



Ad Hoc 2020 Operating & Capital Budget Committee

Description

Ad Hoc 2020 Operating and Capital Budget Committee October 4, 2019 Meeting

The Ad Hoc 2020 Operating and Capital Budget Committee held a meeting on Friday, October 4, 2019. At this meeting they worked on their recommendations to the board. This is not the final report as it is still a work in progress. The link to the YouTube recording of this meeting is at the end of this article.

According to their charter (see below) they are to “Present a report to the Board and CEO by Wednesday, October 9, 2019, which shall serve as a final act of the committee and cause it to disband. The report shall recommend any budget policy revisions as well as any ‘lessons learned’ which might inform the chartering of a Finance Committee.”

Committee members present were: Chairman Bud Hallinan, Vice Chairman Wayne Foltz, John Gonzales, Secretary Dan Aylward, HSVPOA Chief Financial Officer (CFO) Liz Mathis, and CMPAC Representative Tom Heau.

Ad Hoc 2020 Operating and Capital Budget Committee Charter

[Ad-Hoc-2020-Operating-and-Capital-Budget-Committee-Charter](#)

In August Chairman Hallinan sent out direct recommendations to the committee members. He arranged these recommendations under the duties and responsibilities that were written in the committee charter. (See Charter pdf above.)

The first section of their latest report talks about the formation of the committee in July 2019 and the committee charter.

One obstacle the committee faced according to Chairman Hallinan is that “We did not have exposure to the total process due to the delayed timing of our committee’s involvement. But from what we did observe, it appears POA policies and board directives were followed in the development of the 2020

budget.”

Committee had duty and responsibility in five areas

The committee had the duty and responsibility of advising, lending assistance and making recommendations to the Board and CFO in the following five areas:

“1. Compliance with all existing POA policies and board directives as they relate to the 2020 budget process.

“2. Revenue validation and expense management.

“3. Capital expenditure prioritization, in alignment with CMPAC Operations & Maintenance expenditure plans.

“4. Budget presentation and supporting documentation format.

“5. Numeric accuracy and tie-out.”

The committee made detailed recommendations for each area.

This meeting was very thorough, and the recommendations are not finalized yet, so it is difficult to report on the final details. It was obvious that both the committee and CFO Mathis are working very hard to develop good budget procedures and policies.

Suggestions/recommendations/comments

Some of the notable recommendations/suggestions/comments made by the committee and CFO Mathis are listed below.

Note: Comments attributed to CFO Mathis are noted as such.

- A bidding policy should be included in the board purchasing policy.
- The consensus was that revenue amounts in the budget are overly optimistic, particularly in golf and food.”
- “For items requiring Board approval, each item or the amount delegated to the CEO should be identified and recorded separately and with a detailed rationale for the expenditure. Justifications for capital expenditure over \$25,000 must include ROI (Return on Investment calculations) and **preferably** yield a payback in three years or less.” This is standard in most companies and forces more discipline in really looking at expenditures and whether there is going to be a payback.

- “Detailed capitalization and depreciation policies should be developed. Policy should cover areas such as type of assets, assets’ life, depreciable terms, application of capitalized labor from the staff, etc. POA outside auditors should be consulted for recommendations in the development of this policy. Asset Depreciation Policy must conform to IRS guidelines and GAAP.”
- Current Total Obligation Authority (TOA) should be reviewed to be sure the appropriate amount of authority is being delegated for an organization with this size budget.
- Emergency delegation processes should be developed and documented to allow for repairs of utilities, actions to preserve POA or members’ properties or to prevent injury or loss of life.
- A policy needs to be written concerning re-forecasting the projected expenses in the current fiscal year and it should be included in each quarterly financial report provided throughout the year.
- Each department ought to know how much money they have to work with.
- A budget should be developed from a bottom-up perspective. The current process is based on expected increases versus the prior year. Each year the budget process should be based on zero expenditures and the expense levels established by projects, programs, and necessary operating expenses, not based on the prior year’s spending. The recommendation is zero-based budgeting.
- The current process is unmanageable with at least 76 budget departments in 10 divisions. The budget should be established under a limited number of divisions, to be determined.
- Monthly reporting to the board should follow the format of the budget. The 2020 Budget reflects this recommendation.
- Revenue forecasting must be realistic, so the Village has achievable expectations at all times. Stretch goals may be set for individual managers but these stretch goals should never be the budgeted revenue expectation.
- The organizational structure makes managing and budgeting more difficult. It is a very difficult job putting together a budget for this location. Much of the community do not realize the amount of work and detail that goes into the budget.
- Compensation should be benchmarked against other POA organizations to ensure our payroll costs are appropriate. Compensation in the 2020 budget is 48% of the revenue budget, 14% more than the budgeted operating expense. This seems to be excessive and further analysis is required.



- Current technology and spreadsheet-based methods used for budgeting and forecasting financial records are outdated and should be upgraded as soon as possible. (CFO Mathis pointed out that this is being done manually. She said she had to make a choice between going paperless on AP or the budgeting forecasting software. She said her team is severely overworked. She could not have both.)
- The committee felt it is very important that this software be provided to CFO Mathis.
- The committee didn't have any detail on expenses so they couldn't as a team, tie-out the budget.
- Recommend a permanent Finance Committee be established and include property owners, staff liaison and board liaison. The Finance Committee should report directly to the board and its responsibility should include assisting the CFO in areas such as reporting, budgeting, financial policy reviews of technology and any other area where the CFO requires assistance as well as providing reports directly to the board on any financial matters facing the Village or procedural improvements for financial budgeting or reporting.
- "In closing, they believe that during the time this committee was active it adhered to all the requirements and limitations imposed upon it by its charter. The committee's role was primarily advisory in nature. Due to the limited time, the committee report is neither an endorsement or repudiation of the budget process." They believe more in-depth assistance can be provided in both the budget and finance areas which is why they recommend a full-time Finance Committee be established.
- CFO Mathis asked why the committee recommended that the full-time Finance Committee report directly to the Board.
- The committee felt that if the Finance Committee is not reporting directly to the board, the recommendations may be looked at and considered and not really adopted by management.
- Reporting to the staff is just reporting to the people that you are reporting on. That doesn't accomplish anything.

[Click here to watch the Ad Hoc 2020 Operating and Capital Budget Committee Meeting video.](#)

by Cheryl Dowden, October 6, 2019

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