

## MINUTES OF THE REGULAR CITY COMMISSION MEETING HELD JULY 3, 2007

The governing body met in regular session on July 3, 2007 at 5:30 p.m. in the City Commission Room in the City Hall, the following members being present and participating, to wit: Commissioners Jindra, Johnson, Lanoue and Hosie.

Commissioner Gilliland arrived at 5:32 p.m.

Absent: None.

Other Officers: City Manager Paine, City Attorney Uri and City Clerk Fleming.

The Mayor declared that a quorum was present and called the meeting to order.

Visitors: Jessica LeDuc, Toby Nosker, Renee Hubert, Chér Knudsen, Joe Strecker, Kirk Lowell, Roy Reif, Jason Grogan, Jeff Thoman, Larry Remmenga, Ron Copple, Doug Glenn, Janet Lowell, John Forshee, Danny Parker, Tom Armour, Ruby Maline, Marvin Copple, Ima Jean Chavey, Donald Lanoue, Tom Tuggle, Armand Balthazor and Larry Eubanks.

Pastor Jason Grogan, Baptist Church, provided the invocation before the city commission meeting.

### APPROVAL OF MINUTES

Commissioner Hosie moved to approve the minutes of the June 20, 2007 regular meeting. Commissioner Lanoue seconded. Motion carried. Commissioner Hosie moved to approve the minutes of the June 25, 2007 special call meeting. Commissioner Jindra seconded. Motion carried.

### APPROPRIATION ORDINANCE NO. 12

APPROVED

Commissioner Gilliland moved to approve Appropriation Ordinance No. 12. Commissioner Lanoue seconded. Motion carried.

### APPOINTMENTS – AIRPORT ADVISORY BOARD

MIKE HOLMES  
LAWRENCE SCHLEUDER

Larry Paine, City Manager, advised the commission that Lawrence Schleuder and Mike Holmes terms on the Airport Advisory Board expires on June 30, 2007. Mr. Schleuder and Mr. Holmes were contacted and are willing to serve another four (4) year term. Commissioner Lanoue moved to reappoint Lawrence Schleuder and Mike Holmes, each to a four (4) year term, on the Airport Advisory Board (7-1-07 through 6-30-11). Commissioner Hosie seconded. Motion carried.

### PUBLIC COMMENTS

Armand Balthazor questioned what services the League of Kansas Municipalities provides for the city. Mr. Balthazor commented it costs a small fortune for the city to use the League. Mr. Balthazor would like to know how much the city paid the League last year. He questioned why the city could not do their own search for a new city manager. Mr. Balthazor asked the commission to look into what the figures are for using the League.

### PRESENTATION OF THE 2006 AUDIT

Mr. Doug Glenn, Mayer, Hoffman, McCann, PC, presented a draft of the 2006 audit. In reviewing the management letter, Mr. Glenn identified certain significant deficiencies in internal control. Mr. Glenn stated in terms of budget violations, there were none. Discussion followed Mr. Glenn's presentation and he informed commission, the audit reviewed today was draft form. Mr. Glenn asked the commission if they had any questions.

Commissioner Gilliland stated the commission was aware of the police department fund and asked Mr. Glenn if there was any trouble with the police department fund. Mr. Glenn stated he booked the fund as '06 activity. He stated the physical cash had been transferred to the city's general ledger. He also stated the receipting procedures appear proper and the money is going into the city bank account.

Commissioner Gilliland asked if the terminology and the new statement of auditing standards had not changed, would the deficiencies been cited in prior years. Mr. Glenn stated "probably not, they have definitely lowered the threshold."

Commissioner Lanoue asked whether the police department cash was booked in '06 in the general ledger, if not was anything over \$500 and was it reported to the IRS as a 1099, if not we need to check and see if any 1099's need to be issued. Commissioner Lanoue stated she felt that the commission was aware of the transactions, but the commission did not formerly approve the transactions until it was a journal entry done on March 31<sup>st</sup>, which would have been on the April 1<sup>st</sup> meeting.

## MINUTES OF THE SPECIAL CALL COMMISSION MEETING HELD JULY 25, 2007, contd.

Commissioner Johnson stated two to three months ago he asked a bank employee if the police department bank account was still open. He asked how we can find out if there is activity in that account if there is no available bank statements. Mr. Glenn replied that they looked at all available bank statements.

