**CITY OF** **SPENCER**

**Special Joint City Council & Utility Authority Meeting**

**Thursday, September 3, 2020 at 6:00 p.m.**

Pursuant to legal notice required by the Oklahoma Open Meeting Act, including posting of an agenda as required by the terms, thereof, the Spencer City Council & Utility Authority met in regular session on September 3, 2020 via Zoom virtual meeting.

**Minutes**

**Item No.**

1. Meeting was called to order at 6:01 p.m.
2. Roll Call and declaration that a quorum is present.

|  |  |  |
| --- | --- | --- |
|  | **Present** | **Absent** |
| Chairman/Mayor Calvin | X |  |
| Vice Chairman/Mayor Scanlan | X |  |
| Trustee/Council Member Talley |  | X |
| Trustee/Council Member Andrews | X |  |
| Trustee/Council Member Canaday |  | X |

**A quorum was declared and the meeting went forward.**

1. The Flag Salute lead by Vice Mayor Scanlan and Invocation by Trustee/Council Member Andrews
2. **NEW BUSINESS.** Discussion, consideration, and possible of New Business item/s, and direct City Staff to take appropriate action... (“New Business,” as used herein, shall mean any matter not know about or which could not have been reasonably foreseen prior to the time of posting.)

4.1. Discussion, consideration and possible action to approve: Audit- FY 2019 – Anne Elfrink

**AUDIT REPORT – FY 2019**

Elfrink and Associates, PLLC has audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Spencer, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents

**FINDINGS:**

**SCHEDULE OF FINDINGS AND RESPONSES**

This schedule is presented as an addendum to accompany the “Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards”. Consideration of items listed should be made in conjunction with that report.

**2019-01 – Pooled Cash**

CONDITION: The City’s financial accounting system utilizes a pooled cash system that does not appear to be working correctly. Significant adjustments were made by the City’s consultant as well as audit adjustments to correct the cash status of each fund. Consequently, the City was operating with incorrect financial information during the year. This is continued from 2017 and 2018.

CRITERIA: Management is responsible for establishing and maintaining effective internal control over financial reporting. Accurate financial statements are critical to communicating financial position and results of operations to the citizens of the City and other interested parties.

CAUSE OF CONDITION: A new accounting system was implemented in fiscal year 2016 that was not correctly set up to account for pooled cash by fund. There has not been significant progress in correcting the system.

POTENTIAL EFFECT OF CONDITION: The City was operating with incorrect information. Cash accounts could be overdrawn, and unauthorized spending could take place. Fraud, abuse, or waste could occur and not be detected on a timely basis.

RECOMMENDATION: The City should continue to work with their consultant to correct the accounting system.

RESPONSE: The City is working with a qualified accounting consultant to assist with the corrections necessary to existing records as well as implementing the appropriate system to record and track future activity.

**2019-02 – Internal Control Over Financial Reporting**

CONDITION: Although the City’s consultant is reconciling the master bank account, the general ledger is not being corrected monthly, and the other bank accounts were recorded by adjusting entries at the end of the year. We noted a net total net adjustment for the year in the amount of $161,945 that was recorded to reduce water revenue in order to correct the pooled operating cash account balance. Upon additional review, it

appeared that the cash discrepancy was most likely due to excess recording of court revenue, consequently an audit adjustment was proposed and made to correct the revenue, cash, and fund equity. This is continued from 2017 and 2018.

CRITERIA: Management is responsible for establishing and maintaining effective internal control over financial reporting. Reconciling all bank accounts to the general ledger is essential in order to produce reliable financial information. A process should be in place to clearly relate a deposit to its source.

CAUSE OF CONDITION: Most of the normal operating activity occurs in a single pooled master bank account which increases the complexity of the bank account reconciliation. Although some activity from the bank account reconciliation process is recorded during the year, the final adjusting amounts are not being recorded

until the end of the year. Reconciling items are not being investigated and resolved, instead are being “plugged” to correct cash.

POTENTIAL EFFECT OF CONDITION: The City was operating with incorrect and/or incomplete financial information. Fraud or abuse, to include improper payments, could occur and not be detected on a timely basis.

