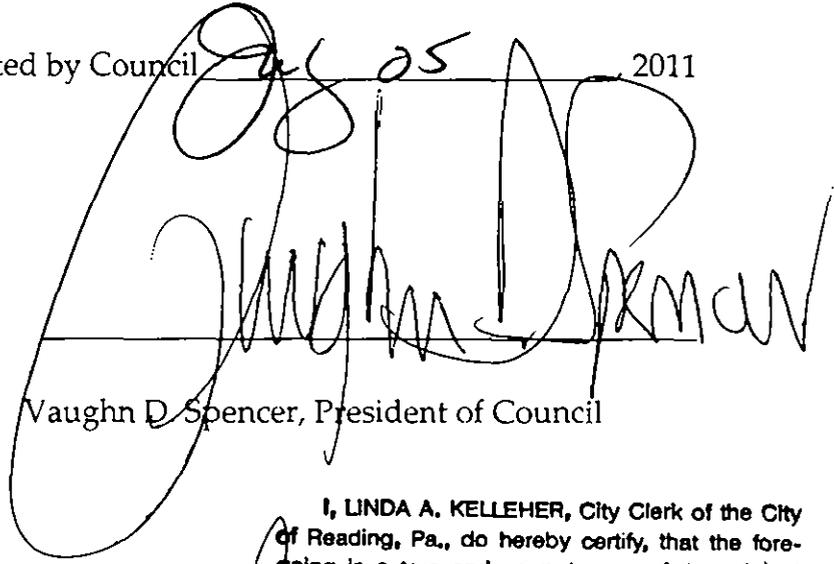


RESOLUTION NO. 107 2011

THE COUNCIL OF THE CITY OF READING HEREBY RESOLVES  
AS FOLLOWS:

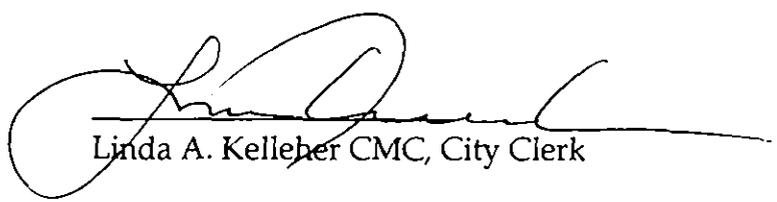
Authorizing the public release of the results of the Sewer  
Investigation, authorized by Bill No. 3-2011 and amended by Bill No.  
20-2011 as attached in the Findings of Facts and Conclusions.

Adopted by Council July 25 2011



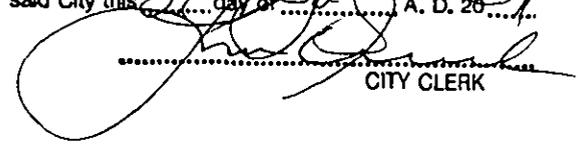
Vaughn D. Spencer, President of Council

Attest:



Linda A. Kelleher CMC, City Clerk

I, LINDA A. KELLEHER, City Clerk of the City  
of Reading, Pa., do hereby certify, that the fore-  
going is a true and correct copy of the original  
passed by the Council of the City of  
Reading, on the 25 day of July  
A. D. 20 11 Witness my hand and seal of the  
said City this 27 day of July A. D. 20 11



CITY CLERK

## **Sewer Fund Investigation Conducted by the Members of Council**

### **FINDINGS OF FACT AND CONCLUSIONS**

#### **Background**

In May 2010, while developing the Act 47 Recovery Plan, the City's Act 47 Coordinator, PFM (Public Financial Management) informed the members of Council that un-repaid transfers totaling approximately \$11.2M were taken from the City's Sewer Fund, in violation of the Consent Decree on the City's Wastewater Treatment Plant, issued by the Department of Justice in 2005. The Consent Decree limited the City from withdrawing more than \$3M annually from the Sewer Fund. The need to repay these funds required the City to take an unfunded debt bond totaling \$20M (covering the repayment of the transfers and the associated bond fees) and was authorized by Bill No. 93-2010, enacted November 3, 2010. Unfunded debt must be approved by the Court of Common Pleas. This transaction was approved by President Judge Schmehl on October 28, 2010.

Over the next several months, the members of Council collectively and individually made inquiries to the Administration about these transfers. As the majority of the discussions occurred in Executive Session and the explanations received were deemed confidential by the Administration, the members of Council felt the need to undertake a public investigation, so the results could be publicly released for Reading's taxpayers and made available for future members of City Council who may have questions about the unfunded debt transaction.

On March 14, 2011 Council enacted Bill No. 3-2011 and on April 25, 2011 Council amended by that ordinance by enacting Bill No. 20-2011 to authorize an investigation into the sewer fund transfer matter.

#### **Discovery**

City Council began the investigation process by sending a letter with questions to past and present City employees and elected officials who may have had knowledge that the transfers were occurring. City Council issued a letter on April 26, 2011 to the following parties who were employed by the City or who held elected offices over the period of time when the transfers occurred:

- David Cituk, hired Jan 1986 in the Accounting Office; Elected City Auditor 2000-2012 (election in Nov 2011 for new 4 year term)

- Ryan Hottenstein, hired Sept 2003 as Purchasing Manager, Finance Director 2005-2008; Managing Director 2008-2010
- Charles Jones, hired June 2001 as Public Works Director - current
- Patrick Sleppy, hired July 2006 as Staff Accountant -current
- Maria Rodriguez, hired April 2000 as Assistant Auditor – current
- Deborah Hoag, hired Dec 2001 as Utilities Division Manager (included the WWTP); May 2010 Utilities Systems Manager– present (in charge of the Sanitary System only)
- Carl Geffken, hired April 2009 as Finance Director; Administrative Services Director May 2010; Managing Director Jan 2011 – current
- Thomas McMahon, elected 2004-2012 Mayor
- Leon Churchill, hired April 2004-2008 as Managing Director
- Ralph Johnson, hired Aug 2005 as WWTP Superintendent; May 2010-current
- Tammie Kipp, hired Nov 1998 in the Accounting Department; Accounting Manager 2000-2002; Finance Director 2002-2005
- Dawn Cieniewicz, hired Feb 2002-2010 as Accounting Manager

The letter contained the following questions:

- a. Who(m) ultimately directed the use of the sewer funds outside of the governing laws of the City of Reading?
- b. Who(m) decided and collaborated not to include City Council in the financial decision making process?
- c. What criteria were used to determine the funds should be taken?
- d. What budget amendments were suggested to address the related financial concerns?
- e. Why no efforts were made to meet with City Council to discuss more appropriate actions?
- f. What entities or organizations (internal and external) were utilized for guidance in the decisions?
- g. What controls existed in the spending of those dollars?
- h. What analysis was done to identify the original revenue weaknesses?
- i. Who, if anyone, provided any legal guidance to those involved?
- j. What financial trail exists to determine the dollars were appropriately spent?
- k. Was there in any way a deliberate and conspiring effort to not inform City Council of the actions that were being taken?

l. What was the complete financial impact/exposure to the City of Reading due to loss revenue, lack of budget adjustments, legal and financial costs, interest payments on replacement costs, and any and all other related costs to this matter.

m. What, if any, actions could be taken to remedy any losses, liabilities and costs that were a result of any inappropriate, illegal, or malfeasant behavior(s) that may be determined.

n. What systemic changes could be taken to assure the general public any inappropriate, illegal, or malfeasant behaviors that may be found could be implemented.

