

MINUTES
Troutdale City Council – Work Session
Troutdale City Hall – Council Chambers
104 SE Kibling Avenue
Troutdale, OR 97060-2099

Tuesday, March 3, 2009

1. Roll Call

Mayor Kight called the meeting to order at 6:21pm.

PRESENT: Mayor Kight, Councilor Hartmann, Councilor Wand, Councilor Thomas, Councilor White, Councilor Kyle, and Councilor Daoust.

ABSENT: None.

STAFF: Dave Nelson, City Administrator; and Erich Mueller, Finance Director.

GUESTS: See Attached List.

2. Discussion: A discussion regarding formation of a financial oversight committee.
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Dave Nelson, City Administrator, reviewed the staff report.

Dave Nelson stated the contract with our auditors expires June 30th and we will need to do a Request for Proposal (RFP). Assisting with that will be one of the bigger roles of the Committee. The Committee will also help keep the status of the policies that we'll be talking about putting in place under agenda item #3.

Erich Mueller, Finance Director, stated I approached this primarily from the standpoint that we want to provide an additional set of eyes. The periodic oversight helps minimize the possibility of abuses being able to occur or to occur for any length of time.

Mayor Kight stated I think people have mistaken that by having an outside firm audit your books that they can catch everything. Is that true? It happened in West Linn.

Erich Mueller replied in West Linn the Finance Director manipulated things they took too wide of a span of control and there wasn't some separation of duties and some appropriate audit trails. Even if the auditors would or wouldn't have observed it, they weren't doing audits for almost 3 years which gave that individual plenty of time to manipulate things. The auditors can only represent an opinion based on what they become aware of. They have to feel as though they've gotten sufficient access to things and that the records were in sufficient condition to allow them to render a good opinion. It's not a guarantee that everything is perfect which gives you the opportunity through the Oversight Committee to be

looking at things periodically on your own. One of the challenges in an accounting organization this small is having a sufficient amount of resources to be able to have effective controls. You have to have a separation of duties. The smaller your environment is, the more difficult it is to have the ability to have different people do different things and to have a clear fire wall between access to things.

Mayor Kight asked we don't have that currently?

Erich Mueller replied I would say there are certainly opportunities to enhance controls. I wouldn't say that I've run across anything in my short time here that causes me to believe that something has occurred.

Councilor Wand asked who at the City balances the checkbook on a monthly basis?

Erich Mueller replied the Accounts Payable person, who is also responsible for issuing the checks. That's ideally something that you'd want separated.

Councilor Wand asked who has check writing authorities for the City?

Erich Mueller replied the two signatures are Dave Nelson and I.

Mayor Kight stated I've noticed coming in here on a daily basis that this City takes in a lot of cash. Does the same person that takes in the money also make up the deposit?

Erich Mueller replied the cashier handles most of the transactions but because of lunches and breaks there are other people involved in the process throughout the day. It's not an item of exclusive control. There is a separate individual that generally prepares and delivers the deposit apart from the cashier. Again given the small size of the organization there is plenty of opportunity because of vacations or sick days for those hats to be worn by the same person.

Councilor Thomas asked would this Committee be able to tell if someone was taking money? You are talking day to day operations and a committee that only meets 3 to 4 times a year.

Erich Mueller replied for the first fiscal year I would expect the Committee to sit down quarterly and go through the recent financial performance with me, go through the financial statements, and look at where we are compared to budget. They would also deal with auditors. I see the Committee having some involvement, asking questions, seeing where things are as far as financial performance and financial management on an interim basis. In terms of looking at these particular control questions, I don't necessarily envision that as a role for the Committee to perform. I'm not suggesting that it can't go there but that may be asking more of the participants than what their background is relevant to.

Councilor Thomas stated on your staff report you listed one of the disadvantages is the Committee getting involved with day to day operations. Is there a way to set this up to try to avoid that?

Dave Nelson replied it would probably be beneficial for this Committee to have an understanding of how transactions are taken in. It would be good to spend about 30 minutes to be shown what the process is. But going down there on a weekly basis or spending a whole shift there would be overkill.

Councilor Wand stated it sounds like we should change the last bullet under Duties and Responsibilities it to be educative or to train them to know what the processes are.

