

**COMMITTEE ON ACCOUNTS, ENROLLMENT
AND REVENUE ADMINISTRATION**

July 11, 2000

6:30 PM

Chairman Hirschmann called the meeting to order.

The Clerk called the roll.

Present: Aldermen Hirschmann, Levasseur, Lopez

Absent: Aldermen Pinard, Thibault

Messrs: S. Bassett, K. Clougherty, D. Prew, R. Sherman

Chairman Hirschmann addressed Item 3 of the agenda:

Discussion with Scott Bassett of McGladrey & Pullen regarding
audit.

Chairman Hirschmann stated, Scott, at the last meeting we approved your company and it went to the full Board and passed. I don't know if you were at that meeting, but welcome back.

Mr. Bassett stated there are a couple of administrative things that I have to take care of as far as conducting the audit in accordance with Generally Accepted Auditing Standards. This Committee, acting in the role of an audit Committee, has some questions to ask as far as any knowledge of any fraud or irregularities that you would like to direct our attention to as we go through the audit. The reason we do this is there is a Statement of Auditing Standards out there but we have to inquire of the Audit Committee things that will help us to assess fraud risk and it is a new requirement that came up probably two years so if the question is unfamiliar to you it is something that has just arisen in professional standards.

Chairman Hirschmann asked the Committee if anyone was concerned about fraud at this time.

Alderman Gatsas asked have you submitted a letter of engagement.

Mr. Bassett answered I submitted what we call the engagement letter to the Finance Department last week and I believe now it is at the Solicitor's Office for review. The Finance Officer was kind enough to make copies of it that I have with me this evening.

Alderman Gatsas asked was the engagement letter prepared by you folks or was it a prepared statement from Finance.

Mr. Bassett answered we prepared it. It is our letter and it is on our letterhead.

Chairman Hirschmann asked, Alderman, this has nothing to do with fraud, right.

Alderman Gatsas answered I don't know what it says in his engagement letter and that is why I am asking the question. Where is that section in your engagement letter?

Mr. Bassett asked as far as our responsibility to detect fraud.

Alderman Gatsas answered correct.

Mr. Bassett stated I believe it would start on the second page of the engagement letter. The second paragraph from the bottom and goes through the two subsequent paragraphs requiring our responsibilities as far as misappropriation of assets, which in our professional judgment prevents us from completing the audit. It starts on the second to the last paragraph on Page 2 and continues to the top paragraph on Page 3. Really the responsibility of management is in that second paragraph on Page 3. Also, at the conclusion of the audit there will be representations made by management regarding or just confirming representations made to us during the course of our fieldwork. If you look at the third paragraph on Page 1 it also has a summary of what the General Accounting Auditing Standards are and what they are not.

Alderman Gatsas stated I am comfortable with it.

Mr. Bassett replied I guess I can tell you where we are in the engagement. Last week, I came up with a supervisor and we had what I would call a tour of the City. We had an opportunity to visit the various departments in the City which helps us be able to begin to plan our audit and assess some risk areas. Tomorrow as part of the engagement before we go through the full acceptance I have to review the previous auditor's work papers and I am scheduled to do that tomorrow morning. With that being done, we are scheduled to start next week, the week of July 17, and do our preliminary field work for the next three weeks and then I believe we

are coming back to do our final field work in mid-September until the end of September through pretty much the end of October. I guess we have four or five weeks scheduled at that point and my goal would be to have a draft report available by November 30.

Chairman Hirschmann stated one thing that comes to mind for me...I know you are going to be auditing on the City side and our school system has its own auditor, but in fact we have an integrated relationship where just recently they were a department and now they are considered their own entity autonomous from us. We do, however, bill them fees for services, which we are not getting paid for in a timely fashion. I know that the bus company had issues with a contract when they weren't getting paid in a timely fashion and I think right now if you look at our end of the year unaudited statement, it shows \$1.7 million that the City is owed from the School District. I would be interested in any kind of report on that.

Mr. Bassett replied there are really two issues with that. As any receivable...as an auditor I have to take a look at the collectability of that. If we recognize or approve that receivable or recognize that as a revenue and an accounts receivable, I have to take a step back just like it was any other third party because if you are ever going to collect that and also because the modified regulations of the country determine if it is going to be collectable within one year. We are very conservative as we use our measurement focus on that receivable so it very well could be that they and I am not making a conclusion right now, but my thought process has to go down the line. They owe it. They may recognize that they owe it but do they have the ability to pay it. Also with the School Department it is my understanding that they will be reflected in the statements as a component unit, which has not been done before. My opinion will reference other auditor's reports as it relates to the School Department. That could delay anything or the issuance of the report. Those are obstacles that I think you have all talked about a little bit. I know that Todd and I talked about that a little bit as we were going through the process of making the selection of auditing firms and pulling those numbers out and separating the data in prior year accruals and things was going to be a difficult task. I guess we are in the process of starting to do that now.

Chairman Hirschmann asked will you be meeting with different department heads at a given time. One thing that came up this past year were some escalations for parking garages and things of that nature. Things that we want you to find I guess.

Mr. Bassett answered that was mentioned to me last week during our preliminary interview and I guess the question was asked of me would you have found that. When we were auditing the financial statements and what is presented to us...I don't know if we would have found that. What we try to do is and what we ask for are all contracts that are outstanding and as we visited the Airport there are

those type of concession contracts out there where there could be escalators or there could not be. We will read those, but in order to...we kind of tend to look for overstatement of assets and understatement of liabilities. That is kind of our nature. That is where our focus is. We want to make sure the assets aren't overstated and the liabilities aren't understated. Would we have found that escalator? I am not quite sure but we would definitely look at those contracts in another way as far as seeing if there are any related liabilities and then we would calculate the revenue to make sure...what I am afraid of when you have these concession contracts are that we are relying on this third party and they are just giving us the money and there is nobody out there to audit their calculations of what is owed to us. I have been on the other side of that where I have done some work for the State where they have leased land to a car rental agency and every year we would go in hired by the car rental agency to present a report to the State as far as are they compliant with the terms of the contract. You want to get away from just cash receipts. I think you have to also do some contract monitoring for those type of contracts. I guess there should be some type of compliance with all of those and a checklist as you do with your debt portion of it.

Alderman Lopez asked, Kevin, for the record do you know of any fraud that this man should look at. It is a question that he asked this Committee, but you are the Chief Finance Officer. Do you think there is anybody that he should audit for fraud?

Mr. Clougherty answered no but there are some areas we would like them to concentrate on. There are areas, and I think Scott would agree with us, that by their nature might lend themselves more to fraudulent activities than others might where there is cash and things like that. Those are the areas we will focus on and ask him to concentrate on and bring to his attention, not to a specific incident as much as patterns and trends.

Alderman Lopez asked could you walk me through...I am a little confused from the answer I heard but in the contract that we have with the City where people are supposed to give us money are you indicating that you go to those departments for...do we have a centralized place like the City Solicitor will provide you with all of these contracts or will Kevin provide you with all of these contracts where people are supposed to pay us money.

Mr. Bassett answered we will ask for all of those contracts from a central...whether it be from the Finance Department or the City Solicitor, but also offer contracts as we go through these various departments. We are hoping that they are in a centralized location. I don't know where they are right now. We have only done a preliminary walk through in some departments, but we are

asking as we ask for all debt agreements we are asking for any contracts or revenue agreements that would be out there also for our files.

Alderman Lopez asked if there is a contract out there where people owe us money and you as an auditor don't look at that contract, would we run into the same problem that we ran into last time whereby you could be held liable.

Mr. Bassett answered I don't know if I could be held liable. I have to do my audit in accordance with Generally Accepted Auditing Standards and I believe that is how I am going to defend my audit. We are hired...we are in the process of being hired to perform an audit in accordance with Generally Accepted Auditing Standards.

Alderman Lopez asked does that include looking at all contracts.

Mr. Bassett answered it would not include looking at every single contract. We would have to assess materiality on each contract and do some risk assessments. We give an opinion. Our opinion states that the financial statements are fairly presented in all material respects and that is what I am being engaged to do is give you that opinion. So, we do go through some criteria and some judgments as far as where we have to spend our time to look. I cannot sit here and tell you that we would look at 100% of the contracts. We would ask for all of the contracts, read them and see what they relate to and if they appear material to us or if the content of those contracts doesn't seem reasonable we would go further with it.

Alderman Lopez stated in your opinion then in the end when that becomes the end, if we found that there was a contract that we didn't receive money for, are you indicating that you wouldn't be liable.

Mr. Bassett replied I would be liable if I performed my audit in accordance with Generally Accepted Auditing Standards. If I was negligent and I don't think I would be because I go through some quality control standards for myself, but I cannot tell you that we will look at 100% of the contracts.

Alderman Gatsas asked obviously in an audit anything that is material to an audit you are looking at that contract.

Mr. Bassett answered that is correct. Even on a...actually in government the materiality is broken out into different levels for fund types...

Alderman Gatsas interjected your answer was yes. In your audit if a material audit, let's call it a rough number like \$17 million, is that a material item.

Mr. Bassett replied that would be material, yes.

Alderman Gatsas asked so if we are self-insured on the medical you would check to see if the third party administrator has a SAS70.

Mr. Bassett answered we would request a SAS70, absolutely.

Alderman Gatsas asked if they didn't have one what would you do at that point.

Mr. Bassett answered if at that point we aren't able to obtain a SAS70 and we look at the controls that are being used by your in-house Human Resource Department if that is who is administering those plans, we would be required then to go to the third party who are administering those claims and take a sample there, which we have done for other communities. We met with some resistance, but if we weren't able to do it I then would not be able to perform my audit in conformance with Generally Accepted Auditing Standards.

Alderman Gatsas asked if you looked at a material item that showed a revenue side of \$300,000, that would be a material item to City revenue.

Mr. Bassett answered I think your budget is \$88 million so...

Alderman Gatsas interjected let's say you looked at it and there were more than one.

Mr. Bassett stated let's just say I looked at it and you had budgeted \$800,000 and only \$300,000 came in. Then to me that heightens my risk of why or what happened in the budget process where we estimated \$800,000 and only \$300,000 came in.

Alderman Gatsas asked if we estimated let's say from parking revenues \$2 million, would you be looking at contracts that substantially either affirm that number or negate it.

Mr. Bassett answered I think what I would be looking at there is I would look at the contract obviously to make sure of what the pertinent details are as far as what they should be paying you. I would then look at what the billing process is of the City to see what they are billing.

Alderman Gatsas asked so your initial statement you made that you may not have picked that up, what the auditor missed in the parking scenario, if I told you that that was a material revenue to the City you certainly would have picked it up because you would have asked for the contracts and looked at them.

Mr. Bassett answered that is correct but if I looked at a contract and we were solely relying on the third party to...

Alderman Gatsas interjected if it had an escalator in there you would have picked that up.

Mr. Bassett replied right. If you had a receivable out there we would also recalculate the receivable to see how it is calculated in accordance with the contract.

Alderman Gatsas stated I am here looking to defend you because the first statement you made was that you probably wouldn't have picked that up as the previous auditor didn't, but obviously if you are telling me that you are looking at material items and you are looking at a receivable through parking that is a \$2 million or \$3 million item, you are probably going to ask the question are there any leases or contracts that are attached to it. At that point, you would have picked up that the escalators hadn't kicked in.

