

**City of Temple
Special Called Council Meeting
August 24, 2015, 6:00pm
Temple City Hall**

Council Members present constituting a quorum:

Lester Harmon, Mayor
Penny Ransom
Howard Walden
Hiley Miller
William Simmons
Richard Bracknell

Council Members absent:

None.

Call to Order:

The meeting was called to order at 6:01pm by Mayor Harmon.

Invocation:

The invocation was given by Mayor Harmon.

Old Business:

- 1) Resolution for 2015 Millage Rate: Mr. Parian read the Resolution to set the 2015 Millage rate at 6.980 for the City of Temple. There was a motion made by Councilmember Walden to approve the resolution as read, with a second by Councilmember Bracknell. Vote 5-0.
- 2) Bids for Library Remodel: Three bids were presented. After some discussion, a motion was made by Councilmember Bracknell to accept the low bid of \$101,052 from Complete Construction, with a second by Councilmember Simmons. Vote 5-0.
- 3) Forensic Audit Report Presentation: Karen Fortune, Pat Salem and Luke Thomas from IAG Forensics presented the Audit Report.
 - a) *Background*
 - i) IAG was initially engaged in July 2014. The audit was done in two phases and was completed in April of 2015. The findings were reported to Mr. Parian in May of 2015.
 - b) *Process*
 - i) To address different areas of concern, IAG looked through many financial documents including the general ledger, the audited financials, bank reconciliations, check copies, deposit details, invoices, payroll records and meeting minutes. Ms. Fortune noted that the accounting records were in disarray and the system was very antiquated.
 - ii) Ms. Fortune noted that they incurred over \$227,000 in fees and time but adhered to the commitment of \$110,000. She thanked everyone for the cooperation and the openness during the audit.

- iii) She also noted that they only reported findings that could be substantiated – nothing on a hearsay basis.
- c) *Accounting Records*
 - i) Ms. Fortune reiterated that the accounting records were in disarray.
 - ii) The general ledger did not correlate with the audited financial statements.
 - iii) She also noted that consistently there were prior period adjustments on financial audit reports. These are misstatements that were not caught on the previous audit reports.
 - iv) Additionally, prior audits had reported significant deficiencies in internal controls, which were not addressed.
- d) *Expenses of Use of Funds*
 - i) There were some amounts paid for payroll that were not substantiated with time records, etc.
 - ii) IAG looked at 94% of the disbursements from January 2010 through December 2013. There were no identified instances of theft, but there was an internal control environment where theft could have been rampant.
 - iii) Assets have not logged and secured and there have been instances of theft.
- e) *Instances of Waste and Abuse*
 - i) There were procedures that were put in place under the bond, and those were not being followed.
 - ii) Payroll taxes were not being paid in a timely manner.
 - iii) Tens of thousands of dollars were wasted in the Police Asset Fund.
 - iv) Assets have been purchased but not being used.
 - v) About \$650,000 was put into the Sewell building, but then it was razed to the ground.
- f) *Numerous Internal Control Deficiencies*
 - i) Ms. Fortune noted that the City Council has put policies in place, but the staff was not following them.
 - ii) She recommends implementing the recommendations IAG provided with the report.
- g) *Closing*
 - i) Ms. Fortune stated that this is a City that has leadership who care deeply and seems like we are putting together a good team. However, people are not controls. That is why you have other policies and that they are being followed. She said she is worried about what may have happened in the past but it seems like the future is bright if we implement controls. Ms. Fortune also noted that the financial position has grown over the years. So despite the waste, the City does have the ability to thrive.
- h) *Questions and Answers*
 - i) Councilmember Ransom asked about the Accounts Payable quadrupling in one year (from end of 2012 to 2013). Ms. Salem explained that the bills were not being paid.
 - ii) Councilmember Ransom stated that she is concerned with the information that needs to be turned into the bond company for the bond compliance. She asked about the differences with the water fund salaries. Ms. Salem clarified that any additional compensation or healthcare should be included as compensation for

