

## CITY COUNCIL STANDING COMMITTEE

**Budget & Finance**

Thursday, February 17, 2011 – 6:00 p.m.

1<sup>st</sup> Fl. Council Conference Room – City Hall

-Minutes-

**Present: Chair, Councilor Steven Curcuru, Councilor Jacqueline Hardy; Councilor Joseph Ciolino (Alternate)**

**Absent: Councilor McGeary**

**Also Present: Councilor Verga; Jim Duggan; Kenny Costa; Tom Markham**

**Present for School Committee: Chair, Val Gilman; Vice Chair, Melissa Teixeira; Kathy Clancy; Tony Gross; Superintendent Appointee, Richard Safier**

**The meeting was called to order at 6:00 p.m.**

**1. *Continued Business***

- A) Giusti & Hingston & Co. discussion re: The 11 findings from the City's Agreed Upon Procedures Report on the End of Year Financial Report as of June 30, 2009 (Cont'd from 2/3/11)

**Dick Hingston**, Giusti & Hingston & Co. reviewed for the Committee his company's report of their review of the Gloucester School Department's End Of Year Report (EOYR) (on file). The Department of Elementary and Secondary Education (DESE) requires each school district to have an agreed-upon procedures engagement done for the submission of the EOYR. The object of the agreed-upon procedures is to verify the accuracy of the revenues, expenditures and non-financial data put into the EOYR. There are two types of requirements, general internal controls, policies and methodologies used to allocate expenditures, basis of accounting) and specific requirements (numbers agreement in the ledger). The EOYR is about 40 for Gloucester and is very detailed but not a user-friendly report. The City has a Schedule "A" report, designed by accountants, showing a beginning balance, revenues, expenditures and an ending balance. The EOYR report has total expenditures but then takes that and manipulates it a variety of ways such as special education costs, which have to be identified by prototype, by placements for instance. It is not clean or easy to accomplish. You don't know when you're right with the different schedules. Even the schedule numbering is oddly done. There is no place to learn it; no training classes by the DESE, who do have updates, other than by doing it. Therefore, they have a lot of findings in the EOYRs'. On inquiry from **Councilor Curcuru** stated it is a cumbersome report; and while there are some proofs built in, he reiterated it is not a clean report like a Schedule A. When they do these reviews, there are usually a lot of findings in many school districts. The first finding in the general requirements was a finding for the general charter accounts. The charter accounts used by the school don't coincide with the numbering structure with the DESE report. He reviewed page 3 of the Results and Recommendations. Using the example of school budgets and expense for transportation maintenance salaries under function 4200, he noted there is no function 4200 in the DESE report. They have their transportation coordinator in function 2210 which is school leadership. Then they have to "pull" them out of there, and report them in the transportation function which is a different function. Health insurance for transportation people are budgeted and expended in function 3300 but that has to be moved for the DESE report. It means that the charter accounts' being used doesn't lend itself to run reports. What Mr. Markham, Schools CFO has to do, and which Giusti & Hingston assists him with at the start, by downloading it into Excel. Then columns have to be set up to move people around; move transportation out of one function to another function mechanically. Pivot tables are set up and he felt they were very good for running reports. He explained this is a big finding and is a root cause of many of the findings in the past, 2007 and 2008 most notably, and not as much in 2009, however. In response to **Councilor Curcuru**, he stated this was a finding in previous years with recommendations on how to correct this problem but was not as specific. They did however suggest how they might do it better. In 2008 there

were findings in every category. There were probably 11 findings in the previous reports as well as this one which also showed 11 findings.

**Mr. Costa** stated most communities have cross-walks, the general ledger and the system generated report reconciliation which is “school lingo”. He defined a crosswalk as a term used for reconciliation between the EOYR and the General Ledger, or could be looked at as building a bridge between the two.

**Mr. Hingston** stated that was why the general fund was ‘good’ this year. They took all the data, downloaded it and identified the problem areas; here’s what they reported as in the General Ledger; and here is what it should be.

**Mr. Costa** thought they could do a crosswalk to rectify this finding moving forward unless they re-do the charter accounts.

