



CITY COUNCIL

Finance Committee

Meeting Report Monday, May 16, 2016

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

Others Attending: J. Waltman, L. Kelleher, B. Rivera, C. Younger, D. Cituk, D. Pottiger, J. Encarnacion, R. Encarnacion,

Ms. Goodman-Hinnershitz called the meeting to order at approximately 5:05pm.

I. Legislative Review – Ordinance 17-2016

Ms. Goodman-Hinnershitz stated that there had been some concerns regarding the details of the ordinance that authorizes Berks EIT as the City's tax collector. (Ordinance 17-2016)

Ms. Encarnacion stated that Mayor Scott would be addressing this issue.

Mr. Scott stated that he would like to defer until more information is obtained from Mr. Tangredi.

Mr. Younger reiterated stating that there were questions that came up requiring further research. A thorough response will be provided in the coming weeks.

At this time, representatives from Baker Tilly arrived and introductions were made. In attendance were J. O'Brian and D. Duffus. W. Scott, N. Rivera, C. Castner and W. Murray also arrived at this time.

II. Baker Tilly Report

Ms. Goodman-Hinnershitz thanked the representatives of Baker Tilly for the fine work they've done and explained to them that generally Council likes to have someone from the firm present to address any questions or concerns regarding the findings and perhaps to give a snapshot of those findings.

Mr. Duffus explained that Mayor Scott had requested their assistance due to some issues regarding the Waste Water Treatment Plant (WWTP). He stated that the firm agreed to look at the issues surrounding contracting practices in that area, free of charge. He stated that they also looked into some other issues of concern. The investigation began in February and the results of the preliminary analysis are set forth in a document that has been passed out to Council. He stated that these observations are based on a limited set of documents and publicly available information such as the annual audit reports. This is not a comprehensive forensic audit report though they are prepared to conduct one at the request of the City.

Mr. O'Brien explained some of the findings from their report. He stated that the initial areas of concern were those identified by the FBI and based on the annual financial statement audit, they were able to determine weaknesses with general contracting practices for the WWTP project.

Mr. Duffus stated that he wanted to make it clear that a financial statement audit differs abundantly from a forensic audit. He stated that a financial statement audit focuses on if the contract exists and whether the financial amounts spent can be linked to the contract itself. He stated that a forensic investigation or audit would look at things differently in that the focus would be deeper; determining whether the contract is appropriate and who was granted the contract and the circumstances surrounding the contract as well as how the processes were adhered to. A forensic audit focuses on fraud, waste and abuse issues.

Mr. O'Brien stated that there were purchases made outside of the purchase order process that were identified in contracts exceeding \$10,000. Proper approval did not occur as multiple signatures were required and the findings determined there were signatures missing.

Ms. Goodman-Hinnershitz inquired if the City has proper standard operating procedures in place or if there is a lack of clearly-defined proper operating procedures.

Mr. O'Brien replied that in this particular case, the City has clear and concise standard operating procedures in place and in fact, they are included in the contract itself. However, those procedures were ignored.

Mr. Slifko inquired if there is a way to remedy the issue of having controls in place but individuals not adhering to those controls. Mr. O'Brien responded that after these weaknesses are identified by their firm, a recommendation is made to the City in how to become more proactive to avoid the same situation.

Mr. O'Brien stated that one of the concerns that was highlighted in the report is the recurring weaknesses that are identified in the audit year after year. He explained to the Mayor that it isn't the responsibility of the Auditor to make certain the weaknesses are corrected.

Mr. O'Brian stated that his firm was told that measures are being taken to correct the weaknesses in question yet the last financial statement that was reviewed was for 2014. He stated that without knowing what the 2015 audit will provide, it will be difficult to determine what the risks may be. He used the bank reconciliations as an example stating that as a forensic accountant, the bank statement activity is provided from a third party. If someone is engaging in an inappropriate activity and trying to hide it, the cover up occurs internally with the general ledger activity. He stated that another area is the time frame in which this is reviewed from a forensic standpoint. Banks only maintain documents for up to seven years so depending how far back the inappropriate activity goes, this can become a more arduous task.

Mr. Waltman stated that he is aware of the "level one red flags" but that he would like more information on the "level two red flags"- what are the relationships under the relationships?

Mr. Duffus stated that one of the goals in a forensic investigation is not only to identify the level two issues but also to identify the losses created by those level two issues; then to make recommendations for the recovery process in the best interest of the City.

Mr. O'Brian stated that one of the challenges in addressing inappropriate activity, is how to save the valuable asset which most times is cash but not always. He stated that the process doesn't have to occur all at one time.

Mr. Slifko stated that there were three main areas of concern noted by the Baker Tilly Report and those were the WWTP, the contracting practices and the internal controls and operations. He inquired if it would be possible to break those down into separate forensic audits. He also inquired about the costs involved in such reporting.

Mr. Duffus stated that it is possible to break these down into separate audits; however, it is difficult to estimate the cost as the cost would depend on the amount of work that would be required. He stated that his firm is prepared to do what the city requests in terms of a forensic audit.

Mr. Waltman stated that he would like to discuss issues concerning the Water Authority. He stated that given some of the information that is being released on transactions where the financial advisor and solicitor of the Authority are the same person, he would like to utilize the services of a firm like Baker Tilly immediately. He stated that he would like a recommendation from the mayor.

Mr. Scott stated that in regard to the city audit, he's making the recommendation to review the WWTP operations and go as far back to the involvement of Black & Veatch. As for the Water Authority, the City doesn't have direct oversight to make these decisions. He stated that he doesn't believe board members of the Authority are intentionally engaging in questionable

practices but he expressed the belief that the authority administration may be. If the authority administration is not working in the best interest of our community, he believes removal of board members may have to occur. He stated that the City must explore the notion of taking back the Water Authority.