1. The dates these transactions occurred.

2. The name of the funds and accounts that money was transferred from and to.

### **Findings of Fact**

1. City Council received responses from 10 of the 12 employees and elected officials who received letters. Responses were not obtained from Ms. Kipp and Ms. Cieniewicz. The letters received are attached hereto. The majority of those responding claimed to have no knowledge or limited knowledge that the sewer fund transfers occurred. Mr. Geffken provided the most in depth response. Mr. Sleppy also provided useful information.
2. Managing Director Carl Geffken's response was multi-part containing the following:
  - a. a memorandum from Mr. Geffken addressed to Council President Vaughn Spencer dated May 12, 2011, entitled "Sewer Investigation"
  - b. a memorandum from Mr. Geffken to Councilor Francis Acosta dated May 17, 2010 entitled "Sewer Loan", which contains a 10 year history of General Fund Borrowings from the Sewer Fund along with outtakes from the annual external audits (2000-2009) reporting the transfers from the sewer fund,
  - c. a memorandum from Mr. Geffken to the Mayor and Council dated February 22, 2011 which responds to the questions listed in the Sewer Investigation Ordinance.
3. In his responses Mr. Geffken reported that:
  - a. the sewer money was comingled with General Fund money and the money was then transferred into the City's payroll account or other appropriate payment account to cover City related expenses. (Geffken memo dated 2-22-11 #1)
  - b. the belief that the use of sewer funds to assist the City's operational needs was an accepted practice. He also noted the lack of financial controls or criteria to justify or restrict such transactions and agreed

that Council should have been informed about these issues. (Geffken memo dated 2-22-11 #2 and 3)

- c. prior to 2004 Council was informed about the transfers and the amount of transfer required to balance the annual budget sometimes in excess of \$3M.
  - d. by the last quarter of 2009 the Administration was aware that without the use of the sewer funds, the City would need to shut down operations and that repayment of these funds was impossible. He again stated that Council should have been informed about this situation (Geffken memo dated 2-22-11 #4)
  - e. in 2009 the City's revenues came in significantly under expenditures and a sewer loan of \$11.5M was required. (Geffken memo dated 5-17-2010 2<sup>nd</sup> paragraph and Geffken memo dated 2-22-11 # 8)
  - f. no internal or external organizations, entities or legal counsel were consulted prior to making the transfer. (Geffken memo dated 2-22-11 #6 and 9)
  - g. the sewer funds were only used to pay authorized City expenses due to the gap in General Fund revenues (Geffken memo dated 2-22-11 #10)
  - h. as the Administration viewed the transfers as "cash management" issues not related to appropriations, they believed Council did not need to be informed that the transfers were occurring. (Geffken memo dated 5-17-10 #1)
  - i. since the City entered Act 47 many improved financial controls, policy improvements and financial reporting to Council has been implemented. (Geffken memo dated 2-22-11 #14)
4. In his response letter, Mr. Sleppy reported that:
    - a. according to accounting records, the General Fund cash balance went negative sometime in 2007 and remained mostly negative until 2010. (Sleppy memo dated 5-6-11 # 1)
    - b. formerly the General Fund and Sewer Fund shared the same bank account and there was no physical transfer from one bank account to another. When the General Fund balance was drained sewer money was used to cover General Fund expenses. (Sleppy memo dated 5-6-11 # 2)
  5. In discussions, Council learned that due to lack of segregation of duties, the Accounting Manager had the sole ability to make transfers and/or "loan" transactions without the authorization of higher ranking officials.
  6. Although the Administration reported that the issue with the sewer transfers was included in each external audit report, Council was never made aware that this issue was problematic or that the funds were not repaid.

7. The City Auditor did not find the sewer transfers to be problematic therefore did not try to correct the problem or make Council aware of the problem.
8. Lack of segregation of duties in the Accounting Department was cited over multiple years by the external auditor; however the issue was not corrected by the Administration or City Auditor

### **Conclusions**

1. The Sewer Funds are no longer comingled with the General Fund. Sewer money is deposited into the Sewer Fund, which is account code #54 and a separate bank account.
2. The new financial policies, which include controls on transfers over \$500K, were enacted by City Council on April 11, 2011 (Bill No. 17-2011)
3. The Administration corrected the policy and procedure that allowed the Accounting Manager to make unauthorized transfers and/or loans. These transactions must now be approved by the City's Controller.
4. As required by the Act 47 Recovery Plan, the Administration now provides sound monthly financial reporting to the members of Council, which includes reporting on any transfers and/or loans. This information is reviewed monthly at the Council Finance Committee meeting.
5. The Administration makes monthly reports on the Sewer Fund to the Department of Justice.
6. Budget to Actual meetings now occur between various City Departments and the Director of Administrative Services.



## CITY OF TRACY

City Manager's Office

333 Civic Center Plaza  
Tracy, CA 95376

Telephone: (209) 831-6115  
Fax: (209) 831-6120

Think Inside the Triangle™

May 4, 2011

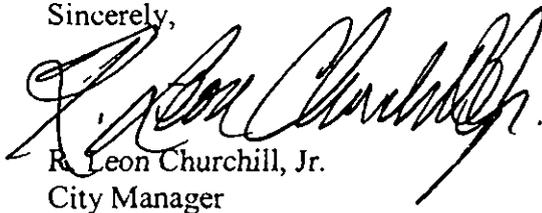
Mr. Vaughn D. Spencer, President of Council  
City of Reading  
Room 2-24  
815 Washington St.  
Reading, PA 19601-3690

Dear President Spencer:

I am in receipt of your April 26, 2011 correspondence describing a City Council-led investigation into fund transfers from the sewer fund to the City's operating expenses. I presume you are referring to the City's General Fund.

No such transaction occurred during my tenure as managing director from April 2004 through April 2008. The alleged transactions occurred in 2009 based on media accounts.

Sincerely,



R. Leon Churchill, Jr.  
City Manager



CITY OF READING, PENNSYLVANIA

CITY COUNCIL OFFICE  
ROOM 2-24  
815 WASHINGTON STREET  
READING, PA 19601-3690  
(610) 655-6205

VAUGHN D. SPENCER  
PRESIDENT OF COUNCIL

*VAUGHN*

April 26, 2011

Thomas McMahon  
1809 North 16<sup>th</sup> Street  
Reading, PA 19604

Dear Mr. McMahon:

City Council enacted the attached ordinance at their April 25<sup>th</sup> regular meeting of Council. As you know under Charter Section 210 City Council has the authority to undertake investigations.

Last year PFM made Council aware that money was transferred from the sewer fund and other various funds to cover the City's operating expenses over an extended period of time and that the money was not repaid to the applicable funds at the close of each fiscal year. City Council decided to take this path to provide documentation about these transactions, which at the end required the City to take out unfunded debt to repay the sewer fund. This documentation will be filed in the City Clerk's Office and will be available to the public and future City elected officials.

The attached ordinance lists a series of questions that Council would like you to respond to in written form. In addition also include responses to the following:

1. The dates these transactions occurred
2. The name of the funds and accounts that money was transferred from and to

Ten copies of your response should be given to the City Clerk no later than Monday, May 9, 2011. Your cooperation will prevent Council from using its subpoena powers also authorized under Charter Section 210. We thank you for your anticipated cooperation.

*[Handwritten signature]*  
4/28/11

Sincerely,  
City of Reading

*[Handwritten signature: Vaughn D. Spencer]*

Vaughn D. Spencer, President of Council

C: Members of Council, Solicitor



BILL NO. 20-2011  
AN ORDINANCE

AMENDING ORDINANCE 3-2011 (INVESTIGATION OF ANY UNAUTHORIZED USE OF SEWER FUNDS) BY DELETING THE WORD "INDEPENDENT" IN SECTION 1 PARAGRAPH 1 FIRST SENTENCE AND SECTION 1 PARAGRAPH 2 IN ITS ENTIRETY

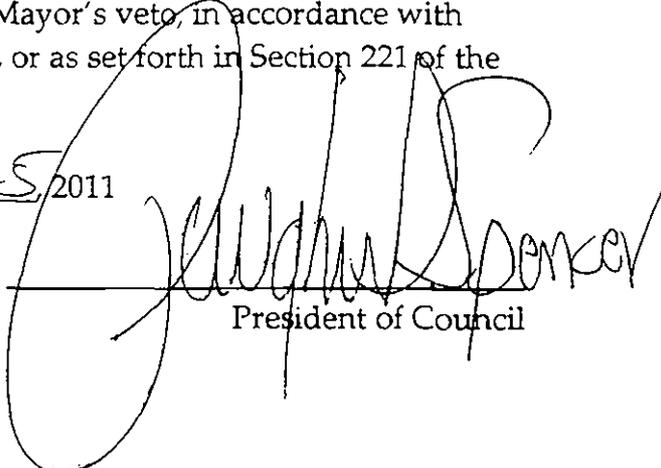
THE CITY OF READING HEREBY ORDAINS AS FOLLOWS:

SECTION 1. Ordinance 3-2011, enacted March 14, 2011, shall be and is hereby amended and shall hereafter read as set forth in Exhibit A attached hereto and made a part hereof.