Dave Nelson replied Erich will reword it.

Erich Mueller stated when City Staff is referenced it may be more appropriate to view it as the Finance Director because that's probably who you need to be monitoring and need to get reports from versus the broad terminology of City Staff. I have a comment towards the con listed in the document. I left it in there intentionally to raise that very topic. We don't want to create a scenario where we add another procedural step to things that have to happen on a normal routine basis by introducing a Committee sign-off or another Committee review in order to do things that simply need to occur on a normal basis.

Councilor Daoust stated the only word change that I would make on the last bullet under Duties and Responsibilities would be that the word "shall" is pretty strong. We could change the word shall to may or can.

Mayor Kight stated Councilor Hartmann had a good idea to change the last bullet to read may observe. Monitor has a pretty strong connotation.

The Council agreed to change the last bullet under Duties and Responsibilities to read "The Committee may observe".

Councilor Hartmann stated my concern is that down the road this could be interpreted as a document that places the accountability on the Committee and remove accountability from our Finance Director.

Councilor Wand stated I agree that a stated purpose to say that this is not to see authority away from the Finance Director or take away the obligation of the Finance Director but rather to perform an oversight function on behalf of the City Council. Are the other City Committees such as the Citizens Advisory Committee, the Parks Advisory Committee, and the Public Safety Advisory Committee considered subsets of the City Council because they are appointed by us and report to us?

Dave Nelson replied they are outlined in the Municipal Code as a formal and recognized City Committee.

Erich Mueller stated I'm anticipating this to be a Committee that looks at things, is free to communicate with the Council, but I'm not suggesting that the Council is authorizing it with any authority to take action. It's simply another set of eyes.

Councilor Wand stated I think we need to make a change under General Oversight and Accountability. I think the first sentence of the second paragraph should read "The Financial Oversight committee is authorized to consider and report back to the City Council on matters related to".

Mayor Kight asked does this stop you from setting up your own firewalls?

Erich Mueller replied this does not relieve me from any of my fiduciary responsibilities to discharge my duties as expected.

Councilor Thomas asked do we have to formalize this with an ordinance or can this be something we just do?

Dave Nelson stated it would be cleaner if it was a change in the ordinance and this Committee was recognized with Roles and Responsibilities outlined.

Erich Mueller stated my only hesitation about going toward the ordinance approach in the first year is that it's "wet cement" that hasn't quite firmed up yet. That's not my call but that's my feeling.

Mayor Kight asked could we do it in the form of a resolution?

Dave Nelson replied let me talk with David Ross about that. We could do it as an Ad Hoc Committee for 1 year by a resolution appointing 2 elected officials and a member of the public to the Committee. We could list in the resolution that it will be on a trial basis for 12 to 18 months and then revisit it to see if there is a need for a structural change, a change in duties, and if all is running smoothly we can make it a formal committee.

Councilor Wand stated under that Statement of Purpose section I propose adding the following sentence: "The Committee will provide oversight and communicate with the City Council, who retains all authority." Then under the Committee Duties and Responsibilities, the second bullet point, I would suggest that it read "The Committee shall be responsible for recommending the engagement, oversight and, when necessary, the termination of the engagement of the independent auditor." In the same section under the third bullet point I would add the following to the end of the sentence ", for the purpose of securing information."

Councilor Hartmann asked should we define the facilitation?

Councilor Wand asked would that properly go into the job description for the staff members?

Councilor Kyle replied I would think so.

Mayor Kight asked the Council who they would like to serve on the Committee.

The Council decided that the Council members to serve on the Committee would be Councilor Daoust and Councilor Wand.

Dave Nelson stated we will need a citizen to volunteer. We will have to post it.

Councilor Daoust asked would they have to live in Troutdale?

The Council decided that their first choice would be someone that lives in Troutdale.

3. Discussion: A discussion regarding the fiscal management guidelines for the City of Troutdale.

Dave Nelson, City Administrator, reviewed the staff report and Exhibit A.

Mayor Kight stated we need to go through each of these guidelines and decide if they are acceptable or not. Let's see if there's anything we find particularly objectionable.

The Council reviewed Guideline #1.

