

**CITY OF COLUMBIA
SPECIAL CALLED MEETING MINUTES
SEPTEMBER 18, 2007 – 2:00 PM
CITY HALL – COUNCIL CONFERENCE ROOM
1737 MAIN STREET – 2ND FLOOR**



The Columbia City Council met for a Special Called Meeting on Tuesday, September 18, 2007 in the City Hall Council Chambers located at 1737 Main Street, Columbia, South Carolina. Mayor Robert D. Coble called the meeting to order at 2:05 p.m. The following members of Council were present: The Honorable E.W. Cromartie, II, The Honorable Anne M. Sinclair, The Honorable Daniel J. Rickenmann and The Honorable Kirkman Finlay III. The Honorable Tameika Isaac Devine arrived at 2:14 p.m. The Honorable Sam Davis was absent. Also present were Mr. Charles P. Austin, Sr., City Manager and Ms. Erika D. Salley, City Clerk.

CITY COUNCIL DISCUSSION / ACTION

1. Fiscal Year 2005/2006 Audit Review - Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP, emphasized that regardless of what is said today it in no way implies that staff did not provide information to the best of their ability and in a timely manner. He presented the firm's opinion on the following significant deficiencies and material weaknesses in the City's internal controls. Those deficiencies discussed were as follows: **1) Control over Uncollected Grant Billings; 2) Allowance for Doubtful Accounts Calculation; 3) Inventory Validation; 4) Procedures for Disposal of Fixed Assets; 5) Timely and Accurate Financial Reports; 6) Completeness of General Ledger; 7) Spreadsheet Files; 8) Formal Year-End Closing Schedule; 9) Receiving Reports; 10) Regular Reconciliation of Bank Statements; 11) Invoice Procedures; 12) Physical Inventory of Fixed Assets; 13) Policy for Construction in Progress; 14) Time Sheets; and 15) Review and Reconciliation.** He began by reporting that there are various departments within the city that receive federal grants, state grants and reimbursement requests, but the Accounting Department may or may not be aware of them. He recommended that grant billings be reviewed by the Accounting Department and recorded in the accounts receivable subsidiary ledger. This ensures accuracy.

Councilor Cromartie requested that they move forward and discuss the most important items first, because he has to leave at 2:30 p.m.

Councilor Finlay suggested that they compare the fiscal year 2004/2005 Management Letter to the fiscal year 2005/2006 Management Letter to see what the issues were and to determine if they have been addressed.

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP talked about the failure to follow policies and procedures as it relates to invoicing and time sheets. Failure to follow policies and procedures opens up the opportunity for bad things to happen. He recommended that the city establish means of reporting wrongdoing without employees having to feel like a whistle blower or fear of retribution. Such means could be as simple as a telephone hotline.

- **Councilor Devine joined the meeting at 2:14 p.m.**

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP voiced concerns about construction in progress and schedule reviews. He reported that the city received \$400,000 from the sale of the Publix (Dispensary) Building was initially recorded as an escrow deposit, but it should have gone to the Columbia Development Corporation (CDC) and not the City of

Columbia. He noted that all agreements and significant accounting transactions should be documented. There isn't sufficient follow up on account receivables such as grant billing or duplicate billing to identify if they have been actually collected.

Councilor Devine asked if this included parking tickets.

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP, stated that this may include some parking tickets, but parking tickets are usually insignificant. He continued to say that there needs to be procedures in place for someone to ensure that bills are paid if a department is not used to follow up. He cited problems with the inventories recorded in the governmental funds. For example the Police Department's firearms are on the inventory forever even though most of them are not being used. He recommended that the city identify and dispense older items, but allow the department to continue to track the item just not on the financial statement.

Councilor Finlay said there needed to be some oversight of all items currently owned by the city.

Councilor Sinclair suggested that Mr. Addison continue and then Ms. Rolan report on what is being done to rectify each item.

Ms. Lisa Rolan, Chief Financial Officer, stated that all canceled invoices are documented and procedures are in place to ensure that invoicing procedures are followed. In June 2007, letters were sent to all vendors stating that all invoices had to come to the Accounting Division and employees were directed to send all packing slips to the Accounting Division. They are working on a Standard Operating Procedures Manual to help identify everything from petty cash to capital improvement projects. They are looking at other internal control issues.

