



COMMITTEE of the WHOLE

CITY COUNCIL

MINUTES
September 12, 2011
5:00 P.M.

COUNCIL MEMBERS PRESENT:

S. Marmarou, M. Goodman-Hinnershitz, F. Acosta, D. Sterner, V. Spencer

OTHERS PRESENT:

L. Kelleher, S. Katzenmoyer, C. Younger, C. Geffken, J. Nagel, C. Zale, D. Cituk, L. Himebach, C. Turtell, T. McMahon, D. Robinson, D. Wright, F. Denbowski

Mr. Spencer called the Committee of the Whole meeting to order at 5:05 p.m.

I. 2010 External Audit

Mr. Geffken introduced Ms. Himebach and Mr. Turtell from Herbein and Co.

Mr. Turtell distributed a highlight summary sheet.

Ms. Himebach began the review on page 82 and stated that the City received a qualified audit for its financial statements and federal award programs.

Ms. Himebach stated that many of the audit findings are similar to those found in the past. She stated that there are 5 – 6 new findings and that the corrective action plan has not been received from the Administration so the audit is in draft form.

Ms. Goodman-Hinnershitz noted the repeated pattern of findings. She requested a spreadsheet to track corrective action taken by the Administration. Ms. Himebach stated that a spreadsheet was updated after the 2009 audit and that it will be updated again to reflect the 2010 findings.

Mr. Waltman arrived at this time.

Ms. Himebach reviewed the budget to actual with the following highlights:

- Real estate taxes were \$415,000 less than budgeted
- Act 511 taxes were \$1.2 million less than budgeted
- Real estate transfer tax and per capita tax were higher than budgeted
- The total revenue was approximately \$1 million less than budgeted

Ms. Himebach stated that public safety expenses and pension expenses were higher than budgeted and that the 2010 unfunded debt caused an increase in interest payments. She stated that the City closed 2010 with a \$10,465,719 deficit.

Ms. Himebach stated that after reconciling this deficit figure with transfers from the water and sewer funds, the deficit was reduced to \$4,648,154.

Mr. Waltman questioned the balance carried into 2010 from 2009. Ms. Himebach stated that this figure is shown as the beginning fund balance and it is approximately a \$10 million deficit.

Mr. Waltman questioned the \$600,000 increase in debt payments. Ms. Himebach stated that this is a result of the 2010 unfunded debt. Mr. Geffken stated that other financial transactions also affected this line item.

Mr. Waltman noted the many moving parts of the City's financial situation. He noted that similar expenses are over budget and the revenues fall short by \$1.2 million. He stated that this is important information to have at the start of the 2012 budget review. He questioned if there were systemic issues with revenue collection. Mr. Geffken stated that the 1/12th earned income tax formula led to some problems and that with the switch to an outside contractor for EIT, collections leaves the City one quarter behind in EIT receivables.

Mr. Waltman expressed his belief that the uncollected property tax amount seemed higher than in the past. Ms. Himebach stated that many municipalities in the County are also experiencing decreased property tax revenue. Mr. Geffken stated that there is approximately 2.5% uncollected. Mr. Nagel stated that property tax reassessments also affect this revenue item. Mr. Cituk stated that the property tax revenue line item is based on collection of current and delinquent taxes.

Mr. Waltman noted the amount of police overtime and the balance needed between overtime costs and new hires. Mr. Acosta questioned if new hires would greatly decrease overtime expenses. Mr. Geffken stated that there will always be police overtime and reminded Council that this report reflects 2010. He stated that the majority of 2011 has past and Chief Heim has been working to decrease police overtime costs.

Ms. Goodman-Hinnershitz stated that many of these types of discussions need to occur as work begins on the 2012 budget. She noted the need for accurate meeting summaries. She noted her interest in reviewing the findings of the audit.

Mr. McMahon questioned the relation of City real estate tax collection to other County municipalities real estate tax collection. Ms. Himebach stated that many property owners and businesses have reassessed their property which decreases real estate taxes.

Ms. Himebach reviewed page 11 of the audit which shows the balances of the water fund, sewer fund and recycling fund.

Mr. Waltman stated that Council needed to remain aware of the cost of the consent decree.

