

MARION CITY COUNCIL SPECIAL MEETING

City Hall – Council Chambers 09/7/2021 at 7:00 PM

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ROLL CALL: 10 members answered – Mr. Meade, Mr. Ratliff, Mr. Schaber, Mr. Feliciano, Mrs. Fosnaugh, Mrs. Swanger, Mr. Thomas, Mr. Neff, Mr. Daniels, Mr. Schneider.

With a quorum present, Mr. Schneider called the meeting to order at 7:03 PM. Pledge of Allegiance recited. Invocation given by Reverend Brett Cornelius, Gethsemane Evangelical Lutheran Church.

Item 1. Discussion and Update on 2020 State Audit and any and all matters related there to.

Mr. Ratliff explained that meeting was called as an informational meeting out of concern for matters related to the finances of the City of Marion, specifically the inability of the Auditor of State's office to complete the annual audit due to lack of a monthly reconciliation.

Invited guests in attendance include Dudley Wellington, New World; Shawn Smith, Marion Insurance; Belinda Miller and Cindy McCafferty, State Auditor's Office.

At Ratliff's request, Mayor Schertzer gave an update.

The GAAP auditors reached out to former Deputy Auditor/current Service Director Chaffin to meet. Mayor Schertzer, Chaffin, Caryer, Bischoff, Deputy Auditor Watts, and the GAPP and audit teams were included in the 08/24/2021 meeting. He described the state of the city's audit as "critical condition". The city's books are not reconciled. Chaffin was asked to assist in reconciling 2020 books and the mayor said no. They are willing to help and did so in the past. Chaffin reconciled the 2019 books for the audit that took place in 2020. 2019 work was done under the Carr administration. At this point, it is not "helping", it is "doing." He, nor Council, has never had to be concerned about this.

A second extension was requested on 07/30/2021. He spoke with the State Auditor's office at that point. He allowed that COVID has made things different. However, a third extension was requested on 08/31/2021 and he considers this as a stall tactic for more time. He is under the impression that the 3rd extension was denied.

New World is backed up, however only 90 days of backups are held.

As specified in the Ohio Revised Code, the most basic function of the Auditor's job is to "keep the books of the city and exhibit accurate statements of all moneys received and expended, of all property of the city and the income derived there from and all taxes and assessments." That is the most basic task of the Auditor.

The GAAP team cannot start their job until the books are reconciled. The GAAP team said that they notified the City Auditor in 2020 that he might not be doing the books the right way according to the GAAP (Generally Accepted Accounting Principles) standards.

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What does it mean? Schertzer explained that the GAAP team said that this could jeopardize federal funding. The city receives millions in federal funding, including ARPA, CARES Act. Of the \$18 million budget, about \$2.5 million is federal funds (not including ARPA and CARES Act). \$2.5 million would include grants, like COPS, SAFER, various court grants, FAA grants, and transit. The Senior Center transportation program is almost fully funded by federal grants.

This means a great deal as they try to put together a budget for 2022. The city cannot afford to lose federal funding. That means police officers, fire fighters, probation officers, transit services, etc. Jobs could be lost. This is a critical issue for him, for his administration, and it should be for council.

Ratliff said he has been concerned about the Auditor's Office from day one and he has been vocal that he does not think the office is adequate or doing their job. They have been given different information. During a meeting of the investigatory committee, he asked about reconciliation. Auditor Landon told him that it was done, had been turned over to the auditors, and that it was so much better than the last administration. At the last council meeting, he asked for an update from the Deputy Auditor. The Deputy Auditor said that it was done, had been turned over to the state auditors, and that the state just did not like the format. His understanding is that January of 2020 is not done, the information may not be available, and that there is the possibility that reconciliation cannot be done, nor an audit. The books are so bad that they may not be auditable. The Auditor's Office needs to develop a plan and explain that plan. He states that this is catastrophic for the city, the citizens, the services, and employees. This is not play and this is not politics. Losing \$2.5 million is real and it is a problem.

Mr. Wellington from New World responded to questions from Council (Ratliff, Meade, Schaber, Swanger). He does not know about the 90-day back up but can investigate it. He is meeting with the city auditor's staff later this week. He believes that they should be able to get the information, depending on what has been done and if everything has been entered into the system. He stated that every government uses the software different (28 in Ohio), but all go through the same audit. He explained that they did do training in early 2020 for the Auditor's office and would have trained to their request. Information is not saved anywhere outside of New World, although some users export to spread sheets for certain purposes. He is unsure as to a timeline of trying to pull back information. He will know more after their meeting.