Commissioner Lanoue questioned Mr. Glenn, if the cash was journal entried the cash in '05 and journal entried the expenditures in '06 and if there still is a cash balance out there that was booked in '07 of \$4,000 or \$3,500. Mr. Glenn stated it was transferred. She asked if the account was currently closed, and if there would be a transfer into the general fund next year in the '07 audit.

Commissioner Johnson again asked if Mr. Glenn saw any of the bank statements from that account. Mr. Glenn stated he had.

Commissioner Lanoue asked if there were expenditures on that account in the first part of '07 or was the balance actually booked in '07. Mr. Glenn stated it was booked in '07.

After Mr. Glenn reviewed the financial statements, Commissioner Lanoue commented about several figures listed in the financial statement that did not agree with figures she had. Commissioner Lanoue stated she took last year's audit and added on the '06 expenditures to get the figures.

Commissioner Lanoue asked Mr. Glenn if he did the transfers from the projects. Mr. Glenn stated the financial statements were prepared by staff and again stated that it was in draft form. Commissioner Lanoue requested to see the numbers.

### MANAGEMENT RESPONSE – 2006 AUDIT

Ruby Maline, Director of Finance, responded to the management letter with the following:

I'd like to thank Doug and his team for their help and cooperation during the audit of the 2006 financial transactions.

I intend to address the deficiencies that Doug has mentioned in the following manner:

- I completely concur with Doug that continued training is necessary for all the admin staff. I am currently addressing goals and training I believe would benefit the city with employees when I do their performance evaluation. I plan to implement a training schedule in August or September after the budget process is complete. In the meantime, we are sending staff to appropriate training when it becomes available.
- We have budgeted to make the transfer from the Water and Sewer bond fund in 2007. I believe we plan to move it to the Water/Sewer CIP fund.
- We intend to ensure that no one is allowed to open a bank account that has not been pre-approved by the City Manager.
- Cash violation: I believe that this could be addressed by using a PO system correctly. We have no way to determine what has been obligated before it comes through for payment.
- The Municipal court software deficiency is only one area of deficiency in the software system we have. We currently have five different software systems and none of them speak to each other, although, I recently found out that one could if it was set up properly. This lack of interfacing creates problems because we have to manipulate the data in order to give it to the person who enters it into the system. Then that person has to manipulate the data before they can actually enter it. I am addressing this problem by redefining our procedures and processes and researching different options that will allow interface between all the areas of financial transactions. This may take some time.

When external auditors examine an entity's records, they usually come with a predetermined scope for the audit because it is not practical for them to review every transaction. When they begin their audit based on the scope, they usually do not go beyond that scope unless they find something to indicate there is need for additional review. Doug states that significant deficiency is defined as a "combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with cash basis and budget reporting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control." We have more of that than he addressed in his management letter. In addition to those previously mentioned, I have found others, some of which we have already addressed. We have addressed the following:

**Cash management:** Some of the unacceptable practices that we have addressed are as follows-there were numerous cash drawers and everyone had keys to all of them. Those keys were left lying on desks and were readily accessible to just about anyone who wanted to pick them up. These cash drawers were also used to pay small bills or make purchases. In addition, there was a bag of money (in fact, there were several

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bags of money readily accessible) that was labeled "over/short". The over/short bag of money was used to make the cash drawers "right". In other words, if there was too much money in the drawer, the extra was put in the bag and used to make up the difference when the drawer was short. Those differences were never recorded in the general ledger. This is an unacceptable practice for any entity to engage in. Cash deposits were not done on a daily basis; cash receipts were not recorded on a daily basis; you can be thankful for the employees you have serving you because these practices created an environment that was perfect for misappropriation of money. Needless to say, we no longer engage in any of these practices. While for security reasons, I will not go into detail about our current practices, I will say that we no longer have an over/short bag- differences are recorded in the general ledger; we no longer take money out of the drawer to pay bills or make purchases; cash drawers (and there are fewer of them) are reconciled daily; cash receipts are posted daily; cash deposits are made daily; and there are no more excess bags of money lying around.