Mr. Bassett replied yes hopefully we would have picked that up. Also, I think it is important and what I want to communicate is that if we had these contracts with escalators out there and internally we aren't doing something to make sure that the third party is complying, I most likely would have a comment on that through my management letter.

Alderman Gatsas responded right but at some point you would pick that up. Again, the correction would have happened and the management letter would have stated that there was a crack in the wall and that fell through, however, we wouldn't be at risk. If you didn't pick it up, you would be at risk. GAAP is not going to defend you from that because that is a material item.

Mr. Bassett replied it is hard for me to answer that question because I know how I am planning my audit and I am planning my audit in accordance with the professional standards. If I have done my audit in accordance with professional standards, I do not believe I would be at risk. I guess that is the only way I can answer that question. That is how I plan my audit. My opinion says that the statements are materially correct. Once I sign my name to that, that is what I am giving you. My opinion also says that I conducted my audit in accordance with GAAP.

Alderman Gatsas asked and if it was a material item, you would have picked it up.

Mr. Bassett answered yes.

Chairman Hirschmann stated seeing four or five of these management letters by now, some of my contemporaries wanted some information that was not included. I know the process, but is there a preliminary engagement we would have so that if there was something that somebody wanted that we would tell you at some point other than this fraud thing today?

Mr. Bassett replied absolutely. I look to you folks as the people who are hiring me and as far as who I have to communicate to it is really this Committee. What I do is I try to meet with the Committee at the beginning of the audit and at the end of the audit when things are still in draft format. Now if things arise where I stumble across something, then I contact you and say this is what I found, what direction do you want me to go with it. I am looking to communicate to you as the audit committee. If things arise where I have to communicate to somebody things that are out of the ordinary or extraordinary, I would communicate to you folks.

Chairman Hirschmann stated I guess whatever you need to do your job like the Code of Ordinances book or financials for the past few years or whatever you need our Finance Officer is dutiful to get that to you.

Mr. Bassett replied absolutely. What we have put together is a pretty comprehensive list of things that we need that they have already started looking at and gathered a couple of notebooks for us already.

Chairman Hirschmann stated as far as the fraud thing, I want to put that to sleep. I think in the past few years there have been a few Police investigations of some incidents that have gone unfounded. I think there was even one recently but maybe the Mayor who is at the beach or somewhere put that to sleep. I guess the answer from this Committee is not at this time. I see the handout that you gave...this is your engagement letter with a signature missing.

Mr. Bassett replied I think it is in the process of being reviewed by...I only gave it to the Finance Department last week.

Mr. Clougherty stated it is being reviewed by the Solicitor's Office.

Alderman Gatsas asked on Page 4, the third paragraph from the bottom basically says that if you are still under review for three years after the audit date, however, after one year after an audit date you are off the hook. I guess my question is if there is a problem we would never know it until after another audit was performed.

Mr. Bassett answered I can tell you that our attorneys write these letters to. I can never get away, if I am negligent there is no timeframe on that. I don't think after a year...I still believe that if we perform something under GAAP I think the door is open for you to take any kind of action that you see fit.

Chairman Hirschmann asked, Kevin, do you agree with this management letter. Is there anything you want to change in there?

Mr. Clougherty answered the engagement letter is basically the standard format that is presented by the Comptroller General of the United States. We are having it reviewed by the Solicitor for a couple of things, but it shouldn't be a problem.

Chairman Hirschmann stated I don't know the letters, but I remember you telling us at one point that a new accounting format was coming up and we had to start accounting for our assets. Is that this year or next year?

Mr. Bassett replied for the City of Manchester it is based on 1999 figures. Your first financial statements will be for the year ending June 30, 2002 where you will have to present your statements in accordance with GASB #34.

Chairman Hirschmann stated as long as we acknowledge that we are going to move toward this we are not in any violation.

Mr. Bassett replied that is correct.

Mr. Clougherty stated one of the things that they put in their RFP is that they would come and do training for the Board to bring them up to speed on what those are so that you understand that. That will probably happen sometime in the fall. There will be a session on that to bring the Board up to speed on the schedule.

Mr. Bassett asked are there any departments or areas that you would like us to put some emphasis on as we plan our fieldwork.

Chairman Hirschmann answered why don't we take that under advisement and think about that. We really haven't had any discussions about that. We had asked our internal auditor to accommodate us with a schedule of tasks to look in certain departments for fleet, etc. Maybe we will talk about that and ask you in the future.

Alderman Lopez asked did the Finance Officer give you a priority of departments to start with first.

Mr. Bassett answered we will prioritize those I think.

Alderman Lopez asked and you will provide this Committee with a list of the priorities.

Mr. Bassett answered I can tell you just from our preliminary pass through last week that the Airport is a place we will spend a lot of time at just based on the volume and the growth that it has had. Also, as we go through the CDBG department or the Planning Department, I think you have Federal monies that are going through there and that would be an area of emphasis. What I will do in the next three weeks is we are going through and doing what I call my systems write-ups for and the first year I try to get 85% to 95% of the departments within those system write-ups so how your process is of how departments pay a vendor, how departments deposit money to the City to get into the coffers, those are the type of things that...I guess they are note department specific, but from an auditing standpoint those are the material things. Obviously we will spend a lot of time at your Tax Department testing controls. Probably our approach will be a little different because our firm tends to look at the controls in place because we firmly believe that if there are controls there that is a way to detect and prevent any type of material misstatements and that is what we try to concentrate on and then give them back to you in the form of a management letter where we have found some weaknesses, but if there are strong controls that helps us out also. That is what we will be doing here in the next few weeks is making those assessments.

Chairman Hirschmann thanked Mr. Bassett for attending the meeting.

Mr. Bassett stated I had left with Todd some booklets explaining the role of an audit committee. I don't know if he shared those with you or not. I guess what I want to bring to this Committee's attention is if you read what is going on with the FCC and things, the role of an Audit Committee is getting a lot of public scrutiny right now. As far as communications and auditing standards and new communications we have to provide to the Audit Committee and I will get those books to you and please read them because I think the role, maybe not so much in government but in these small non-profits and things where the fiduciary duty of the Audit Committee is very important so I would ask you to read those and take a look at them and if you have questions as you go through them I will be happy to answer those questions. The last thing I will mention is a new requirement this year. As you go through an audit you accumulate adjustments that you pass on where they are immaterial so you don't have to make those adjustments. I have to in the back of my representation letter I have to communicate what the past adjustments were and why they were passed so that will be something new also this year that may not have been explained to you in years past. Those are really the two new auditing requirements that I have to present to you at the end of the audit.

Chairman Hirschmann asked some of the cities that you go into and you find a Todd Provencher who is an internal auditor, typically who does that person report to.

Mr. Bassett answered I will tell you it can be the Finance Department. It can be the Budget Department. It can be the Audit Committee.

Alderman Levasseur asked is it ever the Mayor.

Mr. Bassett answered it could be. I guess the function...I guess what we wrestle with a lot of times is you have these...someone is labeled the internal auditor and they are truly not doing internal audit functions. Our comment and I have it in three or four reports, is you have an internal auditor but they are not performing internal audit reviews. Now there are best practices out there that suggest where internal auditors should be and who they should report to, but I get back to what are they doing and are they really functioning as an internal auditor or are they just putting out fires when someone leaves the internal auditor goes over to that department and functions there until someone is rehired. I think an internal auditor has to get directions and have the ability to audit any department and give their findings back to someone that can take some action on those.

Chairman Hirschmann stated I appreciate your candor. It is something that this Committee is going to wrestle with in the future and I just wanted to hear your opinion.

Mr. Bassett replied there are some best practices out there. I just think it is a tough decision but like I said they are all over the place and we always look at who is giving them direction and if they are truly doing internal audits. If they are doing true internal audits, then I think that is 90% of the battle.

Alderman Lopez stated one other thing before you leave. If at any time you want to communicate or if you run into a problem please don't hesitate to contact the City Clerk.

Mr. Bassett replied that is a two way street. If there is something that you think should be brought to my attention before I sign my opinion I would really like to know about it.

Chairman Hirschmann addressed Item 4 of the agenda:

Communication from the Director of Information Services providing information concerning the City's telephone system and Internet charges.

Chairman Hirschmann stated, Diane, I guess the reason you are in front of us is because during the budget process the telephone budgetary line items jumped out as being very large and the Internet charges are in there as well, which seemed excessive. I know you have explanations that you can provide. I am going to let you do that and what I really want is for you to tell us how to reduce costs. That is what we want to know. We want to reduce costs and that is why you are in front of us.

Ms. Prew stated I can start with the telephone system. As I indicated, there are 690 telephone lines that are being used by various City departments. A good portion of those belong to the School Department and also to District Court, the City's Retirement Board, and the Enterprise Fund. That leaves the City with approximately 245 lines that are being charged to the regular City departments. These are covered under a Centrex contract right now, which will expire in February of 2003 at which time we would be going out to bid. We have over the last year or so been approached by a lot of people on offering telephone services. We have been talking with them to collect information for when we are ready to go to bid but what we are really finding right now is that our Centrex contract is still very attractive, even with the competition that is going on in the marketplace today. Those telephone lines are used for many purposes today. They are not all for voice and I gave an example. Using our department, we have 13 telephone lines. Five of them are used for voice, one for fax and seven for data communications. I think you are seeing telephone usage increasing because lines are used for many other purposes. They are used for monitoring energy in your buildings, they are used in the elevators, for fax lines and to say where you might save money there I think is difficult because communication is really something that hopefully will make services more efficient. By having automatic monitoring, you won't have to have staff watching these items. We have telephone lines whereby people can access, with the proper security, their systems from home, which makes them more efficient. In the case of our department, when we run things over the weekend rather than have people have to come in and sit there and watch, they can monitor them from home. It makes them more efficient.

Chairman Hirschmann asked what about the \$18,000/year for the Internet.

Ms. Prew answered since this letter was written we have been able to lower the price of the Internet access. That has been reduced to \$1,289/month.

Chairman Hirschmann asked how did you do that.

Ms. Prew answered in speaking with the vendor that we are dealing with...we did go out to bid for the original contract and I have someone on my staff that was speaking with them and indicated that people were approaching us and there was more competition.

Chairman Hirschmann asked so they gave us a \$6,000/year break just by us talking to them.

Ms. Prew answered yes, that rate was reduced. Since this letter was written we have also increased the number of users of the Internet access line. We are up to about 382.

Chairman Hirschmann asked who is the vendor.

Ms. Prew answered VITS.

Chairman Hirschmann asked when does that expire.

Ms. Prew answered I think that is for a year. We had been keeping that contract relatively short-term until we saw what was going to transpire with the MediaOne contract.

Chairman Hirschmann asked so we are down to about \$14,000 a year.

Ms. Prew answered that comes out to \$15,468/year. VITS is a local company. They are providing us with a high-speed line at this point and we have good service.

Chairman Hirschmann stated we were just at the School of Technology and they have Grolen.

Ms. Prew replied Grolen is a much smaller provider. Grolen cannot provide us with what is called a T-1 line. They don't have that kind of access speed. VITS is what is called a Tier 2 provider.

