



**Coburg Finance/Audit Committee**  
Regular Meeting  
January 29th, 2020 – 5:30 P.M.  
Coburg City Hall  
91136 North Willamette St.

**COMMITTEE MEMBERS PRESENT:** Cathy Engebretson, Chair; Terry Dawson, Patrick Kocurek, Coleen Marshall.

John Lehmann- Councilor, Non-Voting.

**COMMITTEE MEMBERS ABSENT:** None.

**STAFF PRESENT:** Tawna Ellis, Finance Director.

**MEETING RECORDED BY:** Rachel Moore, LCOG

**1. CALL TO ORDER:**

Mr. Dawson called the meeting of the Coburg Finance/Audit Committee to order at 5:33pm.

**2. APPROVAL OF MINUTES - October 29th 2019**

Ms. Marshall noted the phrase "Ms. Marshall motioned" should be changed to "Ms. Marshall moved" regarding approving the previous minutes. She also noted at the very end, "The committee finished by recapping the " She instructed to strike "the".

Mr. Lehmann inquired if the "Staff Absent" listed are those who are anticipated to be present at the meetings. The group agreed.

***Ms. Marshall moved to approve the minutes as amended from October 29th, 2019. Mr. Kocurek seconded the motion. The motion carried unanimously.***

**3. AUDIT FY 2019 REPORT**

The group called Steven Tuchscherer at 5:40pm to discuss the 2019 Audit Report for the City of Coburg. Mr. Tuchscherer commented that he had no concerns about the audit and remarked that the City looked great. He remarked that having a person come to do a monthly review of some of the control policies is a very wise use of resources, particularly as it pertains to internal controls.

Mr. Tuchsherer noted that there weren't many journal entries and agreed that the group is in a good financial position.

He noted that the allocation of costs is critical to make sense of the finances of any government. He explained the three ways that costs get allocated:

1) Directly allocate. Expenses that are recorded go directly to the fund that is going to incur that expense. It is efficient but challenging to set up and maintain well.

2) Budget for interfund transfers that allow for the movement of money back and forth between the funds. It doesn't necessarily reflect transactions accurately, as it shows interfund transfers out.

3) Interfund Charge/interdepartmental charge which is what Coburg is doing primarily. It is based on monthly charges between the different funds.

When Coburg is doing the budget, it is important to know what method they are using to outfit those costs because it creates some confusion depending on what the explanation is with the budget.

Mr. Dawson noted that the committee is an advice and consent group for Ms. Ellis. He inquired if Mr. Tuchsherer had any recommendations that they may consider as a group, related to things that would be helpful for them to look at on a quarterly basis? Particularly, in order to be of greater benefit to Ms. Ellis over the course of the fiscal year.

Mr. Tuchsherer responded that it's helpful to look at budget versus actual reports. It is good to be reviewing and asking questions about these. For example, a decision is made by the council to take on a project. The project wasn't one that was budgeted, and the committee may start seeing some expenditures or revenues from a grant, donation or loan proceeds that weren't necessarily expected. Some of the biggest challenges in accounting are dealing with the accounting for resources/revenues that are non-standard, such as grants or loan proceeds. It is important to make sure that these are accurately accounted for, especially grants, that the accounting for the expenditure of those grants is done in a way that the reports can be generated appropriately, and the city can explain the use of funds. Paying attention to these types of expenditures and asking questions can be helpful to ensure things are properly accounted for.

Mr. Tuchsherer encouraged the group to be aware of the internal controls within the city. He remarked that Coburg does a pretty good job of separating duties. There are other elements of internal controls and this is an area the committee can be of help in considering and developing processes that may be helpful.

