

# **FINANCE DEPARTMENT**

## **GOALS/PURPOSE**

The Finance Department is an integral component of the administrative structure of the City of Morgantown, rendering services in a staff capacity to the other City Departments. In addition to providing timely management reports and information to internal users, Finance Department staff is also responsible for the financial reporting function of the City of Morgantown and its agencies to external users such as bond trustees, rating agencies, Federal and State grantors, and the State of West Virginia.

However, the principal focus of the Finance Department staff is to render professional and courteous service to the citizens and taxpayers of Morgantown. As the Finance Department is often the primary contact a resident or business taxpayer has with City personnel, the staff strives to make it a positive experience, while ensuring that all aspects of the City's financial administration are performed in an efficient and equitable manner.

## **CURRENT PROGRAMS / SERVICES**

Finance Department staff is responsible for the collection of all revenue for the various funds of the City of Morgantown, which include the General Fund, the operating fund of city government, eight special revenue funds, three capital improvement funds, one debt service fund, three pension trust funds, and three enterprise funds - Airport, Parking Authority, and Building Commission. In addition, the Department is also responsible for all disbursements made from these funds, including bi-weekly payroll for all employees, monthly payments to retirees, as well as the overall general ledger accounting functions. The Finance Director also oversees the accounting functions of BOPARC and presents monthly reports to its Board.

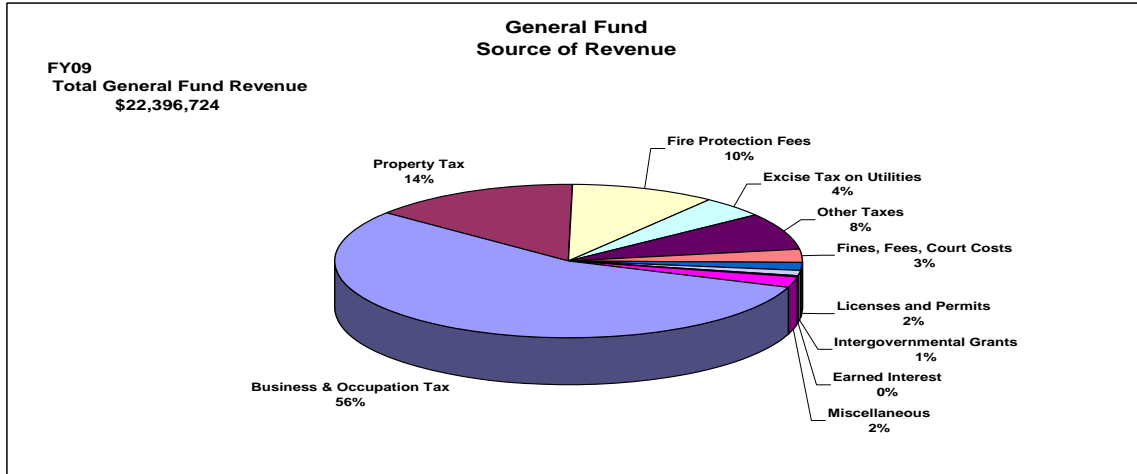
The Finance Department performs an integral function in the overall budget process of the City. This includes coordinating the budget process with all Departments, revenue forecasting, assisting in the initial budget formulation, monitoring budget progress and approving all disbursements, and making recommendations for revisions as necessary.

The Finance Director oversees the risk management and insurance programs, which include the property and liability package, workers' compensation, and the self-funded employee health benefits plan, for the City and its agencies. This encompasses the procurement process, claims administration, and coordination of risk management activities.

The Finance Director also coordinates the annual audit of the City's financial statements, which include all of the City funds listed previously, as well as the Morgantown Public Library and BOPARC. In addition, the Finance Director provides various accounting services including payroll, accounts payable, general ledger accounting, and tax reporting, as in-kind contributions, to Main Street Morgantown and the Campus Neighborhoods Revitalization Corporation.

