

CITY COUNCIL WORKSHOP MINUTES

AUGUST 17, 2010

Mayor Joe LaCascia called the meeting to order at 6:30 p.m.

ROLL CALL

Present: Mayor Joe LaCascia, Vice Mayor Trudy Block, Councilor Mike Blethen, Councilor Don Kimsey and City Clerk Patricia Jackson.

Absent: Councilor Nancy Adorno (sick).

Mayor LaCascia advised this is a workshop only; no motions or decisions will be made.

Presentation of Fiscal Year 2009 Audit

Mayor LaCascia advised this is the first time the Audit has been on time in five years. At this time Mayor LaCascia turned the meeting over to the City's Auditor, Mike Brynjulfson, CPA, PA.

Mike Brynjulfson advised he put together a summary, which is what he will present to the Council; if Council has questions after tonight they can give him a call. Mike also gave Council a copy of a report that is required by the Auditing Standards Board, which intended to be a detailed report of the audit results, and includes audit adjustments.

Before going over the audit presentation, Mike advised three audits were done in 12 months. He advised in the past things were not being addressed and taken care of; however, that has changed this year and items have been addressed.

Mike went over the Summary for the Fiscal Year 2009 Audit as follows (a copy is included and made a part of these minutes; a copy of the FY 2009 Audit is on file in the City Clerk's Office):

- **Management's Discussion and Analysis** – Mike advised the MD&A is not audited; it is the only place you will find a comparison of numbers for 2008 versus 2009.
- **Independent Auditors' Report (pages 1 & 2)** – This is a report on financial statements; it is a clean opinion.
- **Government-wide Statements** – Statement of net assets and statement of activities (page 3 & 4 of Audit). This is a report of General Fund Activity.
- At this time Mayor LaCascia referred to page M4 of the Management's Discussion and Analysis (capital assets); he read a portion regarding corrections being in place to rebuild the city's reserves. It is at the time of the Audit. This was written by Management. Because statements by Management are accepted comments, the Mayor would like for it to be more specific. He is trying to better

understand what is in there from a general standpoint. The Auditor advised when he looked at it, he wanted to stay away from “boiler plate”, but that’s what it is; he looks at the big picture – there was no forecasting done or cash reconciliations, but now he sees a great focus on that.

- **Government –wide Statements** – the Auditor went over the revenues and expenses; the entire City is on a full accrual basis. Capital Assets come through as income, as well as grants. The City received advance funding of 1.2 million dollars, and that is expensed this year; it was used to purchase land (referred to page 4 of the Audit). The Auditor went over the Governmental Activities, which is General Fund; the USDA Grant was the main difference. At this time Mayor LaCascia referred to M6 (Management’s Discussion and Analysis) regarding donations of infrastructure. The Auditor advised the City is purchasing the spray field, but everything else was donated i.e. water and sewer system (Mt. Olive), Fountain Park W/S infrastructure and stormwater, etc. Mayor LaCascia noted that was pure capital contributions. Councilor Blethen asked about the 4.2 million dollar appraisal of the Mt. Olive System; the Auditor advised that was done by Envisors and it is a straight donation.
- **Fund Level Statements** – General Fund is listed on pages 5 to 8 of audit, and the Proprietary Funds (water and sewer) is listed on pages 9-11 of the audit. The Auditor then went over the highlights for General Fund and the Enterprise Fund. Mayor LaCascia advised we are in the budget season now and referred to page M7 (Management’s Discussion and Analysis); the City is head for a train wreck and that’s where we are at. On page M7 it states expenditures were understated. The Auditor referred to page 5 of the audit whereby it talks about the City’s assets. The general fund revenues and expenditures resulted in a decrease in fund balance that was \$239,145 less than the prior year; the total fund balance is **-\$265,000** in the General Fund. In the Enterprise Fund if you combine the water and sewer fund, a profit was made. In 2008 there was two to three months billing of the Mt. Olive System; however, in 2009 it reflects the entire year. Mayor LaCascia asked what the balance between the water and sewer users was; Pam Lawson advised there are approximately 2,000 water users and approximately 900-1000 sewer users. The Auditor then went over pages 9-11 in the Audit Report for the Enterprise Fund – there was an income loss before contributions; after contributions there was a net income of \$606,000. There was an operating profit for the first time in four years; it is a full accrual cash basis (page 11). There was \$560,000 inflow from operations.
- **Notes to the Financial Statements** – The Auditor advised if there are questions, we will answer them. Several items noted: **Page 19** -- Capital Assets, **Page 21** – Long Term Obligations. Mayor LaCascia asked if the reduction is because of pay-downs. Page 22 and 23 shows more information. On page 23 when it shows 2015-2019 that is because you have to show in five year blocks. **Page 25-27** – Note 11, Commitments and Contingencies/ Risk Management and Litigation and Note 12, Subsequent Events. Some of the items discussed on page 25 were the Sheriff’s Office Contract and the Cardinal Hill Lease.
- **Required Supplementary Information – Page 27** – Budgetary Comparison Schedule for General Fund (had a \$323,721 loss).