In response to Mr. Ratliff, he is unable to speculate on what may have changed from 2019 to 2020 or how the process may have broken down from books that received an award in one year to unauditible the next.

Deputy Auditor Watts explained that Mr. Dudley is their liaison with New World but does not know how their system is set up or the day-to-day operations. This is a difference between administrations. He did not do reconciliation until recently. The books are reconciled to the funds. Their definition of reconciliation does not match up with the state. They need to reconcile the books to the bank, and they have not been.

Watts explained that there are certain reports, i.e., accounts payable aging report, that should be run as close to the first of the month as possible. They did not pull these reports at the proper time. Ratliff stated that this is a very different answer than "the reports are different than what the state wants." They did not pull the same reports as the Carr administration. They proved

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“everything that went in, and everything that went out.” It proved the books but did not pull them back to the bank. The liabilities need to be pulled out and they did not do that. New World is a continuous system, and they are unable to go back and obtain an accurate balance at various effective dates.

Ratliff referenced the report that they saw during the special committee meeting. The bottom line was off by \$240 million, the equivalent of 5-6 years of budgets. The Auditor was unable to explain the report or the variance. He asked for a plan to get this fixed and whether it was even possible to have an audit this year.

Watts stated that he believes that they can have an audit. He explained that they will meet with New World and the GAAP auditors on 09/09 and should be able to put together a plan to move forward. They should be able to develop a plan to get reconciled and then all the other issues will fall in line.

In response to questions from Mr. Meade as to whether they had information to balance, Watts said that auditors will not accept what they have for reconciliation. Their office is willing to make the adjustments that they want.

Watts stated that he became involved in March 2021 when Perry Payne left the Auditor's office. Prior to that, there had been several meetings with the auditors (Belinda), and it was stressed that they were not doing things correctly and that they needed to do it differently going forward. It was strongly stressed in those meetings.

Watts said that Mr. Hinkle (Auditor of State's Office) said that there was no reason for an extension since the local auditor could not give them a specific date that this would be finished. Bottom line, it needs to be done.

Watts had no answer about why a meeting is just taking place now and not sooner.

In response to Schaber, Watts explained that the report is an accounts receivable aging report. It cannot be generated accurately by effective date. He has confidence that it can be corrected. Schaber asked what the office needs from council to assist and what is the time frame. He does not need anything right now. Watts believes that they can pull it down a report and show that the difference is “immaterial” and “acceptable” to the auditors. It will not be as accurate as the data from 2019. Watts is unsure as to a timeline.

They have a 09/30/2021 to complete a bonding report. They do not have to have a CAFR to do that, although it is helpful. He is working with Allyson Binkley to generate the number and file the report timely. He should be able to meet that deadline.

In response to Mr. Feliciano, Watts explained that the numbers “change” because of daily transactions (payments applied against accounts receivable). Watts clarified that they are using the exact same software as the previous administration. There is no 12/31/2019 back up. That is not the policy. The IT person is following policy and should assume no blame. The backup is merely to get the system back up after a failure. They maintain the last 90 days of backups on a rolling basis.

Mayor clarified the reason that it could be done in 2020 for 2019 is because it was reconciled monthly. It was not reconciled monthly in 2020.

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Service Director Chaffin (former Deputy Auditor) explained that no data is “lost”. It is a live system. There are three series of backups that are kept for a period of 90 days. If a virus is found, they can get the system back up. The state auditors want to stop gap at 12/31/2020 so the auditor can balance. That is no longer kept in a backup. The system did not lose any data. Do not roll a system back to a year ago. They will lose data that way. This same back up system is used for fire, police, and finance.

Ratliff stated that in March of 2020, Watts said that the office was informed that the state did not like their bookkeeping practices. Watts confirmed. Ratliff stated that in June of 2021, Landon told Council how impressed the state was. At the last council meeting, Watts said that it was done but the state auditors did not like the format. The Auditor’s Office knew it was unacceptable and never said a word to council or to the public or the mayor’s office.

Watts explained that the state liked the format that Perry was using, but that it did not meet their audit purposes. They recommended that they keep doing it. It does not consider the liabilities.