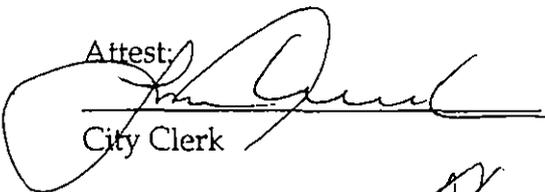
SECTION 2. All other items, parts, sections, etc. of Ordinance 3-2011 shall remain in effect unchanged and likewise are ratified.

SECTION 3. This ordinance shall be effective ten (10) days after its adoption and approval by the Mayor, or re-passage by City Council over the Mayor's veto, in accordance with Section 219 of the City of Reading Home Rule Charter, or as set forth in Section 221 of the City of Reading Home Rule Charter.

Enacted April 25, 2011

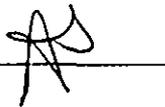
  
\_\_\_\_\_  
President of Council

Attest:

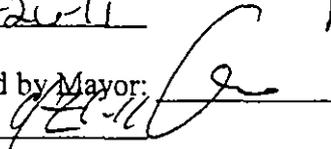
  
\_\_\_\_\_  
City Clerk

Submitted to Mayor: 

Date: 4/20/11

Received by the Mayor's Office: 

Date: 4-20-11

Approved by Mayor: 

Date: \_\_\_\_\_

Vetoed by Mayor: \_\_\_\_\_

Date: \_\_\_\_\_

I, LINDA A. KELLEHER, City Clerk of the City of Reading, Pa., do hereby certify, that the foregoing is a true and correct copy of the original Ordinance passed by the Council of the City of Reading, on the 25 day of April A. D. 20 11. Witness my hand and seal of the said City this 26 day of April, 2011.

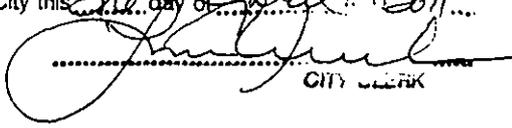
  
\_\_\_\_\_  
CITY CLERK

EXHIBIT A  
BILL NO. 3-2011  
A N O R D I N A N C E

IN ACCORDANCE WITH THE CITY OF READING HOME RULE CHARTER SECTION 210 - INVESTIGATIONS, CITY COUNCIL AUTHORIZES AN INVESTIGATION, AUDIT, AND STUDY OF THE UNAUTHORIZED USE OF SEWER FUNDS BY THE CITY ADMINISTRATION.

THE CITY OF READING CITY COUNCIL HEREBY ORDAINS AS FOLLOWS:

Section 1. In accordance the City of Reading Home Rule Charter Section 210 – Investigations, City Council hereby authorizes an investigation as follows:

1. That an ~~independent~~ investigation of the City of Reading Mayor's Office, Managing Director's office, the Finance Department, and all other city and non-city entities or persons who may have used, or collaborated on the use, of the City of Reading sewer funds, the planning on the use of those funds, and the longer term strategies regarding explanation and/or payment options to the City of Reading residents and City Council. The scope should include but not be limited to determining the following:

- a. Who(m) ultimately directed the use of the sewer funds outside of the governing laws of the City of Reading? *UNKNOWN*
- b. Who(m) decided and collaborated not to include City Council in the financial decision making process? *UNKNOWN*
- c. What criteria were used to determine the funds should be taken? *UNKNOWN*
- d. What budget amendments were suggested to address the related financial concerns? *?*
- e. Why no efforts were made to meet with City Council to discuss more appropriate actions? *?*
- f. What entities or organizations (internal and external) were utilized for guidance in the decisions? *?*
- g. What controls existed in the spending of those dollars? *FINANCE*
- h. What analysis was done to identify the original revenue weaknesses? *MD Question*

- i. Who, if anyone, provided any legal guidance to those involved? ?
- j. What financial trail exists to determine the dollars were appropriately spent? ?
- k. Was there in any way a deliberate and conspiring effort to not inform City Council of the actions that were being taken? *NO*
- l. What was the complete financial impact/exposure to the City of Reading due to loss revenue, lack of budget adjustments, legal and financial costs, interest payments on replacement costs, and any and all other related costs to this matter. ?
- m. What, if any, actions could be taken to remedy any losses, liabilities and costs that were a result of any inappropriate, illegal, or malfeasant behavior(s) that may be determined. *NEW SYSTEMS / COSTS IN AGREEMENT*
- n. What systemic changes could be taken to assure the general public any inappropriate, illegal, or malfeasant behaviors that may be found could be implemented. *See m*

~~2. That City Council agrees to retain an independent individual and/or investigative organization to conduct the investigation of the use of the City of Reading sewer funds and to determine any and all City of Reading Charter violations or violations of law.~~

3. That all powers provided by Section 210 of the City of Reading Home Rule Charter be utilized as necessary to obtain a sufficient investigation.

4. That all City of Reading employees cooperate with the investigation.

**SECTION 2:** Also in accordance with the City of Reading Home Rule Charter Section 210 – Investigations, City Council authorizes the expenditure of City funds to undertake the investigation of the use of Sewer Funds as set forth herein.

**SECTION 3:** This Ordinance shall become effective in ten (10) days, in accordance with Charter Section 219.

**Enacted March 14, 2011**



# CITY OF READING, PENNSYLVANIA

OFFICE OF THE CITY AUDITOR  
ROOM 2-36  
815 WASHINGTON STREET  
READING, PA 19601-3690  
(610) 655-6123

DAVID M. CITUK  
CITY AUDITOR

## MEMORANDUM

TO: CITY COUNCIL

DATE: 05/09/11

FROM: DAVID M. CITUK – CITY AUDITOR

SUBJECT: BILL #20-2011

Remarks: PLEASE ALLOW THIS TO SERVE AS MY RESPONSE TO THE QUESTIONS ASKED FROM A LETTER DATED 4/26/11 FROM COUNCIL PRESIDENT SPENCER IN REFERENCE TO SEWER FUND USAGE PER BILL #20-2011.

### SECTION 1

- A) PER THE 5/17/2010 LETTER TO FINANCE CHAIR ACOSTA FROM THEN FINANCE DIRECTOR/INTERIM MANAGING DIRECTOR GEFFKEN, IT "WAS APPROVED BY THE FINANCE DIRECTOR AND MANAGING DIRECTOR." MAYOR McMAHON , PER THE 3/14/11 COMMITTEE OF THE WHOLE MINUTES "STATED THAT HE WILL TAKE RESPONSIBILITY FOR THIS ACTION BUT HE DID NOT KNOW IT WAS OCCURING AT THE TIME."
- B) I DON'T KNOW.
- C) I DON'T KNOW.
- D) NONE TO MY KNOWLEDGE.
- E) I DON'T KNOW.
- F) I DON'T KNOW.
- G) THE CURRENT BUDGETARY CONTROLS.
- H) I DON'T KNOW.
- I) I DON'T KNOW.
- J) THE NORMAL BUDGETARY CONTROLS AND REPORTS.
- K) I DON'T KNOW. ASK THE ADMINISTRATION.
- L) I DON'T KNOW. ASK THE ADMINISTRATION.
- M) I DON'T KNOW. ASK THE SOLICITOR'S OFFICE.

