

INTEROFFICE MEMO**CITY OF HARRISBURG**

February 14, 2014

TO: Bruce Weber, Finance Director
Bureau of Financial Management

FROM: Charlie DeBrunner, Controller
Office of the Controller

SUBJECT: Trust and Agency Fund Activity

The Controller's Office has recently reviewed the activity in the city's Trust and Agency Fund. We have several observations and suggestions.

In general, it would appear that the majority of transactions flowing through the fund may not meet the criteria for classification as fiduciary activity. We would propose that existing budget units within the fund be classified using Governmental Accounting Standards Board (GASB) for fiduciary accounts. We would also propose that those budget units that do not meet the criteria either be reclassified into the General Fund or, possibly reestablished as a new Special Revenue Fund.

Generally Accepted Accounting Principles (GAAP) for governmental entities defines trust and agency funds as a subset of fiduciary funds. Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, or other governmental entities. The four types of fiduciary funds are: Employee Benefit Trust Funds (such as pensions), Investment Trust Funds, Private Purpose Trust Funds, and Agency Funds. In each type, the key determinant is that the assets are not to be used to support the government's own programs. Trust Funds are distinguished from Agency Funds by trust agreements specifying the amount of control over the assets and the duration which the assets are held. Another type of governmental fund is a Special Revenue Fund. These are used to account for the proceeds of specific revenue sources (other than trusts, debt service, or capital projects) that are restricted or committed to expenditures for specified purposes.

The attached chart represents a roll-forward of budget unit activity within the city's Trust and Agency Fund as of period 12 of 2013 (not necessarily final figures). The starting point for the roll-forward was 2009 year-end balances (also as of period 12). These balances were used because there was a proper accounting for each budget unit and a corresponding consensus from each departmental custodian regarding the year-end balance. From that, each subsequent year's revenue was added and expenditures deducted. It should be noted that during years 2010 through 2012, there was no recorded carry-forward of prior year's surplus or deficit. During 2013 however, the administration did account for the roll-forward balance within each specific budget unit.

To illustrate the impact of the proposed changes when the majority of the activity in the fund does not relate to fiduciary activity, it is has been reclassified as General Fund revenue and expenditures. As you can, see classifying these existing T and A accounts using GAAP standards would result in an increase to the general fund and special revenue funds of about \$745,166.

We recommend that any budget unit within the Trust and Agency Fund that does not meet the specific requirements of a fiduciary account be handled in one of two ways: For fiscal year 2014, assets that relate to normal government programs would be closed out and the balance transferred into the General Fund. Based on the Administration's intended use of the funds, a proposed budget reallocation plan would be brought before City Council to appropriate the funds for expenditure. For fiscal years beginning in 2015, each department would budget for the activity through the annual budget process; Assets that relate to normal government programs but are in some way restricted to a specific purpose would be evaluated for inclusion in a Special Revenue Fund in the same manner. While incorporating the assets into an amended 2014 budget plan may be more time intensive, it does provide the necessary policy oversight by the Mayor and a level of accountability to City Council.

In either instance, it may be advisable for the administration to solicit guidance from the state's Governor's Center for Local Government Services in the Department of Community and Economic Development. Some potential considerations may include the appropriateness of inclusion in a Special Revenue Fund given the type of revenue and expenditure activity, potential effects on the city's recovery plan and/or General Fund (would the programs be self-sustaining or require a subsidy from the General Fund), and guidance on establishing a policy for future fiduciary activity. Also, administrative consideration may be advised regarding the decreased operational flexibility incurred when such a fund is subject to budgetary appropriation.

I look forward to your feedback.

cc: Mayor Eric Papenfuse