Ms. Himebach reviewed the findings which begin on page 83 of the audit. She stated that many findings are repeated from previous years. She explained the difference between accrual accounting and cash accounting. Mr. Nagel stated that he has taken steps to ensure that new staff learns appropriate methods.

- 10-2 – Cash Disbursements – Segregation of Duties

Ms. Himebach stated that correction on this finding has begun. Mr. Nagel stated that system improvements have been put in place.

- 10-3 – Pension Report and 10-4 – Pension Compliance

Ms. Himebach stated that steps have been taken to correct these findings. Mr. Nagel stated that staff has been retrained and have learned the reporting expectations.

Mr. Waltman stated that these funds cannot be leveraged by the City since they are independent. He stated that he feels powerless. Ms. Himebach stated that other funds have rules and regulations that the pension funds do not. Mr. Nagel stated that the 3rd Class City Code provides for the independence of pension funds. Mr. Cituk stated that the State is slow in their review as they are just beginning their 2009 review.

- 10-6 – Time Card Approval

Ms. Himebach noted the need for better oversight by supervisors and managers. She stated that the City's system is antiquated and should be upgraded to an automated system which eliminates paper time cards. She stated that this would be more efficient and would save in the long term after the up-front costs.

Mr. Nagel stated that PFM has also recommended replacing the current system. He stated that the current system should be able to be converted.

Mr. Cituk stated that he concurs with Mr. Nagel. He noted the myriad of items which need to be paid. He noted the need to retain finance personnel. He noted his nervousness moving this change forward. Mr. Nagel stated that the change will take approximately 12 months.

Ms. Himebach noted the need for supervisors to review and sign time cards. Mr. Nagel agreed with the need for improvement.

- 10-7 – Financial Reporting to Management

Ms. Himebach stated that improvements have been made. She emphasized that better decisions can be made with better information.

- 10-9 – Purchasing Card Procedures

Ms. Himebach stated that Mr. Geffken has addressed the approval process.

- 10-10 – Billing – Revenue/Accounts Receivable for Water and Sewer

Ms. Himebach noted the importance of monthly review. Mr. Nagel stated that monthly review began in February.

- 10-11 – Micro Loan Program Approval

Ms. Himebach explained that the micro loan program funds were transferred to a third party without authorization of Council and without a signed contract. Mr. Spencer agreed that Council did not approve this transaction.

Ms. Himebach stated that without a contract there would be no regulations placed on the funding. Mr. Robinson stated that the contract is with CIDC which is owned by Bill Lowenstein.

Mr. Acosta questioned where this business was located. Mr. Robinson stated that it is in Hudson, NY. He stated that the City has had this relationship with CIDC for approximately 20 years.

Mr. Acosta stated that the City transferred \$550,000 to a third party to administer. He questioned why the City did not administer this program. Mr. Robinson stated that when the City administered the program it was not done properly.

Mr. Acosta expressed his disagreement and stated that this program was not properly approved by Council. He questioned if it was the same program reviewed by Council in 2011.

Mr. Spencer stated that it was the same program but an additional \$450,000 in funding was requested. He questioned how this funding was transferred.

Ms. Goodman-Hinnershitz stated that this finding shows clearly that accountability is needed. She stated that the funding should not have been transferred outside the City without a contract. She noted the need for terms and conditions.

Mr. Waltman noted his agreement with Ms. Goodman-Hinnershitz. He questioned what is being done to rectify this finding and what initiated the finding. Mr. Robinson stated that he issued a press release to inform the public of the availability of the funds. He stated that the City runs the Family Business Fund through Fulton Bank but that loan decisions are not made by the City.

Mr. Spencer stated that policies and procedures need to be followed by all City departments including Community Development. He stated that he understands there are additional regulations for state and federal funds but that local regulations also need to be followed. He questioned how CIDC was compensated for their administration without a contract. Mr. Robinson stated that CIDC receives \$500 per loan which is paid by the applicant. He stated that the RFP process was followed to procure the services of CIDC and that the process was not political or secretive.

Mr. Spencer stated that Council needs to see a copy of the executed contract.

Mr. Marmarou questioned if this program was involved in the uncollectible loans. Mr. Robinson stated that it was not.