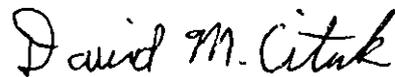


N) A MORE OPEN DIALOGUE ON MAJOR FINANCIAL ISSUES AND POLICIES TO BE DISCUSSED, REVIEWED, AND RESEARCHED BY ALL CONCERNED PARTIES , **THEN** IMPLEMENTED BY FOLLOWING OUR ADMINISTRATIVE AND FISCAL CODES AND MOST IMPORTANTLY OUR EXISTING CITY CHARTER. IN 2011, COUNCIL PASSED A PFM RECOMMENDED POLICY (BILL #17-2011) TO REQUIRE COUNCIL BE INFORMED AND VOTE ON CASH TRANSFERS AND INTER-FUND BORROWINGS OF \$500,000 OR MORE. ALSO A REPAYMENT PLAN HAD TO BE INCLUDED AS WELL. THE ADMINISTRATION, IN 2010, OPENED **SEPARATE** GENERAL FUND AND SEWER FUND BANK ACCOUNTS.

DATES THESE TRANSACTIONS OCCURRED: CHECK WITH THE ADMINISTRATION.

THE NAME OF THE FUNDS AND ACCOUNTS THAT MONEY WAS TRANSFERRED FROM & TO: THE GENERAL FUND #01 AND THE SEWER FUND #54. THEY SHARED THE SAME CHECKING ACCOUNT IN 2009 AND PRIOR YEARS AT WACHOVIA BANK.

SINCERELY,



DAVID M. CITUK  
CITY AUDITOR

RYAN HOTTENSTEIN

Questions 1 & 2 from Cover letter:

I do not have access to these records and cannot answer these questions

Questions from Ordinance:

- A. To my knowledge no one ultimately directed the use of the sewer funds.
- B. To my recollection there was no collaboration not to include City Council.
- C. To my knowledge there were no criteria used.
- D. None
- E. Per past practice cash management was not discussed with Council.
- F. None that I recall.
- G. Existing accounting procedures and controls.
- H. I do not recall.
- I. No one that I recall.
- J. Accounting records
- K. No
- L. I do not have access to the data and cannot answer this question.
- M. I do not have the information necessary to answer this question.
- N. Those changes are for the current administration and council to decide.



# CITY OF READING, PENNSYLVANIA

PUBLIC WORKS  
503 N. 6<sup>TH</sup> STREET  
READING, PA 19601  
(610) 655-6121

DEBORAH A. S. HOAG  
UTILITIES DIVISION MANGER

May 11, 2011

Vaughn D. Spencer  
President of Council  
815 Washington Street  
Reading, PA 19601

Dear President Spencer:

In answer to your letter of April 26, 2011, the following responses to the listed questions are provided:

- a. Who(m) ultimately directed the use of the sewer funds outside of the governing laws of the City of Reading? Response: I don't know. No one consulted me regarding this matter.
- b. Who(m) decided and collaborated not to include City Council in the financial decision making process? Response: I don't know. No one consulted me regarding this matter.
- c. What criteria were used to determine the funds should be taken? Response: I don't know. No one consulted me regarding this matter.
- d. What budget amendments were suggested to address the related financial concerns? Response: I don't know. No one consulted me regarding this matter.
- e. Why no efforts were made to meet with City Council to discuss more appropriate actions? Response: I don't know. No one consulted me regarding this matter.
- f. What entities or organizations (internal and external) were utilized for guidance in the decisions? Response: I don't know. No one consulted me regarding this matter.
- g. What controls existed in the spending of those dollars? Response: I don't know. No one consulted me regarding this matter.
- h. What analysis was done to identify the original revenue weaknesses? Response: I don't know. No one consulted me regarding this matter.
- i. Who, if anyone, provided any legal guidance to those involved? Response: I don't know. No one consulted me regarding this matter.
- j. What financial trail exists to determine the dollars were appropriately spent? Response: I don't know. No one consulted me regarding this matter.
- k. Was there in any way a deliberate and conspiring effort to not inform City Council of the actions that were being taken? Response: I don't know. No one consulted me regarding this matter.
- l. What was the complete financial impact/exposure to the City of Reading due to loss revenue, lack of budget adjustments, legal and financial costs, interest payments on replacement costs, and any and all other related costs to this matter. Response: I don't know. No one consulted me regarding this matter.



- m. What, if any, actions could be taken to remedy any losses, liabilities and costs that were a result of any inappropriate, illegal, or malfeasant behavior(s) that may be determined. Response: I don't know. No one consulted me regarding this matter.
- n. What systemic changes could be taken to assure the general public any inappropriate, illegal, or malfeasant behaviors that may be found could be implemented. Response: I don't know. No one consulted me regarding this matter.

I am aware that any transactions incurred during 2009. This fact was stated in a meeting I attended January 22, 2010. I was not aware of any details with the specific accounts or dollar amounts affected by the transactions. I only knew that Sewer Fund money was transferred to supplement the General Fund and was not made whole at the end of the year.

Very truly yours,

  
Deborah A.S. Hoag, PE  
Utilities Systems Manager

DASH/ts

C: City Council

Charles Younger, City Solitor

May 6, 2011

  
Maria M Rodriguez  
Audit Coordinator  
City of Reading

Vaughn D. Spencer  
President of Council

The following answers are my replies to the questions that I have been asked by city council regarding the sewer money that was used to cover the City's operating expenses.

1. The dates these transactions occurred:  
During the fiscal year of 2009 the City of Reading had a negative fund balance of \$ 6,531,153.00; and because the general fund and the sewer fund share the same bank account number, obviously the administration used some sewer money to cover the city operating expense during that year.
  
2. The name of the funds and accounts that money was transferred from and to:  
The names of the funds are: The Sewer fund and the General fund which are fund 01 and fund 54. At that time, the sewer fund and the general fund used to share the same bank account number.
  - A. I don't know, talk to the administration
  - B. I don't know
  - C. I don't know
  - D. I don't know
  - E. I don't know, ask to the administration
  - F. I don't know; ask to the Law Department to see if they were aware.
  - G. The existing budgetary controls..
  - H. I don't know
  - I. I don't know, talk to the law department to see if they know something about it.
  - J. The City financial software which is USL will track any transaction done.
  - K. None that I am aware of.

- L. That the City ends up borrowing millions of dollars to be able to pay to the sewer fund with interest.
- M. Talk to the Law Department.
- N. More transparency should exist between council and the administration when money is borrowed from one fund to pay expenses of another fund.

Patrick Sleppy  
Accountant  
City of Reading

Responses to City Council Questions Relating to Sewer Fund Transfers

- a. I do not know.
- b. I do not know.
- c. I do not know.
- d. I do not know.
- e. I do not know.
- f. I do not know.
- g. I do not know.
- h. I do not know.
- i. I do not know.
- j. All expenses incurred by the City are ultimately recorded (whether in a timely fashion or not) in the USL system, the City of Reading's accounting software system. A financial trail exists within the accounting records. The City is audited every year (most recently by Herbein & Company) to ensure as much as is reasonably possible that these records are accurate to the best of their knowledge. Trying to match the General Fund (GF) expenses that were incurred after the GF General Ledger (GL) cash balance went negative may be a bit of a time-consuming endeavor.
- k. Not to my knowledge.
- l. I do not know.
- m. I do not know.
- n. I do not know.
- 1. According to the accounting records, the GF cash balance went negative sometime in 2007 and was probably negative most if not all of the time until 2010.
- 2. Formerly, the GF and Sewer Fund shared the same bank account. There was no physical transfer from one bank account to another. When the GF ran out of money and its GL cash balance went negative, Sewer money was used to cover GF expenses. I am unaware of any directions given by anyone to hide this fact.

I affirm that the above statements are true to the best of my knowledge.