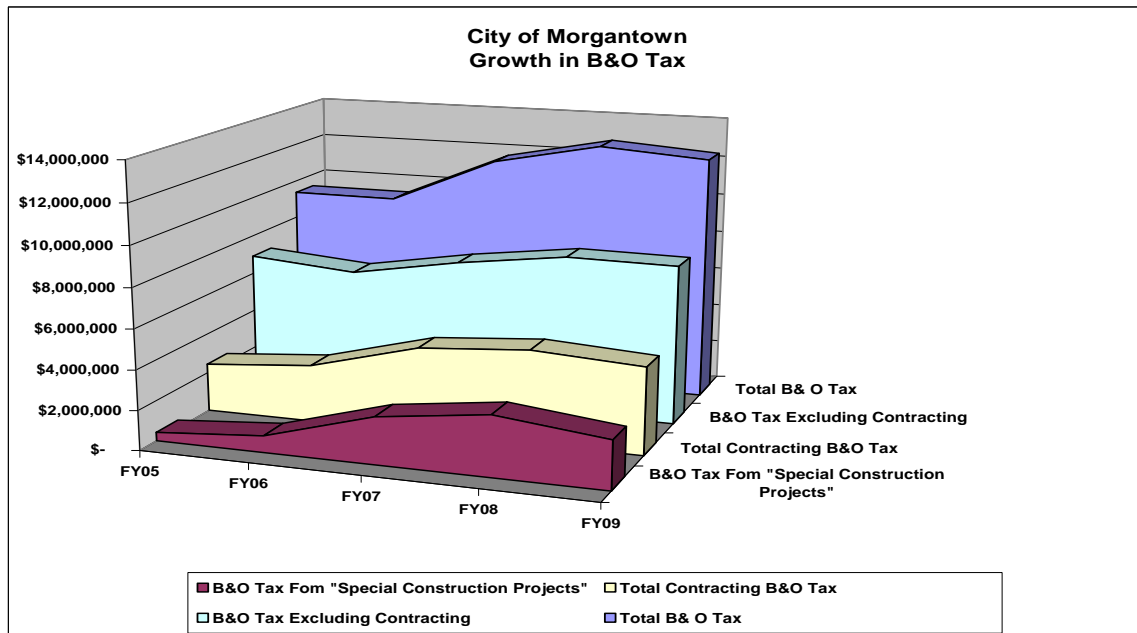
**Revenue Administration**

As evidenced by the following chart, business and occupation (B&O) taxes account for approximately 60% of the City’s General Fund Revenue, while Property taxes account for 14% of total revenue. Fire service fees account for 10% of total General Fund revenue, all of which must be used to support the Fire Department operations and facilities.



Business and Occupation Taxes

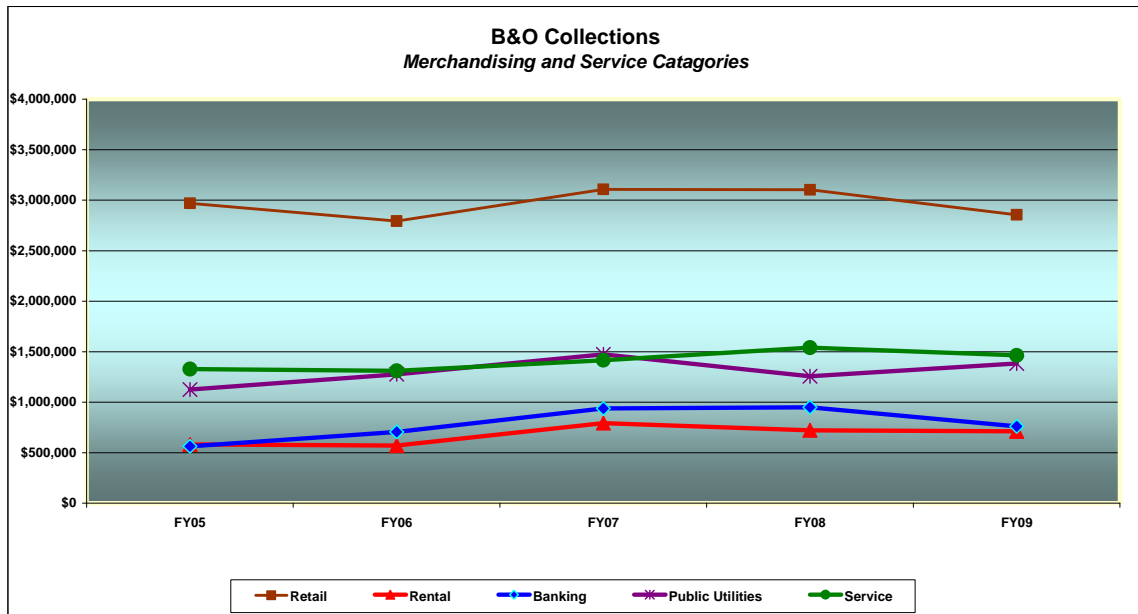
Because B&O taxes account for over half of the General Fund budget, it is important to closely monitor this revenue source. The following graph depicts the growth in B&O tax collections over the past five years:



The B&O tax from “Special Construction Projects” is the tax collected from specifically identified major projects, those single projects exceeding \$5 million in total cost. All of

this extraordinary B&O tax revenue, which totaled over \$8.2 million over the five years shown on the graph, is contributed to the Capital Escrow Fund for capital improvements.

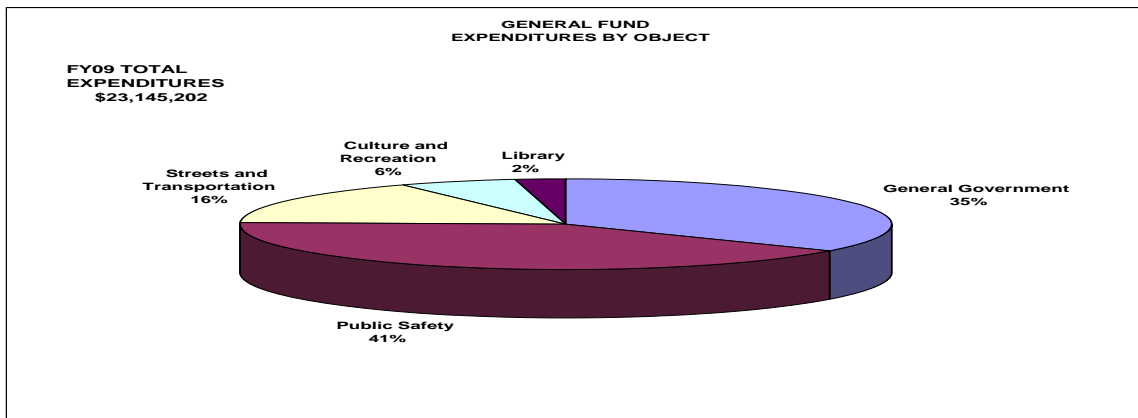
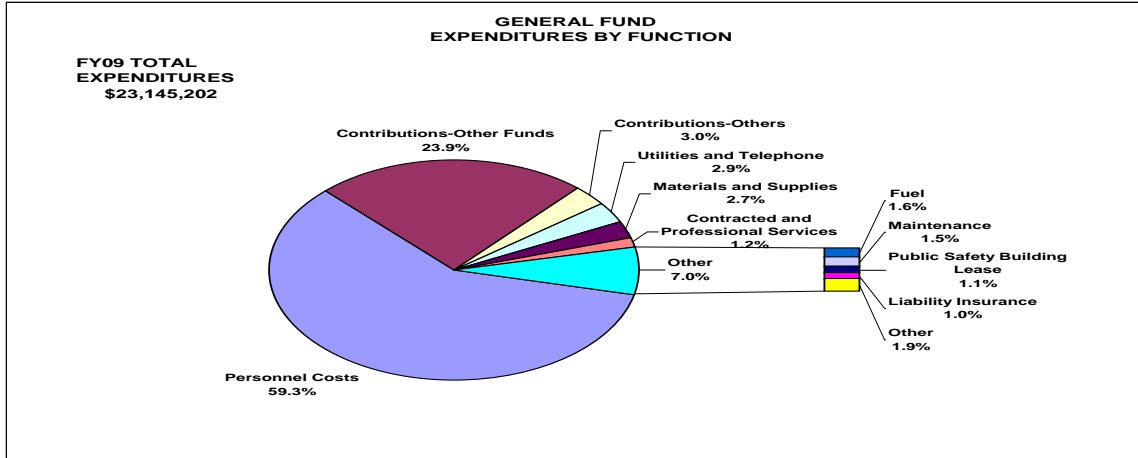
Overall, B&O tax revenues were down 3% from the previous fiscal year. B&O tax revenues from all contracting activities were down 7% from the previous year, with tax revenues from “Special Construction Projects” down 20%. Much of this can be attributed to the economic recession and the inability of developers of major projects to obtain financing at this time or their unwillingness to bear any more financial risk at this time. B&O tax revenues from all other types of activities were down approximately 1%, with only revenue from public utilities showing an increase as shown in the following graph:



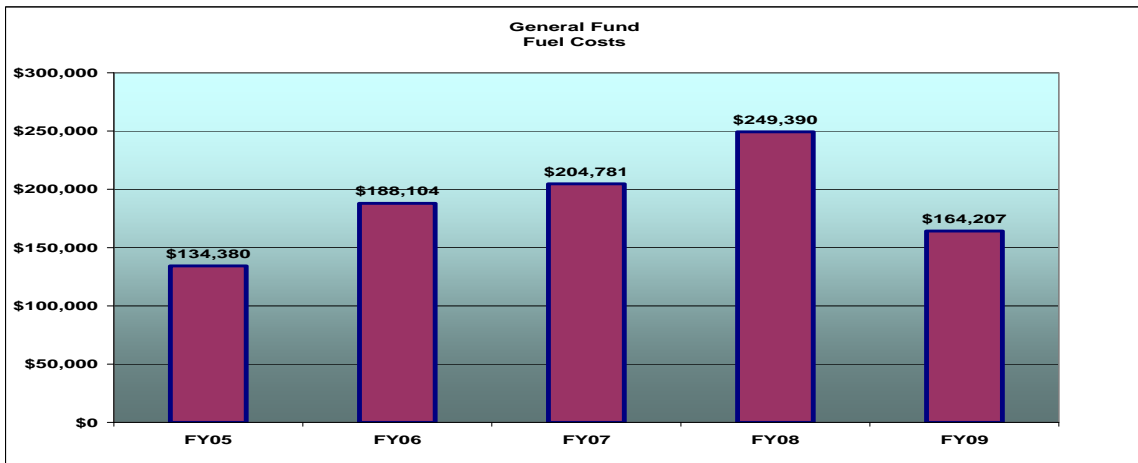
### Analysis of Expenditures

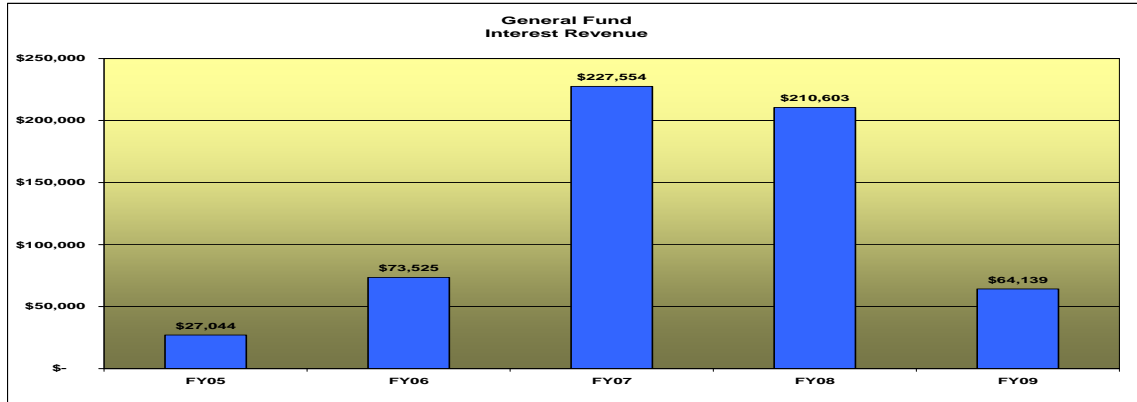
Finance Department staff is responsible for processing all purchase orders and issuing all disbursements checks for all funds of the City of Morgantown. During the last fiscal year, approximately 1,416 purchase orders and 6,834 invoices were processed, resulting in 3,999 accounts payable checks issued for all funds.