- **Independent Auditors' Report on Compliance and on Internal Control – Pages 28 & 29** – The Auditor advised there were two instances of non-compliance or other matters that are required to be reported under Government Auditing Standards (findings 09-09 & -09-10). Mayor LaCascia asked if there is any oversight from any other governmental agencies after a number of years of making recommendations and noting deficiencies, but nothing being done. Mike (Auditor) advised the Auditor General is the end line, if there's no financial emergency; he also went over the process of the Auditor General's Office in reviewing the Audits. Councilor Kimsey asked the Mayor if he was speaking of the inconsistencies in the audit over the last couple of years and no-one raising an eyebrow; Mayor LaCascia agreed. Mike then went over when a financial emergency exists and where it goes to; he also advised he is surprised that nothing has happened. Discussion followed regarding what happens if a Council takes no action year after year. Mike (Auditor) advised the citizens could ask for a State Audit (city expense). Lengthy discussion took place regarding past audits and the position the City is in today. At the conclusion Mayor LaCascia advised that clearing up the Audit is the first step; Council is the oversight body and Council needs to make sure it is done properly in the future. The Auditor also reported there were eight deficiencies in internal control that are considered to be a material weakness and is reported in the management letter as findings 09-01, 09-02, 09-03, 09-04, 09-05, 09-06, 09-07 and 09-08 (briefly went over).
- **Independent Auditor's Management Letter -- Pages 30-33** – The Auditor and Council discussed the following:
 - **Findings:**
 - **09-01M: Polk County Impact Fee Receipts and Remittances** – this is currently being worked on.
 - **09-02M: Vacation Benefit Policy** – Management will review Section 317 of the employee handbook to make the necessary changes to clarify vacation time accrual guidelines for exempt employees.
 - **Financial Emergency Condition** – In connection with the Audit, the Auditor determined that the City of Polk City met one of the conditions of Section 218.503(1), Florida Statutes, as of September 30, 2009 whereby the City has a negative combined (1) total general fund unreserved fund balance and (2) total combined enterprise funds unrestricted net assets (general fund negative \$478,180 and a combined enterprise funds negative \$402,888). Total deficit is (\$881,068) as of September 30, 2009 compared to a total deficit of (\$275,280) as of September 30, 2008.
 - **Deteriorating Financial Condition** – Discussion took place regarding the charts showing Unreserved Fund Balance and Unreserved Retained Earnings, the Liquidity chart and the Combined General & Enterprise Fund Unrestricted Cash vs. Current Liabilities Chart.