Patrick Sleppy

5/6/11



## CITY OF READING, PENNSYLVANIA

PUBLIC WORKS  
503 N. 6<sup>th</sup> Street  
Reading, PA 19601  
(610) 655-6236

Charles M. Jones, P.E.  
Director of Public Works  
May 9, 2011

Vaughn D. Spencer  
President of Council  
815 Washington Street  
Reading, PA 19601

Dear President Spencer:

In answer to your letter of April 26, 2011, the following responses to the listed questions are provided:

- a. Who(m) ultimately directed the use of the sewer funds outside of the governing laws of the City of Reading? Response: I don't know. No one consulted me regarding this matter.
- b. Who(m) decided and collaborated not to include City Council in the financial decision making process? Response: I don't know. No one consulted me regarding this matter.
- c. What criteria were used to determine the funds should be taken? Response: I don't know. No one consulted me regarding this matter.
- d. What budget amendments were suggested to address the related financial concerns? Response: I don't know. No one consulted me regarding this matter.
- e. Why no efforts were made to meet with City Council to discuss more appropriate actions? Response: I don't know. No one consulted me regarding this matter.
- f. What entities or organizations (internal and external) were utilized for guidance in the decisions? Response: I don't know. No one consulted me regarding this matter.
- g. What controls existed in the spending of those dollars? Response: I don't know. No one consulted me regarding this matter.
- h. What analysis was done to identify the original revenue weaknesses? Response: I don't know. No one consulted me regarding this matter.
- i. Who, if anyone, provided any legal guidance to those involved? Response: I don't know. No one consulted me regarding this matter.
- j. What financial trail exists to determine the dollars were appropriately spent? Response: I don't know. No one consulted me regarding this matter.
- k. Was there in any way a deliberate and conspiring effort to not inform City Council of the actions that were being taken? Response: I don't know. No one consulted me regarding this matter.
- l. What was the complete financial impact/exposure to the City of Reading due to loss revenue, lack of budget adjustments, legal and financial costs, interest payments on replacement costs, and any and all other related costs to this matter. Response: I don't



- know. No one consulted me regarding this matter.
- m. What, if any, actions could be taken to remedy any losses, liabilities and costs that were a result of any inappropriate, illegal, or malfeasant behavior(s) that may be determined. Response: I don't know. No one consulted me regarding this matter.
  - n. What systemic changes could be taken to assure the general public any inappropriate, illegal, or malfeasant behaviors that may be found could be implemented. Response: I don't know. No one consulted me regarding this matter.

I am aware that any transactions incurred during 2009. This fact was stated in a meeting attended by Public Works staff in January 2010. I am not aware of the specific accounts affected by the transactions. Sewer Fund money was transferred to supplement the General Fund.

Very truly yours,



Charles M. Jones, PE  
Public Works Director

CMJ/ts

C: City Council

Charles Younger, City Solitor



CITY OF READING, PENNSYLVANIA

Department of Public Works  
Utilities Division  
815 Washington Street  
Reading, PA 19601-3690

May 02, 2011

Mr. Vaughn D. Spencer, President of Council  
City Council Office, Room 2-24  
815 Washington Street  
Reading, PA 19601

**Re: Response to Amended Ordinance 3-2011**

Dear Mr. Vaughn D. Spencer:

This letter is my response to the April 26, 2011, letter and attached Ordinance 3-2011 that I received from you.

I was Wastewater Superintendent up until my promotion 1-year ago and I had minimal involvement with the City's financial activities prior to May of last year. My involvement in financial activities was limited to tracking some of the Wastewater Treatment Plant's and pump stations' line item expenses for budget compliance. Additionally, until May of last year my responsibilities for the Department of Justice Consent Decree activities were limited to some of the technical Remedial Measures.

I did not have involvement with the financial aspects in question regarding the City or the Utilities Division when the alleged mishandling of finances occurred. Therefore, I am unable to report answers to questions 1. a. through l.

My answers to questions 1. m. and n. are that the City Council assures there are proper Finance Department tracking and reporting policies in place. Secondly, I recommend that the Administration assures there are procedures and controls as needed to avoid any alleged mishandling of finances.

Please feel free to contact me with any questions, comments and/or feedback.

Thank you,

A handwritten signature in cursive script that reads "Ralph E. Johnson".

Ralph E. Johnson,  
Wastewater Treatment Manager



# CITY OF READING, PENNSYLVANIA

CARL E. GEFFKEN  
MANAGING DIRECTOR

MANAGING DIRECTOR  
ROOM 2-27  
815 WASHINGTON STREET  
READING, PA 19601-3690  
(610) 655-6222  
(610) 655-6296 (FAX)

**TO:** Vaughn D. Spencer  
President of Council

**FROM:** Carl E. Geffken

**DATE:** May 12, 2011

**SUBJECT:** Sewer Investigation

Per your request for information, dated April 26, 2011, and City of Reading Ordinance 20-2011, I am submitting the following two documents:

1. A memo from me to Councilman Acosta, dated May 17, 2010, in response to his memo to me, dated May 13, 2010, requesting answers to five specific questions. The May 17 memo from me contains my two-page response, Councilman Acosta's one-page memo, and 15 pages of supporting documentation which included a summary of sewer fund borrowing for the prior 10 years and the back-up documentation from each audit from those 10 years.
2. The five-page memorandum from me to the Mayor and City Council, dated February 11, 2011, in which I answered each of the 14 questions from the ordinance.

Your memo also requests answers to two additional questions: the dates these transactions occurred, and the names of the funds and accounts that money was transferred from and to.

As stated previously, the general fund and the sewer fund were co-mingled in the same account and the account was treated as if it were one fund. When money from that account was used to pay for City operations such as salaries and bills, there were no transfers from the sewer fund to the general fund. The balance in that account was not allocated to each fund on a regular basis since it was treated as one fund. In light of this, I required that the individual fund balances be maintained until another account was opened specifically for the sewer fund.

Money from the account containing the co-mingled funds was transferred to the general disbursement and payroll accounts based upon the operating and salary expenses allocated to each fund. I am interpreting the two additional questions to mean transfers between the sewer and general funds only. If you would like to see the transfer detail, please let me know.





## CITY OF READING, PENNSYLVANIA

FINANCE DEPARTMENT  
ROOM 2-48  
815 WASHINGTON STREET  
READING, PA 19601-3690  
PHONE: (610) 655-6227  
FAX: (610) 655-6427

CARL GEFFKEN  
FINANCE DIRECTOR

TO: Francis Acosta, Council Member  
Chairman of the Finance Committee

FROM: Carl E. Geffken, Finance Director  
Interim Managing Director

A handwritten signature in black ink, appearing to read "Carl E. Geffken", is written over the printed name in the "FROM" field.

DATE: May 17, 2010

SUBJECT: Sewer Loan

The City of Reading has subsisted on loans from the sewer fund in order to fund ongoing operations for more than 30 years. Prior to the consent decree with the United States Department of Justice, the City of Reading transferred up to \$7 million per year to fund the structural deficit. With the signing of the consent decree, that transfer was steadily decreased by \$750,000 per year to a maximum of \$3 million per year but the underlying structural deficit was not addressed, except by one-time budgetary actions.

In 2009, revenues were significantly under expenditures and the only way to fund the City's operations was to have the Sewer fund loan the General Fund \$11.5 million. This was reported to the Department of Justice in the 2010 first quarter report and it will undoubtedly be address at the meeting we are scheduling with the Department of Justice. To date, we have paid \$3.5 million to the sewer fund since we have the revenues that will allow us to do so. This is due in the most part to the balanced 2010 budget. Although the City and PFM are forecasting a deficit, we will be submitting to and working with Council in July on mid-year budget reductions to address the projected deficit.

The answers to your questions are as follows:

1. This was approved by the Finance Director and Managing Director. This has been a very long standing and approved arrangement that has always been disclosed in the City's annual audit. In 2005, the City borrowed over \$8 million from the sewer fund and paid it back over a two year period. Since this is a cash flow/cash management issue and not one related to the approval of appropriations, it was not discussed with Council.



2. As is shown in the annual audit, the sewer revenues and general fund revenues are, and have always been deposited into the same account. In 2010, we began to track the money in the account by fund. To accompany this memo, I have had the amount of money the City has used and owed to the Sewer fund since 2000.
3. See #2.
4. The money was used for the general operations of the City that are paid from the General Fund, this includes the expenses related to the Police Department, the Fire Department, Public Works, and all of City Hall.
5. This practice has existed for over 30 years. In fact, the Commonwealth told the City when it was under the old form of government to stop using sewer fund money to bridge/fill the City's budget gaps and still, the City persisted in using the sewer fund.