Personnel costs comprise approximately 60% of total expenditures. These expenditures include salaries and wages, payroll taxes, and fringe benefits including retirement and health insurance. The Finance Department staff processes payroll disbursements bi-weekly for approximately 225 full-time employees and 25 part-time employees, and provides bi-weekly payroll services for BOPARC, which has 19 full-time and up to 250 part-time seasonal staff. In addition, monthly pension disbursements are also processed for approximately 200 retirees and/or survivors of the City’s three pension funds. The following charts illustrate total expenditures for the General Fund by function and object:



While the City experienced significant savings in fuel costs from the levels experienced the past two years, the benefit was more than offset by the dramatic decrease in interest earning as depicted by the following charts:





### Treasury Management

Another important responsibility of the Finance Department is the management and investment of all City funds. Cash accounts and investments totaled \$63 million at June 30, 2009. Of this amount, \$48 million represents pension fund assets, which are managed by professional money managers. For the most part, the remaining funds are held in local banks in checking and money market accounts and certificates of deposit.

Currently, the Finance Department manages over forty checking and money market accounts and oversees fourteen trust accounts.

### RESOURCES

#### Finance Department Staff

The most valuable resource in the Finance Department is its dedicated and experienced staff. The staff consists of seven full-time employees, which includes the Finance Director, Assistant Finance Director, Business Tax Auditor, four accounting clerks, and two permanent, part-time accounting clerks. The full-time accounting clerks each have primary responsibility for a specific functional area, while the part-time clerks back up the cashier function, perform data entry, mail processing, and filing for all functional areas.

Of the seven full-time staff members employed in the Finance Department, four have over twenty years of experience with the City of Morgantown. However, two staff members are planning to retire in the coming year. Fortunately, the Department has the part-time staff in place to allow for retiring staff to extensively train their successors.

Due to the tremendous growth in the City of Morgantown, the number of projects undertaken by the City, and the quantity and complexity of new accounting requirements, the State Auditor's staff recommended, as a result of their audit for FY08 year, that an additional degreed accountant be added to the Finance Department staff. The Finance Director is currently evaluating this recommendation, along with reviewing the capabilities and responsibilities of existing staff.

In addition to the Finance Department staff, the Finance Director also oversees the staff

of Municipal Court. The Finance Department also utilizes the services of interns from West Virginia University to supplement staffing needs during busy times and perform special projects.

### **Computer System**

The Finance Department utilizes an IBM iSeries 820 computer system and New World Systems software that is used for all accounting functions including budgeting, general ledger, accounts payable, accounts receivable, payroll, and revenue collection. All staff members have PC workstations, which are networked to the main City Hall computer network and have Internet access and email capability

Currently, the Code Enforcement Department is in the process of implementing the New World Systems PC/Windows-based Community Development software, which includes a module for business and contractors licensing. The Finance Department has begun training on this system as it will be converting to this system for its licensing and related collection applications. Once implemented, information sharing between the Departments should be greatly improved and redundancy of certain processes eliminated. Eventually, the Finance Department expects to convert to the New World Systems PC/Windows-based system for its financial and accounting software as well.

## **REVIEW OF THE PAST YEAR**

### **North Side Fire Station Financing**

Upon issuance of the \$4.5 million Lease Revenue Bond by the Morgantown Building Commission on October 14, 2008, for the construction and equipping of the new North Side Fire Station, the Finance Department has been responsible for the financial administration of the project, including preparation and submission of drawdown requests, processing bond payments, processing of payments to contractors and vendors, compiling fixed assets and debt service schedules, and complying with continuing disclosure requirements. The bonds are payable over 20 years at an interest rate of 4.05%. The bond payments are made from the lease revenue received from the City for the North Side Fire Station.

