their city partners. Councilor Anton stated that he appreciates the approach the school finance committee is taking and this will help going through the budget process. Chairman Mavodones agrees and feels that the hiring of an accounting manager will also be beneficial. Herb said having an accounting manager will free him up to do other things like fixed asset listing and job descriptions. Chairman Mavodones thanked Kathy Tyson and Greg Chabot for coming. Joe Gray said that the CAFR and management letter will be placed on council agenda as a communication on February 18, 2009.

## **Item 2: Discussion of Fund Balance Policy**

Joe Gray explained that this item had come to the previous Finance Committee. The original policy was adopted by council in 2002. Joe Cuetera, Investment Advisor to the City provided the finance committee with a comprehensive amount of detail on fund balance policies. He said the most important comment is that a formalized fund balance policy is a sign of good management. The factors that drive credit rating changes are the economy, finance, debt, management and legal security. The City of Portland was downgraded in May 2008 by Moody's from an Aa1 to an Aa2 due to 2007 school deficit and Scotia Prince settlement, however it is a quality rating and only 6% of all cities in the country enjoy this rating. Joe said that the City just issued \$9 million BAN for the Ocean Avenue School at a favorable rate. He provided a number of handouts showing Portland in relation to other communities. Ellen would like to move forward with amending the City's fund balance policy and we committed to Standard & Poors that we would review and amend it. She said they are concerned with curtailment from state and the restoration of fund balance. Ellen provided the committee a summary of the fund balance history, and a projection to get to the 12.5% goal. Nick said that going forward the council needs to recognize the financial implication on the budget with the change in the fund balance policy.

Councilor Anton said his interest is around directing revenue to rebuild fund balance for additional debt service and he would like to have a place in the budget for capital needs. Councilor Anton is also concerned with stability with last year's budget experience and the reduction in personnel. He asked about a comparable fund, possibly creating a tax rate stabilization fund. Discussion was held on language and percentage of the fund balance policy and what happens if it goes below or above the percentage. Joe Cuetera said that a more general fund balance policy is better than one with restrictions. Ellen

said that both she and Joe Cuetera have had several phone conversations with the credit rating agencies and they continue to ask about liquidity and the City's intent to restore fund balance. In discussions with rating agencies she has renewed the City's previous commitment to address the fund balance level. Joe Gray said that we are in another difficult budget season and he continues to have a goal of adding to fund balance. Joe Cuetera said that updating the fund balance policy in general is a sign of good fiscal management. Since we have, until 2007, been at a 10% level, and still received a downgrade, the policy goals should be higher than that level.

Councilor Anton feels that 12.5% may be too high and maybe it should change to 10%. Joe Cuetera and Ellen explained that the \$1.8 million committed to fund balance this year remains in place for 2010. She said she understands the focus for capital needs and maybe we need to work that into the policy for amount in excess of the goal.

Discussion on the parameters of ratings was discussed. Ellen said right now the focus is getting stabilized with fund balance. Chairman Mavodones said he had reservations coming in regarding the percentage of fund balance policy and does not want to see us slash programs to attain higher on fund balance policy. He questioned the effect if the City states 12.5% and was only able to get to 11% for a couple of years. Joe Cuetera explained that the fund balance policy is setting a rate and then managing to get there. Joe Gray said would like to act on this before we get into the budget process. Councilor Anton also feels that now is the time to do this. Councilor Waxman said that this makes sense to her. Councilor Mavodones would like to see language that defines use of funds in excess of percentage goal. The committee feels that Freeport's fund balance concept makes sense. Ellen and Joe will work on the fund balance policy and get this circulated to Finance Committee for recommendation to council.

Next meeting scheduled for Thursday 26<sup>th</sup> – 4 o'clock.

### **Work Plan Items**

Councilor Anton would like the following items placed on the Finance Committee's work plan:

#### **Councilor Anton:**

*Capital Improvements Budgeting* – Need to build a record

*Multi Year Budgeting* – How revenue is forecasted

*ESCO Contract* – Would like a presentation on the financial impact - Ameresco

*Street Lighting* – Migrating towards energy efficiencies

*Electricity* – How the City purchases electricity

#### **Councilor Waxman:**

*Waterfront* – Relationship with IMT

*Partnerships* – Would like to know about State partnerships for economic development