This was never discussed with Council because it is a cash management issue, has been a long standing arrangement, and has been reported to Council in the annual audit.



## MEMORANDUM

**TO:** Tom McMahon, Mayor  
David Cituk, City Auditor  
Carl Geffken, Finance Director

**FROM:** Francis Acosta, City Council District 1 & Finance Committee Chair

**DATE:** May 13, 2010

**SUBJECT:** Sewer Transfer

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The Act 47 Recovery Plan discussed a \$9-11M transfer from the Sewer Fund to the General Fund that was not repaid during the course of 2009, which violates the Consent Decree. I would like a full report at the May 17<sup>th</sup> Finance Committee Meeting on:

1. Who authorized this transfer(s)
2. How many transfers occurred and how much money was transferred each time
3. The location in the General Fund the transfers were allocated to
4. What the money was used for
5. How many years this practice existed and how much was taken each year (and repaid each year)

I would also like to know why this information was never disclosed to Council in monthly reports or during the budget discussions. Thanks for your cooperation.

C: Members of Council  
City Clerk



10-Year History of General Fund Borrowings from Sewer Fund

<u>Year Ending</u>		<u>Balance at YE</u>		<u>Increase/Decrease</u>
2000	\$	2,195,346.28		
2001	\$	7,967,152.19	\$	5,771,805.91
2002	\$	8,446,230.65	\$	479,078.46
2003	\$	8,590,789.95	\$	144,559.30
2004	\$	7,031,412.60	\$	(1,559,377.35)
2005	\$	6,505,958.36	\$	(525,454.24)
2006	\$	5,818,833.36	\$	(687,125.00)
2007	\$	834,533.64	\$	(4,984,299.72)
2008	\$	-	\$	-
2009	\$	11,500,000.00	\$	11,500,000.00
2010 YTD	\$	8,000,000.00	\$	(3,500,000.00)

May 17, 2010

CITY OF READING

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000

NOTE E - INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

The City had interfund receivable and payable balances for the following amounts at December 31, 2000:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$4,306,120	\$3,246,684
Special Revenue Funds:		
General Agency	538,658	434,418
Motor License	0	50,522
Community Development	125,126	872,258
Capital Projects Funds:		
Capital Reserve - City	349,986	2,250
1992 A & B Bond Fund	998,405	520,117
26 Bond Fund	454,805	1,129,079
Enterprise Funds:		
Water	731,743	214,713
Sewer	2,680,438	2,621,811
Recycling Fund	3,864	125,561
Emergency Medical Services Fund	0	4,900
Internal Service Funds:		
Self Insurance	121,000	1,591,745
Agency Funds:		
Earned Income Tax	312,000	238,751
Debt Service Fund:		
Sinking	<u>120,364</u>	<u>0</u>
	<u>\$10,742,509</u>	<u>\$11,052,809</u>

Total interfund receivables/payables do not agree because the Community Development Fund has a fiscal year which ends August 31, not December 31. The difference is deemed to be immaterial and accounts for short-term reimbursements due for expenditures paid for by the general fund, on behalf of the Community Development Fund.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2001

NOTE E - INTERFUND RECEIVABLE AND PAYABLE BALANCES

The City had interfund receivable and payable balances for the following amounts at December 31, 2001:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$11,349,880	\$14,139,559
Special Revenue Funds:		
General Agency	1,347,142	672,417
Motor License	7,467	0
Community Development	447,065	801,409
Debt Service Fund:		
Sinking	149,486	0
Capital Projects Funds:		
Capital Reserve - City	1,069,485	102,418
1992 A & B Bond Fund	998,405	523,464
26 Bond Fund	2,713,216	2,205,940
Enterprise Funds:		
Water	2,484,303	1,964,069
Sewer	9,660,176	6,049,497
Recycling Fund	403,864	897,001
Emergency Medical Services Fund	177,813	1,023,700
Internal Service Funds:		
Self Insurance	425,917	2,320,896
Sick Leave	120,000	0
Agency Funds:		
Earned Income Tax	3,111,286	3,425,464
Pension Funds:		
Police	0	12,298
Fire	0	6,744
Officers and Employees	0	20,629
	<u>\$34,165,505</u>	<u>\$34,165,505</u>

CITY OF READING

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2002

NOTE E - INTERFUND RECEIVABLE AND PAYABLE BALANCES

The City had interfund receivable and payable balances for the following amounts at December 31, 2002:

	Interfund Receivables	Interfund Payables
General Fund	\$8,097,862	\$1,217,374
Special Revenue Funds:		
General Agency	960,115	511,716
Motor License	0	0
Community Development Redevelopment Authority	24,301	890,467
	15,254	0
Debt Service Fund:		
Sinking	149,800	0
Capital Projects Funds:		
Capital Reserve - City	342,002	2,250
1992 A & B Bond Fund	0	0
26 Bond Fund	964,465	1,432,970
Enterprise Funds:		
Water	1,754,958	1,309,644
Sewer	11,108,045	2,300,420
Recycling Fund	404,365	1,281,332
Emergency Medical Services Fund	181,782	1,327,425
Internal Service Funds:		
Self Insurance	585,384	4,364,679
Sick Leave	120,000	0
Agency Funds:		
Earned Income Tax	1,413,659	1,483,715
	<u>\$26,121,992</u>	<u>\$26,121,992</u>

CITY OF READING

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2003

NOTE G - CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions of the primary government as follows.

<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
General government	\$782,321	Water system	\$1,531,589
Public safety:		Sewer system	1,842,248
Police	531,963	Recycling	44,256
Fire	347,239	Emergency medical services	90,421
Other	45,347		
Public works - highway/streets	140,373		
Community development	25,687		
Culture and recreation	485,318		

NOTE H - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivable and payable balances for the following accounts at December 31, 2003:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities		
Major Funds		
General	\$9,701,381	\$15,855,553 *
Community Development	76,913	1,347,670
Redevelopment Authority	100,682	136,574
Capital Projects	2,220,442	1,204,785
Debt Service	149,800	0
Other Governmental Funds	1,178,453	1,228,573
Internal Service	1,284,035	3,049,816
Business-Type Activities		
Major Funds		
Water	2,707,662	2,150,424
Sewer	18,915,254	10,536,824
Other Governmental Funds	550,876	3,767,692 *
	<u>36,885,498</u>	<u>39,277,911</u>
Fiduciary and Agency Funds	3,581,503	1,189,090
	<u>\$40,467,001</u>	<u>\$40,467,001</u>

\* Portion not expected to be repaid in the current year.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2003

NOTE H - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED

The City had operating transfers in and out for the following amounts at December 31, 2003:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Governmental Activities		
Major Funds:		
General	\$9,548,751	\$1,072,969
Community Development	26,848	0
Redevelopment Authority	1,058,780	0
Capital Projects	0	990,992
Other Governmental Funds		
Internal Service Funds	2,262,836	0
Agency	0	197,184
Business-Type Activities		
Major Funds:		
Water	279,740	3,260,182
Sewer	0	7,655,628
	<u>\$13,176,955</u>	<u>\$13,176,955</u>

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis.

NOTE I - LIABILITIES

Note Payable - In December, 2003, the City issued tax and revenue anticipation notes in the amount of \$4,700,000. This balance is reflected as a current note payable in both the government-wide statements and the governmental fund statements. The interest rate on this debt is 1.34%. The notes mature in December, 2004, and will be repaid from the General Fund.

In January, 2003, the City issued tax and revenue anticipation notes in the amount of \$3,700,000, which included interest at 1.625% per annum. These notes were repaid by December 31, 2003.

