



Minutes - Final

Budget and Finance Committee

Wednesday, August 23, 2017

6:00 PM

Council Chambers

Call to Order: Chairperson Guridy, Hendricks, Mota

[15-1813](#) JULY 2017 MO RPT

Attachments: [JULY 2017 MO RPT](#)

Mr. Brent Hartzell stated that he would deal with the Revenue and the General Fund. He went over the taxes which he considers the major driver. We have taken in \$3 million or so more than we had a year ago. The Earned Income Tax is coming in a pace higher than what we have projected. We will end up higher than projected on Business Privilege Tax and on target for Real Estate Tax. We are catching up on the Deed Transfer Fee. He is keeping a close eye on the Casino Fee and is talking to Harrisburg. The revenues are coming in at a fairly usual pace. It appears that we have \$1.1 million less than last year. Last year, it including the \$4.5 million loan. On the expenditure side, we continue to have costs with the exception of the pay increase and the pension costs. Everything else is minimally flat. The insurance payments are on pace. The Solid Waste Fund major fees are well received. He explained about the Risk Fund. The Golf Fund we did see a reduction of an expenditures in the month of July. We were able to take in more revenue than expenditures in July. The 911 fund will get our supplemental revenue in the August Statement. Trexler Fund we sent a reimbursement request. The overall costs personnel expenditures nothing that is significantly different than the expected adjustments. he talked about the pooled cash funds. He spoke on the Capital Fund and when we have the August report in late September we will know where the deficit comes from. The Vacancy Report, we in dollar terms are fewer than what we had in dollar terms.

Mr. Julio Guridy thanked Mr. Hartzell asked about the year to date a lot less from last year at the same time. He talked about the real estate taxes \$51,718,000.

Mr. Brent Hartzell asked last year compared this is to be expected. We were able to keep the expenses other than the wage increases and benefit increases nominally flat. He stated that is for all taxes \$51.7 million received. It is \$3.5 million for the better from where we were a year ago.

Mr. Julio Guridy asked if there were any comments from his colleagues.

Mr. Daryl Hendricks asked about the Vacancy Report and the almost a million dollars that we have saved. Needless to say if we don't fill these positions by the end of the year, it will increase significantly. Are we allowing Mr. Lightner in Code Enforcement the ability to fill these positions.

Mr. Brent Hartzell stated that is actually the portion of the General Fund by itself. He stated that if that were to happen, yes. He stated that he is aware where Mr. Lightner wants to go with that and I have not heard anything that will hold that up.

Mr. Julio Guridy asked about Account 46.

Mr. Brent Hartzell stated that since we are doing Capital, he wanted to present that Report up to date. We are getting to a point that I and Beth Strohl notified staff when it comes to the contractual expenditures they will be examined much closer.

Mr. Julio Guridy asked if there were any comments from my colleagues. He asked Mr. Hartzell if there was anything else he wanted to point out. He asked if there were any comments from the public on the Financial Report and Account 46.

Mr. Lou Hershman, 405 N. Gilmore Street, stated that the Budget that you adopted with fraud number of \$3.6 million, you don't cover in the receivables do you.

Mr. Brent Hartzell stated that he explained it about seven times.

Mr. Lou Hershman stated that he knows, but like to put it in the record that you provided a fraud budget.

Mr. Brent Hartzell stated that he has explained why it is done the way that it does and don't need to explain it again.

Mr. Lou Hershman stated that you don't also record interest earnings no more around here. You hired a firm, and I don't see nothing on the report about interest earnings. He stated that the expenditures will exceed or revenues. You have to increase some taxes next year. You are going to have to make up the \$8 million shortage. He asked Mr. Guridy do you intend to raise taxes.

Mr. Brent Hartzell stated that as we are going through the transition to Td Bank, we had made an internal decision to get the accounts shifted over

there. The necessary reserves needed to be held there and get the transition out of the way.

Mr. Julio Guridy stated that he is not sure what the Mayor has in mind. He stated that it could be more or else. He is not sure we have four to five more months to go. He stated that he does not intent to raise taxes. Not at this point.

Mr. Glenn Hunsicker stated that on page 10 of 14, Mr. Hartzell talked about the Capital Funds down \$7 million. He stated that we are going to get a report on this. If you go back to nonpooled bank accounts we have a 2015 bond issue of about \$7.9 million. That \$7.9 million will be tied up in the Capital Funds. He asked for a detailed report on the capital funds and what projects. He stated that he never seen the Capital Funds being audit in the CAFR Report per se. He stated that Council should track this. Someone has to track it. He stated trust, but verify.