Mr. Acosta stated that he has seen the work of the Family Business Fund and that it is helping the community. He noted his concern with the microloan program as there is no written contract to protect the City or the fund. He noted the need to fix this finding immediately.

Mr. Waltman suggested a separate meeting to discuss this issue and review the contract process. He noted the need to correct this finding immediately. He stated that the City cannot afford to have the perception of wrong doing. He stated that Council operates as the City's check and balance.

Mr. Sterner questioned if other organizations administer these types of loans. Mr. Robinson stated that others do but that none cover the \$1,000 - \$3,500 niche as CIDC.

Mr. Sterner questioned if three or four entities are administering this program. Mr. Robinson stated that there is one. Mr. Acosta explained the financial institutions who serve this niche. He stated that there is no overlap.

Mr. McMahon stated that if there is no contract signed by CIDC that Council must approve it. Mr. Robinson stated that he will provide the contract for Council review.

Mr. Spencer questioned the purpose of E Z Fred funds. Mr. Robinson stated that it is a State loan program for microloans. He stated that the City was told to use the funding or return it.

Ms. Goodman-Hinnershitz questioned if there is a requirement for a contract before invoices are paid. She noted the need for this to be City policy. Mr. Geffken stated that he is working to correct this finding.

Ms. Goodman-Hinnershitz stated that contracts protect the City through their terms and conditions. She noted the need to revisit this finding as soon as possible.

Mr. Spencer suggested this finding be discussed at an upcoming Finance Committee meeting.

Mr. Robinson stated that there is a signed contract. Mr. Turtell stated that the copy of the contract provided during the audit did not contain a signature page and there was no evidence of Council approval.

Mr. Waltman noted the need to review and record the contract process.

Ms. Himebach stated that the rest of the findings are related to this issue. She stated that the City is responsible for many pass through grants and that they must meet compliance requirements.

Mr. Acosta questioned why these requirements were not in place in the past. Mr. Geffken stated that a new position was filled but that this was never done in the past.

Mr. Acosta noted the turnover of personnel in finance. He noted that much progress has been made in the past six months under Mr. Nagel and noted his hope that it will not fall back. Mr. Nagel stated that the Controller will oversee finance and that the City did not have this oversight in the past. He stated that this will bring better continuity. Mr. Geffken stated that there is a contingency plan in place.

Ms. Himebach stated that the number of grants received by the City has increased and compliance is necessary.

- 10-14 - Grant Receipts and 10-16 – Reporting – Quarterly Performance Reports not Filed Timely

Ms. Himebach noted the need for IDIS draw-downs to be processed in a timely fashion and be reconciled. She noted the need to verify that costs are allowable.

Mr. Waltman questioned if there were additional problems with the IDIS system. Ms. Himebach stated that there are a few but that other organizations do not experience the same level of issues as Reading.

Mr. Nagel stated that finance professionals continue to transfer within the organization causing turnover problems.

- 10-15 – Allowable Costs – Inadequate Documentation for Administrative Expenses

Mr. Spencer questioned who monitored these costs. Mr. Nagel stated that the Administrative Services Director and Managing Director will review these costs. He noted the need for the correct expenses to be covered.

Mr. Spencer questioned if the \$15,000 will be returned. Mr. Geffken stated that it is currently under review.

Mr. Spencer questioned if this was corrected in 2011. Mr. Geffken noted the potential for this finding to continue into mid 2011.

Mr. Spencer questioned the quarterly reporting. Ms. Himebach stated that new reporting regulations are required beginning in 2011. She noted the need to address the finding before it is problematic.

Mr. McMahon stated that no funds will be lost.

Mr. Waltman noted the balance in the sewer fund. He stated that the capital reserve has not been maintained and that inter-fund accounting is weak. He stated that the City still does not track this fund well and that the unfunded debt is costing the City \$6 million. He stated that the City may have been able to access this fund in order to save on some debt expenses.

Mr. Nagel reminded Council that this is the 2010 audit and many strides have been made financially in the last nine months. He stated that accounts are now reconciled regularly and that the due to/due from information will be reviewed by Council shortly. He stated that many financial changes have been made and that the City is heading in the right direction. He noted the need to stay the course.