**Mr. Hingston** thought if Budget Sense was given a crosswalk of accounts, they could hard code it that so they don’t have to create all new accounts as he thought they could merge accounts in that program. He also thought that was something the software company could assist with. A lot of the problems are where the people are budgeted and are budgeted in the wrong places. If they want to do other reports, like the Department of Education (DOE) report, it can be a problem. By the time they change it, Mr. Markham would now have to change it for the 2012 budget. It starts when they’re budgeting. It was the root problem for most of the findings. Procedure 1 dealt with revenue for the General Fund. The finding was that the Massachusetts School Building Association (MSBA) money, \$1.5 million wasn’t reported. In the past some of these State monies are entered by the DOE. Since the MSBA is now a separate entity they don’t enter it anymore.

**Mr. Costa** stated he and Mr. Markham worked on this aspect and that this year that problem should go away.

**Mr. Hingston** continued they’re supposed to test the grant revenue postings and a couple of grant revenues were not reported (Early Childhood and Central Education grants) in it. The school lunch showed a variance in the revenues reported. A lot of the special revenue funds for building use, Gloucester Education and Transportation just weren’t reported in there. The next few procedures are general fund expenditures. They agreed.

**Mr. Costa** noted in his former role as an outside auditor with an accounting firm, his understanding was that these reports were either “black or white”, there being no materiality. Either it agrees or it doesn’t and if it doesn’t, it becomes a finding.

**Mr. Hingston** responded that Jay Sullivan of the DOE was asked if it had to agree to the penny and he was informed no, it is a materiality issue.

**Mr. Costa** stated reiterated his understanding was not the case.

**Mr. Hingston** stated that is the way they have done it for years and submitted to the DOE, now DESE.

**Mr. Costa** explained they used to report only the findings.

**Mr. Hingston** preferred it this way and that it shows all the testing required.

**Mr. Costa** commented he couldn’t delineate what was a finding and what was not in order to find what needed correcting in the following year.

**Mr. Hingston** noted the next few procedures had no findings. They are supposed to test any function program and objects, expenditures from the ledger to the EOYR; and then there are certain ones they’re required to test. For most, like extraordinary maintenance, debt cost, insurance, and tuition cost. Tuition costs were reported in function 9100. That should have been broken down in different accounts. That was another charter accounts issue. They had different types of tuition. It should be expanded into more accounts.

**Mr. Markham** stated they used crosswalks for the 2010 report.

**Mr. Costa** thought they could expand on how it is charged.

**Mr. Hingston** noted Procedure 9 (indirect costs to the City) which is an agreement between the City and Schools on what methodology is going to be used on how costs are allocated. The administrative costs are supposed to be on a per pupil basis. There were no costs recorded in that line item. In the past the City Auditor’s office pulled information together from various City departments on indirect costs. The

Auditor's office was in transition when this review was done, so they didn't get those numbers. The City's CFO did get his numbers up, however. That got all the debt and interest information in.

**Mr. Costa** noted there is an old agreement between the Schools and the City from 2007 that needs updating which he'll work on with Mr. Markham which **Mr. Hingston** agreed with.

**Mr. Markham** added it's supposed to be reviewed and updated each year noting he and Mr. Towne, the City's CFO spoke about it.

**Councilor Curcuru** asked if this was the agreement that was brought up during the discussions on the MOU.

**Mr. Markham** confirmed it was.

**Councilor Hardy** asked if they were on track in a positive direction for the next fiscal year.

**Mr. Markham** stated they're still under the 2007 agreement and would like the agreement updated since the MOU speaks to the facilities costs which are now entirely on the City side; and therefore there are some adjustments that need to be made in light of that transaction. The agreement is now 4 years old.

**Councilor Hardy** asked if the 2007 agreement is based on a formula on per pupil cost.

**Mr. Markham** stated if it was, he had not seen the formula nor is one mentioned in the agreement, just a dollar amount.

**Councilor Hardy** asked Mr. Costa to look into the matter. She commented in essence the related expenses are separate and is divided by number of students and then come up with the number per pupil.

**Mr. Hingston** stated that was just for the Administration, like the Treasurer, the accountant; each department came up with an allocation number, like the DPW, as a percentage of their time.

**Mr. Markham** stated in theory it is easier to come up with plowing cost versus Mr. Towne's time, for instance. There is an expectation of a tight number. He assured it will be revisited.

**Mr. Hingston** continued with Procedure 10 is checking expenditures relating to grants and special funds, noting a couple of findings, a couple wasn't reported. On inquiry from **Councilor Curcuru** he spoke to repetitive findings from the past noting the problems with reporting grants, or not reporting them at all in the EOYR report.