Mr. Brent Hartzell stated that is where it is going to go. He stated that is what is coming next month. That is part of our overall presentation on the Capital Funds.

Mr. Jeff Weiss, Zelenkofske Axelrod, stated that they audit the entire financial activity for the year. We have the ability to see all the bills that gets paid. We don't do a project by project audit. We audit the Capital Project fund.

Mr. Julio Guridy stated that Mr. Hunsicker is looking at how much we budgeted, and how much we spent and where it was spent.

Mr. Brent Hartzell stated that they will see what the report is as of December 31. There is a lot of things done leading up to that date.

Mr. Julio Guridy asked if there were any other comments from the public.

[15-1796](#)

Bill 51 Budget and Finance, Recommended Favorably Amending the 2017 Equipment Fund by appropriating the remaining balance of the 2015 short term loan funding in the amount of Six Hundred Eighty-Six Thousand Seven Hundred Ninety-One Dollars and Eighty-Seven Cents (\$686,791.87) for IT and Police Projects. The bill allocates funds for Information Technology and the Police Department for the purchase of in-car cameras, body cameras, additional city-side cameras and a records management system. IT plans to purchase a voiceover phone system, archive system and replace network switches and other computer equipment.

Attachments: [Bill 51 Equipment Fund Allocation for IT and Police Projects](#)

Mr. Brent Hartzell stated with represent to the \$6 million loan of which Mr. Hunsicker spoke, we are required under the provision of that law to spend whatever is left of that money by December 31 or we lose access to it.

Mr. Julio Guridy asked if there were any comments from my colleagues on Bill 51 or from the public.

A motion was made by Daryl Hendricks, seconded by Julio Guridy, that this Ordinance be recommended for approval. The motion carried by the following vote:

Yes: 2 - Julio Guridy and Daryl Hendricks

Absent: 1 - Cynthia Mota

15-1795 CAFR

Attachments: [ZA Allentown Finance Committee Presentation](#)

[2016-CAFR](#)

[Allentown 2016 FINAL](#)

[Allentown Letter to Governance](#)

[Allentown Management Recommendation Letter](#)

Mr. Jeff Weiss, Partner - Zelenkofske Axelrod stated that he was there with Debbie Bacon, Principal and they will go over the CAFR Single Audit and Management Letter comments and give a presentation to the Finance Committee. He stated this is our first year as the city's auditors. Our responsibilities is not to issue an opinion on internal controls. Our responsibility is to issue an opinion on the city's financial statements and make sure the compliance on the federal grants requirements in accordance with the uniform guidance. As a first year audit it takes time for us to learn about the city. He thanked the Treasury department and the CDBG, Transportation and Home Programs. We had meetings with the Controller and with Council. We have to gain an understanding on internal controls, financial and compliance over the federal grant programs. The city issues a Comprehensive Annual Financial Report that they send to the Government Finance Office Association Certificate program for financial reporting excellence. The city's responsibilities are to prepare the financial statements in accordance with the US General Accepted Accounting Principles (GASB). The city has to put together the preparation of the required sublimity information. Our responsibility is very limited. There is other information within the CAFR binder. The results of our audit when you review the CAFR, we issued a non-modified opinion on the financial statements. Through our audit we did not find any material errors in the financial statements. In the city's financial statements you bring in some entities that are considered to be part of the city: The Redevelopment Authority as well as the Allentown Parking Authority. We do not audit those. We bring them into the report and reference the other auditors. None of the