<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at End of Year</u>
<u>\$0</u>	<u>\$8,400,000</u>	<u>\$3,700,000</u>	<u>\$4,700,000</u>

CITY OF READING

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2004

NOTE G - CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
General government	\$1,112,253	Water system	\$1,517,240
Public safety:		Sewer system	1,926,730
Police	617,264	Recycling	45,934
Fire	340,191	Emergency medical services	96,704
Other	72,772		
Public works - highway/streets	150,455		<u>\$3,586,608</u>
Community development	94,534		
Culture and recreation	506,058		
	<u>\$2,893,527</u>		

NOTE H - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivable and payable balances for the following accounts at December 31, 2004:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities		
Major Funds		
General	\$8,944,496	\$16,734,551 *
Community Development	23,815	1,522,566
Capital Projects	3,478,907	0
Debt Service	149,800	0
Non-major Governmental Funds	1,066,126	1,258,917
Internal Service	1,309,597	2,869,548
Business-Type Activities		
Major Funds		
Water	1,740,346	1,880,616
Sewer	18,821,792	12,298,550
Non-major Proprietary Funds	564,993	4,757,761 *
	<u>36,099,872</u>	<u>41,322,509</u>
Fiduciary and Agency Funds	6,174,637	952,000
	<u>\$42,274,509</u>	<u>\$42,274,509</u>

\* Portion not expected to be repaid in the current year.

Interfund receivables and payables are a result of necessary borrowings to cover cash flow needs. At this time the payable in the general fund is not expected to be repaid in the current year due to financial difficulties.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2004

NOTE H - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED

The City had operating transfers in and out for the following amounts at December 31, 2004:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Governmental Activities		
Major Funds:		
General	\$8,770,464	\$1,321,827
Capital Projects	0	97,591
Non-major Governmental Funds	0	13,248
Internal Service Funds	2,898,736	0
Business-Type Activities		
Major Funds:		
Water	28,895	3,475,478
Sewer	0	6,817,350
Non-major Proprietary Funds	27,399	0
	<u>\$11,725,494</u>	<u>\$11,725,494</u>

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis.

NOTE I - LIABILITIES

In December, 2003, the City issued tax and revenue anticipation notes in the amount of \$4,700,000, which included interest at 1.625% per annum. These notes were repaid by December 31, 2004.

<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at End of Year</u>
<u>\$4,700,000</u>	<u>\$0</u>	<u>\$4,700,000</u>	<u>\$0</u>

CITY OF READING

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005

NOTE F - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivable and payable balances for the following accounts at December 31, 2005:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities		
Major Funds		
General	\$6,940,499	\$12,996,837 *
Community Development	369,718	1,408,459
Capital Projects	3,751,114	694,439
Debt Service	149,800	0
Non-major Governmental Funds	715,941	1,688,695
Internal Service	950,708	2,041,820
Business-Type Activities		
Major Funds		
Water	2,294,479	3,279,650
Sewer	9,009,193 *	3,431,785
Non-major Proprietary Funds	340,104	2,147,609 *
	<u>24,521,556</u>	<u>27,689,294</u>
Fiduciary and Agency Funds	4,052,812	885,074
	<u>\$28,574,368</u>	<u>\$28,574,368</u>

\* Portion not expected to be repaid in the current year.

Interfund receivables and payables are a result of necessary borrowings to cover cash flow needs. At this time the payable in the general fund is not expected to be repaid in the current year due to financial difficulties.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005

NOTE F - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED

The City had operating transfers in and out for the following amounts at December 31, 2005:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Governmental Activities		
Major Funds:		
General	\$8,798,449	\$1,224,784
Capital Projects	0	85,436
Non-major Governmental Funds	0	13,964
Internal Service Funds	2,646,700	0
Business-Type Activities		
Major Funds:		
Water	0	4,108,513
Sewer	0	6,012,452
	<u>\$11,445,149</u>	<u>\$11,445,149</u>

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis.

NOTE G - LIABILITIES

In January, 2005, the City issued tax and revenue anticipation notes in the amount of \$5,200,000, which included interest at 2.390% per annum. These notes were repaid by December 31, 2005.

<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at End of Year</u>
<u>\$0</u>	<u>\$5,200,000</u>	<u>\$5,200,000</u>	<u>\$0</u>

CITY OF READING  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2006

**NOTE F - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS**

The City had interfund receivables and payables balances for the following accounts at December 31, 2006:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities		
Major Funds		
General	\$ 11,596,005	\$ 11,654,719 *
Community Development	1,177,189	1,626,092
Capital Projects	3,244,366	660,046
Debt Service	149,800	-
Non-major Governmental Funds	455,429	2,885,662
Internal Service	2,805,098	2,445,430
Business-Type Activities		
Major Funds		
Water	2,047,942	4,422,805
Sewer	7,812,362 *	4,253,762
Non-major Proprietary Funds	338,793	2,228,235 *
	<u>29,626,984</u>	<u>30,176,751</u>
 Fiduciary and Agency Funds	 <u>4,052,812</u>	 <u>3,503,045</u>
	 <u>\$ 33,679,796</u>	 <u>\$ 33,679,796</u>

\* Portion not expected to be repaid in the current year.

Interfund receivables and payables are a result of necessary borrowings to cover cash flow needs. At this time the payable in the general fund is not expected to be repaid in the current year due to financial difficulties.

CITY OF READING  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2006

NOTE F - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED

The City had operating transfers in and out for the following amounts at December 31, 2006:

	Operating Transfers In	Operating Transfers Out
Governmental Activities		
Major Funds:		
General	\$ 7,848,278	\$ 1,806,079
Capital Projects	-	35,717
Non-major Governmental Funds	-	8,223
Internal Service Funds	3,612,156	-
Business-Type Activities		
Major Funds:		
Water	-	4,073,524
Sewer	-	5,536,891
	\$ 11,460,434	\$ 11,460,434

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis.

NOTE G - LIABILITIES

In January, 2006, the City issued tax and revenue anticipation notes in the amount of \$6,500,000, which included interest at 3.6% per annum. These notes were repaid in 2006.

Balance at Beginning of Year	Additions	Reductions	Balance at End of Year
\$ -	\$ 6,500,000	\$ (6,500,000)	\$ -

The City has an unused letter of credit of \$800,000 as of December 31, 2006.

CITY OF READING  
 NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivables and payables balances for the following accounts at December 31, 2007:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities		
Major Funds		
General	\$ 11,430,470	\$ 7,435,062 *
Community Development	554,531	2,008,301
Capital Projects	3,108,435	772,122
Debt Service	149,800	-
Non-major Governmental Funds	429,949	2,433,439
Internal Service	2,098,109	1,812,340
Business-Type Activities		
Major Funds		
Water	2,577,364	5,550,438
Sewer	2,828,156 *	4,124,647
Non-major Proprietary Funds	<u>338,888</u>	<u>2,359,780 *</u>
	<u>23,515,702</u>	<u>26,496,129</u>
Fiduciary and Agency Funds	<u>3,878,328</u>	<u>897,901</u>
	<u>\$ 27,394,030</u>	<u>\$ 27,394,030</u>

\* Portion not expected to be repaid in the current year.

Interfund receivables and payables are a result of necessary borrowings to cover cash flow needs. At this time, the payable in the general fund is not expected to be repaid in the current year due to financial difficulties.

CITY OF READING  
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED

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The City had operating transfers in and out for the following amounts at December 31, 2007:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Governmental Activities		
Major Funds:		
General	\$ 7,188,684	\$ 1,763,632
Capital Projects	-	50,559
Non-major Governmental Funds	-	9,812
Internal Service Funds	3,500,902	-
Business-Type Activities		
Major Funds:		
Water	-	4,111,199
Sewer	-	4,754,384
	<u>\$ 10,689,586</u>	<u>\$ 10,689,586</u>

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis.

CITY OF READING  
 NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivables and payables balances for the following accounts at December 31, 2008:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities		
Major Funds		
General	\$ 13,241,557	\$ 7,300,425 *
Community Development	251,721	1,920,507
Capital Projects	2,929,629	1,216,790
Debt Service	138,502	-
Nonmajor Governmental Funds	408,336	2,287,207
Internal Service	1,663,792	2,688,583
Business-Type Activities		
Major Funds		
Water	2,710,987	6,254,544
Sewer	1,983,805	4,111,445
Nonmajor Proprietary Funds	338,888	2,542,075
	<u>23,667,217</u>	<u>28,321,576</u>
Fiduciary and Agency Funds	<u>5,209,089</u>	<u>554,730</u>
	<u>\$ 28,876,306</u>	<u>\$ 28,876,306</u>

\* Portion not expected to be repaid in the current year.