Councilor Devine asked about the duplicate billing issue.

Ms. Lisa Rolan, Chief Financial Officer, said that now only one person is handling the accounts receivables billing and this should eliminate duplication.

- **Mr. Cromartie left the meeting at 2:31 p.m.**

Councilor Finlay asked Ms. Rolan how do we know what our receivables are if we are creating invoices without getting them to our general ledger.

Ms. Lisa Rolan, Chief Financial Officer, said that we need the billing departments to send a copy to the Finance Department so that receivables can be tracked.

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP, explained that from an audit standpoint they only care about year-end. They look at the cash receipts journal and there are unrecorded receivables that can't be counted.

Ms. Lisa Rolan, Chief Financial Officer, concurred with Mr. Addison's findings on the control over uncollected grant billings and explained that a lot of grants don't come through the Finance Department. They are developing a procedure wherein all grants will be reviewed by the Finance Department prior to being submitted. This will help them track matching funds and identify the reimbursements. They will also develop a process for drawdowns with the request coming from the department, but the Finance Department would be completing the actual draw down. She agreed that the financial information must coincide with the general ledger.

Councilor Sinclair said that the policies and procedures must be implemented not just developed.

Councilor Finlay said that we could be at risk for losing grants if the policy is not addressed as recommended.

Ms. Lisa Rolan, Chief Financial Officer, said that she would develop procedures and sit down with various departments to get their buy-in and to get in line with internal controls.

Councilor Devine advised Ms. Rolan to be cautious and to understand how the policies will impact other departments. She said that items needed to be reported in a timely manner. She urged staff to reserve a time period to work with departments on the implementation of the policies.

Ms. Lisa Rolan, Chief Financial Officer, noted that the Finance Department staff needed additional training and they are also developing training sessions for other departments.

Councilor Rickenmann asked if they are involving the Information Technology Department, because they can scan documents into the system for easier future reference.

Ms. Lisa Rolan, Chief Financial Officer, said that Purchasing has already started this process.

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP, continued with the discussion on the disposal of fixed assets and suggested that there be a form for asset custodians to complete in order to have an item removed from the books.

Councilor Sinclair asked if there are any types of system at the department level to track the disposal of fixed assets.

Ms. Lisa Rolan, Chief Financial Officer, explained that when the city transitioned to the new IFAS system, the old asset information was not input into the new system.

Councilor Devine asked if there were any serious problems with the accuracy of reports.

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP answered yes.

Ms. Lisa Rolan, Chief Financial Officer, said that the Council would get a financial report tomorrow. The financial statement has been provided to the Auditor, but changes will be made as they go through the audit. She applauded the Auditor for being gracious by helping staff to understand where the information comes from for the financial reports.

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP, said that they do not have a complete set of financial statements.

Ms. Lisa Rolan, Chief Financial Officer, said that the report would be provided today before she goes home.

Councilor Devine stressed the fact that it is important for the auditor to get what they need and when they need it.

Ms. Lisa Rolan, Chief Financial Officer, reported that there were things that had to be found and that the goal is to ensure accuracy.

Councilor Finlay stated that the fiscal year 2003/2004 Management Letter noted that we have a problem with timely financials and that it is very difficult to explain how to fulfill his duties without having accurate financial statements.

Ms. Lisa Rolan, Chief Financial Officer, stated that they only use 10% of IFAS so there will be human error when creating spreadsheets. They are addressing the IFAS mapping system so reports can be generated easily through IFAS and not manually.

Councilor Rickenmann asked about the accuracy of financial reports received by the Council.

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP, explained that \$1.5 million in loan proceeds were recorded as revenue. He is concerned because the Accounting Department knew nothing about the loan in the first place and then it was recorded as revenue in a miscellaneous account.

Councilor Devine asked why Accounting didn't know about the loan since the Council approved the transaction.

Ms. Lisa Rolan, Chief Financial Officer, reported that senior staff now reviews the agendas and action reports in an effort to follow up on matters. She also makes notes to discuss with staff.

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP, said that until the right person looks into the matters and develop solutions, the Council may get timely financial information, but it won't be accurate.

Councilor Sinclair stated that we have talked about financial reporting for years and that this is an on-going problem. It is imperative that we get timely financial information on a regular basis.