### **B&O Tax and Business License Compliance Project**

This past summer, an intern began a survey of all businesses in the City by physically canvassing the various business districts and comparing the survey results with the B&O tax and business license data base. Notices are then sent to any businesses found not in compliance with City's B&O tax and business licensing ordinances. The Department plans to continue with this effort this coming summer.

### **Staff Training and Development**

The Finance Director attended the National Government Finance Officers Association's (GFOA) annual conference in June of this year. These conferences and meetings are important for keeping current on new developments in financial reporting, budgeting, State mandates, taxation issues, management, and technology. The Director also attended New World Systems annual user conference, during which there were various seminars

offered that detail new software enhancements, teach helpful user tips, and provide a chance to network with other NWS users. Finance Department staff also attended meetings of the West Virginia Government Finance Officers Association and the West Virginia Municipal League.

### **Guaranteed Energy Saving Project**

The City entered into a \$2.675 million lease-purchase agreement for the installation of several energy-conservation measures, with the source of the lease payments coming from “guaranteed” utility cost reductions. The Finance Department has responsibility for reviewing the financial and compliance aspects of the project, submitting the drawdown requests during the construction phase, coordinating the lease payments from the several different participating City agencies, and the ongoing compliance and disclosure requirements.

### **Annual Audit**

Pursuant to West Virginia State Code, the City’s audit for the fiscal year ended June 30, 2008, was conducted by the Chief Inspector Division of the State Auditor’s Office. Fieldwork commenced December 8, 2008, and the audit report was issued July 31, 2009. The City of Morgantown received an unqualified opinion on its financial statements; however, the auditors did cite two deficiencies in internal control related to the Library Board and a few items of internal control deficiencies and noncompliance related to grant programs. All of the findings have been addressed and rectified by City administration.

A few of the other significant outcomes of the audit are detailed below:

#### Component Unit Reporting

The Morgantown Utility Board (MUB) and the Morgantown Public Library are now being reported as discretely presented component units in the City’s annual financial statements. Previously, MUB was not reported at all in the City’s financial statements and the Library was as a special revenue fund. This determination is made based on the legal form of the entities and the amount of control the City exercises over them.

MUB has been procuring its own audit and issuing separate, stand-alone financial statements for several years. Beginning with the fiscal year ending June 30, 2010, the Library will also procure its own annual audit and issue separate financial statements.

#### Presentation of TIF Bonds

The auditors interpretation of generally accepted accounting principals related to the presentation of Tax Increment Financing (TIF) bonds (of which the City now has issued three) differed from the City’s and the prior year’s auditors’ interpretation. Because the bonds clearly indicate that they “shall not be deemed to constitute a debt or general obligation or a pledge of the faith and credit of the City of Morgantown” and are to be solely funded from the future incremental property tax revenues from the applicable TIF Districts, the City did not include the bonds as liabilities on the statement of net assets, and reported the bonds by note disclosure only.

However, the State Auditor disagreed with the City's presentation, which led to the promulgation by the Auditor's Office of a statewide directive on the presentation of TIF obligations applicable to all entities under the Auditor's jurisdiction. Consequently, the City conceded to the Auditor's method of presentation. As most of the assets constructed with the proceeds of the TIF bonds the City has issued are owned or controlled by others, the City, once the bond proceeds are completely spent, will report liabilities totaling \$17 million dollars on its statement of net assets , with little in corresponding assets.

#### Fraud Discovered in the RSVP Program

Unfortunately, while assembling the information for the auditors, City administration discovered that a fraud had occurred in the Retired Senior Volunteer Program (RSVP), administered by the Senior Center of the Board of Parks and Recreation Commissioners (BOPARC). Because the fraud involved Federal funds, the case was investigated by the Inspector General's Office in addition to the Morgantown Police Department. The Finance Director compiled and detailed the transactions dating back to 2006 for investigating agencies and the insurance claim. The case was turned over to the Monongalia County Prosecutor's Office, and the perpetrator has entered a guilty plea on several counts and is awaiting sentencing.

A fidelity claim was submitted to the City's insurance carrier and a settlement has been recommended by the forensic accountant employed by the carrier. The Finance Director and BOPARC administration are reviewing that settlement. No determination has been received from the Inspector General's Office as to the amount of Federal funds that BOPARC may be required to return.