Mr. Spencer questioned the delay in the review of the due to/due from. Mr. Geffken stated that August 31 was the cutoff and that the review will occur shortly.

Mr. Waltman questioned if it would be reviewed during budget season. Mr. Geffken stated that he is working with Ms. Himebach and Mr. Nagel and that Council will review the information in a few weeks.

Ms. Himebach stated that overall the City has made many positive changes. Mr. Spencer stated that much progress has been made in 2011.

Mr. McMahan questioned if Herbein was satisfied with the progress made to date. Ms. Himebach stated that she is and that the City should focus on the grant issues.

Mr. Cituk expressed concern at the turnover in finance personnel. He noted the need for the City to keep its fiscal house in order.

Mr. McMahan noted the turnover in the pension office. He suggested that Mr. Cituk play a larger role in this area. Mr. Cituk stated that he does have a role in pension issues and that it is not his role to train pension personnel. He noted the need for better salaries to retain employees.

Mr. Waltman noted that simplifying processes may also help retain personnel.

Mr. Geffken stated that PFM has been very helpful and supportive.

Mr. Spencer noted the need for the City to have a strong finance base. He noted the competition of the private sector.

Ms. Goodman-Hinnershitz stated that the City does not have the resources that the private sector does. She stated that the City however does have an internal auditor and suggested that findings be reviewed during Finance Committee meetings regularly. She stated that there should be no surprises in future audits.

Mr. Acosta noted the need for the Administrative Services Director to communicate openly with Council. He stated that this position requires an understanding of finances in the public sector.

II. Council Representatives to the Recreation Commission

Mr. Acosta stated that during previous discussions, Mr. Spencer's and Ms. Goodman-Hinnershitz's involvement was not considered. He stated that he removes himself from consideration for this position and recommends that Mr. Spencer and Ms. Goodman-Hinnershitz continue as they have been involved from the beginning.

Mr. Waltman agreed with Mr. Acosta and removed himself from consideration.

Mr. Spencer noted his belief that the President of Council should serve on this Commission going forward.

III. Agenda Review

The agenda for this evening's meeting will need to be amended to add a resolution ratifying the emergency declaration. Mr. Waltman questioned the timeline of September 15. Mr. Geffken stated that the City is still discovering damage caused by the storms.

An amended agenda memo regarding the appointment of a probationary police officer was distributed.

The award of contract for the 5th & Bingaman traffic signal will be removed from the consent agenda.

Council reviewed this evening's agenda including the following:

- Resolution amending the CDBG Action Plan

Mr. Spencer questioned why Olivet was receiving \$88,000 for swimming pool improvements. Mr. Geffken was unsure but stated that he would check before the meeting began. Ms. Goodman-Hinnershitz stated that City funding was originally used for this project. She noted that the pool is now in need of repairs.

Mr. Acosta described the warning signal that will be installed at 5th & Bingaman Sts. Ms. Goodman-Hinnershitz noted that many individuals disregard all signals.

- Ordinance increasing the police standby fees

Mr. Marmarou stated that the public has no understanding of these fees. Mr. Geffken stated that he would explain the fees during the meeting.

- Ordinance decreasing the membership of the Diversity Board

Mr. Geffken stated that the Board requested this decrease and stated that it removes many of the City management positions.

- Ordinance amending the City's trades codes by requiring accessibility plan reviews and adding a placard removal fee

Mr. Spencer stated that Mr. Wargo is now certified to perform the accessibility plan reviews.

Mr. Acosta questioned the timeframe in which the plan would be reviewed. He stated that many times City review takes longer and is more inefficient than reviews in the private sector. Mr. Geffken stated that building and trades is very busy. He stated that they review projects as quickly as possible and that they requested adding staff in 2012.

Ms. Kelleher stated that this office has been very busy for the last several years. She noted her hope that staff will be added.

Mr. Denbowski stated that the CDBG funding is being allocated to Olivet for swimming pool improvements because ADA guidelines are changing in 2012.

Mr. Spencer questioned why Olivet was receiving City funding. Mr. Denbowski stated that historically if the City funded a project it also funded future improvements.

The meeting adjourned at 7:03 pm.

Respectfully Submitted
Linda A. Kelleher, CMC, City Clerk