Ratliff stated that he has questioned the abilities of the Auditor’s office since their term began. He trusted Mr. Watts up to this point that he gave honest answers. They must be able to trust that the Auditor’s office would fix a problem that they became aware of and that they would notify council before September. They must have confidence that they will be honest and transparency. They do not even have an accurate, audited carryover or books for 2021. How can they do a budget for 2022 under these conditions? When they lose trust, they lose a lot. He would like to hear directly from the state auditor’s office.

In response to Mrs. Swanger, Watts stated that there is no paper trail as far as the reports go (as of 01/01/2020). Watts believed that they will be able to balance 2021 once 2020 is straightened out. Swanger questioned why they could not be doing current months now. They can prove what came in and what went out all year long. They cannot balance the liabilities. Up until March 2020, Payne balanced the books each month, a reconciliation of what came in and what went out. They do not do it the way Payne did it.

Daniels asked if they would walk into it backwards to derive information. Watts said that they are talking to a systems analyst.

Representatives from the Auditor of State’s office (Miller and McCafferty) answered questions. Ratliff said this is the first time that the city has been in this position. The auditors said that this type of situation is more common than they might think. They have not made a judgement about the city doing the books the correct way. That will be done by the regular audit team. They cannot now. There is a piece of the process not being done as completely and timely as they need it. The financial statements need to be complete before they can complete the CAFR and, then later, the actual audit. The financial statements are pending for reconciliation of the books to the bank. They do not feel comfortable with the process. They cannot identify a timeline. The books of the city are not reconciled as of 12/31/2021. They cannot move forward, however progress has been made between the first and second extension. A third extension has not been requested through the auditor’s office. They clarified that the request for the extension relates to an award and a third extension was requested on that piece of the project. There is no third extension to the Auditor of State’s office, because there is no timeline for completion and there is no point. There will be comment in the audit that

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financial statements were not completed timely. There is a 150-day timeline (plus extensions) for the audit to be done. No extension has been requested or granted.

Payne was doing a partial proof of cash. He did not prove that the total fund balance tied back to the bank balance.

At the request of Daniels, the auditors stated that they had been with the state for 24-30 years and worked through various position. Mr. Daniels expressed concern that a good politician can get elected even if they have no financial experience. There is no criteria or prerequisites. He cannot defend people who do not know and fail to admit it. They cannot fix that.

In response to Feliciano, the auditors explained that this is a routine request. The auditor's office is not doing routine reconciliation. He asked why this is missing if it is routine. Watts explained that Payne changed the process and did not complete the full reconciliation from 01/01/2020-03/01/2021. He does not understand why the information is "missing". Watts clarified that they are trying to retrieve the information need to complete the reconciliation the way the auditor's want. He does not know that they can pull back information to 01/01/2021. He believes that they can pull back to a point that would satisfy the state auditor. He does not believe that they can get the correct reports from New World.

Mr. Meade asked what the deadline is and when are we "unauditable". The filing deadline was 05/31/2021. She cannot speak to the audit division, but the state auditors believe that things will be OK if they make progress on Thursday.

In response to Meade as to why they are just hearing about it now, Watts stated that he was in a couple of meetings with the full staff and state auditors in March. He believes that Payne had a concept that he believed in and was not able to be proved against him until just recently. They met with Chief Auditor in March while Payne was still there and there was discussion of how to pull this through the books. There was a difference of opinion in what Perry believed needed to be done. The responsibility passed on to another person after Payne who is no longer with the city. That position was vacant for a period of months and just filled today. Watts confirmed that this was the position that brought about the discussion of the need for education and the Yarger Report job descriptions.

Mrs. Fosnaugh asked for an opinion about the city's ability to reconcile the books. The Auditor of State's representative said that they do not believe the city can reconcile the books as of 12/31/2020, specifically the delinquent utility accounts. The believe that they can pick a current date, i.e., 09/30/2021, reconcile correctly, and then look to see how material the difference is. It would be up to the audit section to make that judgement.

Ratliff expressed concern that now Payne is being blamed for the problem. Every issue that has come down the pike has been "someone's" fault. Someone oversaw, hire, reviewed, let him work there. It was not Payne. Someone has to say that the "buck stops here." The pattern is that everyone else is blamed except the Auditor. Someone needs to say that things are going to be run differently and that starts at the top. Watts expressed that he believed that Payne worked hard and honest. The process was just not complete. Payne had the full support of Watts through the process. He does not believe that the fault rests with Payne. Given the circumstances, he thinks that it is his responsibility.

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Meade said that he does not believe that Watts is at fault. He thinks that everything seems to be going to Watts. He is a one-man band.