**Employee Benefit Fund:** KSA 79-5028(c) allows for the establishment of an Employee Benefit Fund for employer contributions for social security, workers comp, unemployment insurance, health care costs, employee benefit plans, retirement, and pension programs. The city software system was not set up to properly record payroll transactions. As a result, both employee and employer portions of benefits were paid from the Employee Benefit fund. This resulted in several problems. One of the key problems was all the manual manipulations we had to make to get the transactions properly recorded. It increased the opportunity for error and was extremely time consuming. Another problem was that the employee portion of benefits was already recorded as an expense through gross pay, so expenses were duplicated when they were recorded as paid from the Employee Benefit fund. Another concern was that we were writing ourselves a check and depositing it in the same checking account that we wrote it from. This was to accommodate the cash issue that comes from recording expenses twice-when the check was written, it was a manual check that was not recorded on the general ledger as being written, but, was recorded as being received. It was recorded as revenue instead of reducing expenditures. Additionally, all payments for federal withholding, state withholding, retirement plans, life insurance, and all other payroll deductions had to be manually calculated and submitted. It took several days for the payroll process to be completed. This doesn't even begin to address all the issues that arose when trying to reconcile the bank accounts. We no longer do this. We have had the financial software provider program the system the way it was designed to be. When we did this, we noted other problems that may not have been found otherwise. We have been cleaning up those errors also. Tonight's ordinance should be the last one containing correcting entries related to this issue.

**Software:** In addition to the deficiencies listed above, the software package was loaded onto one desktop computer and was, therefore; not accessible to all the staff that needed to use the financial system. It made reviews of anything extremely difficult. Besides limiting the use of the financial system, it resulted in data being lost or purged due to lack of space. Some of the information that was purged is irretrievably lost. We no longer do this. We have moved those programs to the network server. But, as mentioned earlier, there are still some changes that need to be made in this area.

Other areas of concern that we are beginning to work on include the following:

- **Chart of Accounts and Organizational Chart:** These are somewhat cumbersome and can be refined in such a manner that will still allow tracking activity at the level of detail that is needed. Upgrading the system will allow tracking projects that will eliminate the need for a cumbersome numbering system.
- In addition to being cumbersome, the numbering system is not consistent and needs to be addressed. This is an ongoing project that I do not anticipate will be complete for several months.
- **Revolving Loan fund:** The city's general ledger is not set up to track revolving loan fund receipts by project, nor is it set up to track whether or not project payments are current. It does not allow a review to see what balances are available for use. When a request for this information is made, we pull out a little green 6 columnar pad and look, then, we have to see if the most current transactions have been written in the book-which sometimes aren't. I am working to correct this, now.
- **Written Financial policies and procedures:** There are none. There will be.
- **Bank Statements:** Are still not current. They soon will be. As we move away from doing everything manually and utilize the system the way it should be, employees will be able to complete their essential responsibilities in a timely manner. This will also reduce the need to pay overtime.

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- **Prior approval for financial transactions:** Currently, there is no procedure that allows for expenditures, journal entries, or payroll to be reviewed by the city manager or finance director before the process is completed-only before it is posted. In my opinion, it is pointless to approve those things after they've already been obligated. Related to this, is the process of creating PO's after the money has already been spent-again, that is pointless.
- **TIF Projects:** These financial transactions are also not available on the financial system by project. This is another instance of manually recording transactions, and results in data not being current.
- **CIP Projects:** Again, these are tracked manually.
- **Physical Inventory:** I haven't found anything to indicate that city assets are tagged with an ID number and haven't found evidence that assets are inventoried with any regularity. This will be addressed quickly.

**Monthly Financial Statements:** Now that I am able to access the financial system, I intend to provide monthly financial statements.

These are but a few of the areas I intend to address immediately.

APPROVE INTERIM CITY MANAGER CONTRACT

TOM ARMOUR

After discussion, Commissioner Jindra moved to approve the interim city manager contract with Tom Armour. As stated in the contract, Mr. Armour's first day as "interim city manager" will be July 16, 2007. Commissioner Hosie seconded. Motion carried.

LETTER OF SUPPORT & AUTHORIZE SUBMISSION FOR E911 GRANT (2008)

DANNY PARKER

Police Chief Danny Parker informed the commission of the grant being submitted for E911 enhancements. This grant is an extension of the grant submitted in 2005. The grant amount being requested for next year will be between \$125,000 and \$150,000. This grant would be used toward a new phone system and a second dispatch area which would allow two (2) dispatchers to operate at the same time. Commissioner Hosie moved to authorize the mayor to sign a letter of support for the submission of the E911 Grant. Commissioner Lanoue seconded motion. Motion carried.

CLOUD CORP FUNDING REQUEST FOR 2008

Kirk Lowell, Director of CloudCorp, advised the commission about the 2008 funding request for CloudCorp. Mr. Lowell advised that CloudCorp is requesting \$45,000 for year 2008. The funding request is the same as last year. Mr. Lowell discussed several projects CloudCorp had been involved with. Mr. Lowell recommended to the commission to proceed with the infrastructure at the CloudCorp Industrial Park and to set up an economic development fund for infrastructure line items. He thanked the commission and hoped for the continued support for CloudCorp.