Councilor Wand stated I'd like to suggest that it read "The City will maintain with the minimal cash flow necessary to ensure the City will not need to issue Tax Anticipation Notes (short-term borrowing). Currently this requires an operating fund balance funded at a minimum of \$2.5 million dollars."

Mayor Kight asked how does that change the tone of this?

Councilor Wand replied I think it sets at a higher priority the notion that we don't want to put ourselves in the point of borrowing.

Councilor Hartmann asked could we set a duration, add 3 or 6 months operation expenses?

Dave Nelson replied basically we're looking for a 5 month coverage for July through November of the General Fund budget.

Mayor Kight asked do we want a time segment, a dollar segment, or both?

Councilor Thomas stated I would go with a percentage versus a time segment or dollar amount.

The Council decided to include a percentage amount to cover 4 months of the General Fund rather than a time segment or dollar amount.

The Council reviewed Guideline #2.

Mayor Kight asked what would the 5% bring it up to?

Dave Nelson replied if you looked at it from a \$10 million budget, 5% would be \$500,000.

Councilor White asked is there an emergency fund?

Dave Nelson replied there's a contingency fund. It's not like when we budget \$100,000 for new cars. We're saying we want 5% of the budget for contingency, not just whatever is left from the budget will be the contingency. I'm looking to have a little bit more in reserve. For the short time that I've been here we've had a number of things come up and now we're drafting a budget for something that could happen 12 to 18 months down the road.

The Council had no changes to Guideline #2.

The Council reviewed Guideline #3.

Councilor Wand stated I think the last sentence should be its own bullet point.

The Council agreed to remove the last sentence from Guideline #3 and make it a separate Guideline.

Erich Mueller replied I wrote this guideline with the mindset of the last sentence that you moved to a separate bullet. The first part was my build up to that sentence. I want to try to make those enterprise funds like a real business where they operate, they have their costs, and they have to pass their costs on to their customers.

Councilor Thomas stated maybe that Guideline needs to be reworded so it is clear that all of that goes together with the definition behind it.

Mayor Kight asked you didn't have anything else in mind?

Erich Mueller replied not specifically other than the utilities

Mayor Kight stated I think the language may need to be adjusted to explain that better because I didn't understand it.

Councilor Daoust stated I'm not sure if this is any clearer but how about this wording "The City shall not adopt an operating budget that is greater than the amount of resources available to fund it."

Dave Nelson replied I think that's different than this bullet.

Erich Mueller stated it is. Anything that comes into a fund is a resource. I was trying to get toward the balance of what it will cost to run it and make sure we have income to support that expense. That's all that I was trying to describe. It doesn't mean that is what you want as your guideline.

Dave Nelson stated I think the guideline Councilor Daoust just read is an accurate guideline that was talked about at the Budget Committee meeting which was to not prepare a budget that is in excess of your estimated revenues.

Mayor Kight asked isn't that mandated by state law?

Dave Nelson replied no, we did it last year. How about Erich works on the language in Guideline #3? We will also break out "The City shall review utility rates...." as a separate bullet.

The Council agreed.

The Council reviewed Guideline #4.

Councilor White stated I have a problem with the word aggressively. I almost think it should be creatively, so we look at every option at our disposal because I view collectors as almost predatory.

Dave Nelson stated how about using the word actively.

Councilor White replied I like that. I think going to a collection agency should be the last resort.

Councilor Daoust asked is this guideline a statement for what we do now?

Erich Mueller replied I think you're affirming what our current practice is.

The Council reviewed Guideline #5.

Mayor Kight asked can you give us an example of what you're referring to?

Erich Mueller replied all of this is a sort of policy statement that if there is an appropriate place that an expenditure can be identified such as being the benefit of Parks, Facilities, or Public Works, then it's appropriate for that fund to bear the expense versus the General Fund.

Mayor Kight asked don't we do that by policy now?

Erich Mueller replied I think we've done that by practice but there really aren't any guidelines that are spelled out.

Councilor Wand stated I think we need to be aggressive about allocating some of those restrictive funds to projects. How aggressive are we at making sure that we're protecting the General Fund when we could spend those restricted funds and make better use of them. I think it should be a policy to aggressively look at spending those restricted funds.

