



CITY OF BLOOMINGTON

OFFICE OF THE CONTROLLER

MEMORANDUM

To: Mayor John Hamilton

From: Fiscal Task Force

Michael Claytor

Christine Puckett

Tedd Green

Re: Fiscal Task Force Report

Date: July 8, 2016

CC: Jeffrey Underwood & Philippa Guthrie

Mayor,

Overview:

Over the past five months, the task force has met six times with City Controller Jeffrey Underwood and Corporation Counsel Philippa Guthrie. In those meetings, we reviewed and discussed fiscal and internal controls, segregation of duties, and delegation of authority, workflow, and processes. In addition, we reviewed and discussed areas related to past, ongoing and planned updates to the systems and processes around these areas. We also reviewed and discussed topics related to cash management & reserves, use of credit cards, and debt management.

Findings:

In regards to the fiscal controls that are currently in place, we believe the City has made significant progress in implementing more appropriate levels of control. A number of steps have been taken to implement and tighten internal controls. Jeff provided us a variety of supporting documentation and operating reports and walked us through the controls in place for both revenue collection and expenditures. Action taken in regard to how funds are allocated and spent by the Redevelopment Commission was clearly needed and has helped address one of the largest risk areas related to City funds. While improvements have been made in the area of strengthening internal controls, there are additional measures related to internal controls that we recommend in this report.

In regards to Cash reserves, we reviewed the benchmarking performed by staff of the City's cash reserves in relation to its operating funds against other Indiana cities. We were encouraged to see that the City ranked very high among its peers in this area and we would recommend the City continue to strive for a high rank in this area.

Similarly, the City continues to rate well in regards to debt per capita in relation to other cities included in the comparative data. Debt financing is an important tool for the City in order to meet its capital improvements and replacement needs. Debt financing is one area where the State has given municipalities a wider range of opportunities in the types of debt it can utilize. We encourage the Administration to utilize this tool in the best way possible taking into account both the needs of the City along with those who bear the burden in repaying the debt.

Recommendations:

We would like to offer for your consideration and implementation the following recommendations.

Fiscal Controls, Processes, and Systems:

The development by the Administration and adoption by the City Council of a formal internal control policy along with staff training by the end of this year.

Formalize the internal audit function within the Controller's office. This may include the addition of a position within the office whose primary function would be dedicated to the internal audit function, and continue to expand on recent efforts to ensure safeguarding of assets and periodic on-site reviews.

Implement a policy to have an external review of Internal Controls on a two (2) year schedule beginning in 2017.

Continue to automate manual processes where feasible and economical. The automation of processes allows for greater internal controls and helps the city to assess where there are gaps and overlaps in duties and responsibilities.

The development by the Administration of a policy of Materiality by the end of this year. The Administration should include a policy on materiality thresholds for use in guiding the Internal Audit function in specific targeted areas.

We also recommend that the City pursue the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting (CAFR) Program. This national review program encourages and assists state and local governments to go beyond the minimum requirements of generally accepted principles to prepare comprehensive financial reports that evidence the spirit of transparency and full disclosure. The goal of the program is to ensure that users of the financial statements have the information needed to assess the financial health of the participating governments, and to recognize individual governments that succeed in achieving that goal.

Credit Cards - A credit card utilization policy should be drafted, approved and closely monitored. When we reviewed the credit card practices of the City, it was shared with us that there was only one (1) credit card within City government, directly managed by the Controller. This is an extreme way to control expenses, but yet not a practical method. We recommend the expanded use of this tool by issuing one card to each Department Head/Department. The Department Head would be responsible for reviewing and approving use of the Department's card within the guidelines developed by the Controller and approved by you. In addition, we strongly suggest utilizing the functionality within the credit card program in regards to the use of commodity codes. Using this functionality would prevent purchases from certain types of vendors that, as determined by the Controller, are not appropriate establishments for the expenditure of City funds. The Department Head would be responsible for reconciling, providing the proper backup detail and approving all charges. This should be done on a monthly basis and closely monitored for compliance, with automatic card cancellation if established procedures are not followed.

Continue the implementation of the use of requisitions within the City's enterprise financial system (New World) along with developing and implementing a plan and timeline for the integration of subsidiary systems with New World. Again, this will strengthen internal controls, segregation of duties and eliminate duplicate entering of information into multiple systems.

We also recommend the continued implementation and expansion of the common time keeping and reporting system that is currently in process.

Document management automation is another area where we would encourage investment by the City. A well-designed and implemented system will provide a number of benefits including greater efficiency in the routing of documents, the tracking of all past and current contracts along with keeping city staff informed of ongoing and future tasks related to those contracts. Not to be overlooked is the ability of the City to provide access to these documents to the public for their review, analysis and feedback.

Finally, we encourage you to continually review the City's controls, processes and systems and adapt them to changes in the operating environment to address known and anticipated changes in staff, technology, and legislative changes.

Forecasting:

We would recommend the development of a high level Strategic Plan that would provide a longer view of potential opportunities and risks that may affect the finances and/or operations of the City.

In regards to the City's capital needs, we recommend that an overall strategic plan be developed. This includes developing and maintaining a rolling five (5) year (or longer) capital asset plan (including acquisition, maintenance, and replacement). This plan should identify and address the funding for both current/backlog and future needs. We would encourage you to benchmark the City against its peers nationally in regards to capital improvement. In addition, it would be helpful to develop relationships with peers in order to share data, information and ideas.

Reserves:

Having appropriate levels of cash reserves, especially in the City's operating accounts, is important for the financial stability of the City. Property taxes and County Option income taxes continue to be the City's primary sources of revenue. Due to the risk associated with these revenue streams, along with the nature and timing of their distribution, it is paramount that the City maintain levels of reserves necessary to assure the delivery of its core services and activities for its citizens.

The Government Finance Officers Association (GFOA) recommends minimum reserves of two (2) months in a municipality's major operating funds. They further recommend a risk based analysis of each fund to determine the proper level of reserves. As the City has demonstrated it can achieve and maintain a reserve of four (4) months in certain operating funds, the City should strive to maintain at least a four (4) month minimum reserve in both the General and Parks General funds and plan ways to improve upon that reserve level over time. We recommend that a risk analysis be undertaken for each City fund and a Cash Reserve Policy be developed and adopted by the Administration.

Debt:

Debt financing is an important tool that the City can utilize in meeting its longer-term needs. In addition, it is one area where the State and Federal governments have allowed municipalities a variety of methods from which to choose.

However, like any tool it should be used wisely, in regards to both what it is used for and the burden it places on residents.

We understand that you have authorized the Controller and Corporation Counsel to engage Legal and Financial advisors to develop both a short and long term plan for the City. These plans will provide options for types of financing identify repayment revenue streams and evaluate the appropriate debt level for the City and its residents. We recommend this continue to be an ongoing project for the City.

Summary:

We would like to thank you for the opportunity to be a part of this task force and we appreciate your trust in our abilities to provide you with this high-level review. We would like to thank both Philippa and Jeff for supporting the task force and providing us with all the information we requested.

The City has made great strides in strengthening its fiscal controls, improving processes and working towards the proper balance between controls and efficiencies. We believe the recommendations we have made would help strengthen the City's financial administrative function and would encourage the implementation of our recommendations. We look forward to meeting and reviewing our report with you in the near future.

Fiscal Task Force Members

Michael Claytor Christine Puckett Tedd Green