**Mr. Costa** stated that was corrected this year (2010).

**Mr. Markham** stated that also was corrected in 2009.

**Councilor Curcuru** noted the large amounts of money.

**Councilor Hardy** asked if they could be penalized on future grants and would they know if they could be penalized going forward because of this.

**Mr. Hingston** stated the federal government does look at this when determining their grants. He wasn't able to say for certain if there would be penalties in future. It is one of the factors in the grant awards.

**Mr. Costa** stated this year he, Mr. Markham and Mary Richardson from the Auditor's office worked together to clean up many findings. The Auditor's office didn't have this report to work from.

**Mr. Markham** had a copy of the report and asked Mr. Hingston to help him better understand the 2009 report as he was not here when it was done. He had to back his way into it to appreciate some of the prior problems. When he worked with Mary Richardson of the Auditor's office he found it was helpful. The report was submitted July 8, 2010 was the last day of field work. It would have been nice to have this report. If they'd known what transpired in the previous year it would be helpful to know what had been incorrect in the prior year so they could have corrected it in the current year.

**Mr. Costa** and **Mr. Markham** reiterated Mary Richardson's great contribution to the process in the 2010 EOYR reporting

**Councilor Hardy** asked and had confirmation from Mr. Hingston and Mr. Markham that the Giusti & Hingston Review document was a public document. She therefore expressed that when the next review is released that the Council receives a copy in a timely fashion.

**Mr. Hingston** stated the biggest finding was the Schedule 4 which takes the special education costs breaking them down by placement category, such as children 3-6 and 6-21 in public schools. The total expenditures should equal total expenditures on another schedule in the report under instructional expenditures. It was a \$6 million miss on how to do this Schedule 4 report. Also, there was a couple of

problems that grants were reported but in the wrong column. Circuit breaker wasn't reported at all.

**Councilor Curcuru** asked if this was a matter of incorrect data entry.

**Mr. Hingston** confirmed to be the case in this instance. He also added that this is not a number that affects grants. It is a matter of the State looking at it. The State almost pulled this schedule because they have most of the numbers already from the October 1<sup>st</sup> report that they get. Part of the problem is the allocation method of getting it into these categories is "very cumbersome" because when you get a bill for tuition for special education, it might be \$150,000; and you have to come up with methodology for allocating it between children 3-6 or one of the different placement categories. That might not be a fair allocation if 10 kids are in one category, and 20 in another, it is not necessarily 2/3 in one, 1/3 in another. It is a difficult methodology to properly allocate.

**Mr. Markham** stated the system, going back to the first finding, is not accounting for things as they should budget and don't budget as they should. It is a philosophical difference between the

Administration and the Schools. There are a number of things that they keep going back to crosswalks.

**Mr. Costa** stated the crosswalks have to be built each year. Unless they change the charter accounts and the budgeting, this arduous task will continue. He added it will have to be charged out by location. Right now it is charged to a summary account. They have to dissect it and allocate it to each school. It would be significant to change it and felt the cost would be substantial to do so.

**Councilor Ciolino** thought it made more sense to explore an option with the City and School's software structure in place and find out what it costs to do it.

**Mr. Hingston** added it starts with the budgeting.

**Mr. Costa** didn't believe it was a software issue. He thought Sullivan and Rogers, the accounting auditing firm used by the City, would be more helpful for this matter. It has to be charged to each account.

**Mr. Markham** stated it would be a significant task in changing it. However, once changed it becomes easier making the transition.

**Mr. Hingston** stated do they desire to capture what the total costs are for transportation or health insurance so they have things that have to be reported elsewhere. The Schools have their internal reports but now when reported at year end, it would be the opposite.

**Councilor Ciolino** reiterated he'd like them to find out what it costs to fix the problem.

**Councilor Hardy** stated they can't be the only municipality struggling with this issue. She contended it was the State's issue and that they should do the software correction for reporting on their end.

**Mr. Markham** stated the manner in which they're expected to report is well known. The Schools and the City hasn't been following it.

**Mr. Costa** stated they have to change it. The system was developed for the charter accounts in 2006 in house. If you charge it correctly up front then it "pays dividends". He added they can look into the various processes.

