



CITY COUNCIL

Finance Committee

Meeting Report Monday, March 21, 2016

Committee Members Attending: M. Goodman-Hinnershitz, B. Twyman, J. Slifko

Others Attending: J. Waltman, D. Cituk, C. Zale, L. Kelleher, B. Rivera, D. Pottiger, N. Rivera, W. Murray

Ms. Goodman-Hinnershitz called the meeting to order at approximately 5:00pm.

Ms. Goodman-Hinnershitz stated that the order of the agenda topics will be modified.

I. Correcting 2014 External Audit Findings

Ms. Goodman-Hinnershitz stated that she wanted to review the external audit findings as there are new Finance Committee members.

Mr. Pottiger stated that he will be working on the General Disbursement account (GDA) and may be assisted by a part-time staff. He stated that the accounts have been reconciled through June 2015. He stated that Herbein has started the 2015 external audit. The account reconciliations are on schedule (30 accounts).

Mr. Slifko inquired if there would be enough manpower to complete that work and Mr. Pottiger responded affirmatively.

Mr. Pottiger stated that regarding the finding for the monitoring of state grants, grant accounts have been closed. He stated that the PennVest loan account is the only one open and that loan payments are being made.

Mr. Pottiger stated that reconciling the GDA is currently the major concern and priority.

Mr. Zale stated that though the GDA has not yet been reconciled, there are approximately 30

other bank accounts that are all reconciled on a monthly basis.

Mr. Goodman-Hinnershitz inquired from Mr. Cituk what role he plays in tracking the results of the external auditor.

Mr. Cituk stated that there are periodic meetings that take place internally to go over the numbers. He stated that the litigation for the recycling fee continues. Funds were moved from the general fund recycling checking account to a separate recycling checking account in case the recycling fee was determined illegal and reimbursements were required. The recycling fees were placed again into the general fund recycling account because the city was cited for having this separate account by the external auditor. This issue has been resolved in 2015.

Mr. Pottiger expressed the belief that only the GDA account will be identified as a finding in the 2015 audit. He stated that the segregation of duties issue was cited and already resolved.

Ms. Goodman-Hinnershitz asked how that was resolved and Mr. Pottiger stated that he informed the Accounts Payable coordinator to cease signing off on projects. Ms. Goodman-Hinnershitz asked Mr. Pottiger if he could explain the matter of segregation of duties.

Mr. Pottiger explained that having two people perform two functions which would allow them with the opportunity to potentially divert funds. In having a segregation of duties, there is the assurance that internal controls work as they are supposed to work. Unfortunately, in our organization it is much more difficult as there isn't funding for these additional positions. He stated that the external audit reports that one individual is signing for another. He stated that the 2012 Bank Reconciliation Findings were a result of not having someone look through each account with scrutiny which he began to do that when he stepped in to his role as Accounting Manager.

Mr. Cituk stated that the Accounting division is currently doing 2012 SG which entails identifying outstanding payroll or accounts payable checks. The division received a list with roughly \$80,000 in checks outstanding. The division began to look closely at this and found that approximately \$75,000 of the \$80,000 had been cleared. This was due to some minor computer glitches that were found and other issues.

There was discussion on the monetary variance within the GDA which can be resolved by cleaning up the City's records and the banks records.

Mr. Waltman suggested that a fully automated system be implemented.

Ms. Goodman-Hinnershitz agreed stated there should be a system in place which performs cross checks to make certain some of these mistakes do not continue to occur.

Mr. Twyman stated that in terms of the automation, how likely is it for this concept to see fruition.

Mr. Cituk opined that things stay the way they are for the moment and staff will need to be more vigilant in monitoring the activities in each account. He stated that if in two years there are still the same issues, then looking into automating would be warranted. Mr. Pottiger agreed opining that the need for an automated system is not needed just yet.

II. Updating Staffing Needs of Accounting/Finance

Mr. Cituk distributed a handout detailing payroll positions for the Administrative Services Division from 2010 to 2/29/2016. He proceeded to provide detailed accounts for each division stating that Mr. Pottiger is still performing two positions as his former position has not been filled. He stated that the difference from 2010 to 2016 is 13 less full-time positions and three (3) more part-time positions for a total of 10 less positions for all Administrative Services Divisions.

Mr. Slifko asked if Mr. Cituk thought the Accounting was adequately staffed. Mr. Cituk responded that he believes there should be more staff in the Accounting/Finance division as he feels the department is the backbone to the organization.

Mr. Pottiger stated that he is in agreement with more assistance in the Accounting division. He stated that in the past, there have been employees that had to use time off for surgeries and others would cover for those individuals but then both their respective offices could be potentially compromised as one person is performing the duties of two.

Mr. Twyman inquired how three part-time positions compare to one full-time. Mr. Pottiger responded that the part-time positions that are filled currently are just positions to assist the full-time employees and are not given in depth duties. He opined that hiring floaters would be a good plan as there are benefits to doing so.

Mr. Murray inquired where the Project Accountant fits in to the accounting positions. Mr. Pottiger responded that that position is actually paid out of the Sewer Fund.

Mr. Waltman stated that extra positions should be proposed in next year's budget. He stated that if it will improve the functioning of the Finance Department, there shouldn't be hesitation in the hiring of additional staff members.

Ms. Goodman-Hinnershitz inquired if in the audit findings, any reporting had to do with the sewer funds. Mr. Pottiger responded that the only findings were related to the PennVest loan account and the state grants. He stated that those have since been addressed and resolved.

At this time, Councilmembers C. Daubert, D. Reed and S. Marmarou entered the meeting.