Mr. Charles P. Austin, Sr., City Manager stated that Council will get monthly statements and the books would be closed on a quarterly basis.

Ms. Lisa Rolan, Chief Financial Officer, requested feedback on the reports already received by the Council.

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP, said that the spreadsheet files needed to be properly reviewed by someone that understands the process and the files should be backed up on the network. He suggested that staff determine the steps that need to happen during the formal year-end closing process and the due dates. He further suggested that this information be posted on the city's website for all to view.

Councilor Sinclair said that it has to be a schedule that makes sense, because organizations are trying to get their invoices in prior to year-end. They have to wait as close to year-end as possible.

Ms. Lisa Rolan, Chief Financial Officer, reported that the Finance Department is developing an audit workbook for fiscal year 2007/2008, because this should be a fluid process. Her goal is to have everything for fiscal year 2006/2007 to Mr. Addison by October 31, 2007.

Mr. Charles P. Austin, Sr., City Manager stated that six (6) months may be the allowable timeframe, but it is unacceptable for closing the books.

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP, said that regular reconciliation of bank statements is critical and that this area needs to be tight. It needs to be done within 40-days.

Councilor Finlay asked if we reconcile monthly.

Ms. Lisa Rolan, Chief Financial Officer, said that we do reconcile monthly and that we are current. All reconciliations have to be completed by the 10th of each month.

Councilor Finlay said that we must be careful in applauding ourselves and must be results oriented, because we are way behind the cue ball. There is a discrepancy and we must keep our eyes open.

Councilor Rickenmann asked how we could operate without a complete inventory listing.

Mr. Charles P. Austin, Sr., City Manager said that we are working with the internal auditor to strengthen the process of tracking fixed assets. He is not comfortable that the internal auditor's position is functioning, as it should be. The Internal Auditor should provide for a smooth segue for the external auditor. He is not sure that connection has taken place.

Councilor Rickenmann said that this issue of the internal auditor ties into the discrepancies with invoices and other matters.

Councilor Finlay suggested that periodic external reviews would make the internal review process much better.

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP, addressed concerns about the lack of a policy for construction in progress, because there are numerous definitions of capital assets and the way departments handle them. Currently it is decided at a department level when a project is closed and if it is capitalized. For example, Southeast Park was assigned one project number instead of breaking the components down and assigning separate project numbers and closing out each component as it is completed. This causes entire projects to remain open for longer time periods. Once a project is placed into service, it's complete and should begin depreciation. Someone should review project schedules periodically. He recommended that project managers inform the capital asset accountant of the assets within each project that are completed so the assets can be removed from construction in progress and depreciation can begin. He reiterated the fact that the right person needed to review the reconciliations. He recommended that all personnel files be reviewed for existing employees and that the proper supporting documentation is obtained for all payroll deductions. In regards to water and sewer billings, he recommended that water and sewer cut offs be completed in accordance with the city's approved policies and procedures. Mr. Addison stated that the final draft of the audit would be completed within one month assuming that the significant issues with the construction in progress account are resolved.

Councilor Finlay asked if they could schedule a meeting with the external auditor, but without staff so that it is purely a conversation with the members of Council and the auditor. He asked if the meeting should take place once the draft audit is released.

Mr. Bud Addison, Audit Senior Manager / Webster Rogers, LLP, said that there were no disagreements between the auditor and the Finance Department and the firm is not requesting to meet with Council in Executive Session. They would be happy to discuss the final draft with Council.

Councilor Sinclair said she is reluctant to schedule such a meeting, but they do need to work with the City Attorney on this. We do need to talk through and correct mistakes and to implement the policies and procedures. She noted that no excuses are being made for what happened in the past and now we are headed in the right direction.

Councilor Finlay said that there needed to be a mechanism for the auditor to meet with Council when a whistle needs to be blown without it being a point of contention.

Mayor Coble said that the auditor has done an outstanding job based on the issues that needed to be resolved. He said that we are creating a system that we all can be proud of and that people will have confidence in.

This concluded the fiscal year 2005/2006-audit review. Council took no action.

ADJOURNMENT

- **Council adjourned the meeting at 3:42 p.m.**

Respectfully submitted by:

Erika D. Salley
City Clerk