RECOMMENDATION: The City should work with its consultant to correct the accounting system and perform the bank reconciliations on a timely basis. When errors are discovered, processes should be refined to assure reliable information is being generated by the system.

RESPONSE: The City has engaged a qualified accounting consultant to assist with the corrections necessary to existing records as well as implementing the appropriate system to record and track future activity .and perform the bank reconciliations.

**2019-03 – Deficit Fund Balance**

CONDITION: At June 30, 2019, the City of Spencer’s General Fund showed a deficit fund balance of $131,029. It is continued but improved from the deficit position of $240,391 at June 30, 2018.

CRITERIA: Oklahoma Statute Title 11 section 17-211 states the following:

a. No expenditure may be incurred or made by any officer or employee which exceeds the fund balance for any fund. Any fund balance remaining in a fund at the end of the fiscal year shall be carried forward to the credit of the fund for the next fiscal year. No expenditure may be authorized or made by any officer or employee which exceeds the appropriation of any fund.

b. It shall be unlawful for any officer or employee of the municipality in any budget year:

1. To create or authorize creation of a deficit in any fund; or

2. To authorize, make or incur expenditures in excess of ninety percent (90%) of the appropriation for any fund of the budget as adopted or amended until revenues received, including the prior fiscal year's fund balance carried forward, totals an amount equal to at least ninety percent (90%) of the appropriation for the fund. Expenditures may then be made and authorized so long as any expenditure does not exceed any fund balance.

CAUSE OF CONDITION: The general fund deficit was caused by incurring and paying for operating expenditures in excess of available revenues.

POTENTIAL EFFECT OF CONDITION: The City is in violation of Oklahoma Statute Title 11 section 17-211.

RECOMMENDATION: The City should work diligently towards elimination of the deficit fund balance in the general fund which may require the identification of additional funding sources and/or the reduction and/or elimination of some City services.

RESPONSE: The City is aware of the financial difficulties and is working on a plan to address them.

**2019-04 – Utility Billing; Cutoff Procedures**

CONDITION: Eight of the twenty-five accounts systematically selected for review appeared to be in arrears two or more months and had current service, including three city council members of which one was significantly in arrears. We recapped the monthly billing registers which showed total billing for the year of $1,338,663 and

payments credited to accounts of $1,109,505, resulting in an increase in the receivable arrearage of $229,128.

CRITERIA: City ordinance requires service to be disconnected if payment is not received by the 25th of the month. The debt covenants require that utility rate structure and revenue receipts are sufficient to maintain efficient utility operations and amortize the debt.

CAUSE OF CONDITION: The City does not appear to be strictly enforcing the cutoff procedures.

POTENTIAL EFFECT OF CONDITION: Utility customers with delinquent accounts could be subsidized by other customers inappropriately. The utility system may not generate sufficient revenue to maintain the system, operate effectively and efficiently, and amortize the revenue bonds. Fraud, abuse, or waste could occur and

not be detected on a timely basis.

RECOMMENDATION: Cutoff procedures should be strictly enforced.

RESPONSE: The City will review its procedures to assure that cutoff procedures are enforced.**2019-05 – Segregation of Duties**

CONDITION: The City does not have formal accounting policies and procedures over the City’s accounting and

internal control processes, and current processes and procedures may not effectively limit duties to minimize risks associated with segregation of duties.

CRITERIA: The segregation of duties and responsibilities between individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the City’s assets and ensure accurate financial reporting.

CAUSE OF CONDITION: The City’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to segregate incompatible duties in a cost-effective manner.

POTENTIAL EFFECT OF CONDITION: Without sufficient segregation of duties, the risk increases that errors and fraud could occur and not be detected on a timely basis.

RECOMMENDATION: Consideration should be given to the design of internal control to improve segregation of duties and/or implementation of mitigating activities performed by the City Council.

RESPONSE: Management has taken these recommendations under advisement.

**2019-06 – Controls over Citations**

CONDITION: During citation testing, nine tickets out of a population of 20 tickets selected could not be located.

After testing, it was determined that seven of these tickets were written from “warning” books, but ticket copies were not located to support this assertion. The final two tickets could not be located and were not recorded in

the system.