Chairman Hirschmann asked is this something that Alderman Gatsas should be negotiating with MediaOne.

Alderman Gatsas answered no. They don't have a T-1 line.

Chairman Hirschmann asked MediaOne doesn't.

Ms. Prew answered MediaOne as I understand it right now does not provide Enterprise Internet access. They only provide residential access at this point so they are not dealing with businesses. At some point when they are in the business market and we go out to bid, then they would be able to.

Chairman Hirschmann stated we are not a business, we are City government and they have a contract with us.

Alderman Gatsas replied they won't.

Chairman Hirschmann stated we are getting fees from them for that service.

Alderman Gatsas replied only residential.

Chairman Hirschmann stated they are giving us free hook-ups to our buildings.

Ms. Prew replied I think that is for cable TV.

Chairman Hirschmann stated which has telephone on it right now and everything else under the sun. It is all the same. How can we cut costs some more?

Ms. Prew asked cut costs in these areas.

Chairman Hirschmann answered that is what we want to do. That is why during the budget process we looked at our phone charges and Internet charges and said well maybe we need a list of the phone lines, but you didn't give me that. For security reasons, I guess I am not allowed to see that.

Ms. Prew replied we didn't pass out the list of telephone numbers. That information is certainly available to you.

Chairman Hirschmann responded I asked for that. That is what I asked for.

Ms. Prew stated the reason we didn't is because...

Chairman Hirschmann interjected because of security.

Ms. Prew stated the information is certainly available to you. Do you want the entire list of telephone numbers?

Chairman Hirschmann answered yes.

Ms. Prew asked you want the entire list of telephone numbers.

Chairman Hirschmann answered that is what I just said. That is what I asked for. Other than that, if you can't cut costs I think that we will figure out how to do it.

Alderman Lopez asked on the telephone lines, do all of the departments have to come through you before they put a line in.

Ms. Prew answered we are not evaluating their need for telephone lines. The reason they come through us is because we are the central point for working with the telephone company and placing the orders. When the telephone company bills the City, they bill us in one large bill and we need to...we have special programs that break those bills apart.

Alderman Lopez asked so if I am a department head and I want to put 20 lines in, you don't have any authority to stop me.

Ms. Prew answered no.

Alderman Lopez asked you just pay the bill.

Ms. Prew answered no. I don't pay the bill. The bills go back to the departments and they are responsible for paying them.

Alderman Lopez asked so every department head has the authority to put in as many lines as he or she wants.

Ms. Prew answered yes. If we get a request from a department for a telephone line, we will put that through to the telephone company.

Alderman Lopez asked do you think there should be any type of restrictions then. I am just trying to see where we are going here with looking at this thing and trying to save some money. How could you save us some money if you don't have any authority?

Ms. Prew answered well I would think that the telephone bill is a function of the budget process. When I come before you, I have to present my projection for what I expect to use for telephone service for the coming year.

Alderman Lopez asked but if a department head is saying I need 20 phone lines...

Ms. Prew interjected but that department head has to justify that within his budget.

Alderman Lopez replied right. I agree with you on that, but how could you...I am trying to understand here how could you say, for example could you come in and say okay we only need 250 phone lines throughout the whole City.

Chairman Hirschmann responded that is why I asked the question. She is the professional and I wanted to see if there was some other way that we could save money.

Alderman Lopez stated that is what I am getting at and I am trying to understand how could she do that if a department head is paying for it. She is not paying for it.

Chairman Hirschmann replied she could present a plan to us that we could enact.

Ms. Prew stated I would submit that right now the work that we do with the telephone takes up a good portion of one staff person's time. In order to go out and evaluate every request by every department for a telephone line would be a massive undertaking for us.

Chairman Hirschmann replied just for example, I don't know if there is anyone that does an audit of phone lines in your department or even thinks about that but if someone calls you up and says that they want a fax line, you could have an alarm on a fax line. There is no reason to have an alarm line and a fax line. I could go around the City and get rid of 50 or 100 lines just like that. That is the business I am in. That is what I do for a living. I know how these things work. I know that you have your contract and you don't want to cancel lines and you don't want to move things, but I am asking for professional advice to the Board on how to save money.

Alderman Lopez responded I agree with what you are saying, but I am trying to have her tell me how she could do that. I don't think she can do that. She doesn't have any authority to tell a department head you can't have it unless she is given that authority and that is going to circumvent the whole circumstance.

Chairman Hirschmann stated sometimes technology changes and it allows her to give us advice to change things.

Alderman Lopez stated if she has any advice to give us, fine. I don't want to debate you, Mr. Chairman because you probably know what you are talking about when you are talking about lines and stuff like that but if you have a plan for the City then I would suggest you submit the plan so that we can look at it and maybe get these department heads to tell us whether the plan is...

Chairman Hirschmann interjected if somebody's expertise is storybooks and they own a library and they wake up one day and decide they want a fax line and they send her a request and before you know it they have seven fax lines when in fact they only need maybe one fax line and an alarm line all on the same thing.

Alderman Lopez asked who makes that determination.

Chairman Hirschmann answered no one knows because she just processes the order.

Alderman Gatsas asked, Diane, how many employees do you have in your department.

Ms. Prew answered 19, including myself when I have a full complement.

Alderman Gatsas asked how many do you have right now.

Ms. Prew answered I have 18.

Alderman Gatsas asked including yourself.

Ms. Prew answered yes.

Alderman Gatsas asked how many fax lines do you have.

Ms. Prew answered I have one.

Alderman Gatsas asked do you have an alarm line.

Ms. Prew answered not a telephone line, no.

Alderman Gatsas asked how many Internet lines.

Ms. Prew answered Internet access for the City is on one major line. It is the \$1,200/month access. That is where we all get our Internet access.

Alderman Gatsas stated I think from the private sector the way somebody determines whether you need a line is when you have a customer say to you I called you twice today and your line was busy. Well for the first six months that I have been around City Hall, I haven't had the opportunity yet to call a number and have a busy line. That only tells me from what Alderman Hirschmann is trying to get to is that there is an over abundance of phone lines out there that aren't being

utilized but we are paying for. I am not saying that on a given day 13 of your people are going to be using 13 lines.

Ms. Prew replied I have 5 lines.

Alderman Gatsas asked is your department Information Systems.

Ms. Prew answered yes.

Alderman Gatsas stated I am looking under here and it says number of Centrex lines, 13.

Ms. Prew replied correct. One of them is for the fax line, five are for voice and seven are for data communications. We have telephone lines where you can dial into our system. One of those lines is there for IBM. They monitor our computer hardware. We have dial-in lines where various people can dial-in if they are working from home. We have data communication lines that run between us and the Environmental Protection Division because they are not on the regular City network because of their location so we have telephone lines for that.

Alderman Gatsas asked let's go to the Health Department. Does anybody know how many employees they have at the Health Department?

Chairman Hirschmann answered 10 or 12 I think.

Alderman Gatsas stated let's talk about somebody who is sitting here so we can get through this. Kevin, how many employees do you have?

Mr. Clougherty answered 15.

Alderman Gatsas asked how many fax lines do you have.

Mr. Clougherty answered one.

Alderman Gatsas asked are there any, in the remaining eight lines are there seven that are going somewhere else.

Mr. Clougherty answered four of them are Aggregation lines and that is paid for through the Highway Department.

Ms. Prew stated the billing list comes to your department but it is part of the Highway Department now, that is true.

Alderman Gatsas stated I think this is where Alderman Hirschmann is coming from. If there are four lines in your department that go to Aggregation and I think there is only one employee in Aggregation or none so why wouldn't those four lines be terminated.

Ms. Prew replied I have no idea.

Chairman Hirschmann stated that is what we are trying to get to.

Alderman Gatsas asked if you are not responsible, who is.

Ms. Prew answered the departments who have the telephone lines.

Alderman Gatsas stated that still doesn't justify this number because if somebody says and I haven't even gotten into the long distance calls and I don't know if the phone service that we have with the system that is in place monitors calls by an extension number or if it is just collected. Do you understand what I am saying?

Ms. Prew replied you mean to monitor what calls are made.

Alderman Gatsas asked who is abusing the system.

Ms. Prew answered I don't know. I would have to find out if that feature is available.

Alderman Gatsas stated I don't know, Alderman, if you requested it but is there a single phone bill total. A cumulative number?

Ms. Prew replied yes.

Alderman Gatsas asked how much is that number.

Ms. Prew answered the average...

Alderman Gatsas interjected no don't give me average. I want to know what the total phone bill is.

Ms. Prew replied we get a monthly bill for the City. The bill varies from month to month because during the summer the School Department isn't in session so the bill would be less. The bill varies somewhere between \$18,000 and \$19,000/month for Bell Atlantic.

Alderman Gatsas asked does that include long-distance.

Ms. Prew answered that includes in state long-distance.

Alderman Gatsas asked what about out-of-state.

Ms. Prew answered the out-of-state long distance's average monthly bill is about \$4,000 for the City.

Alderman Gatsas asked who is the carrier.

Ms. Prew answered AT&T. I believe that a good number of those are with the School Department, but I would have to check that to make sure.

Alderman Lopez stated I know through Parks & Recreation that the department head put a policy into effect that some phones can't make out-of-state calls and they have to fill out a form or put in a code and record the number. Those are policies that maybe should be instituted. Kevin, I don't know if you have such a policy or not.

Mr. Clougherty answered we don't do that because we have people dealing with vendors from all over the country.

Alderman Lopez stated I know that there are some employees that do abuse the system. It is like having a cell phone and using it for everything else but business. It goes back to the same basic thing. Who checks all of this and who does it all and who makes the recommendations? We can go around in circles all night but unless we give some type of direction from this Committee...

Chairman Hirschmann interjected Diane you are giving us what we asked for but you don't have the authority to give us anything further so I think we need our internal auditor back and we need to set a new policy that any new phone lines are brought to the Accounts Committee first before they are authorized. How is that for a policy?

Alderman Lopez stated I really believe it is a policy, but I don't know if you want to tie up the internal auditor on it with all of the other things he has to do. I think the first thing is establishing the policy. Maybe what you just mentioned is okay. I think we need to maybe give direction and Carol can help us out on this. Would Diane if we gave something here like a directive for her to go to each department, could that be done asking them to justify all of their lines? I thought maybe Carol may be able to give us some guidance as to whether that is something that we as a

Committee can direct Diane, through the City Clerk, to do – send a memo to each department to justify their lines and certify from the department head that they have cross-checked and what procedures and policies they have in place and then report back to this Committee.

Deputy Clerk Johnson stated I have a few suggestions to make. If I understand what is going on, basically the Committee wants to understand what the policies are that are in place and each department has its own policies. The procedures, up until this point in time have been left to the departments and the department heads in controlling their departments. They have always justified the telephone lines and their cost for telephone services in the budget process through the Mayor's review and sometimes at the Board level. I can remember the Tax Collector sitting before the Board begging for a second phone line because she did not have enough money in her budget for a second phone line and everybody was getting a busy signal all of the time so finally they gave her another phone line. I think that there have been some controls in place in the past and you were not sitting on the Board at that time, which is why I am bringing that to your attention. I think that the suggestion would be that perhaps a memo go out and it could go out from either Information Systems or the City Clerk's Office, whatever the Committee requires, requesting that the department submit a report to the Committee advising of how many lines they have and what the lines are used for and what their policies are on in-state and out-of-state calls.