Interfund receivables and payables are a result of necessary borrowings to cover cash flow needs. At this time, the payable in the general fund is not expected to be repaid in the current year due to financial difficulties.



# CITY OF READING, PENNSYLVANIA

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**TO:** Mayor Thomas McMahon  
City Council

**FROM:** Carl E. Geffken

**DATE:** February 22, 2011

**SUBJECT:** Answers to Questions posed in the Sewer Fund Investigation Ordinance

On May 13, 2010, Finance Committee Chair, Councilman Acosta sent a memo to the Mayor, City Auditor, and Finance Director requesting a report on the transfer of \$11.5 million from the Sewer fund to the General fund, including answers to five questions: 1) Who authorized the transfer(s), 2) How many transfers occurred and how much money was transferred each time, 3) The location in the General fund the transfers were allocated to, 4) What the money was used for, and 5) How many years this practice existed and how much was taken each year (and repaid each year). At the May 17, 2010 Finance Committee meeting, a memo was provided to City Council that answered those questions.

Toward the end of 2010, an ordinance requesting an investigation of the Sewer fund was introduced which, though tabled, asked additional questions of the Administration. This memorandum will answer those questions.

- 1) Who (m) ultimately directed the use of the sewer funds outside of the governing laws of the City of Reading?

**Answer:** There was no direction given to use or transfer money from the Sewer fund to the General fund. The Sewer and General funds were comingled in the same account in the bank. Consequently, money to meet payroll or pay for operating costs for the sewer/WWTP and the departments paid by the General fund was moved from the joint Sewer and General fund account and into the appropriate payment account. Not until August 2009 did Accounting properly allocate the balance in the joint account between its constituent components – Sewer funds and General funds. This is why there was no direction on the transfer of Sewer funds.



Whether the funds were used outside of the governing laws of the City of Reading, I would need to know the laws to which are being referred. If it is the Federal consent decree, then the funds were used outside of the allowable uses specified in the decree.

- 2) Who (m) decided and collaborated not to include City Council in the financial decision making process?

Answer: There was no collaboration to exclude City Council. Based on historical audit information, the use of sewer funds was an accepted practice when the City did not have sufficient money in the General fund to pay the costs allocated to it. This reason, in addition to the comingling of the sewer and general funds in one account and the lack of control or approvals or knowledge of the exact balance in each fund contributed to the lack of information to Council. The same poor practices that were used over the past 10+ years were allowed to continue.

- 3) What criteria were used to determine the funds should be taken?

Answer: There were no criteria because there was never any knowledge aforethought that sewer funds were being utilized, let alone a specific determination to use them. The lack of controls was that extensive.

- 4) What budget amendments were suggested to address the related financial concerns?

Answer: Though it was understood by the last quarter of fiscal year 2009 that we were using sewer funds to cover general fund spending, no budget amendments to curtail spending were brought forth to Council. The amount of money the General fund owed the Sewer fund was of such an amount that trying to stop the use of the Sewer fund would have amounted to a shutdown of all City operations. However, these facts should have been brought to City Council's attention.

- 5) Why no efforts were made to meet with City Council to discuss more appropriate actions?

Answer: The answer has two parts; why were no efforts made during the borrowing and why were no efforts made after the borrowing.

No efforts were made during the borrowing because as in years past, the sewer fund was used to fill whatever funding gap existed. In addition, there was no policy in place, even if it were an unofficial policy, to provide City Council with information regarding interfund transfers. No efforts were made after the borrowing for the same reason no effort was made during the borrowing. Based on the improved financial reporting of the Administration, we feel City Council should be notified of transfers so any knowledge gaps can be filled and/or questions can be answered.

- 6) What entities or organizations (internal or external) were utilized for guidance in the decision?

Answer: No organizations were utilized for guidance until after the sewer funds were used.

- 7) What controls existed in the spending of those dollars?

Answer: The procurement and accounts payable controls were in place when the dollars were spent. This is why we improved the procurement controls and required the use of purchase requisitions, thereby limiting the use of accounts payable forms. We also reduced the threshold at which the Department Director, Director of Administrative Services, and Managing Director are required to sign the accounts payable form. The Departments spent within their expenditure budgets. The City of Reading did not have sufficient revenues to support the expenditures.

- 8) What analysis was done to identify the original revenue weaknesses?

Answer: That is a broad question that must start at the adoption of the 2009 budget. There were revenue estimates there were clearly not attainable given the unfolding economic circumstances. This was compounded by a lack of reporting and tracking of revenues and expenditures and the aforementioned comingling and lack of control of the sewer and general funds. During the Act 47 recovery plan creation, the lack of controls and reporting was discussed with PFM. It has been with their assistance after the fact; the better policies have been drafted and followed.

- 9) Who, if anyone, provided any legal guidance to those involved?

Page 4, Memorandum, Use of Sewer Funds

Answer: No one provided any legal guidance.

- 10) What financial trail exists to determine the dollars were appropriately spent?

Answer: The sewer funds were not transferred to an account that allowed the money to be spent outside of the City's procurement and payment controls. The Sewer fund money was loaned to the General fund to cover a gap in General fund revenues.

- 11) Was there in any way a deliberate and conspiring effort to not inform City Council of the actions that were being taken?

Answer: At no time did anyone in the Administration deliberately conspire to withhold information from City Council. The loan of money from the Sewer fund to the General fund needs to be viewed within the context of past practices. The City has always borrowed from the Sewer fund when, at the end of the year, the books were closed and the final sources and uses calculated. Money was loaned from the Sewer fund to the General fund and eventually repaid after the consent decree was signed and approved and there was no repercussion. The loan in 2009 was viewed the same way.

- 12) What was the complete financial impact/exposure to the City of Reading due to lost revenue, lack of budget adjustments, legal and financial costs, interest payments on replacement costs, and any and all other related costs to this matter?

Answer: This is a very broad question. For the purposes of this memorandum, I will summarize the answers.

**Financial Impact:** The City needed to seek approval to issue unfunded debt to repay the loan as well as several other liabilities.

**Lack of Budget Adjustments:** The response is two-fold; correct, reasonable, and conservative revenue estimates and comprehensive reporting in order to address budget problems before they become out-of-control. Both of these controls were lacking in 2009 and have been addressed.

**Legal and Financial Costs:** The major cost the City had to absorb was the cost of issuing the unfunded debt.

Interest Payments on Replacement Costs: The interest cost on the 2001 C note issue (unfunded debt) will be \$5.7 million.

The most important cost to the City has been the time and effort spent on this matter by City employees and the impact to the confidence the citizen's place in City Hall. However, the benefit to the City has been the increase in controls and reporting that have been implemented since.

- 13) What, if any, actions could be taken to remedy any losses, liabilities and costs that were a result of any inappropriate, illegal, or malfeasant behaviors(s) that may be determined?

Answer: This question should be answered by the City Solicitor. However, if the remedy is Human Resources related, the actions could be discipline up to and including termination.

- 14) What systematic changes could be taken to assure the general public any inappropriate, illegal, or malfeasant behavior that may be found could be implemented?

Answer: Before the Act 47 recovery plan was submitted to the Mayor and City Council, the Administration began efforts to improve procurement, treasury, and payment controls. No longer are accounts payable forms allowed for purchases that should have been entered as a requisition; the Sewer fund and General fund are in separate accounts and we report on the Sewer fund to USDOJ monthly; and the threshold on an accounts payable form payment has been lowered to \$500 after which the Director of Administrative Services and Managing Director's signatures are required. Shortly, we will be implementing a requirement that a justification be submitted with an accounts payable form when the form is used in a non-authorized manner. We will restart the budget to actual meetings now that the new staff in Accounting are preparing and/or refining the budget reports. The systematic change is not any one specific action but the embracing of change within the entire city to improve the services the City provides.