#### Policies and Procedures

It was noted during the audit that while the Finance Department had adequate policies and procedures in place, better documentation was needed. In addition, some policies procedures need to be updated in light of technological changes and current practice.

The Finance Department re-designed its purchase order document to serve as both a request to purchase and a request for payment, requiring an explanation (such as an emergency situation or a recurring contract) to be provided on the form if a purchase order was not required. In addition, certain disbursements previously approved by Finance Department staff, such as uniforms, are now being forwarded to the applicable Departments for their review and approval for payment. This allows for better scrutiny by the staff actually receiving and using the product or service.

#### Security Enhancements

The auditors recommended that the Finance Department needed to improve its security and restrict access to its premises. The cashiering area of the Finance Department has now been reconfigured and glass partitions and a controlled access door will be installed in the near future. Many thanks to the staff of the Public Works and IT Departments that have been involved in this project. Their hard work and consideration demonstrated for the Finance Department's ongoing operations are sincerely appreciated.

## **FORECAST FOR THE COMING YEAR**

The coming year will certainly bring some important new challenges and opportunities to the Finance Department.

### **Accounting for Other Post -Employment Benefits (OPEB)**

Statement No. 45, *Accounting and Financial Reporting By Employers for Postemployment Benefits Other Than Pensions*, issued by the Government Accounting Standards Board (GASB) in 2004, must be implemented by the City of Morgantown in the fiscal year ending June 30, 2009.

Many of the provisions promulgated in this statement mirror the provisions already in place for pension plans. The City will be required to present the cost and the related liability associated with the provision of post-employment health care benefits in the periods in which these benefits are earned, as well as amortize the costs already incurred but not recorded. Typically, the benefits are earned during the period of active employment. Actuarial valuations are required to estimate the actuarial accrued liability (AAL) and the annual required contribution (ARC). It should be noted that GASB 45 does not require funding of the postemployment benefits, but rather the reporting of the liability incurred. However, if an entity does not fund the benefits, an ever-increasing liability on the statement of net assets will result, which could affect bond ratings, the ability to secure financing, and interest rates.

To meet this mandate, the City entered into an agreement with an actuary firm to conduct the initial assessment of the City's OPEB liability. The initial report received from the actuary reports an ARC of \$2.1 million if the City does not choose to fully fund the ARC and \$1.4 million if fully funded. To date, the City has set aside \$250,000 toward this liability, which, if no other contributions are made, will result in the reporting of an OPEB liability of \$1.9 million on the statement of net assets for FY09.

As a way to manage and mitigate this liability, entities across the country are establishing trusts and funding the future liability, modifying or eliminating retiree health plans, steering retirees to Medicare Part D for prescription coverage, and increasing retiree premiums, just to name a few of the strategies. This is certainly a matter that will require thorough analysis by City administration and consideration by Council in the coming year.

### **Economic Conditions**

While the City of Morgantown and its surrounding areas have not been impacted as dramatically by the recession as other areas of the country, the City is still experiencing its effects. As detailed previously, B&O taxes have leveled off or declined slightly, interest earnings are near an all-time low, and the City's three pension funds have sustained large realized and unrealized losses.

Much careful analysis and consideration will need to be utilized in setting goals for the City's future and budgeting for the same.

### **Other Plans for the Coming Year**

In addition to continuing with the ongoing programs and activities previously described, Finance Department staff plans to:

- Promulgate written operating policies and procedures for other functional areas under the auspices of the Finance Department
- Implement the New World System Community Development software module for business licensing and certain collections
- Implement remote entry of payroll and purchase requisitions by Departments
- Implement the filing of certain tax returns and applications, along with the payment of the same, via the Internet

### **SUMMARY**

The staff of the Finance Department continually strives to be of assistance to City management and other City Departments and agencies in reaching their goals. This is accomplished by providing accurate and timely information, which is necessary in making decisions critical to proper financial management and planning, as well as providing expertise in a number of different financial and managerial areas.

However, the Finance Department is primarily committed to making all citizens' experience with City government a positive one by continually emphasizing equity in revenue administration, professionalism, and customer service.