Alderman Lopez stated I think that would be fine with me because under the Charter any policies established by the department are supposed to be turned in to the City Clerk anyway.

Deputy Clerk Johnson replied some departments and I will use the City Clerk's Office as an example, one of our policies and it is not in writing but the girls out front are instructed not to make a long distance call unless they ask a Deputy first.

Alderman Lopez stated that is a policy made by a department and I would be curious...I wouldn't want to tie a lot of people up because I am almost positive that every department head has some kind of verbal or written policy and we should get all of those policies and then we can go from there to determine whether or not something else needs to be done.

Alderman Lopez moved that the City Clerk send a memo to all department heads requesting justification of their telephone lines and asking for the office policy on making long-distanced calls.

Deputy Clerk Johnson stated may I suggest that you accept whatever policies they have because in some instances I think they have policies internally that won't be an official policy, but you want to know what they do. You are just asking what their policy is in general and they are going to submit that to you in writing so it will then be in writing for both in-state and out-of-state calls. Do you also want something as to how they review the calls made?

Alderman Lopez replied yes. That would be part of the information to the Committee to determine what course of action to take and maybe there is none. We have to give the department heads an opportunity to manage their own department first.

Chairman Hirschmann duly seconded the motion. Chairman Hirschmann called for a vote on the motion. The motion carried.

Alderman Levasseur stated as far as the price on that goes, you said we have 692 phone lines. Is that what we have?

Ms. Prew answered correct.

Alderman Levasseur asked are we doing the billing on the School phone lines.

Ms. Prew answered they were part of the contract and we just charge back. Every department gets charged back for their telephone usage.

Alderman Levasseur asked when you charge back are you charging back the time it takes you to actually write these things up and send the bills and all of that or are you just charging back for the amount of money.

Ms. Prew answered we are putting in administrative costs and charging them back.

Alderman Gatsas stated there is just one that sticks out as a glaring number and that is District Court.

Ms. Prew replied the reason District Court is still included is they used to be in the Annex and they were part of the City's telephone system at that time and it has just been continued. It is one of those...I guess you could say it is tradition. They are still part of the system and they do pay their share of the bill.

Alderman Gatsas asked what you are telling me is that the user we have will not give us the benefit of its entirety by sending bills to different departments and you have to sort through them. Is that what you are telling me?

Ms. Prew answered it comes as one large bill and programmatically it is broken down to the departments and sent to them.

Alderman Gatsas asked so they wouldn't administratively do that.

Ms. Prew answered no.

Alderman Gatsas replied you are saying no too quickly.

Ms. Prew stated we have a Centrex system and at the time these contracts were done, Bell Atlantic was the only game in town. That is now changing. When we go forward to rebid then we certainly will be looking for some other things and we would very much like to get out of the business of having to break down the telephone bills.

Alderman Gatsas asked do you have an idea of what the cost would be to terminate the contract we are in.

Ms. Prew answered in order to terminate the contract we would have to buy out the life of the telephone lines. When you purchase a telephone line it is a \$450 charge.

Alderman Gatsas asked what is that number.

Ms. Prew answered I don't know. I would have to sit down and figure it out.

Alderman Gatsas stated I am willing to be that you probably could find another vendor out there that would separate your line, pick up that close out fee and probably give you less of a raise in today's market.

Chairman Hirschmann stated I think we are going to start with the department heads and I am sure we will keep this open for discussion but just because technology is changing and the market is changing, VITS gave us \$500/month off just by saying hi to them so maybe Bell Atlantic...maybe Mike Hickey needs to come and sit in front of us and tell us why \$20,000/month goes in his pocket.

Alderman Gatsas stated if you take out the Enterprise funds and you take out schools, you are down to about 261 lines and then you have 11 in District Court so you are down to 250. I am just saying that I don't think that obviously from a cost basis you are telling me that there is one person that you have on your staff who does just the separation of these bills and chargebacks?

Ms. Prew replied that is not their entire job, no.

Alderman Gatsas asked how much of their job is it.

Chairman Hirschmann asked wouldn't it be more productive to bill Aviation and all the other departments directly.

Alderman Gatsas replied that is what I am asking here. I am asking her what that number is.

Ms. Prew stated you have various things that this person does. This person takes care of the telephone bills, but this person also handles the orders for telephone lines or when telephone lines have to be moved. There are a lot of other things besides the bill that this person does.

Alderman Gatsas stated let me ask you another question. Is this one person dedicated only to telephone functions?

Ms. Prew asked no.

Alderman Gatsas asked what else does he or she do.

Ms. Prew answered this person also deals with data communication; the networks that keep the City's computers interacting. This person also, when there are renovations and moving, goes out to help lay out the internal wiring infrastructure that needs to be in that department or in that building.

Alderman Gatsas asked would you say that 80% of her time is affixed to phones.

Ms. Prew answered no. Maybe between 40% and 50%.

Alderman Gatsas asked would you say that the 50% of the time that she is allocated to doing phone duties that certainly any vendor would cut out and do for you that you could use her in better situations and utilize her time in a much more productive way.

Ms. Prew answered absolutely. The billing portion is something that we inherited because it had to be broken out. It is not something that we see...

Chairman Hirschmann interjected can't we have the centralized Centrex system call Bell Atlantic and say we are wasting a lot of money and we want to decentralize our billing and let them do the work and let them decentralize all of our bills and send them to the school and to the District Court but still Centrex is one system.

Ms. Prew answered we would have to look at the contract. Off-hand it has been awhile since I have looked at that.

Chairman Hirschmann stated I would be interested in calling them in and saying this is what we want to do. You are a department head and you could use that person to do something else.

Alderman Lopez stated I think you know where the Committee is going and to give you that opportunity with the new information that you got here tonight to look at the contract and see if this could be done and come back with some type of plan if there is a plan would be...because I don't think a lot of answers can be provided tonight. I think you know where we are going. We are trying to save some money someplace. We are trying to decentralize and have them send the bills directly to the departments and let them take care of it and let your person work with you to do what you have to do and that is it. Like you said you inherited it because you are Information Systems.

Chairman Hirschmann stated if the department heads starting seeing their bills with some long-distance calls on them maybe they would notice.

Ms. Prew answered they do. Their telephone bill is very detailed. It shows all long distance calls, the numbers that they were made to for in state and out-of-state. It is a very detailed bill.

Alderman Lopez stated but you also have to remember that not every department head really checks it. The clerk usually checks it.

Alderman Levasseur stated if we decentralize it, everybody is going to want another person to pay his or her phone bills.

Chairman Hirschmann stated, Diane, I guess we are going to invite you back to let us know if Bell Atlantic will do that.

Ms. Prew replied we will take a look at the contract and see what can be done.

Chairman Hirschmann stated I would invite them in regardless of what the contract says. We pay them \$20,000/month.

Alderman Gatsas asked on the chargeback to schools, are you paid current or explain to me how that works.

Ms. Prew answered we provide the departments with the bills and they pay them through the Finance Department like any other bill. We don't pay the central telephone bill.

Alderman Gatsas asked Kevin, is the School current with their payment.

Chairman Hirschmann stated we are going to get into that in our next discussion. They are way behind.

Alderman Gatsas stated I was just looking at it for the telephone bill.

Ms. Prew answered they pay the telephone bill directly now I think.

Alderman Gatsas stated the question was just asked by somebody down there about do you chargeback your time for breaking out the bill and your answer was yes.

Ms. Prew replied yes.

Alderman Gatsas asked well if they are paying direct then...

Ms. Prew interjected the telephone bill...what they owe to Bell Atlantic since they became a separate entity they pay directly to Bell Atlantic. It does not go through Finance. My administrative chargebacks to them go through the same process that everyone else's does. We just fill out a form. There is no cash that changes hands.

Chairman Hirschmann asked we weren't penalized by changing that billing, right.

Ms. Prew answered no.

Chairman Hirschmann stated then we could do that for Water, we could do that for Aviation, we could do that for everybody.

Ms. Prew answered they are paying their telephone...oh you mean as far as the administration. One thing I think that you have to keep in mind is with a Centrex contract there was benefit to all parties in having the large contract. Everybody got a lower rate.

Chairman Hirschmann asked but School didn't lose any of that benefit, right.

Ms. Prew answered no. They are still part of the contract. Once the contract is over, it becomes a determination as to whether they would be included.

Chairman Hirschmann stated we would collectively still bargain for our phone service I would think.

Alderman Gatsas stated I bet if you brought Centrex in here that Alderman Hirschmann and this Committee could certainly shed some light on their separating the bills.

Alderman Lopez stated we could go around all night. Diane knows what we are looking for. Some type of recommendation, whether it be within the contract, etc. How can we do things better than we do things today? Otherwise I think we are just going to kick this thing around all night and not get anywhere.

Chairman Hirschmann addressed Item 5 of the agenda:

Communication from the Deputy Finance Officer submitting a proposed audit schedule for the Internal Audit Manager.

Mr. Sherman stated you had asked back in May for me to supply a list of what I thought the internal auditor should be setting up for the program. In coming up with this list, I did look at what the department currently does on a day-to-day basis, what the external auditors cover and then you have to do a risk assessment. You have to try to figure out where your largest risks are. Kevin mentioned earlier that one of them is cash businesses. That is why items like the golf course and ice rinks got on there. The top ones that I put and I am not picking on anybody in particular here, but something that goes through...you know you have three Assessors that decide hundreds of thousands of dollars worth of tax exemptions with no review by the external auditors and no review by the internal auditors. It is not like we are paying a health insurance bill where we can sit there and audit those as they are going through. That is why tax exemptions were at the top of the list. The next one was the building permits. I think there is a system there to get the buildings permits in and to get them on the tax roles, but I am not sure it is fool proof. I know for a fact it is not fool proof because I know people who have done

things to their houses and never had their assessments changed. I think that those two areas are there. Now you are going through a revaluation and maybe the second one kind of takes care of itself through the revaluation and again I don't know if the tax exemptions are something that can be done internally or if you have to hire somebody to do that. The next two that I have there, Alderman Hirschmann, you had mentioned fleet several times. I would say in the last 10 years there have probably been at least four or five different fleet plans out there. How are we going to start funding our fleets? How are we going to maintain our fleets? Every time a plan gets done, it just gets shelved and nothing is done. I see cars that come through the system, you know they are \$18,000 cars and we keep them for six or seven years and we are paying \$6,000 or \$7,000 a year just to maintain those cars. Again, I think there are a lot of dollars there that could be saved if we had a real audit and started to follow a plan.

Chairman Hirschmann asked could that person also discuss, while they are auditing you know how they give a management letter that has advice, could they tell us maybe we should go to a lease. We don't lease anything. We buy everything with cold cash.

Mr. Sherman answered they certainly could make that part of the audit. A couple of years ago I sat on a committee with Alderman Clancy where the Board had put some money aside and had someone come in and they reviewed all of the vehicles and came out with a comprehensive plan and it didn't go anywhere. You turn around and you can see that there are vehicles out there...you may have four or five of the same vehicles and they may get used for 200 hours in each department that they exist in. Well why do we have five of them then? That is one of the questions that he kept asking. Why do you have so many of this type of vehicle if you are not using it? Maybe that is something that we have one of and you just lease it when you need it.