Noting page 9 and 10, **Mr. Hingston** spoke to transportation expenditures and reimbursements. The reimbursement piece no longer exists. The DESE still wants that report, however. The expenditure report on Schedule 7 should tie to Schedule 1 and there was a variance. Student accounts have a methodology for allocation and he briefly explained the formula to the Committee.

**Mr. Markham** noted that the Gloucester School Department had not been recording 1.5 miles (which was the standard starting point for tracking students who took the bus); they'd been recording at 2 miles. That accounts for the money discrepancies, responding to **Councilor Hardy's** inquiry.

**Mr. Hingston** noted the last finding is on the district separating costs for the non-public and in- and out-of-district, and school choice but not for pre-school, school choice.

**Councilor Hardy** asked how many years Giusti & Hingston had been doing the School's outside auditing.

Mr. Hingston responded they'd been doing the auditing for the Schools for ten years and expressed his belief they are getting better by noting the 2009 review was better than 2008. There are still a lot of findings. From what he's heard that evening, he expects 2010 to be better.

**Mr. Markham** stated they use the Unifund software and is satisfactory but they don't use it to its full capacity. There is more they can do with it that they could do but don't now.

**Mr. Costa** added they are geared to the schools and is better for them than for the City side. He thought for 2010 it will be cleaner report. Going forward they want as few findings as possible and will continue to work with Mr. Markham on it.

**The meeting was recessed at 6:41 p.m. (so that the Special Joint City B&F and School B&F Meeting could be opened) and reconvened at 8:04 p.m.**

B) Food Service Deficit Discussion (Cont'd from 2/3/11)

This was covered in the special joint meeting of the City's B&F Committee and the School's Building & Finance Committee. Mr. Costa would give a bi-weekly report to the Committee going forward on this matter.

C) Grant Application Process (Cont'd from 02/03/11)

**This matter is continued to 04/07/11.**

**2. *City's submission to the EPA on the Public Comment: Tentative 201(h) Waiver Decision Document; Draft NPDES Permit (referred from City Council 02/08/11 and continued to 03/03/11)***

**This matter is continued to March 3, 2011.**

**3. *Memo from City Auditor regarding accounts having expenditures which exceed their authorization***

**Mr. Costa** reviewed the documentation he provided the Committee. They looked at the Snow & Ice account and that \$150,000 is going in from free cash and more realistically is \$700,000 over.

**Councilor Curcuru** brought up to Mr. Towne that Logan Airport buys an insurance policy that pays out based on snow heights; so you put in X amount of dollars. He asked if they could look into it.

**Councilor Ciolino** stated under Mayor Tobey the one year they did that, the City lost on that as they missed on one inch. It is taking the snow totals at Logan not in the insured municipality.

**Councilor Curcuru** didn't think it would hurt to look into it. Referring to the City's Snow & Ice account overage, he noted that overage doesn't include the snow and ice removal on the weekends and night time removal.

**Mr. Duggan** stated they stopped that. He gave permission, however, the previous Saturday for a half of a day only.

**Mr. Costa** stated they are looking to see if a reimbursement from MEMA and FEMA is forthcoming; and if they get it by June 30th, they can record it as a grant and put it in, but if it comes in next year it has to go to the General Fund.

**Mr. Duggan** stated for the seawalls it would be about \$1.3 million for the City if it comes through from the government.

**Mr. Costa** noted the other long standing problem is the change over with the Schools and DPW from Account 470 to Account 472 where they didn't reclass the expenditures. There appears to be a coordination lag between payroll, DPW and the Treasurer's Office. This is part of the transition process that needs to be done before year end.

**MOTION: On motion by Councilor Hardy, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed to forward the paperwork as supplied by the Fire Department for their Emergency Management Performance Grant in the amount of \$11,000 from**

**the Mass Emergency Management Agency (MEMA) to the files of B&F and send forward the motion voted by them on 01/20/2011 to the City Council.**

**A motion was made, seconded and voted unanimously to adjourn the meeting at 8:16 p.m.**

**Respectfully submitted,**

**Dana C. Jorgenson  
Clerk of Committees**

**DOCUMENTATION/ITEMS SUBMITTED AT MEETING:**

- **Auditor's Office Actual Amount Overdrawn Report dated 2/17/11**
- **Auditor's Office Projected Amount Overdrawn Report dated 2/17/11**
- **Signed MA Standard Contract form for Emergency Management Performance Grant in the amount of \$11,000**