

ORDINANCE # 18-12 (g)

AN ORDINANCE BY THE BETHEL CITY COUNCIL AMENDING THE ADOPTED ANNUAL FISCAL YEAR 2019 BUDGET

Be it Enacted by the Bethel City Council that the FY 2018 Annual Budget be amended as follows:

Section 1. That the following sums of money as may be needed or deemed necessary to provide for increased expenses and liabilities of the City of Bethel are hereby appropriated for the corporate purposes and objects of the City hereinafter specified for Fiscal Year 2019, July 1, 2018 to June 30, 2019.

Section 2. The following is a summary of the changes by fund and department:

WHEREAS, on January 22, 2019, the City Council voted to not adopt budget modification 18-12(f) requesting funds to increase the salary for a finance director and requesting funds to continue to utilize contractors to assist the City in cleaning up the operations of the Finance Department;

WHEREAS, the City has been without a Finance Director for seven months, has been without a General Ledger Accountant for over one year and has been short at least one Accounting Clerk position for the last five consecutive years;

WHEREAS, When four staff members are performing the duties of seven, the task load is such that even a union mandated leave day puts a significant strain on the operations of the Department;

WHEREAS, absences in the Department are so disruptive that the Assistant Finance Director has not taken a vacation in just over two (2) years and is currently working 6 days a week just to try to keep up with the work load;

WHEREAS, the Assistant Finance Director, having the most experience with the various positions in the Department, is managing the duties of Assistant Finance Director, General Ledger Accountant and is still having to train and provide support to the other staff;

WHEREAS, the Payroll Clerk is currently doing the work that used to be done by 2 positions: Payroll and Accounts Payable;

WHEREAS, in addition to payroll for the 90+ employees, the payroll clerk also processes payroll for the volunteer firefighters, processes all reporting for the IRS and PERS and files all necessary paperwork for social security and other state and federal agencies;

WHEREAS, prior to Espelin & Associates coming onboard, the Finance Department process for payroll had no checks and balances, the clerk processed payroll with no second review;

- WHEREAS,** in just 2 months of implementing the review process, Espelin & Associates uncovered numerous errors where employees were either being underpaid or overpaid, leave was being coded improperly, or pay was not matching with a PAR, all things the auditors had already noticed;
- WHEREAS,** in addition to payroll, the position processes the City's accounts payable which means paying all of the City's bills and over 650 invoices each month which means that bills have to be reviewed, verified, entered into the system, classified by department and the checks have to be cut and mailed;
- WHEREAS,** prior to Espelin & Associates, Accounts Payable also had no checks and balances; therefore coding errors which were City-wide were being perpetuated leading to incorrect figures;
- WHEREAS,** the front desk clerk, while only performing one job, currently averages over 65 walk-up transactions daily with some customers having needs that can take up to 20-30 minutes to process; in addition, they handle a significant volume of phone traffic or people who call in with questions or want to pay their utility bills by phone;
- WHEREAS,** the Utility Billing Clerk processes over 1700 utility bills each month; sending out bills, processing payments; handling and entering disconnects, processing deposits, processing deposit refunds, sending out collection notices and entering and adjusting billings for extra calls;
- WHEREAS,** on average, there are over 300 calls for extra services each month which have to be entered into the system, communicated with the water/sewer department and billed accordingly;
- WHEREAS,** sales tax is another position currently wearing multiple hats: sales taxes, business licenses and accounts receivable;
- WHEREAS,** not only is the sales tax clerk responsible for collecting and processing sales tax returns on the over 600 businesses operating in Bethel, the position also has to handle all late payments, assessments, requests for business licenses, requests for tax interpretations and has to process all paid bills;
- WHEREAS,** these are just some of the duties which the Finance Department performs each month;
- WHEREAS,** on average, the Finance Department has over 7500 distinct transactions each month, all which require verification or checks and balances;
- WHEREAS,** Carmen Jackson, CPA was hired by then City Manager, Ann Capela, to assist the Finance Department in preparation for the annual audit, and continued to provide support to the Department through the transitions between finance directors and assistant directors;
- WHEREAS,** the audit preparation work that Carmen Jackson CPA performs is the verification of all figures and the creation of the schedules (a report showing or backing up the figures), this is a very detailed and labor intensive process;