Chairman Hirschmann asked does Aggregation have any vehicles.

Mr. Sherman answered no.

Alderman Gatsas stated I can tell you that the lease versus buy scenario on equipment and automobiles I grudgingly worked numerous times on the Water Works with, however, every indication that they came up with and I guess it is like any other accountant it is how they figure their numbers and how they cook them when they give you them but every time they showed it they claimed that obviously us paying for the vehicle makes more sense and I still don't believe it because I look and see the Highway Department with a loader and Water Works with a loader and I don't know who else, but everybody has got them. There is a big number on them and they don't use them everyday but if you talk to any

department they use it everyday. Obviously, you don't want to restrict how projects get done, but I find it hard to believe that if there are 10 departments with a pay loader that all 10 of them are used in any one given day. Now maybe 5 of them are. You are talking big dollars and the problem is that I don't think anybody wants to give you a true assessment because nobody wants to give it up.

Chairman Hirschmann stated if you took all of the money in the MER account you could probably go clean out the lot at Merchants. I think there is \$4 million in the MER account for buying vehicles. I don't know. Maybe I am wrong.

Alderman Gatsas stated and if you drive by departments in any one place you will see four or five cars parked and one being used.

Chairman Hirschmann stated this list is good. With fleet, can we add...when I thought of fleet I thought of gas purchases and debit purchases...plastic. Is there a way to add that on the list?

Mr. Sherman asked with the fleet.

Chairman Hirschmann stated I don't know how it is being done. Is it being done on plastic?

Mr. Sherman replied Highway runs their central gas depot and most of the departments get their gas at the Highway Department. They have a billing system over there. They go in and they are tagged and they run it through the system and each department is then billed. It is all computerized. One of the things I think that has to be tracked with the fleet is the financial system that the City has does have an extensive fleet system and if the departments used it we could look at all of those pay loaders and see not only when they are used but how much they are used and how much they are maintained. Right now, very little of that is actually on the Finance system. Again, I agree with the Alderman. The gut feeling is that there are too many vehicles out there. That is what the report came back a couple of years ago and said.

Chairman Hirschmann stated I wasn't on the Committee, but there was discussion of a lot at the MTA and having a central lot. Alderman Roberts was the Chairman of that Committee. Did that all just go away?

Mr. Sherman replied the report came out and as Alderman Gatsas said all of the departments jumped up and down and said not my vehicle, don't take my pay loader. We can't afford to share because we need it when we need it. That was the general feeling that came out and the report just died a quiet death. The whole idea was for a central garage and a central fleet and almost set-up like an internal

service fund where I am Parks & Recreation and I need that pay loader for the day I will pay the fleet manager so I can use it and then the fleet manager now has that money so he can maintain his fleet and maintain the vehicles. If you work in that system you would have a charge system going back and forth. It actually tracks your truer cost. Right now, for a department to come in and ask for a pay loader it doesn't cost them anything because you fund it through the MER.

Chairman Hirschmann asked has Mayor Baines mentioned anything about that.

Mr. Sherman answered not that I am aware of, no.

Alderman Levasseur stated I think about two months or so we were going through this with the Mayor who wanted complete control over the auditor. Did we ever decide who was going to have control over that auditor? Was that supposed to go to Bills on Second Reading?

Alderman Gatsas stated it came to the Administration Committee also and if I remember correctly we changed it to read that they would report to the Mayor and Aldermen. It was changed that night at the meeting.

Chairman Hirschmann stated he has been getting his direction from this Committee. That is the problem.

Alderman Gatsas replied I don't think that changes.

Mr. Clougherty stated the proposal went from the Board to the Committee on Administration. It is in the Committee on Administration now; those ordinances that were changed. At the last meeting of Administration I asked if we could pull together a group to take a look at that and not just look at the audit side and do this piece meal, but to look at all of the financial areas. In talking to the Committee on Administration, they agreed that what I should do is...I don't want to go in and say here is a team of people that should look at this and how it should go. You should have somebody independent look at it so I contacted the State Auditor and he gave me a list of...in fact he sent it down yesterday, I have a list of 15 people in the Manchester area, CPA's, that he selected to form a basis of a pool to do an analysis. I am going to be getting that to the Committee.

Alderman Levasseur stated that analysis you are looking for is basically what is the best structure. Now, what was the structure prior to that? Just what we decided on this Committee here?

Mr. Clougherty replied the prior structure for the internal audit was that it was always part of the Finance Department.

Alderman Levasseur asked so you had complete control over that.

Mr. Clougherty answered we have always felt that it wasn't perhaps the best arrangement, but again how do you want to set it up going forward and what is the best structure. I think what Scott was alluding to is you have to take a look at the whole piece and then say depending on how you want to do the financial system, maybe the auditor reports to this Committee or maybe it goes someplace else and that is what you need people to come in and give you a consensus on.

Chairman Hirschmann stated well the cities that he reports on, you didn't hear him say that any of them report to a Mayor.

Mr. Clougherty replied most of them go to an audit committee. We will have somebody come in and look at that. We should have a report to the Committee on Administration that lists out the group. I have to contact these people and see if they would be willing to participate before I give the list to the Committee.

Alderman Levasseur stated you could imagine what it would be like if they had to go through a 14 person approval because I can imagine Ward 8, Ward 9, and Ward 12 saying no this is what we want. That is too many people in control of where this guy should go.

Mr. Clougherty responded if you follow the auditing standards, what they suggest is that there should be a regular program adopted over a cycle of a couple of years.

Chairman Hirschmann stated that is what we are looking at right now with Randy. This is a program.

Alderman Levasseur asked but don't you worry about having a regular program that is known to everybody that is going to be audited. Don't you like the idea of an internal auditor being able to go in and do an internal audit without everybody's expectations or red flags being up?

Mr. Clougherty answered I think you need both. I think you have the regular schedule and people know you are coming and that is one piece and then you have options to go in and do a sampling. Just because you are doing one doesn't mean you don't do the other, but you need both and you should have a schedule out so that people know this is what we are going to be looking at and it is going to be on a regular basis.

Alderman Levasseur stated this whole internal auditor...now we were just talking to Scott and he said he would be willing to go and do an audit of certain departments. Did he mean the same in-depth audit of another department if we asked him to or is that a total different fee?

Chairman Hirschmann replied it would be a charge.

Mr. Clougherty stated the budget that we adopted this year for auditing is \$83,000 I believe and \$50,000 of that is for what Scott was talking about tonight. To go out and do the audits of the financial statements and to do the testing of the internal controls of the different departments. That still leaves around \$33,000 I believe and I would have to go back and check.

Alderman Levasseur asked what would it cost him to do just tax exemptions for the heck of it. What do you think it would cost him to do that? Would it cost \$1,000 or \$2,000?

Mr. Clougherty answered it would be \$5,000 to \$10,000.

Alderman Levasseur asked for each audit of each different department.

Mr. Clougherty answered yes. On that you would say we want this done and we would have him price that and bring it back with a schedule and if you have the money you would have him do that.

Alderman Levasseur stated so the reason you want your own internal auditor is obviously because you can get one guy for \$31,000 or something.

Mr. Sherman stated instead of paying \$100 to \$150 an hour you can have somebody on staff that you are maybe paying \$20 an hour and you have them there 52 weeks a year.

Alderman Gatsas asked where did you get the \$83,000.

Mr. Sherman answered I think that is the amount that was budgeted within the Finance Department.

Alderman Gatsas stated but that is not what his contract is calling for.

Mr. Sherman replied that is right but Airport pays for their share and EPD pays for theirs, etc.

Mr. Clougherty stated I might add too that one of the things you might want this group to look at is we keep talking about an internal auditor and this is a big company. You need more than one position to do that and do it right. Let's be honest. We have tried to get an internal audit program going here for the last several years. The number of months that we have been able to have the internal auditor actually functioning is miniscule because we didn't have enough money to pay for the audit function and it took us forever to get him on board and once we got him on board we weren't able to keep him and now we are still trying to solicit something. At that same time, we are not able to do the central contract administration items that we should be doing and we are losing revenues. You are going to pay it one way or the other. I think that is what you want this group to take a look at. They should be looking at the proper structure for an organization this size.

Chairman Hirschmann stated if that is true you should put that in a letter form to us so that we understand that.

Mr. Clougherty replied I think that is what we are getting to. It is just not Finance saying it but somebody outside. CPA's that are used to dealing with governments of different sizes that would come back and confirm that so it is not just my word or my proposal but those are the types of things that you need to wrestle with for the next budget cycle.

Alderman Levasseur stated I know how hard you guys have to work and how many hours you had to put in to close the civic center deal. I know you guys were working them but you don't have those big projects right now. You don't have those big dynamic projects. Aggregation is winding down. The civic center has been closed. I just don't like to hire another person when...I would think you guys have more free time to get some of this other stuff accomplished without having to put another person on the payroll. Maybe you can convince me otherwise. I don't work in your department and I don't know what you guys do everyday but I know how much you guys had to do and now you don't have to do that anymore and you still accomplished it with the same amount of people. You didn't have extra people on hand.

Mr. Clougherty stated just so you know, Alderman, on the civic center for example we keep work orders in our office so we know who was assigned and it was less than 1/3 of a full-time equivalent person who was devoted to the civic center. A lot of what we are doing now is we are trying to work on the procedures manual that is out there and getting done without going outside and bringing that in house and we are trying to work on the audit currently. We do in different cycles.

Alderman Lopez asked have we looked at the pay structure for auditor because if you are going to get a good one like you had he is going to leave. It is just like Diane Prew. They are getting \$15,000 to \$20,000 more in the computer area in private business because the economy is so good. If you can't compete and you are going to get somebody that is good, they are not going to stay. They are just going to get name recognition and then leave.

Mr. Sherman answered we had gone out to advertise for that position at least two or three times last year and we came into the HR Committee and said we just can't hire somebody. They bumped it up two grades and even to get Todd we had to go up a step in the grade and he still took a \$10,000 pay cut to come to the City. Right now, you have all of the other Finance people sitting right on top of that. We brought that one up and if you bump that one up again you cause a problem up higher. We have had that problem with Yarger Decker right from the start on the Finance position because we thought they were all too low.

Alderman Lopez stated the point that I am getting at is we will probably never get an auditor. You are going to get one; maybe not as good as you want but let's put that aside. Let's just say for sake of argument that we are not going to get one. The Finance Department is capable of doing all of the work that is needed to make sure that the City of Manchester's revenues are correct and that people are doing the right things, yes or no?

Mr. Sherman replied I don't believe so.

Alderman Lopez asked without an auditor you can't do your job.

Mr. Clougherty answered you have internal control issues.

Alderman Lopez replied I realize that but until you have an auditor, who is going to do this.