Mr. Lehmann inquired about purchase orders and asked Mr. Tuchsherer to comment on this. Mr. Lehmann said they don't currently use purchase orders, but used to. Mr. Tuchsherer commented that because of automation, the accounting system can require a purchase order be in place before a bill can be paid. As often as not, the purchase order is created after the purchase is made and that is not a very good control and can be a waste of time. He suggested that the best internal control is a policy where a purchase order should be required for purchases that meet certain criteria, such as a dollar amount or an irregular purchase. He suggested they create the criteria that would require a purchase order. The

only reason to do purchase orders would be to enhance the internal controls of the government. He remarked that a procedure must be in order to be effective.

Mr. Tuchsherer inquired if there were concerns about specific expenditures? Ms. Engebretson shared they have been starting to review the finance procedures for the city, through the lens of internal controls. This is what has triggered the discussion of purchase orders.

Mr. Tuchsherer explained that the committee will want to write a policy that actually creates some kind of value of controls. He said that often, the policy is there, the procedures are laid out, but things don't happen according to procedure. Emergency purchases are an example. It may not be realistic to follow a lengthy procedure in the case of an emergency purchase. Developing a policy that really makes sense is most important. He suggested that starting off with a dollar amount threshold is a great way to begin this.

Mr. Tuchsherer remarked that a successful policy is one that is well thought out, that addresses the concern, and one that is implemented regularly. Communication is especially important to understand why or why not a policy is effective. This can be done by discussing with department heads and purchasers.

Mr. Tuchsherer offered to send the committee his copy of the AICPA Audit Committee Toolkit for them to keep. They are not required to send it back. The group agreed this would be helpful and thanked him for his courtesy.

Mr. Tuchsherer remarked that he would be willing to sit in on a future meeting if it would be helpful. He commented that it is great that the committee exists as it is uncommon yet of great value to the city. He affirmed that looking at internal controls and having oversight of actual finances will be an effective function of the committee.

Ms. Ellis thanked Mr. Tuchsherer and the call ended at 6:07pm.

Ms. Engebretson commented that the conversation was helpful and she felt like the committee was on the right track. Ms. Ellis explained some of the audit process, saying that it's much easier this year due to having the portal to upload documents.

Ms. Marshall commented that in the audit summary, there were 2 exceptions: one was already corrected about appropriations within the general fund and the other was about over expenditures in public works administration. Ms. Ellis presented this to the council before the audit came out and made them aware that this would be happening.

Ms. Engebretson had a few questions for Ms. Ellis. The general fund budget was underspent by 21%, about \$580k. There were some receivables that weren't collected. Are these related? Ms. Ellis said yes and explained there were some projects that did not happen. Because they didn't receive the funds,

they didn't spend the funds. She noted this will probably happen every year, because they can't control when a project is going to happen.

Ms. Engebretson remarked that it looked like the report indicated that the water utilities were making a profit while the sewer utilities were having a loss. Ms. Ellis responded that they over estimated the water utilities and didn't collect what they thought they would. Ms. Ellis would have to look back about the sewer, as she didn't recall exact details. Ms. Engebretson noted that on page 15 of the audit, there was a change in net position. Ms. Engebretson clarified that they charged more for services than expenditures, where the sewers were opposite. Ms. Ellis explained that sewer is based on LID (Local Improvement District) and they can't perfectly predict who is going to be paying or not, as there are different scenarios that affect it.

Mr. Dawson asked if the city makes attempts to forecast this? Ms. Ellis said yes, the budget document has 3 years historical data, and they project 5 years data. They take this all into account. Because they have the same software, they can look back even further. They take all this information into account when setting the budget. Mr. Lehmann asked if the new software would address this problem. The software is more accurate and predictable in forecasting what the expenditures will be.

#### **4. FINANCIAL REPORTING FOR OCT-DEC 2019**

Ms. Ellis presented the 6 month review to the committee. Ms. Ellis will only be presenting quarterly to the city council but will have a monthly report written for them to review. She reviewed the Budget vs Actual, as of 12/31. She explained that the whole city should be 50% as they are halfway through the fiscal year. She reviewed a document explaining revenues and expenses. They are currently under budget.