- WHEREAS,** while most of the audit work preparation is completed for Carmen Jackson, CPA, their personnel are still utilized to provide support to our staff as they have become familiar with each of the positions in Finance Department;
- WHEREAS,** staff from Carmen Jackson, CPA help the staff to catch-up on transactions, provide training for City finance staff, assist with the development of policy and procedure manuals, best practices manuals and provide suggestions on how to make efficiency improvements in the Department;
- WHEREAS,** it is important to note that when the current Assistant Finance Director was first hired (as a sales tax clerk), the City's Finance Department had the following known issues: sales taxes were 6-8 months behind, Ambulance billing was 8 months to a year behind; no General Ledger work had been done in over a year, Accounts Payable was not being done and Payroll was outsourced to Caselle;
- WHEREAS,** when now City Manager, Peter Williams was hired, the audits for FY 15 and 16 had not been completed and the City was in danger of losing funding;
- WHEREAS,** in the last 2 years, the City has completed a total of 3 audits and is close to completion of its fourth: FY 15, FY 16, FY 17 and now FY18;
- WHEREAS,** while 2017, was late, it could not be completed more timely because it was necessary to complete FY 15 and FY 16 before moving onto FY 17;
- WHEREAS,** there have been two major issues identified in the clean-up and submittal of the audits: (1) the errors go back over a decade; and (2) due to grant and State requirements, there has been a significant rush to get the previous audits completed without the ability for significant review. Administration hopes to prevent that by continuing the contract services with the two firms to help produce a reliable audit record for Fiscal Year 2018 Audit;
- WHEREAS,** the errors found are not just financial mistakes, but operation procedure mistakes or a lack of checks and balances;
- WHEREAS,** for well over a decade the finances of the City show that the lack of training and oversight (or checks and balances) have created a "we've always done it this way" methodology which has created significant problems that are only just now being addressed;
- WHEREAS,** a review of the financials and the practices in place show over a decade of financial figures being coded to whatever fund has money in it, and not necessarily the appropriate fund for the expense;
- WHEREAS,** an example would be a payout of an insurance claim by a water driver of \$13,000: if the budget had only \$7,000, rather than go to City Council for a budget modification, the expense would be split among the several departments within public works to distribute the payout: hauled water, hauled sewer and perhaps piped water or piped sewer;
- WHEREAS,** as the example above shows, not only would the expense be improperly coded, it would provide inaccurate information to the auditors, future Department Directors and to the City Council;

- WHEREAS,** City Councils and Department Directors rely on past figures and past practices to not only measure performance, but to plan future expenses and future budgets;
- WHEREAS,** incorrect and improperly coded figures not only misled City Council that funds were not over expended, they led to incorrect budget assumptions which have been perpetuated for years;
- WHEREAS,** audits use random samples and in the past only a few of these miscodings have been caught but the increased late filings has led to more scrutiny, increased sampling and consequently more and more of these miscodings are being found by the auditors;
- WHEREAS,** Because of the random nature of the audit samples, continued errors and training deficiencies have been allowed to continue without significant findings, and without being addressed;
- WHEREAS,** As Department Directors and finance staff are being re-educated, budgeting is being re-evaluated with Department Directors getting frustrated that figures they previously relied on were not accurate representations and misleading, City Council gets frustrated that the budget is not adhered to, and overall everyone becomes unhappy because they relied on bad information;
- WHEREAS,** having good information now is critical to changing the course of things and to rebuilding trust and confidence;
- WHEREAS,** in any one audit, 95%-98% of the document is the responsibility of the City of Bethel to prepare - all pages within the audit titled "City of Bethel";
- WHEREAS,** the portion of the audit report which the auditors are responsible for preparing comprises only 10-15 pages and are those pages referred to or which have a title heading or closing with "Altman Rogers" or whatever company has been hired;
- WHEREAS,** past finance directors have had an auditing company complete the audit numbers (those pages with the title "City of Bethel") as opposed to having the audit company verify the audit numbers presented by the City which means the information presented in the past audits – were likely not totally accurate because we had other companies interpreting our internal policies and procedures;
- WHEREAS,** because of the large number of grants which the City receives, the City is subject to the Uniform Guidance and Single Audit Act which mandates that the City's audits be completed by March 31st annually, which is likely why the code reflects the same timeline requirements;
- WHEREAS,** currently there are still 2 full pages of pending items to obtain for the auditors, work that typically takes 1-2 weeks to sort through and accomplish, which Espelin & Associates had previously coordinated and reviewed, cutting down the work for staff significantly and reducing redundancies and errors;