- the water employees. Councilmember Ransom asked about the Renewal and Extensions account. Is that account building up for the balloon payment? Ms. Salem stated that the account was set up for overages on an annual basis. Ms. Salem stated that the City has the required amount in the account, but she stated that we would have an issue when we have to make the balloon payment.
- iii) Mr. Parian noted that the IAG team did a thorough job.
 - iv) Mayor Harmon stated that the citizens are burdened with a sewer rate that resulted from the bond being called. We have made improvements and this group is happy with the things that we have accomplished. Mayor Harmon noted he was glad to hear about the financial well-being. He said we professional staff and we don't do business the way we used to.
 - v) Councilmember Miller asked about the credit card issue. Mr. Crawford responded that the Finance Director would be doing an internal audit of credit card use.
 - vi) Councilmember Miller noted that she didn't see anything in the report about the bond being called in for 2010. Ms. Salem noted that it was actually a refinance.
 - vii) Councilmember Ransom asked about how to calculate water customer refunds from overages. Ms. Fortune stated that it was not calculated during the audit.
 - viii) Councilmember Walden asked if there was anything we could do to rebuild our credit rating so that in 2021 we will be able to borrow \$4.7 million. Ms. Fortune responded that it is building up reserves, paying payroll taxes on time, adhering to the bond covenants. She was not sure how fast the credit ratings move, but it would be best not to repeat the mistakes of the past. She reiterated that the financial health of the City appears to be on the rise. Ms. Fortune noted that the Finance Director has already addressed the issues with an action plan.
 - ix) Councilmember Ransom noted that she is concerned about bond compliance. She asked about the calculation for the amount of money being moved to the debt service account. Ms. Fortune agreed that the calculation should be addressed. Councilmember Ransom asked about a separate audit for the water fund to make sure we are not in compliance. Ms. Fortune replied that it is a legitimate concern but that the financial auditors will be looking at the water fund too.
 - x) Councilmember Miller wanted to clarify to the public regarding Kim Pope's pay. Kim Pope had not been paid the correct amount so the increase was to bring her up to the correct amount. Ms. Pope also worked from home at times and because it was causing issues with other employees, the Council asked her not to clock in while she was at home. That is why records were not available for her pay. The third rate that she was paid was for contract work that she did to help out the City.
 - xi) Councilmember Ransom asked about the vehicles that were not located during the fixed asset audit. Ms. Salem noted that they were not located on the day of the audit but that they are many places in the City they could have been. Ms. Fortune addressed the need for a more robust asset list and to secure the equipment as well.
 - xii) Jerry Segal presented a question to Mr. Parian. With the number of resignations since January 2014 and now this report that has been heard, with public

perception, do you believe that the district attorney would be called in for further investigation? Mr. Parian responded that it would be up to the district attorney's office. There were instances of waste, but no traceable instances of theft. The audit report points to lack of systems in place to run a City the size of Temple. The policies and procedures need to be followed.

- xiii) Councilmember Ransom said she is concerned that there were drop-offs from Home Depot to other addresses. Also, there were utilities paid for addresses that do not belong to the City. Councilmember Miller stated that she did track one of the drop-off locations and it was to the dam at the lake that was being repaired. Mr. Parian noted that the Police Chief could assist with the issue.
- xiv) Mayor Harmon thanked the IAG team for their work.

Comments on the Forensic Audit:

Lynn Cole asked if anyone is responsible since there is over a million dollars of tax payer money gone. She asked if someone should have known. Mayor Harmon stated that things were being done differently before he got here. There were not controls on checks or direct deposits. Mr. Parian stated that it is all laid out in the audit report as to how it should be set up. Mayor Harmon said that things have been tightened up.

Dawn Adkins stated that she understood the purpose of the audit was to find out where the City is and what was gone. She stated that the council did know and approve what was purchased and what was sold. She asked how it was not illegal for the drop-offs at the different addresses. She asked if there was a way to go back and find out what those were for.