Ms. Ellis responded to Ms. Engebretson's questions, explaining that they are a little behind where they thought they would be on the revenue side, and they may have to do a supplemental budget. However, there are projects that may not happen. They are going to have a supplemental budget this year to address a couple things. First, the water meters are getting installed and this was moved forward by council. It was an added expense into this year but they have contingency, so they can move those funds to cover this project. It was a \$91k added expense for this project.

Ms. Ellis continued to walk through the report she had projected:

- General Fund: 53% revenues and 40% expenses. Then she broke down the general fund further:
  - Administration- 49% utilized for the first 6 months. They are on trend for this.
  - Facilities- 41% utilized.
  - Planning- 16% utilized. Ms. Engebretson inquired why they are so far under. Ms. Ellis explained that each department is fiscally responsible, and Mr. Kern is very reserved. He may not spend until March, April or May, when he feels comfortable to start spending.

- Police: 45% utilized. Their capital outlay was the live-scan fingerprinting machine.
  - Economic Development- This includes RAIN, promotion, and tourism. 40% utilized.
  - Public Works Personnel - 50% utilized.
  - Parks and Parks Capital - 46% utilized. Ms. Ellis thinks that the Johnny Diamond project may cross fiscal years.
- Street Fund: 20% revenues collected, 11% expenses. Ms. Marshall inquired why, and Ms. Ellis explained that the street fund is capital outlay, and large projects that haven't happened yet. So the revenue that is received is usually a grant or a match to allow the city to proceed with projects. The funds are expected. The 6% gas tax has not been accounted into the budget. This is currently being worked on.
  - Water Fund - 16% revenue and 19% expenses. Ms. Ellis noted that the water project has 7 different projects within it. Mr. Lehmann inquired if the water revenue is from utility bills. Ms. Ellis explained yes, but it could also come from grants or loans. Mr. Lehmann inquired why these numbers weren't closer to 50%. Water, Sewer, Park and Administration are all allocated. The revenue includes utility fees and projects. Mr. Lehmann said if it was broken down by utility bills, they would likely see the 50% reflected. The percentage of the allocation is determined based on the index that was determined based on the rate study. The company that did this, FCS, are the same people doing the 20 year study for the city.
  - Sewer Fund - 34% revenue and 40% expenses. Mr. Lehmann inquired when the revenue comes in significantly less later in the year, they do a supplemental budget before any kind of excess spending occurs? Ms. Ellis said yes, and explained that it is illegal to overspend, so a supplemental budget is required to avoid overspending. According to local budget law, if it's within the same fund and it's in contingency, historically a resolution or an ordinance needs to be passed. If they are crossing funds, this requires a supplemental budget.

Ms. Engebretson had read the narrative and was concerned but the graphs helped her understand. The general fund revenues are about 53% at the mid year, and this seems more on trend. The other funds for street, water and sewer have budgets that relate to projects and the variables of funding and timing affect these numbers.

## **5. Review of Finance Administrative Policies**

Ms. Engebretson noted that the goal in reviewing finance policies is to help provide a second set of eyes on policies, set internal controls, and ensure that they can provide support for Ms. Ellis and the finance department. She feels that having written policies and procedures helps the city mitigate the risks of these processes falling apart due to staffing changes over time. When reviewing policies, the committee should make sure that internal controls are in writing so that if someone were to leave the city, that the processes can continue to protect the city against financial risks.

Ms. Ellis responded to Mr. Lehmann's question and said that this document will be approved by the City Council once the committee has completed their work on it. Ms. Engebretson said it helps the staff know the expectations as well and hold them accountable.

Ms. Ellis has brought up the additions on the powerpoint that they had discussed previously. The group discussed the document and reviewed changes.

Ms. Engebretson noted they had discussed how to mitigate the risk of having someone on the staff, make a purchase or promise to purchase without the knowledge by the committee and proper authority. Ms. Ellis read through her addition on Expenditure Controls - #2. The approval as she had described in the addition needs to happen in order to move forward with a purchase.

