



MINUTES

HERCULES CITY COUNCIL AND REDEVELOPMENT AGENCY

Joint City Council Finance Sub-committee

and

Ad Hoc Citizens Advisory Finance Committee (CFAC)

October 18, 2011

City Hall Council Chambers Room

111 Civic Drive, Hercules, CA 94547-1771

Members Present

John Delgado, Vice-Mayor, William Wilkins, Council Member,

Hector Rubio, Chair, Virgilio de la Vega, Vice-Chair

Gabriel Naguiz, Stanley Tom, Committee Members

Bill Shea (Absent), Committee Member

Staff Present

Steve Duran, David Baum,

Pedro Jimenez, Bill Goswick

Guests Present

Mike Bowermaster, Gerard Boulanger

Meeting Called to Order: 6:10 PM

1. Audit Process and Strategy (Baum)

David Baum introduced Scott Miller and ManjitDeolof OUM& Company, the accounting firm that will perform the City's financial audit for the Fiscal Year ended June 30, 2011. Baum distributed a memo prepared by OUM outlining their approach to the audit and a timeline on how their team will proceed over the following months.

OUM will review a sampling of financial activities to determine if proper procedures were followed. Sampling of activities will include revenues, expenditures, receivables and accounts payable, disbursements, and cash controls.

The strategy of the audit will focus on high risk areas, large or significant receivables, disposition of capital assets, long-term debt, prior year financial statements, compliance testing of journal entries and other items of specific interest to the Finance Committee.

The committee requested that the audit test financial activities related to the City's capital projects, transfers between funds, expenditures above \$20,000 needing City Council approval, accurate accrual of invoices, and the negative cash balances (deficits) in a number of funds.

OUM will also perform a Federal Grant Compliance Audit, which is a single audit required whenever \$500,000 or more of federal funds are received and spent by a municipality. OUM's audit will include an opinion for pass-through by the City to the federal agency that awarded the grant.

2. Police Equipment (Goswick)

Interim Police Chief Bill Goswick distributed a substantial report to purchase new mobile and portable police radio equipment at a cost of \$269,316 from Motorola Solutions to replace HPD's current communications system. The purchase will include 46 radios, installation into police vehicles, software, and programming. The purchase will be financed via a 7-year purchase lease with an annual payment of \$38,473. At the end of the lease, the City will own the radios. The radios will replace the equipment used by the City's sworn officers and will supply sufficient units to outfit the Police Explorers and Public Works.

The radios will operate under the East Bay Regional Communications System Authority (EBRCSA) created to allow emergency communication among all 38 agencies operating within Alameda and Contra Costa Counties. The EBRCSA system is under construction installing cell towers, trunk lines, and repeaters throughout both counties; the West County portion will be completed in January 2012 and the remaining areas will be completed by June 2012. Hercules' share of the annual debt service to build out the infrastructure will be approximately \$19,000 annually for 15 years.

Discussion centered on the total costs for the duration of the lease and the best way to minimize the annual payments; it was determined that the existing radios have a salvage value of approximately \$200 each. Pinole and Hercules PD will continue to share dispatch services under the new communications system. Also, the City received a refund for \$68,764 for funds held by the City of Richmond for the 800 MHz Radio Enhancement upgrades that will not be used due to the EBRCSA system.

The committee recommends approval of the purchase with the 7-year purchase lease, as it will minimize the annual cash outflow from the General Fund.

3. Childcare Staffing and Response to RFP (Jimenez)

Pedro Jimenez distributed further refined financial analysis and operating budgets of the YMCA and Champions proposals using the template provided by the Committee. Discussion followed on whether existing staff will be retained by the vendors; both vendors would have the staff interview for the positions and could not estimate how many would be retained. YMCA does not offer benefits for part-time employees; Champions offers benefits to employees that work over 25 hours per week.

The City would receive rent payments of \$66,000 per year for use of the City owned facilities, after subtracting the costs for utility expenses and other fixed

costs borne by the City. This amount is approximately \$10,000 above the currently projected revenues of \$55,900.

Parks and Recreation is currently on track to reach the projected \$55,900 budget surplus as enrollment is higher than anticipated at the Hanna Ranch site. It was noted that the Before-and-After School Programs introduce families to other recreational programs offered by the City, which may suffer reduced attendance if the childcare programs were no longer offered by the City. Also, the concerns of Teamsters Local 315 union were discussed and the impacts to current full and part-time employees who work in other programs offered by Parks and Recreation.

The committee recommends that Parks & Recreation be allowed sufficient time to operate under the recently enacted changes; then to evaluate its fiscal performance and determine whether the department met its goal to become budget neutral.

4. Staffing Levels in Finance Department (Duran & Baum)

David Baum informed the committee that the Finance Department had lost their senior accountant with the resignation of Janelyn Bayona, who left to take another position closer to home. The department hired an accounting technician and an experienced temporary staffer to assist with the current work load.

Financial operations in the department need updating and streamlining as currently multiple and repetitive steps must be undertaken by managers to approve and pay invoices. Baum suggested that the focus should be on reporting the information and re-engineering the process of approving invoices; i.e. the manager in charge of the project should be able to approve the invoices and then checked by the payroll clerk against the contract and any Council directives. Internal controls have to be strengthened to properly account for receivables, expenditures and disbursements. Disbursements should be approved by the person in charge of the project.

Steve Duran mentioned that the payroll system is not efficient, requiring staff to clock-in and out multiple times during the day, which when missed or forgotten result in additional work load for management in correcting the payroll system.

The committee asked if the finance department can provide up to date financial reports with the current staffing levels; Baum stated that the City has no history in providing quarterly or semi-annual financial reports that compare actuals-to-projected figures on a periodic basis. Presently, the financial books cannot be closed on a monthly basis – the staff capacity is not there. The current year accounting process takes precedence and has taken time away from closing the books on Fiscal Year 2010-2011.

The committee suggested that a mid-year review of the budget is imperative and requested that finance set up a plan and reorganize the work flow within the department that will free up time for the staff and allow them to catch up.

Discussion continued about overtime hours and whether staffing expenses were in line with the projections. Baum felt that many staffers are working overtime and the payroll expenses are most likely to be higher than expected. Actual figures will not be available until the books are closed.

Meeting adjourned at 8:25 pm

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