Mr. Clougherty answered again we would be looking to use some of that contract money, that \$30,000 that is available. We just in the last month went out to test the waters on the position to see if we could get someone and we got two applications back and neither of them was qualified to meet minimum requirements. There is a letter on the Mayor's desk right now to ask that he look at some things. He is supposed to be working with Mark to try and do something here in the next two weeks hopefully to get that readvertised and get somebody in here. In the meantime, as Randy said our main focus is on the external audit. We will have, as time allows, people pulling together information and data that can be used for some of these things if you decide you want to go this path so that when somebody does come in they can hit the ground the running.

Alderman Lopez stated the point that I want to make is that without the auditor the City of Manchester is not going to fall apart right now. We are going to make sure that we get our revenue and that the bills are paid and all that stuff and that the departments are doing the right thing.

Mr. Clougherty replied to the extent that we can do the reviews of the bills, I think you are better on that side. The revenue side is where the weakness is and that is, again, because not all of the contracts come to us.

Alderman Lopez asked regarding the tax exemptions there are a lot of State laws on that that you can't touch because those three Assessors have autonomous power.

Mr. Clougherty answered that is right but they have to comply with the laws and they have to justify the decisions they make.

Alderman Lopez stated that is the point that I am getting at. The State does send somebody down to the Assessor's Office for those reports to make sure that those tax exemptions are done properly. Do you get any reports like that?

Mr. Clougherty replied I have never seen one.

Alderman Lopez stated you might want to talk to Steve Tellier because the State does come down. As a matter of fact, the State was down there the other day.

Mr. Clougherty replied we may be talking apples and oranges, but I will look at that.

Alderman Lopez stated I know through the State law and the Charter process that we can't tell them who they are going to exempt. If they vote to exempt, we can't take that away. We can't take that authority away. Let's not get into an area where we are going to be...

Mr. Sherman interjected I guess what I am saying Alderman is yes they have that authority to vote for an exemption, however, there are laws that they have to follow and there are guidelines that they have to follow and nobody checks that. One of the rules you are taught as an internal auditor is keep your ear to the ground and if you hear that something is out of whack and somebody wants to sing, you should listen to it.

Alderman Lopez asked do you think there is something out of whack then.

Mr. Sherman answered I have heard stories and that is my point. There are hundreds of thousands of dollars over there. Is something wrong? I don't know but you are supposed to listen and you are supposed to follow-up. I think we have an obligation to follow-up.

Chairman Hirschmann asked which department is that.

Mr. Sherman answered on tax exemptions and the same thing goes with assessments and building permits.

Chairman Hirschmann stated well you better tell Scott.

Mr. Sherman stated someone says I put an addition on my home and I have never been assessed. People are proud of these things.

Alderman Lopez asked why do we have to wait then for an internal audit to do this. Why can't we have the regular auditor that we just hired do this?

Mr. Sherman answered you could.

Alderman Lopez stated you are indicating to me that there is something wrong and you have heard stories.

Mr. Sherman replied if that is something that this Committee would like them to go out and look at and spend some of the \$32,000 on...

Alderman Lopez interjected are you telling us that the information that you have knowledge of that there is something wrong might be something wrong.

Mr. Sherman replied there might be and there might not. People talk whether they know the truth or don't know the truth but as an internal auditor you listen to that. A lot of times it is the truth. Again, people are proud of these things like putting a garage on and never getting assessed.

Alderman Lopez stated then we should have the auditor go down there.

Mr. Sherman responded I am not saying that there is anything wrong there, but there is a risk factor.

Mr. Clougherty stated this is one of those areas, Alderman, that I was alluding to before. I think it goes city to city across the country. This is one of those areas where we should be getting into a regular routine of looking at those.

Alderman Lopez stated the other thing is on the fleet management, which has been going on for a long time in this City. There was a problem with the MTA property down there as far as putting fleet management down there and their particular report a few years ago that I am well aware of to that degree because of the land and the Federal and everything. There is not a piece of land where we can have a fleet management in the City that I know of and I think that is a major problem. Naturally department heads want their vehicles but to me that is an area that should be number one if we ever had an internal audit. They should go through fleet management versus...the way these priorities are now without an internal auditor we are just wasting time.

Mr. Clougherty stated the main thing on fleet, Alderman, when you look at it and I think Alderman Gatsas was alluding to it is that you can justify certain things but it gets harder...the thing we always found interesting was maintenance. You can't just look at the number of fleet. You have to look at the maintenance and the garages. That is where the money is and that is where the savings are. If you can get a lease that includes maintenance, that is where you are going to be looking at some savings and you should probably be looking at consolidating your garages and the cost of a new, modern facility as opposed to some of these multiple ones that we have might pay for itself. Again, we don't have the time to do that analysis.

Alderman Lopez stated but financially if those are some of the recommendations that are going to save money, you as the Chief Finance Officer surely could make those recommendations.

Mr. Clougherty replied we have over the past, but we would like to follow them up.

Alderman Lopez stated do it again.

Alderman Gatsas stated back to the question of the internal auditor because I think that is the bridge we are trying to cross here, is there a way that that internal auditor and obviously because of the step grade and because of the situation in the Finance Department there is obviously an amount of money that you have allocated in your budget for an auditor. How much is that?

Mr. Sherman replied it is about \$42,000.

Alderman Gatsas stated so you have \$42,000 in your budget and another \$30,000 that is in the audit section and that gives us \$72,000. For \$72,000, Mr. Chairman, you probably could have an independent external auditor that has nothing to do

with Finance and is not being rated by them and is not being told what to do and probably achieve your internal audit even to a higher eschalon because they would be held accountable if they made a mistake, where in-house if you have an employee that gives you bad information the only scope that you have is to terminate. All I am saying is it gives you a double bang for your buck. We have the money allocated. They are never going to find one at \$42,000 if they look for the next 20 years. I am saying that if you put the \$42,000 together with the \$30,000 that is there for the audit side you can have another person that does just your internal auditing for you in a very composite way.

Chairman Hirschmann asked, Kevin, do you have any desire or input whether this should be an employee or an external contract. Does it matter to you? Is there anything that we are gaining or losing?

Mr. Clougherty answered I would look at it as an interim measure for this year until you get the report from this other group that gives you a final decision on how this should look going forward. In the interim, take a look at all of the resources you have.

Chairman Hirschmann stated before we go out and hire somebody, I would like to have a clear delineation of authority. I don't want to have Mayors and Aldermen and Committees and everyone driving this guy crazy. I want to get to the bottom of this and then...it is like we are one hurdle away from where we are supposed to be here.

Alderman Gatsas replied I agree with what you are saying, Mr. Chairman, but the process that I have seen of how things run around here...

Chairman Hirschmann interjected it is in your Committee, Alderman.

Alderman Gatsas replied I understand that but my Committee is meeting I don't know when and I don't know if they are going to have that here and that means September or October and you are going to be without an internal auditor until November/December.

Chairman Hirschmann stated well Finance is authorized to hire an internal auditor right now, right.

Mr. Clougherty answered yes.

Alderman Gatsas stated he can but I don't think he is ever going to find one at \$42,000.

Mr. Clougherty replied we could use some of the other dollars to leverage and we might be able to get somebody in to get that in the interim until you get a final solution for next year and a final budget and a final structure for the next budget cycle and then you would be ready to move into the future. In the interim, you would have someone to take a look at what you have now.

Chairman Hirschmann asked are you saying to change the pay grade of this person. That is Human Resource type stuff and I don't know about that.

Mr. Clougherty answered as I mentioned the Mayor is on vacation this week and I have sent a letter to Mr. Hobson and we are going to get together with the Mayor next week and try to work something out in the interim.

Alderman Levasseur stated I think I understand what you are saying. You have that money and you just pay him.

Mr. Clougherty replied well I want to find out what is the right amount to pay somebody to get them in here and get going and obviously keep that as low as I can to have some of the \$30,000 left to do some other projects as well. I am looking to HR to help me do that.

Chairman Hirschmann stated right now we are talking about the audit schedule. Is everybody okay with the audit schedule? Do we want to make any changes to the audit schedule? Can we move on this thing that Randy was discussing?

Mr. Sherman stated if we want to start attacking these and we want to use the external auditor, we can certainly talk to Scott next week.

Alderman Levasseur stated I would like to have building permits done first. I agree with Randy wholeheartedly that we are missing the boat on the money that we should be getting. A lot of construction has been going on in this City in the last five years and I bet you we are not receiving half of the money we should get but it also goes to the fact that people are probably petrified to come here, put an addition on their house and then have to go through the auditing process so they are not coming to the Building Department for their permits. It is like a double-edged sword.

Chairman Hirschmann stated in fairness to the Assessor's Office, they follow laws and rules. What is happening is some guy builds a new hotel in the south end, he can't put it on for the assessment that it is really worth because it has to go on for what the other guy down the street's hotel is. When these new evaluators go around, all of the real assessments are going to come out.

Alderman Levasseur replied I know but I agree with Randy. If you do anything to your house, if you put a new bathroom in, they have to go reevaluate that house.

Chairman Hirschmann stated they are doing that now. We are paying \$1 million.

Mr. Sherman replied I think those are the things that are getting missed. Again, I think the revaluation will take care of finding these new in-law apartments that are out there and it should catch up with that stuff. I think one of the things that needs to be done is somebody needs to look at the process on how this paperwork is getting followed and why these things are being missed. You don't want to come in and do a revaluation for 2001 and then start with the same problem all over again going forward. What I was looking for here was more of an internal control type audit. Why when I come in and get that permit for the bathroom doesn't it end up in somebody being at my house six months from now doing an assessment.

Chairman Hirschmann stated the schedule you presented is fine with me. Are there any adjustments that anyone would like to make?

Alderman Levasseur replied I would like to make an adjustment.

Alderman Lopez stated you can't do anything until you hire somebody anyway.

Alderman Levasseur replied I would like to see building permits done first.

Alderman Lopez moved to accept the schedule subject to change by the Committee. Alderman Levasseur duly seconded the motion. Chairman Hirschmann called for a vote. There being none opposed, the motion carried.

Chairman Hirschmann stated you gave us a separate hand out to tell us that you are hiring the internal auditor. Is that what that is about?

Mr. Clougherty replied yes. Basically that is just bringing you up to speed on what we are trying to do.

Chairman Hirschmann addressed Item 6 of the agenda:

Review of the monthly financial reports for eleven months ending
May 31, 2000, and year ending June 30, 2000.

Alderman Lopez moved to receive and file the reports. Alderman Levasseur duly seconded the motion for discussion.

Mr. Sherman stated unless there are specific questions on May, I will jump right to June. These are very preliminary. They were run on July 5. You will notice if you look under the departments where you have your unobligated balance there are maybe a half dozen that are in the hole. Most of those have to do with contracts and Yarger Decker issues where we will be moving the money out of the salary adjustment account to cover those. Some of them have probably been fixed since last week. The health insurance, which shows a deficit, there are a couple of adjustments that are coming into that account. One of them is that we need to make an adjustment between City and School to the tune of about \$1.5 million. What that represents are claims that the City paid on behalf of the School Department and charged to our side of the ledger and now School has to reimburse us for those. We have not settled up with Anthem on the month of June yet so that also will affect that number but we don't have that calculation.

Chairman Hirschmann asked is June in this number.

Mr. Sherman answered our June premium is in that number, but not the overage or it could work the other way and we might get a check back from them. If you talk to HR, they feel that the health insurance will end up in the black this year. The other large number I would like to point out is on Page 2 of the June report. The School chargeback number.