CRITERIA: Controls should be in place to assure that citation books are kept in a secure location, signed out to a specific officer, and followed up on missing ticket numbers to assure that they are handled properly.

CAUSE OF CONDITION: The City is not following up on missing ticket numbers. There are no procedures in place to assure that all tickets are accounted for.

POTENTIAL EFFECT OF CONDITION: A citation may not be entered on a court docket appropriately. Fraud could occur and not be detected on a timely basis.

RECOMMENDATION: The City should implement processes to monitor the receipt of all tickets to ensure tickets are properly entered into the ODIS system, adjudicated in the court system, and citation revenue is properly recorded.

RESPONSE: Management has taken these recommendations under advisement.

**2019-07 – Controls over Fuel Purchases**

CONDITION: The City uses a fuel card system for the police, fire, and public works vehicles, with odometer readings as a control feature on the system. It was evident from review of the October 1, 2018 invoice that the odometer control feature was not being used and the fuel cards were being shared between vehicles. Evidence of this included different types of fuel being charged to the same vehicle, multiple charges on the same vehicle within a few hours, and disparate odometer readings on the same vehicle. On August 31, for instance, one vehicle was shown to have 64.15 gallons pumped, with odometer readings of 93,173, 178,462, and 98,131 at the times of purchase – all at the same station.

CRITERIA: In order to control the ability for personal fuel purchases, employees should be required to enter actual odometer readings and the fuel cards should be attached to the vehicle shown in the statement.

Comdata statements should be reviewed and accountability should be enforced.

CAUSE OF CONDITION: The City does not appear to be exercising control over the use of cards or requiring that the information entered at the time of the fuel purchase is accurate.

POTENTIAL EFFECT OF CONDITION: Unauthorized fuel purchases could take place.

RECOMMENDATION: The City should review the issuance of fuel cards to improve accountability. All card users should be required to enter the correct vehicle and odometer information. The monthly invoice should be reviewed by the appropriate person to assure the cards are being used correctly and the fuel purchases appear

reasonable.

RESPONSE: Management has taken these recommendations under advisement.

A copy of this is available on the Oklahoma State Auditors website (https://www.sai.ok.gov/). We are now in compliance for 2019. Anyone can go out to the website to view the report.

Vice Chairman/Mayor Scanlan motioned to approve the 2019 Audit. Trustee/Council Member Andrews seconded the motion. The vote was as follows. Yeas: Trustee/Council Member Andrews, Vice Chairman/Mayor Scanlan and Chairman/Mayor Calvin Abstain: Trustee/Council Nays:

**BUSINESS AGENDA Utility Authority:**

* 1. Discussion, consideration and possible action to approve: Audit- FY 2019 – Anne Elfrink. **SEE NOTES FROM COUNCIL MEETING REGARDING 2019 AUDIT**.
  2. Discussion, consideration and possible action to consider Waste Management’s request to extend the City’s contract agreement for 12 months.

Rick Padgett Waste Management Representative met with City Manager Long during this meeting City Manager Long City Manager Long informed Mr. Padgett that the Council approved to put the contract out for Bids. Mr. Padgett stated that indicated that Waste Management would not be interested in continuing beyond October 12, 2020. But would like to propose a twelve month amended contract and extension. He also stated later that they would put in a bid. Also stated that the reason for requesting the extension is that they have a system that can provide good clean data and inventory that will format into excel. The new system has been in place for the at least 26 months.

Vice Chairman/Mayor Scanlan motioned to approve the Waste Management’s request to extend the City’s contract agreement for 12 months. Trustee/Council Member Andrews seconded the motion. The vote was as follows. Yeas: Trustee/Council Member Andrews, Vice Chairman/Mayor Scanlan and Chairman/Mayor Calvin Abstain: Trustee/Council Nays:

**6. Remarks and Comments.**

No Comments: Trustee/Council Member Andrews, Vice Mayor Scanlan and Mayor Calvin

City Manager Long: All data has been submitted for the Cares Act in the amount of $228,000.

9. Adjournment

**The meeting adjourned at 7:38 p.m.**

Respectfully Submitted,

Tanya Mustin

Tanya Mustin, Minute Taker