EXECUTIVE SESSION – ATTORNEY/CLIENT PRIVILEGE

HELD

At this time, Commissioner Johnson moved that the commission recess into executive session for twenty (20) minutes for the discussion of attorney/client privilege. Inviting: Larry Paine, Tom Armour and Larry Uri. Commissioner Hosie seconded. Motion carried by the following vote:

Aye: Commissioners Jindra, Johnson, Gilliland, Lanoue and Hosie.

Nay: None.

Time: 7:26 p.m.

The commission reconvened at 7:46 p.m.

Mayor Johnson announced there was no action taken.

MAYOR/COMMISSIONER COMMENTS AND REPORTS

Commissioner Lanoue requested additional information on the Blue Cross/Blue Shield plan. She would like to know how many single and family plans the city currently is funding. Commissioner Lanoue also requested 222 breakdowns on the 2006 appropriation ordinance #10 for \$1,903.99 and #12 for

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\$378.84 and in 2007 appropriation ordinance #3 for \$13,000.00. Commissioner Lanoue requested Ruby to print out the 2006 League expenditures for Armand Balthazor.

Commissioner Hosie requested an update on the downtown improvements and if the projects would be done by Fall Fest. City Manager Paine informed the commission there were nine (9) active applications that have been taken to Eric Johnson and Dick Lowery for the review committee to work through. Mr. Paine stated he had received three (3) more inquiries in the last two weeks wanting to take part in the downtown improvement project.

Commissioner Hosie asked who was responsible for trees hanging over the street and in the view at corner intersections. His concern was with getting emergency vehicles down the streets or alleys with the trees hanging over them. Larry Eubanks, Fire Chief, informed the commission his department drove the ambulance around and surveyed the trees hanging in streets and alleys. He reported they located over 425 houses with trees hanging that hit the top of the ambulance. Mr. Eubanks stated he has visited with staff about this problem. He informed the commission after the budget process, he will continue researching how to handle this problem.

Commissioner Hosie requested to schedule discussion of the various forms of government as an agenda item this fall.

Commissioner Gilliland suggested calling ahead if a commissioner has a question about the appropriation ordinance. He felt by calling ahead and questioning staff before the meeting, when the issue is brought up at the meeting staff may be more prepared to answer questions. Commissioner Gilliland also stated he was disappointed in how a commissioner handled a letter that was sent to Kansas Department of Health and Environment.

Commissioner Johnson asked about the Dutch Braun conversation with Chief Parker. Commissioner Johnson visited with Mr. Braun and he said he returned Chief Parker's call and left a message and that Chief Parker had not called him back. Commissioner Johnson would like to schedule a time when Mr. Braun could meet with Chief Parker. Commissioner Johnson also asked if there was a policy for the police dog. Chief Parker discussed the drug dog and issues the department had been dealing with at night, downtown.

Commissioner Johnson commented on the "For Sale" sign on the Tuggle property and if it was sold what would the city owe him and how it would get paid. Mr. Uri informed the commission the way the TIF agreement is set up, is the landowner does not get reimbursed for their development costs unless there's an increment. He also questioned water usage for rodeos and races at the Cloud County Fairgrounds.

**STAFF COMMENTS**

Larry Remmenga, Director of Utilities, informed the commission about the water quality report the utility department mailed out last week. He also informed the commission he had received a letter from the Department of Agriculture stating an order ceasing minimum desirable stream flow administration for the Republican River.

Lisa Fleming, City Clerk, announced that a reception for Larry Paine would be held on Monday, July, 16, 2007 from 3:00 p.m. to 6:00 p.m.

Ron Copple informed the commission Hood Heating & Air donated several new toilets for the restrooms at the Sports Complex. Mr. Copple also stated Andy Asch from the County asked if the city would be interested in going in half on a purchase of an asphalt plant or purchasing their old lay down machine. Mr. Copple also encouraged everyone to drive by the Sports Complex and see the new flag pole.

Mayor Johnson announced study sessions are scheduled for July, 10, 11, 12, and 13, 2007 at 7:00 p.m. in the commission room. The study sessions will be held to review the 2008 budget.

Mayor Johnson announced there would be a study session following the meeting.

There being no further business, Commissioner Lanoue moved to adjourn the meeting. Commissioner Jindra seconded. Motion carried.

  
Lisa Fleming  
City Clerk

(Seal)