Ms. Engebretson said that Ms. Ellis mentioned that it is more of an informal process, but typically the budget owner will notify Ms. Ellis when they've ordered something of \$5k or more, then it triggers the finance department to follow up with Ms. Ellis. Ms. Ellis wasn't sure if they wanted to go outside of the ordinance and include the expenditure amount of \$5k. The ordinance covers the level of purchasing, so she doesn't want to cross outside the approved ordinance. They want to keep it as brief and pertinent as possible. Mr. Dawson clarified that they can reference the ordinance and as the council updates the ordinance, this document will stay accurate. Purchasing is subject to this ordinance.

Ms. Engebretson inquired where in the ordinance it discussed timing. The ordinance specifies they need to have approval prior to the expenditure. Ms. Ellis said this is what led them to the purchase order conversation.

Ms. Engebretson feels that the concept of timeliness should be in the accounting procedure. Her concern is that the finance department is made aware in a timely manner when a significant order is placed so they know to record that in the appropriate period. Mr. Lehmann remarked this goes back to staff knowing the expectations so they don't get themselves in trouble.

Mr. Dawson posed a logistical question to Ms. Ellis: is the computer/server of the city able to embed information from the ordinances into the document so when the ordinances are updated, the data will auto update in other documents that are calling out for that information? Ms. Ellis doesn't know the answer to this. Mr. Dawson thinks it's the best way to calculate the information. He feels that if the document is more of a living document in that regard, everything that the committee has done will respond to the changes made elsewhere. For example, if a name change or value change takes place elsewhere, it would correct the information in this document. Mr. Dawson feels this would give greater long term value to this project.

Ms. Engebretson said her main concern is the timeliness of knowing when they are purchasing something significant, how does Finance get this information in order to account for the expenditure during the proper period. Ms. Ellis said this information would be under Expenditure Controls and she is open to wording.

Ms. Marshall said it could be by itself or it could be incorporated under an existing section. Mr. Lehmann suggested Ms. Engebretson draft up language to discuss at the next meeting. The group is agreeable in concept.

Ms. Ellis noted that she added a Procurement section. After discussing the thought process behind implementing purchase orders or not, the group agreed that that purchase orders are one tool as an internal control. Mr. Lehmann affirmed that he was not tied to the idea of returning to the purchase order if it can save time and they can utilize a different tool to mitigate risks. Ms. Engebretson remarked that if they can address mitigating risks with other processes, just like the one for which she is going to draft language, then that could replace purchase orders for the city. Ms. Engebretson said it is reasonable to not have purchase orders, as long as other internal controls are in place. Ms. Marshall brought up the work required to ensure that the processes around implementing purchase orders are well-developed, well communicated and implemented properly would be significant. She feels that for a city of Coburg's size, they would be fine without purchase orders.

## 6. CITY COUNCIL REPORT

Ms. Engebretson wanted to recap what the committee wants to highlight for city council report: Mr. Tuchsherer, the auditor, and his comments regarding the audit. She could mention the things Mr. Tuchsherer suggested the committee focus on and the validation of the things they are currently looking at. He was impressed that the committee exists, says Ms. Marshall. Mr. Tuchsherer was a proponent of having the third party contractor, that this was a good use of resources.

Mr. Dawson noted they didn't spend much time on it, but continued work through the administrative policies for finance. The committee is liable to be doing this for the next 2 years. It may be helpful to remind them that the committee is doing this. Because of the scope of this project. If there are snags that Ms. Ellis notices that she would like input on sooner, the committee could rearrange the order of things being discussed.

## 7. ADJOURNMENT

Ms. Engebretson adjourned the meeting at 6:59pm.

**APPROVED** by the Finance | Audit Committee on this 28<sup>th</sup> day of July 2020.

  
Cathy Engebretson, Chair 7/29/2020

ATTEST:   
Sammy L. Egbert, City Recorder 7-31-2020