Linda Walden stated that the City has never had experienced help as a City Administrator. She stated that nothing the auditors reported is new information. She stated that it's in the past and that the City is not going to get the money back. She said let's correct this by making sure we have qualified people in place.

Debbie McIntosh asked if the council members are the stewards of the City. The people in place when these things happened were not on watch to make sure the administration was following the laws. She asked if the council is the legislative branch of the City. Mayor Harmon confirmed. Mrs. McIntosh stated that if the council makes the laws then they need to make sure the administration is following them.

Marie Patterson asked why we can't close the door on the past and work together to move forward. She stated we can't fix the past but we can fix the future and make sure we do it the right way. Mayor Harmon stated we are moving forward and we don't do business the way we used to.

Todd Rothwell asked who is accountable now. Councilmember Ransom stated that we will get policies and procedures in place and the council will be accountable. Mr. Rothwell asked what parameters the former police chief had to spend the Police Asset Fund money. Mr. Parian stated that the problem was there were no policies. Mr. Rothwell asked who told the former police chief what he could buy. Councilmember

Simmons stated that the council was told they could not advise the Chief on what to buy with those funds. Mr. Parian said there are regulations on how the police chief could spend that money.

Councilmember Ransom stated that she is concerned because there is a lack of policies, procedures, and ordinances. She said her job as a councilmember is oversight. She said the report lays out in detail so no one can come in here now and say they didn't know because there are recommendations in this report that we need to put into place. She stated that the City Attorney is supposed to come back and tell us what need to do on some of these items to make sure we are in compliance. She stated that she is still worried about the bond compliance since the figures were not that reliable.

Councilmember Ransom explained that the way she found out that bills were not being paid is when she asked for a budget comparison. It looked like the expenses were doing well compared to the budget, but when she looked at a detailed listing she realized that the bills had not been paid in four months. She noted that the audit report is the instruction manual. She stated that we need to make these changes, but the changes are not going to happen overnight. Mr. Parian stated that a lot of the stuff can be attributed to the antiquated system. Mrs. Hefty explained that the system is very antiquated but if you understand accounting you can get what you need out of it.

There was no action taken regarding the Forensic Audit report.

(City Clerk note: Councilmember Ransom left after item 3).

- 4) Water/Sewer Rate Study: Since Mr. Read was unable to attend the meeting, there was a motion to remove this item from the agenda by Councilmember Bracknell with a second by Councilmember Simmons. Vote 4-0.

Council Comments:

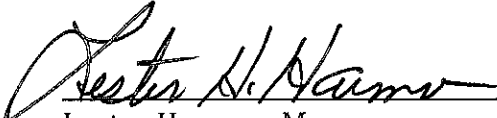
Commissioner Lee expressed his thanks to the council for the direction that they are moving. He said that the City is moving forward, jumping hurdles and he wants to commend the work we are doing. Several council members thanked Commissioner Lee for the support the county provides.

Councilmember Bracknell noted that he had seen a mural at the George W. Bush Library in Texas, and he would like to see something similar at City Hall. He asked for permission to have a meeting with local artists to look at doing that. Mayor Harmon said he liked the idea. Mr. Randy Atkins asked if high school artists could participate. Councilmember Bracknell agreed.

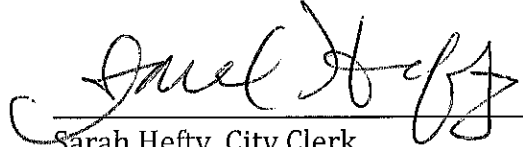
Councilmember Walden expressed that he is excited for the direction we are going. He stated that things are getting done at City Hall and the Police Department, and he noted that they are about to start work on the Library. He said that is expected to be about a two month project.

Adjournment:

There being no further business to discuss, the meeting was adjourned on a motion by Councilmember Bracknell, with a second by Councilmember Simmons. Vote 4-0. Meeting adjourned at 7:20pm.



Lester Harmon, Mayor



Sarah Hefty, City Clerk