Watts said that they have a concerning issue in front of them. He is not doing things on his own. He is getting help from others. The Auditor has just gotten home from the hospital and has not been involved.

Meade clarified that Payne left six months ago. The Auditor has been sick for a couple of weeks. It is not an issue that has come up because the Auditor is out. Watts stated that he needs to work with the auditors, New World, staff, and others to keep the city moving forward without losing money or funding.

Swanger stated that the Auditor is the elected official, not Watts. This should have been done a long time ago. That is on the Auditor. This is not related to his current illness. The blame needs to go on the person at the top. That is what leadership is.

Mr. Thomas asked when the last time the auditor has been at a meeting? Watts explained that the Auditor was hospitalized last week.

Schaber asked if they were now doing the reports correctly in a manner acceptable to the state. Watts attempted to do it as of 12/31/2020, but the aging balance report was not correct. He went through the process the way he thought it was supposed to be done. At the time, he did not understand that the report was inaccurate. Watts confirmed that they know how to pull the correct reports and process them in a manner that meets the state standards.

Ratliff is concerned that timeline is not making sense. Watts says that he attempted to reconcile. They had a meeting a couple of weeks ago with the state auditors. They looked at the information. What he had was not accurate based on the date he pulled it. He cannot pull 12/31/2020 and get an accurate report. Ratliff asked if 07/2021 was reconciled. Watts said that it is, but he does not know the accuracy of it.

Ratliff said that Watts is the person responsible for keeping the city's books. What type of confidence are the taxpayers supposed to have that their money is being handled properly? Watts said that he is not sure until they get the "system worked out."

Ratliff said that there has been ample discussion about IRS payments being reported "off the books". Can the report be correct if they are doing things "off the books"? Watts said that it was done "off the books" because the federal payments for income tax has no account. It is all part of payroll. The books show that it comes out of salaries. It could not have been processed unless they ran another payroll. They paid money back to the IRS right from the checking account because there is no expense account. There is nowhere to put it. Everything else is through the books.

Meade reiterated that Watts said that books can be reconciled. Watts believes that they cannot go back, however he believes that they can come up with a number that the state auditors will accept. At some point, the amount becomes small enough that it is irrelevant. Meade stated that he thinks it is more than that and that Watts is "doubling down".

Shawn Smith, Marion Insurance, clarified that he is not the "bonding agent" but the insurance agent who sold the bond. Ratliff said that he wondered if they could go back on the Auditor's bond for some of this. Smith confirmed that all three bonds are up to date. Watts agreed to provide updated bonds.

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Smith stated that bonds pay out in situations of fails to do their job or does their job improperly and the city loses money. They also pay out in cases of theft. It covers situations where the person does not perform the job properly and it results in a loss to the city. Ratliff said that he thought they needed to inform auditor as early as possible so that they might take an action needed to mitigate damages. The bond is \$100,000 for each employee – Auditor and two Deputy Auditors. The total is \$100,000 regardless of the number of occurrences.

Schertzer stated that Council has sent two resolutions requesting investigations by the Auditor of State. A letter has been received stating that this investigation will be done as part of the regular audit.

Schertzer addressed the questions about the qualifications for elected official. There are two ways to make changes. One is through the state legislature. The second is by becoming a charter city.

Mr. Garrison (1330 Montego Drive) suggests that IT could pull a version of New World and go back, while reinstating the current system.

Mr. Dunston (211 E. Fairground Street) emphasized that this is about people, families, and jobs. Auditor Landon may be a good person, but he is costing the city millions of dollars because he refuses to change because he does not think he is wrong, and he has been told that he is wrong repeatedly. That is an issue. What are they going to do to make sure this does not happen again? Could they explore some options for the business redundancy service provided by New World? He pointed out that the courts could pull more from the general fund if they lose grants. Why is it taking so long to understand that we are doing it wrong? Why is more of council not upset about this? Only three or four are concerned. They cannot pull off initiatives to beautify the city if they lose money.

Mrs. Defranks (832 N. Main Street) stated that she has read articles in the paper. She questions how some of the mistakes have been made, including the \$1.8 million that was not paid to the IRS. This position is not party driven. They need someone with the right skill set. There is nothing wrong with admitting to a mistake, but if they keep doing it, they need to get rid of them.

With no further business to be discussed at the special meeting. President Schneider adjourned the meeting at 9:07PM.

Todd Schneider
President of Council

Tarina R. Rose
Clerk of Council

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