- **Schedule of Findings and Questioned Costs – Pages 39 to 48:**
 1. **09-01: Utility Billing Sub-ledgers should be reconciled to the General Ledger** – this is currently being addressed.
 2. **09-02: Restricted Cash Monitoring Needs Improvement** – The Auditor noted a lot of work has been done in this area. A couple of questions were asked regarding software; however, the program the City uses is fine.
 3. **09-03: Failure to Correct Internal Control Deficiencies (required)** – the City has begun several reconciliations in order to correct the internal control inefficiencies.
 4. **09-04: Internal Control Over Financial Reporting (required)** – In FY 2009 the City of Polk City hired more qualified personnel to address this issue.
 5. **09-05: Long Term Debt Issue Compliance** – Bond covenants require sinking fund and reserve fund; sometimes the City waits until the end of the year; however, this year is better. The City will have the FY 09 Audit to the State by the deadline of 9/30/10, and are implementing a sinking fund in FY 2010.
 6. **09-06: Cash Disbursements (new item)** – Internal controls need to be designed and implemented over the purchasing and cash disbursement transaction cycle, internal controls need to be established to modify vendor information (accounts payable clerk), internal controls need to be established over check stock and use of facsimile signatures.
 7. **09-07: Payroll (new item)** – Internal controls need to be established and segregation of duties are required to provide reasonable assurance that payroll related transactions are properly calculated and recorded, agree to authorized pay rates, and supported by sufficient documentation and approved by management. Also, management must design and implement adequate internal controls over the payroll processing transaction cycle and the human resources function.
 8. **09-08: Computer Access Controls (new item)** – All users of the computer system should be assigned unique passwords and keep their passwords secure. The City has removed access to computer passwords. Councilor Blethen asked if we have good cash disbursements, cutting checks and making payments, over check stock and computer access. Mayor LaCascia advised the City has systems in place now that were not in place 90 days earlier. The Auditor advised it takes a couple of Audits to get them designed and implemented
 9. **09-09: Timely Filing of Federal Single Audit** – For the year ended September 30, 2009, the accounting records were not closed in time for timely filing of the single audit reports. This will be resolved for the fiscal year 2010; audits are now current.
 10. **09-10: Florida Department of Environmental Protection CFSA# 37.039: Polk City Wastewater Treatment – Phase 1** -- Interest earned on the advance funding was not remitted to the Department in accordance

with the agreement. The City believes this amount has been forgiven and further research is being done.

This concludes the presentation of the FY 2009 Audit. The following questions were asked:

- Ms. Barnes, 627 2nd Street, asked where the money was going from the 50% increase in water and sewer rates. Mayor LaCascia advised it was going to debt service.
- Councilor Blethen asked about the cost savings of city hall being opened four days a week rather five days a week, and if it was in the audit. The Auditor advised it is not in the Audit itself, but has seen the analysis. Councilor Blethen wanted to know if we are saving money; he was advised that Pam Lawson has that information. When asked if people have complained; Mayor LaCascia responded yes, but it has been worked out. Pam Lawson advised going to four days week has decreased salaries by \$52,000 a year; Vice Mayor Block advised she is still reviewing all of the contracts, and looking at electric bills. Some discussion took place regarding the utility department closing on Tuesday and Wednesday at 1:00 p.m. in order to allow the Finance Department to get finance work done. Mayor LaCascia advised others are looking at doing the same thing in their cities.

At this time Mayor LaCascia called a five minute recess (8:20 p.m.) Mayor LaCascia reconvened the workshop at 8:30 p.m. At this time Mayor LaCascia entertained comments and questions from the floor concerning the Sheriff's Office Contract.

Ruth, 14830 Angus Road (cannot hear on tape recorder), addressed Council concerning her concern of having no deputies to patrol. Mayor LaCascia gave background information as to why changes are being made; one thing he mentioned is of the \$640,000 received by the City in Ad Valorem Revenues, \$433,000 is for the Sheriff's Office Contract. Acting City Manager Block also discussed the meeting she had with Sheriff Judd. The door is open to add deputies back to the contract should it become necessary and money is available.

George Push, 111 S Magnolia Avenue, asked if the same deputies would be patrolling once the City reduces the number. Mayor LaCascia advised the only one who would remain the same is the Sergeant; the current deputies will go to other positions throughout the County. The Sheriff's Office will do routine patrol once the Sergeant's shift is over; it is going to be different, but we don't know how yet. Mr. Push then asked about a special tax that would support a Police Department; brief discussion followed. The Sergeant submits reports every month, and they will be reviewed to monitor what's happening. Sergeant Conover advised he will give out his number in case citizens need to contact him.

Mr. Browder, 730 3rd Street, addressed Council and thanked them for stepping in; he also thanked Sergeant Conover. He expressed that as a community it is our job to look

out for each other. The City has debt, and Council can't put the City into more debt; we have to agree to do the right thing – agree the people of Polk City need to step up and watch out for each other. He is looking forward to starting the Neighborhood Watch Program; Mayor LaCascia advised he will get him in touch with Mr. Bob Groover, who is in charge of that.

Ms. Wilson, 627 2nd Street, addressed Council with concerns of reducing the number of Deputies on duty in Polk City; she briefly discussed how things used to be before the Sheriff's Office came in full time.

Councilor Blethen asked if the Sergeant would hand out speeding tickets; the Sergeant advised he would issue tickets.

There being no further business, the meeting adjourned at 9:00 p.m.

Patricia R. Jackson, City Clerk

Joe LaCascia, Mayor