Councilor Hartmann stated I think it could be applied as a general principal with all funds that we've appropriated to a particular destination. I'd like to suggest this read "for the long term stability for all funds, funds allocated from other funds will be used only in the last resort" or something along those lines. Where there are no source of funds allocated that there be some sort of general operation for Erich.

Councilor Daoust stated duly noted but the definition of what you can use all of those other funds for is really restricted. The only one that is kind of flexible is the General Fund. I think that's why it's focused on the General Fund.

There were no changes made to Guideline #5.

The Council reviewed Guideline #6.

Dave Nelson stated Andy Parks discussed examples of ways to build up a reserve for capital improvements or long term capital purchases but actually charging yourself rent. Everything here is pretty much paid for such as City Hall and the Police Department but you could still build in a rent component in the general fund for whatever that building would lease at. You start off with a small percentage and use it as a way to build that fund. If you don't want to do that, there may be other ways to do it. It not be a good time to implement this right now because we are somewhat upside down. Maybe we should continue with our budget process this year and build it into next year's budget.

Councilor Wand asked is it your suggestion for that money to be used for maintenance of existing facilities, for future capital improvements, or both?

Dave Nelson replied both.

Erich Mueller stated if there is a long term plan in place to do a number of things in the City over the next 5, 10 or 15 year time frame such as a desire to replace City Hall, if we put this discipline in place then there will be a capital fund available to do this rather than the circumstance that you're in now.

Dave Nelson stated this could have been used for the purchase of the Davis property and the construction of the parking lot, for deferred maintenance such as repaving the Police Department and CCB parking lots, or general maintenance that we continue to push back. We need to have a better plan in place for the property that we own.

Councilor Thomas stated in theory I like this idea but I don't really have enough information to go forward with it for this budget year.

Dave Nelson stated there are other ways to do this besides renting to ourselves, it is just an idea we are putting out there. Another option would be to say that our anticipated revenues will be \$8.5 million next year, we budget for that \$8.5 million, but our revenues come in at \$9 million. Should it be the policy that we take that extra \$500,000 and move it over to that deferred maintenance capital fund.

Councilor Wand stated I'd like to suggest that we have as one of our goals that we will not solely rely on bond levies for future capital improvements. I think we should represent to Troutdale residents that our deal here is that we aren't going to come to you for a vote every time we want a new building. We are going to manage your money sufficiently.

Mayor Kight stated if this is a blended fund for capital replacement and/or maintenance and we have so much deferred maintenance, is the fund going to be eaten up by paving parking lots and other maintenance?

Dave Nelson replied we could break that fund into 2 separate line items for capital improvements and deferred maintenance and divide the money in half.

Mayor Kight asked what do you think about striking the last sentence from this guideline?

Councilor Daoust stated its ok for a future goal of the City. We just can't do it now.

Dave Nelson stated we could change the last sentence to state "It shall be the future goal....".

The Council agreed to change the language.

Councilor Daoust stated I was wondering if we should tie the Financial Oversight Committee into this by adding another guidelines.

Dave Nelson stated we could add that the Financial Oversight Committee will monitor these guidelines or something like that.

Councilor Daoust stated something like that and maybe add that they will recommend changes to the guidelines.

Dave Nelson stated we will include some connectivity.

Councilor Daoust asked do you automatically produce monthly or quarterly budget reports or would it be a guideline to ask for monthly or quarterly budget reports showing us the current status of revenues and expenditures?

Dave Nelson replied there are monthly reports that are prepared but I believe we are a couple of months behind right now. Normally a monthly report is provided to each department and a full report to the City Administrator. The report shows the amount of money that is budgeted, how much has been spent, and how much is left so you have a percentage of what you have left.

Councilor Thomas asked to receive a summary of those on a quarterly basis.

Councilor Daoust stated that's something that the Oversight Committee would look at.

Erich Mueller stated it's my intention to bring something like that to the Committee.

4. Adjourn

**MOTION: Councilor Daoust moved to adjourn. Seconded by Councilor Wand.
Motion passed unanimously.**

Meeting adjourned at 8:38pm.

Jim Kight, Mayor

Approved March 24, 2009

ATTEST:

Sarah Skroch, Deputy City Recorder