new accounting principles that the city had to adopt this year required re-statement of prior year numbers. The two items that affected the reports the most were GASB 72 - fair market evaluation on investments. GABS 77 - is a new item. You are required to footnote, disclose tax abatement policies that are in place. The Governmental Activities you now have entity-wide statements. It is all your funds that are governmental funds, not business type funds. It includes all financial information for the city. Your total net position is negative \$88 million, \$248 is unrestricted with the Utility Service Concession Lease with the Lehigh County Authority. A lot of the negative amount is with the city's pension plans. Governmental Activities \$13.6 million decrease. There was a \$23 million change related to your pension liability. All of your pension plans has an increase in the pension liability. A couple year history: Governmental Activities: Revenues excluding transfers 2016 \$112.2 million, \$114.8 million in 2015, \$120 million in 2014. In expenses, \$126 million in 2016, \$113.7 million in 2015, and \$114.2 million in 2014. In the entity wide financial statements it is also a business type activities. This is anything that runs like a business. That would be your Solid Waste and you Golf Course. Your total net position in the business type activities was \$9.8 million, \$4.9 million was invested in capital assets. The change in net position for business type activities negative \$421,821, less than three percent. Fund Level Statements: The General Fund is the most important one. It is the one where all your tax money goes into. The fund balance of the General Fund as show \$19.5 million and \$860,000 is restricted, \$6.4 million is assigned, and \$12.2 million is unassigned and could be used for any purpose. The General Fund change in fund balance was a negative \$8.35 million. The General Fund is where the Concession money is. That \$2.5 million was payment for Pension Obligation Bond Payments. There was also a \$1.1 million payment with an additional transfer to the internal service fund for risk payments. The General Fund received a n advance from the Solid Waste Fund \$4.5 million to be paid off in future years. We test your compliance with federal grant programs. When we do your Single Audit, we do a risk based approach to select major programs. The three programs that we ended up auditing in 2016 was the Community Development Block Grant Program had four findings, the HOME Investment Program had four findings, and the Highway Planning and Construction had one finding. We provided management with comments and followed up with prior year comments. Some records that we received did not tie back to the city's financials. They are recommending that we come up with a formal written policy and procedure to estimate their uncollectable amounts and record in your financial statements. Update and complete a formal document outlining the city's accounting and internal control procedures. We recommend that each cashier that receives payments have their own unique log and the cash drawers need to be monitored and reconciled to one of the them are not one of the collection agents for the Recycling and

Solid Waste department internal control. A couple items that will be coming down, GASB has been busy. He stated when GASB 34 was adopted he thought that would take care of them for a while. They are up to GASB 87. He thinks it is 20 in the past 2 1/2 years. GASB 75 is required to be adopted by the city in 2018 for post-employment benefits. It is the pension standard that was adopted a few years ago that cover OPEB. You will be seeing more liability on your books for it. In 2020, GASB 87 completely changing the accounting for leases. There will be no longer a difference between operating leases and capital leases. There will be only one type of lease.

Mr. Julio Guridy thanked Mr. Weiss. He stated on Page 6 in regards to the Single Audit. You said that you did not audit the city's component. What do you mean by that?

Mr. Jeff Weiss stated that GASB in its standard requires an entity to include financial statements of other entities that the city deems to have a significant level of control. These entities are then brought in and the financial statements are brought in.

Mr. Julio Guridy stated on Page 7, about GASB 72. Does that mean that the city is not representing the investment correctly.

Mr. Jeff Weiss stated that the new GASB 72 did not change how you do it. The city has been doing it correctly. It made the city put in a disclosure on how those items are valued. Most investments that governments do will come out to Level 1 because everything is traded on an open market.

Mr. Julio Guridy stated on Page 10, the financial results on the Single Audit on 2015 and 2014 seem to be good then 2016 the financial results seem off.

Mr. Jeff Weiss stated that a lot of that difference was a result to your pension liability change. There is a significant change to your pension liability which increase your pension expense.

Mr. Julio Guridy stated on Page 17, he stated that the first findings on the city not being able to meet the requirement. He stated that it is a repeat and does it have a negative affect.

Mr. Jeff Weiss stated that it is a finding. A good number of findings don't usually have a negative impact with the granting agencies. The city created a corrective action plan.

Mr. Julio Guridy stated on Page 20 of the Single Audit, the Management

Letter and comments in regards to improvements. He asked should we hire somebody or contract somebody to help us out and reconcile the books on a timely basis.

Mr. Brent Hartzell stated that the chastening of this is not only a legitimately appreciated and that is there will be some very intensive efforts over the months to come. Getting reports done in a timely fashion will be addressed better than it has been in the past. He gave a lot of credit to Ms. Debi Bowman as our Treasurer and Deputy Director.

Mr. Julio Guridy stated that he and his colleagues feel very grateful that we have Debi Bowman who has a wealth of information and responsibilities. He stated that we can probably hire somebody and get some funding.

Ms. Debi Bowman stated that she could not do the work without the people here behind me. She stated that she wants to give them recognition: Mike Sinclair, Sue Crawford, and Melody Sajeski.

Mr. Julio Guridy stated that the whole department does a wonderful job, including Mr. Hartzell. He asked if his colleagues had anything that they wanted to clarify.

Mr. Daryl Hendricks asked about the four findings on Page 17, assuming Zelenkofske Axelrod does many cities similar in size to Allentown. He asked if there was anything in the findings that was unusual for the city. He stated that his biggest concern is that some of repeat findings. He stated that dealing with CDBG funds he doesn't know if they are up to speed on the number of employees we normally have dealing with that.

Mr. Jeff Weiss stated that we do government through the state of Pennsylvania of all sizes. He stated that he had worse and he had better. He stated that he would put the city 3/4 of the way. He stated that he doesn't like to see nine findings in a single audit. Having that many findings related to programs we would highly recommend that you get hat cut down.

Mr. Brent Hartzell stated that there has been a very concerted effort during 2017 with respect to being sure that our drawer with CDBG are timely. We draw down the funds in a timely fashion and the overall accounting for those things are more timely.

Mr. Jeff Glazier asked about GASB 87. We do a fair amount of leases and our rolling stock often done that way. Those leases would be considered a liability, where the objects releasing will be considered an asset. They will be depreciated over time. He stated that he would presume that their useful lifetime will be longer than the lease. The assets and liabilities are

not necessarily going to balance out. The asset should have a longer life than the liability.

Mr. Jeff Weiss stated that is the way the GASB 87 is formulated to be implemented as of now. He stated that in some instances, yes. In a financial statement, useful life means one thing. It means how long you are depreciating it over useful life in your financial statement doesn't mean when is it dead and haul it away and take it to the scrapyard. He stated that will be correct, potentially.

Mr. Brent Hartzell stated for clarification Mr. Glazier point is well taken. When we do equipment leases they are not longer than the expected life of the asset.

Mr. Julio Guridy asked if cars and copy machines.

Mr. Jeff Glazier stated that some vehicles we purchase we may buy off of a lease. The depreciation has already been taken and we are getting the best deal we can. We may even pay cash. The dump trucks and fire trucks may be paid over five or seven years longer.

Mr. Daryl Hendricks asked about Page 10 and asked if it has been a significant decrease in revenue from 2014 to 2016.

Mr. Jeff Weiss stated that was not the revenue. It was the expenses with the pension liability. With the GASB brought in the new pension standard you will have less control than you used to. The market has a lot of the control. They tried to explain the deferred inflows and outflows calculations which completely blows out how to explain the significant change or look at it on a piece of paper.

Mr. Julio Guridy asked if there were any questions from the public.

Mr. Lou Hershman, 405 N. Gilmore Street, stated on Page 13 \$12.2 million unassigned would that be considered cash reserves or unappropriated balance.

Mr. Brent Hartzell stated that he had long ago failed to come up with a semantics distinction that would ever makes the gentleman happy. There are some liabilities out there. The cash number we should you awhile ago is a little bit lower than that. That is a reasonable proxy in terms of it uncommitted to anything else.

Mr. Lou Hershman asked if it is unassigned, does it mean unappropriated.

Mr. Jeff Weiss stated that means it is not restricted by an outside entity such as a grant fund is restricted. Grant funds that the city got in advance are unrestricted or assigned items. This money can be used for any purpose. It is not set aside by the management or used for any particular purpose. It could be used for anything.

Mr. Lou Hershman stated that it is confusing. We have to no the balance of each account.

Mr. Julio Guridy stated that when we do a transfer we always knows where the money is coming from.

Mr. Lou Hershman stated that on Page 8, it says there is a negative \$88 million. We had a positive and then we had a negative.

Mr. Brent Hartzell stated that they explained in the CAFR for 2015 that because the GASB 68 and GASB 71. We were putting the entirety of our pension long-term cost for the first time as part of what our overall net position is and turning the water and sewer was a sizable asset and it became a sizable deficit. We laid out very clearly why the GASB rules that took effect caused that number to go significant into the negative.

Mr. Lou Hershman stated that on Page 1 of the report, it says that Zelenkofske Axelrod conducted an audit consistent with the plan scope and timing. On the next page, it says that we have not identified or obtained information that indicates that fraud may have occurred. In other words, you are saying that the city cleaned up its act. No more pay to play now.

Mr. Jeff Weiss stated that we performed the audit of the 2016 financial statements. We did not come across anything that occurred during 2016.

Mr. Lou Hershman asked if Zelenkofske Axelrod do any testing.

Mr. Jeff Weiss stated that we performed an audit of the financial statement that requires us to perform numerous types of tests to complete the audit. It requires us to have numerous conversations with individuals within the city.

Mr. Lou Hershman stated that you don't perform anything with internal control.

Mr. Jeff Weiss stated that we gain an understanding. We do not provide an opinion on internal control. We don't audit intern controls.

Mr. Lou Hershman stated that is something for City Council to look at on

internal control.

Mr. Julio Guridy asked if anyone had any comments.

Adjourned: 7:14 PM