III. Response to the Baker Tilly Report

Mr. Waltman stated that the Mayor has deferred to Council for input regarding the report. He stated that he is not opposed to looking at some areas more closely, namely the Water Authority. He stated that getting an external auditor to look more closely at the Water Authority would require getting an RFP and going through that process. He stated that there is much oversight in the General and Sewer funds.

Ms. Goodman-Hinnershitz stated that she, too, would like a closer look at the Water Authority even after their audit was completed and Council obtained a report; she feels there are still questions with respect to certain items. She expressed the belief is that if a forensic audit is being conducted by the FBI for improprieties, there will be no need for our own forensic audit.

Mr. Slifko concurred that the Water Authority is most concerning to him as well and would like a more thorough investigation into their numbers. He stated that he's not certain that "forensic audit" is the right term but he feels that the Mayor is already more closely investigating our contracting practices, the towing situation and the Waste Water Treatment Plant. He encourages the Mayor to continue pursuing all of those areas of investigation.

Mr. Twyman stated that he does not agree that the FBI findings will be provided to the City and therefore not eliminate the need for our own forensic audit; however, he also did not express agreement that a forensic audit is absolutely necessary at this time as it would be very costly.

Ms. Goodman-Hinnershitz stated that she wanted to clarify that she is not expecting the FBI to provide the City with all information but through their investigation, if there were improprieties, indictments will be issued and then the City can determine how to move forward and place possible safeguards on our operating practices to ensure this kind of activity will not occur again. She stated that she still has concerns that there are not good, standard operating procedures in place for contracting.

Ms. Reed stated that she, too, would like to see a more in depth investigation into the workings of the Water Authority and also the Parking Authority. She stated that quality auditing will cost more but in the end, if it is done properly, could be a savings for the City.

Mr. Daubert stated that he understands where everyone stands regarding the areas to be scrutinized but he's unsure with the assumption that improprieties are taking place and a forensic audit is necessary. He is of the belief that a more in depth investigation is in order.

Mr. Twyman stated that undoubtedly a forensic audit will be a costly venture; however, perhaps it should be looked at as an investment. There could be much to gain in terms of future stability

and future cost savings from moving forward with a forensic audit as it could provide a wealth of information for the betterment of the City.

There was some discussion on the definition of a forensic audit as uncovering criminal activity or something less serious utilized to help correct how old practices may be affecting the City's finances.

Mr. Waltman is of the belief that he needs to take a closer look at the Baker Tilly report and look more deeply at the areas mentioned, such as the Water Authority.

Mr. Murray stated that Baker Tilly is going to be preparing another report and this he is certain will occur in the very near future.

Ms. Goodman-Hinnershitz stated that she would feel more comfortable if a member of Baker Tilly were available to answer some questions that Council may have with respect the their report.

Mr. Pottiger stated to Council that he was not contacted by Baker Tilly in this process. He is unaware what staff members were involved in the process but he was not. He also addressed a comment made about the competency of employees. He expressed the belief that competency is not the appropriate word as manpower is more accurately the issue. He stated Herbein will continue to do their part but he would like to get an idea of how much this forensic audit will cost. He stated that progress has definitely been made with the number of findings verses previous years which is a positive step in the right direction.

Mr. Waltman stated that he is concerned that Mr. Pottiger wasn't a part of the Baker Tilly report. He feels that the staff has been doing a fine job in the reporting presented. He stated that he also wants to look at the numbers provided regarding Act 47 so that going in to next year's budget, effective decisions are made based off those numbers.

This topic will be discussed again at the April meeting.

IV. Review of Finance Reports

Mr. Zale stated that the start of the year always begins with deficit spending due to the timing of property tax and EIT receipts. The deficit is attributed to timing of bills and recognition of revenues due to the City. He stated that the City anticipates meeting the budget numbers. He stated that the total contribution for the Parking Authority has not been received in the first two months. He stated that there is no Contingency money so that is cause for caution.

Mr. Waltman asked Ms. Kelleher to invite the Chair and Executive Director of the Parking Authority to address this issue.

Mr. Zale stated that in terms of the City's cash flow, it is in a strong positive position. He stated that the Herbein Audits are posted on the City's website going back to 2006.

Mr. Zale stated that for Capital Improvements there are two request for capital spending; vehicles in the Fire department and the IT refurbish.

V. Update from City Auditor

Mr. Cituk stated that the Auditing Committee has not been meeting as there are only four members. He believes another candidate will be before Council to fill the vacancy. He stated he will have a full report for the next meeting. He also stated he is working on the Capital Expenses Report and will have that for Council at the next meeting. He stated that Herbein was in this morning and will be in next week to continue the auditing process.

VI. Outstanding Issues

Mr. Daubert inquired about what is needed to get the RHS Boys Basketball Team their wings. Mr. Daubert stated that he is willing to contribute.

Mr. Rivera responded and provided information on the amount needed including the possible venue and funding for the cheerleaders as well.

Mr. Slifko stated that he also wanted to add some future agenda topics such as the issue of containing legal costs, meeting with the Parking Authority for questions and follow up on the Baker Tilly Report and external auditing.

Mr. Waltman stated that he is concerned regarding Act 47 and the loss of the Commuter Tax. He suggested going to the state with this concern. He expressed the belief that this is a major issue moving forward.

Ms. Goodman-Hinnershitz suggested the need to discuss how the state budget may or may not be affecting the City in any way. She adjourned the meeting at approximately 6:35pm.

*Respectfully submitted by
Bea Rivera, Legislative Aide and
Linda A. Kelleher CMC, City Clerk*