Mr. Waltman stated that the Water System is owned by the City and the City will take necessary steps in investigating operational practices etc., with or without resistance. He stated that the real question is whether or not the City is ready to employ the services to begin investigations despite any resistance that may be encountered. If we must use legal methods to begin these investigations, the City will do so.

Ms. Goodman-Hinnershitz stated that the reality is that Council and the administration have the obligation to the taxpayers and citizens of our City to make certain funds are managed appropriately. She stated that clearly Council has had concerns here for some time and those concerns need to be addressed and resolved.

Mr. Scott stated that the City needs to take a very close review of the WWTP division as he is of the belief that there are still individuals in positions that are engaging in unethical and possibly criminal activity. He believes that Black & Veatch is also involved in this activity.

Ms. Goodman-Hinnershitz stated that as Council works together in understanding the scope of what is needed, decisions and priorities can be established moving forward.

Mr. Scott stated that he would make his recommendation to Council soon regarding what the forensic audit will cover.

At this time, the group moved to the Penn Room in order to accommodate the remainder of Council and members of the Administration that were asked to be present. Those who joined are G. Wegman, D. Reed, S. Marmarou, T. Coleman, C. Castner and G. Mann.

III. Parking Authority 2016 Contribution

Ms. Goodman-Hinnershitz stated that a status of the allocation of the 2016 Contribution from the Parking Authority will be provided in this meeting along with any updates.

Mr. Encarnacion stated that currently the Parking Authority has a 7-Year Capital Improvement Project worth \$7.2 Million that the Authority is looking to expand to eight years in order to make the contribution to the City. He stated that it is crucial to make necessary improvements to the garages and he requested more time to make the contribution to the City. He offered, with Council's approval, to give the contribution in the form of one lump sum payment at the end of June.

Mr. Waltman inquired what 2014 and 2015 contributions were and there was a brief discussion

regarding the amounts. Mr. Waltman stated that he understands the need to make the necessary improvements to the garages and does not want to jeopardize that; however, he is open to a compromise in receiving the contribution when the Parking Authority feels more financially able to do so.

Mr. Wegman stated that he wants Council to be clear that the Parking Authority is committed to making the 2016 Contribution as agreed. He stated that the \$7.2M Capital Improvement Project is a 5-Year project. The biggest challenge the Parking Authority is facing is that one of the facilities where repairs and upgrades are needed is projected to cost \$1M of which only \$800,000 was budgeted. That figure doesn't include the other \$1.5M to the City. He stated that over the last few years, the Authority has had a loss in revenue. The loss of revenue is a direct result of having sold one of the garages and the loss of the CNA parking spaces. He stated that another issue that has impacted the Parking Authority is the loss of four of their management staff and one of those crucial positions has not yet been filled. With that being said, he stated that it is difficult to commit with definitive numbers and timelines how and when the Authority can make their contribution to the City.

Mr. Wegman stated that their board will be meeting to discuss all the issues impacting the Parking Authority's contribution to the City and will make a concerted effort to come up with a resolution where all will be satisfied.

Mr. Waltman stated that if the Parking Authority can commit to an additional \$1M this year with \$500,000 in subsequent years, the City is open to this type of compromise. Mr. Mann reported that the Recovery Plan shows the need for the Authority to make a \$1.365 contribution annually through 2019.

Mr. Wegman reiterated that it is imperative the Parking Authority reviews their figures to determine how they will move forward in getting the necessary improvements made while still contributing to the City. He stated that it is now clear to him that the City needs advance notice of the Authority's financial situation so the City can prepare its budget.

Mr. Wegman stated that the Parking Authority actually lowered their rates on their parking meters and ironically, revenues are coming in higher.

Ms. Goodman-Hinnershitz asked how the MobileApp is working for the Parking Authority. Mr. Wegman responded that it's doing quite well so the Authority is looking to expand the kiosks in other locations on a trial basis.

Mr. Waltman stated that the City needs an estimated time frame in which the City can expect a confirmation on the amount the Parking Authority can commit to and when the City will receive their contribution.

Mr. Wegman stated that without having his financials in order, he cannot answer definitively on either of Mr. Waltman's concerns. However, he will review the financials and report back after the board discusses all of these issues. He will try to have more information regarding next year's contribution to the City by October so as to allow the City has time to work the numbers into their budget.

Mr. Scott stated that he would like Mr. Coleman to meet with the board members of the Parking Authority and the Executive Directors to comprise a control system for contracts and ensure change orders are performed accordingly and effectively. He stated that ideally this meeting should take place before putting out and bids for repair and upgrade work.

IV. Assigning Committee members to address:

- BPT collection (Business Privilege Tax) – Mr. Twyman
- Medical costs (city-wide) – Ms. Goodman-Hinnershitz
- Pensioners medical costs – Mr. Slifko

Mr. Waltman stated that these issues will be addressed by the Managing Director. Ms. Goodman-Hinnershitz suggested that the assigned committee members meet with the corresponding administration members on these issue and report at the next meeting.

Ms. Goodman-Hinnershitz adjourned the Finance Meeting and introduced Mr. Mann for the Act 47 Meeting to commence.

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

Action Items

1. Finalization of TCC Ordinance.
2. Administration recommendations for approach to Baker Tilly Report.
3. Administration's next steps regarding resolution of repeat findings #s 2 and 3 as per PFM.

June

- BPT & Per Capita collection
- Retention of the Commuter Tax
- Health insurance cost and exploration of alternatives
- Remove re-employed retirees who have access to similar healthcare coverage
- Pension reform
- Pension fund management
- Timeline to resolve Account reconciliations and State Grant Management