- WHEREAS,** the added benefit of having Espelin & Associates be the point persons on the pending items is that documents have been reviewed, the lists have been paired down significantly from previous years and the timeline for document review has been reduced, unnecessary requests have been weeded out, superfluous documents have not been provided, and proper documentation has been given when requested, leading to less frustration by the auditors and a smoother, more efficient and less costly process for everybody;
- WHEREAS,** as of now, the 88+ page report still needs to be written, a task that was to be done by Espelin & Associates as they have the knowledge, education and expertise needed to write it and the costs associated with the task is less with Espelin and Associates than what it would be if the auditing firm were to do it;
- WHEREAS,** current staff does not have the time, or expertise to write the report;
- WHEREAS,** after three years of late audit reports, grantors and State agencies have not only noticed, they have commented and made it clear that one more will have a significantly negative impact on the City's ability to receive grants in the near future;
- WHEREAS,** a timely report this year is not only mandatory and critical, but it will also serve to resolve numerous previous findings and to preserve the City's eligibility for grant funding;
- WHEREAS,** in FY 17, the City received just over \$3 million dollars in grant funds, in FY 18 the City received just over \$14 million dollars in grant funds;
- WHEREAS,** the loss of millions of dollars in grant revenue, which includes Community Revenue Sharing and PILT, will not be for this year alone, but will be for a few years to come;
- WHEREAS,** getting good and accurate audit figures this year, something that is critically important to the City, requires that staff fully understand the methodology which the auditors use, how the information has to be coded and how it is reviewed;
- WHEREAS,** having a proper checks and balance system in place now ensures that the 10+ years of mistakes do not continue to occur;
- WHEREAS,** given all that is at stake, it is important to provide the Finance Department and the City the resources they need to perform the work and allow the contractors to assist the City in taking the necessary steps to meet all of its requirements with the State and federal grantors and to address these issues;
- WHEREAS,** the lack of good figures from the Finance Department harms everyone in the City: City Council does not have confidence and does not feel it can make good decisions; Department Heads often are afraid to make necessary repairs because they don't trust the numbers and are fearful of overspending; legal cannot pursue delinquent accounts because the numbers cannot be relied upon in a court of law;
- WHEREAS,** once the problems are fixed, the outcome for all is positive: a trust in the figures, timely budgets, timely reconciliations, timely and more accurate figures to the City Council;
- WHEREAS,** having taken over 10 years to get to this point, it is not unreasonable to ask for support in fixing the issue and it is not unreasonable to expect it to take 1-3 years to completely clean up and correct;

WHEREAS, once the audits are completed, the budget is in place and the emergencies are taken care of, the contractors can focus on the other necessary tasks: staff development and training; policy development; and ensuring that proper processes are in place to avoid this situation from happening again in the future;

FINANCE DEPARTMENT

Budget modification (a)

Account #	Increases	Amount
10-53-649	Professional Fees -CPA Service	50,000
	Total Increases	50,000
Account #	Decreases	Amount
10-53-518	PERS	50,000
	Total Decreases	50,000
Total	Net Change to General Fund Appropriations	0

Account #	Increases	Amount
10-53-669	Other Purchased Services - Espelin & Assoc. / Contracted Finance Director	100,000
	Total Increases	100,000
Account #	Decreases	Amount
10-53-501	Salaries	100,000
	Total Decreases	100,000
Total	Net Change to General Fund Appropriations	0

PUBLIC WORKS

Account #	Increases	Amount
10-65-501	Public Works Director	12,000
10-65-508	Leave Cash Out	60
10-65-511	Medicare	15
10-65-518	PERS	280
	Total Increases	12,355
Account #	Decreases	Amount
	Total Decreases	
Total	Net Change to General Fund Appropriations	0

Section 3. Effective Date. This ordinance becomes effective immediately upon adoption.