Chairman Hirschmann stated I would like to entertain a motion to put the pressure on the School Department.

Mr. Sherman stated the \$5 million number that you see there are the actual billings that the City has made to the School Department so far. We are still in the process of getting the rest of that \$6.8 million billed. I can tell you at this point that none of that \$5 million has been paid. At the end of June, we estimate that the School is probably going to owe us between \$8 and \$9 million.

Alderman Levasseur asked plus interest.

Mr. Sherman answered that would include interest.

Chairman Hirschmann stated I want someone to make a motion here tonight to expedite getting this \$5 million that has been billed. That is why I asked Scott about that. This Committee has to report to the full Board that the School Department has not paid the \$5 million. It is a Committee function. I want to hear from Finance is there anything else that we should tell the full Board.

Mr. Sherman replied we will end up billing that full \$6.8 million. That was the deal. To go back to Scott's comments earlier, he now has to sit there and assess whether you are ever going to receive that money.

Chairman Hirschmann responded what his statement was is this is now a receivable and he has to assess the collectability of the receivable.

Alderman Gatsas stated unless I have missed something in this whole discord of how money moves, don't we collect the School's portion of taxes.

Mr. Sherman replied yes.

Alderman Gatsas stated as far as I...I think that everybody obviously wanted to play on a very fair level playing field.

Chairman Hirschmann stated we are under court order to do it this way.

Alderman Gatsas replied I think that is a double-edged sword.

Chairman Hirschmann responded absolutely.

Alderman Gatsas stated I would say that if we are collecting and we haven't been paid...are we charging interest on this money.

Mr. Sherman replied yes we are.

Alderman Gatsas asked at what rate.

Mr. Sherman answered 6.55%.

Alderman Gatsas stated if you got a bill and didn't get it paid in 30 days, it is 1.5%. So, the \$6.8 million isn't a true number.

Chairman Hirschmann replied it is an agreed upon number.

Alderman Gatsas stated it is an agreed upon number, but it doesn't include the interest obviously.

Mr. Sherman responded that is what I said. At the end of the year it is going to be closer to \$8 or \$9 million that they owe us.

Alderman Gatsas stated obviously because they couldn't meet their financial obligations to meet payroll from the letter that we received three weeks ago, I watched the discord that was on TV about whether this was a proper thing or not proper. Did they meet payroll this past week or did you give them another example?

Mr. Clougherty replied we have been providing the taxes as they become available. They have been getting additional funds. The Solicitor has told us that as it becomes available and as the Tax Collector reports it to the School, we make it available to them.

Alderman Gatsas asked you have only sent us one letter, right.

Chairman Hirschmann answered I saw two letters.

Mr. Clougherty stated we have sent three letters I think.

Chairman Hirschmann stated one said \$2.3 million and one said \$1.7 million.

Alderman Gatsas asked so do they have all of the money that we have collected at this point.

Mr. Clougherty answered as we said we are still collecting on the current tax bill. As it is collected, we are making it available to them.

Alderman Gatsas stated but let's understand something. I don't know who has the ability or who doesn't have the ability to answer a question but I think in the first letter you sent us there was a question about whether this was legal. Now, have we gotten an answer?

Mr. Clougherty replied we have gotten an answer in terms of our side in terms of what the Solicitor is telling us but their counsel is giving them a different opinion.

Alderman Gatsas asked what is the Solicitor saying to us because I haven't seen that response.

Chairman Hirschmann answered he said don't withhold the money.

Alderman Gatsas stated my question is on whether they have the ability to use appropriations from a year that we are in to pay bills of a past year.

Mr. Clougherty replied what they are saying is that they are not using the appropriations, they are using cash. It is a cash flow issue. It is not an appropriation issue

Alderman Gatsas stated I don't care what they are saying. My interest is not with what they are saying and I really apologize to this Committee but my question is what has the Solicitor said about spending those monies in a year that they shouldn't be spending.

Mr. Clougherty replied the Solicitor's opinion to us is that he would not allow them to do that, but their attorney has a different opinion on that.

Alderman Gatsas stated I think that...and I certainly can't make a motion in this Committee but I think it is time that the rubber hits the road. Somebody has to say enough is enough because we can't play this game. You owe us \$6.8 million and we are going to start collecting those taxes as they come in because you are telling us it is a cash flow basis so we need to collect them on our end. If we didn't have the money on our side, how would they pay the bill?

Mr. Clougherty replied exactly. We are meeting with them this week. We have some issues and questions that we need to get resolved as part of the audit and the year-end closing and that is obviously one of the top things we are going to be talking about.

Chairman Hirschmann stated you said that the money you transferred and I don't know what it was...\$2 million, you said that was cash flow. They obviously don't have the money to pay this do they?

Mr. Clougherty answered right. What they are saying is that they are not spending any monies prior to July 1 that was appropriated July 1. They are using the cash that was collected from taxes that is supposed to be used for next year for the previous year. That is not a good business practice even if it is legal and we have said that to them in our letter.

Alderman Gatsas asked how is that legal. How can anybody say that is legal? Maybe it is time that we start testing this court case.

Mr. Clougherty answered we are going to.

Alderman Gatsas asked when. A Charter amendment doesn't do it. Either this Committee comes back to the Board and says we shouldn't be appropriating this money to them because they owe us a bill...

Mr. Sherman interjected it is not an appropriation. It is a transfer.

Mr. Clougherty stated the court ruling does say and again I am not a lawyer and I shouldn't be speaking for Tom, but what I understand is if there is a deficit in the School Department they have to raise taxes to deal with that. That may become an issue as part of the tax rate setting this year. Again, that gets in part to what Randy is saying here and is it a true and honest assessment of the books and that is why we want our audit to be separate from that.

Alderman Lopez stated I am glad you mentioned that because I have heard you say that on another occasion and the philosophy is it is going to go to \$8 or \$9 million with the interest and everything else and I don't know why you can't collect our money. That is saving them money in the long run but with the philosophy that is in that court ruling, which I think you have to go back to and educate us a little bit more on, I think the other side is saying the heck with it. They will have to raise taxes in order to take care of it.

Mr. Clougherty replied you are right, Alderman. What it gets to on cash flow is if we don't give them the cash and withhold that then they are going to be short on cash and they are going to have to make arrangements to have that cash flow taken care of through some type of line of credit with a bank and in order to make those arrangements they have to come back to you guys. That is a Board of Mayor and Aldermen decision because they are borrowing at that point and they are going to have to transfer the funds within their existing budget to cover that.

Alderman Lopez stated my question is Tom Clark has ruled that you can't hold the cash, you have to give it to them because of the court ruling so is there anything in that document...

Mr. Clougherty interjected the ruling said that we can't try to negotiate the netting. They have been reluctant to discuss that, Alderman, and that is what we are going to talk about this week.

Alderman Lopez stated naturally they are not going to come your way. There is no question about it. My question is this though, would you be breaking the Supreme Court law if you took the money that they owe us before you give them the rest?

Mr. Clougherty replied again and I don't want to speak for Tom, but it comes down to we are in a better position to close for the fiscal year than if we had taken that before the end of the fiscal year. Now, they owe it to us, the books are closed, it is done and they haven't paid us and it is a different situation.

Alderman Lopez asked didn't the Board through a Resolution give you the authority to balance the books. I thought we did that at the last Board meeting.

Mr. Clougherty answered you gave me the ability to close the books and do the necessary transfers and that is what I am doing.

Alderman Lopez asked so if we want our \$6 million we just take it. The Board of Mayor and Aldermen gave you the authority to balance the books.

Mr. Clougherty answered we don't disagree with you, Alderman, and we are going to be moving in that direction but I want to make sure we are on solid legal ground and I am talking to Tom as we do that. We have followed his advice so far and I am going to continue to follow it.

Chairman Hirschmann stated I want the appropriate motion made whether it is to transfer or go to court our whatever. I want to do what is right.

Alderman Levasseur asked, Kevin, has this ever been done before. What you are talking about with the advanced funds?

Mr. Clougherty answered yes. We have advanced funds to departments. What is different now is they are a separate entity because of the court ruling so it is a different situation.

Alderman Levasseur stated I want to go back six months ago when I became an Alderman. When I sat on this Board for the first month or so, we started having this discussion about the deficit. Now I am sorry if I have to take you through this, but I need to clarify something in my head before I move to the next level here. There was a motion on the floor to...there was a \$1.4 million deficit. Is that the correct number that we were discussing at the time?

Chairman Hirschmann answered \$1.449 million.

Mr. Clougherty stated that is what they were saying.

Alderman Levasseur stated that was the number that originally we were all having the big debate about. We all thought it was going to be more but just to go back to that process that we went through it was \$1.4 million. We voted on that. It came out 7-7 and the Mayor said we will go with your recommendation and set aside that money. If you remember correctly we went through that process and then we had a motion for reconsideration on the floor and I stated specifically to the Mayor if we don't vote to reconsider this and it stays the same, we will have to come

before this Board in order for us to appropriate that money to them. Why has that not yet occurred?

Mr. Clougherty replied because that will happen, Alderman, as part of the year-end closure. We don't know exactly what the number is yet. We have to wait for that calculation and then it will come back to you.

Alderman Levasseur responded let's forget about the \$6 million number. I am wondering is it \$6 million or is it \$1.4 million and the \$4.6 million is something else. Is that \$4.6 million not part of the original deficit problem or is that all together?

Mr. Clougherty answered it is two different things. The \$1.4 million we are dealing with and we know that we have to come back to the Board to get authorization for that but we have to find out exactly what the number is first and that is what we are going through now with the audit. We will know what that number is as Randy had mentioned.

Deputy Clerk Johnson stated my recommendation would be to recommend that the full Board recess and meet with legal counsel and the Finance Department to discuss the School chargeback issue.

Alderman Levasseur stated there is a \$1.4 million deficit. Now there have been meetings on this since...you even had a special committee formed and there was only one Alderman on that Board and that was Alderman Cashin so we don't know really...we are not privy to the stuff that is going on there. The \$1.4 million. Let's say the number comes to \$1 million. Now you asked us to set aside that money and you made special accommodations for that. Now you have the money set aside for that. How much do you have set aside for that deficit? You had to make certain cuts and stuff.

Mr. Clougherty replied we said that we would try to generate a sufficient fund balance to cover that.

Alderman Levasseur asked do you have a fund balance.

Mr. Clougherty answered I think at the end of the day you will.

Alderman Levasseur stated when you come to us and I don't know what the date is, maybe the next meeting or the meeting after and it is a \$1 million deficit and we are sitting here, 14 Aldermen and the Mayor, and we go to vote for this, if that vote does not pass and we say no we are not going to give the schools the money and I am not talking about whatever other money you have come up with at this

point but the original one that we voted on that you said to put aside. When we say no to that, what happens from that point on? I don't think they are going to get that money out of this Board.

Mr. Clougherty replied what we want to do, Alderman, is when we bring that vote before you be able to say this is what happens if you don't approve it and if it stays on your side and this is what the ramification is on the School side. That is why we have to wait for them to close their items as well. That may take us another month to get that number. I don't want to come in and short change us by just saying here is the number and here is the rest of it. I want to know what that number is.

Alderman Levasseur stated so we are going to have the number. Take me past the \$1 million to the \$6 million. Is that going to be covered or are we looking at having to cover them on that side also? Based on what you are telling us, you must have some sort of an inkling.

Mr. Clougherty replied as Randy said, they are going to owe us some significant amounts of money and what we are going to talk about is how we are going to get that cash back to the City for those services that we paid for. Whether we do that as a netting of the tax collections or whether we take some other approach, that is what we will be discussing with them.

Alderman Levasseur asked do we have it within our authority to then turn around and say okay we are \$6 million in the hole to go out and have to...I think you alluded to this now we would say okay we are going to need a tax increase because what is it? \$1 million is how much, 13 cents on the tax rate so we would have to raise like \$1. Would we have the authority to do that?

Mr. Clougherty answered what I am saying is we net the collections on our side, but that may have a consequence on their side and raise the deficit on the School side. If there is a deficit on the School side, my understanding of the court order is that they have to make that up and that would have to be considered in a tax rate setting. Now whether we do that as part of this tax rate setting or that is considered part of the next budget cycle and we put in as we did last year for a special adjustment for tax...

Alderman Levasseur interjected you have done well and I am almost there. I am one question away now.

Mr. Clougherty stated or they stop spending.

Alderman Levasseur asked let's say they have a deficit of \$6 million.

Mr. Clougherty stated a cash deficit.

Alderman Levasseur asked is the cash deficit where I am having a problem. What is the difference between a cash deficit and a real deficit?

Mr. Sherman answered the \$1.4 million that they have talked about...you gave them an appropriation of \$100.5 million. What they came in earlier and said is we are going to spend \$102 million. That is where the \$1.4 came from. They were actually going to spend more than you gave them so that is their appropriation. Now they have to have cash in order to pay \$102 million worth of bills. The problem is that they don't have probably \$94 million worth of cash. Every year when the School Department goes through their cycle and they get to the end of the year, they probably have \$2, \$3 or \$4 million worth of tuition bills outstanding from Bedford, Hooksett, Candia, etc. They also have probably about \$4 or \$5 million outstanding in federal grants. If you add that all up and consider the fact that on a good day they still would have only had \$100.5 million, right off the bat they are \$1.4 million in the hole in cash then they have \$3 or \$4 million in receivables for tuition and another \$4 or \$5 million on top of that, that is where their cash deficit is coming from. It is not an appropriation issue; it is just a cash flow. So they are getting down to the end of the year and they are saying well I am short \$8 million worth of cash, guess who doesn't get paid. I have to pay all of my vendors and I have to pay all of my teachers so I won't pay the City until my tuition dollars come in and I get my money back from the Federal government. Every year you are going to have this cycle. It is not that they have over spent their appropriation \$6.8 million, it is just a cash flow issue.

Mr. Clougherty stated we have to deal with that now because we don't want to be dealing with it next year. How we provide that and how they are going to provide for their cash flow either through a TAN or borrowing or a line of credit is something that they are going to have to discuss and deal with. We want to net our cash out of their collectibles.

Alderman Levasseur asked are we going to know that number for real because you know they could say \$6 million and it could really be \$5 million. You are not involved in their Finance Department because you are separated out from them.

Mr. Sherman stated we have on our books how much we believe they owe us. The \$6.8 million plus some health items plus some interest. There are a number of items there that we have all of the details to that is on our books that is a receivable. Now knowing the School Department they will probably come in and try to debate some of those numbers and their auditors are going to have to sign-

off on a number and our auditors are going to have to sign-off on a number and hopefully the two numbers are going to agree.

Alderman Levasseur asked but they have two different numbers that they are going to be dealing with and we will have to vote on that original one that we decided in January.

Mr. Sherman answered one is a deficit and one is a cash flow.

Chairman Hirschmann asked those two numbers together are \$8.2 million plus there are other numbers besides those two.

Mr. Sherman answered no. The \$1.4 million you wouldn't add into that. It is \$6.8 million plus \$1.5 million for health and then there is some interest.

Alderman Lopez stated it is getting late and I know where the Chairman wants to go and I think it is the best thing and Carol can give us the motion because that is where it is going to be resolved. I think it has to go back to the documents from the Superior Court and that is where they are holding the ace in the hole. I think that one of the things that you have to justify to their liking sort to speak is that \$6.8 million. If they disagree and it goes through the same thing on a small scale that they go through at Parks & Recreation for \$300,000. The School Department never pays them until the end. They are the last ones on the totem pole. You guys have to get the ruling from the court.

Chairman Hirschmann asked the Deputy Clerk to read the motion.

Deputy Clerk Johnson stated the recommendation would be that the Board recess to meet with legal counsel regarding School chargebacks, cash transfers and the Superior Court rulings.

Alderman Lopez moved to recommend to the full Board that they recess to meet with legal counsel regarding School chargebacks, cash transfers and the Superior Court rulings. Alderman Levasseur duly seconded the motion. Chairman Hirschmann called for a vote on the motion. There being none opposed the motion carried.

Alderman Levasseur asked for a copy of the Superior Court ruling.

Alderman Gatsas stated Randy maybe you need to clarify this. I believe that the \$1.4 million that is in question and the vote that came from the Board that night was that that was supposed to be chargebacks and health insurance. That is why the Board or the people who voted for that motion voted in favor of it because the

joint Committee was supposed to come back with an answer of whether it was or wasn't. Now, if it is just a case of overspending, I think the people voting on it said that it was a mistake that was made that was chargebacks and money moved around is what the School Board was claiming and I think the people and the Mayor who voted in favor of it voted in favor of it because that is what they were waiting to find out. Now, I can tell you that unequivocally the statement was made to me by Mr. Tanguay that it was wages. If \$1 million was wages and \$400,000 was and again I didn't have a chance to ask the auditor but I will ask him at another time about moving the 1999 wages into 2000 and if that is a legal thing to do. I don't believe it is so that gives you your \$1.4 million and I think that by the time you are doing looking for your money from health insurance and your chargebacks, I think Alderman Hirschmann you might want to move your number closer to \$11 million. I don't understand how the process can be that obviously the billing...we need a statement from somebody saying that what they are doing is illegal. That has to be a court ruling and it needs to be tested because I don't think you can take funds from this year...

Chairman Hirschmann interjected we are going to discuss that in the executive session and I think there are going to be some strong and terse things said in that room.

Alderman Gatsas stated I don't know if you watched that School Board meeting but the \$1.9 million was blown off like it was not a big deal.

Chairman Hirschmann stated what the Committee on Accounts is going to have to go through this year and this is just to tell everybody what I am thinking about, is we have to get beyond this chargeback phase and I think that the more we don't provide plowing or whatever service it is, we don't have to charge it back. We put them on notice and say why don't you go out to bid for your own plowing, why don't you go out to bid for your own nurses, why don't you go out to bid for your own stuff and then we don't have to send chargebacks and worry about getting paid. Let someone else worry about it.

Mr. Clougherty stated I think we had to let it run this first year of the transition in order to document a lot of things that people thought were going to happen and I think we are in a position now to show a record of one year and why some of the things that we were saying a year and a half ago have come to fruition. Now you can, I think, take a look at...I don't think you have to do something in terms necessarily of not doing the service as much as our being able to net out what money we are collecting for taxes for those services until we get our cash more frequent. That is the issue.

Chairman Hirschmann asked do we want to even bother inviting their Treasurer or anybody from their side to the meeting we are going to have.

Mr. Clougherty answered I really think it would be our side that we need to talk about initially.

Alderman Gatsas asked could you tell me the amount of fund balance according to the June statement.

Mr. Clougherty answered I don't know if he has calculated it yet.

Mr. Sherman stated I would say it is close to \$1.5 million.

Mr. Clougherty replied undesignated fund balance after you have gone through and done your rainy day and everything else.

Alderman Gatsas stated that is over and above. What did we project in the budget cycle?

Mr. Sherman replied we were using \$1 million in last year's budget.

Mr. Clougherty stated so you have \$500,000 over and above.

Alderman Gatsas replied and that is probably conservative. I bet you are going to come in at \$750,000 just by juggling the numbers that I have looked at. The question I asked was what does the fund balance look like and Randy on a conservative measure we budgeted \$1 million and the conservative number looking back looks like \$1.5 million.

Chairman Hirschmann stated once salary adjustment is moved and everything is closed...

Mr. Sherman interjected salary adjustment and all of those other movements are above the line.

Alderman Gatsas stated so we budgeted for \$1 million and it looks like another \$500,000 is going to be there. That is a conservative number. With the numbers I just ran it looks like \$750,000.

Alderman Levasseur asked that does not include the \$1.4 million.

Alderman Gatsas answered it does include the \$1.4 million.

Alderman Levasseur asked do you guys have it within your ability to know whether and Alderman Gatsas keeps pointing it out and I think it is the most important thing...when they come to us and they tell us we have \$1 million deficit and they are going to start giving us this malarkey about it being health insurance do you guys have it within your ability to know and say specifically so they don't start throwing these numbers around and trying to do the shell game because you guys will be able to say no, that \$1 million is not a health insurance issue.

Mr. Clougherty stated I think as Alderman Gatsas said, they have already admitted that publicly at a meeting. Mr. Mahoney and Mr. Tanguay both said that.

Alderman Levasseur asked do you have the ability to peer into their stuff and look at their books.

Mr. Clougherty answered no.

Chairman Hirschmann stated Howard does for health insurance.

Mr. Tawney replied for the health insurance, we have the claims information and the documentation and have presented it to Mr. Mahoney and Mr. Tanguay and they have admitted that yes, they do owe us that amount of money.

Alderman Gatsas asked did you get that in writing from them.

Mr. Tawney answered no. It is \$1,537,262.48.

Alderman Gatsas asked that is from last year.

Mr. Tawney answered yes.

Alderman Levasseur stated that is what I am worried about because they are going to say it is going to be a...they are going to blame it on the last Administration and the quick change that they made.

Mr. Tawney replied that is their cost. It is not an overage.

Mr. Clougherty stated as you may recall we had to make some payments to them because the system wasn't up and running in the year and we had to make the payments or the teacher's would not have had their benefits. The amount that they owe us that we paid for them is the amount Howard is talking about. That is not the \$1.4 million that they had talked about before.

Alderman Gatsas stated so that is \$3 million.

Alderman Lopez stated when you make those negotiations, Howard, and both parties agree don't you have a memo of understanding regarding that agreement.

Mr. Clougherty stated the meeting this week when we are going to get together with them is to iron those things out. We just got the memo from Howard giving us that number.

Alderman Lopez stated I realize that. I am worried about the stuff that we went through last year. Is the meeting going to be recorded? I think it should be.

Chairman Hirschmann replied I think we should bring the City Clerk and have here sit there.

Alderman Lopez stated I really think it should be on tape so that there is no question who said what.

Alderman Gatsas stated this Committee obviously has the audit function and you can tell them what you want.

Alderman Lopez moved to have the meeting recorded. Alderman Levasseur duly seconded the motion. Chairman Hirschmann called for a vote. There being none opposed, the motion carried.

There being no further business to come before the Committee, on motion of Alderman Lopez, duly seconded by Alderman Levasseur, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee