



SHREVEPORT CITY COUNCIL

SPECIAL MEETING MINUTES

March 29, 2010 – Special Meeting

The Special Meeting of the Shreveport City Council was called to order by Chairwoman Joyce Bowman at 1:35 p.m., Monday, March 29, 2010, in the Government Chambers at Government Plaza, 505 Travis Street, Shreveport, Louisiana. This special meeting was called “To receive a report from BKD, L.L.P., the external auditors, relative to: (1) The journal entry that was entered to erase the negative balance in the Fleet Service Internal Service Fund so that Fleet Service Fund could be closed and (2) Adopting a policy relative to journal entries made by the Accounting Office.”

Invocation was given by Councilman Webb.

The Pledge of Allegiance was lead by Councilman Walford

The following City Council members were present: Calvin Lester, Monty Walford, Michael Long, Bryan Wooley, Ron Webb, Joe Shyne, and Joyce Bowman. 7.

Councilwoman Bowman: At this time do we have anyone here with public comments? I don't have any cards. Are we ready for the report from BKD?

Mr. Thompson: Madame Chair, we have Mr. Kevin Kemp here, he's the partner with BKD and Ernie – I will let Mr. Kemp pronounce Ernie's last name.

Councilwoman Bowman: Mr. Kemp, welcome to the Shreveport City Council meeting. I want to let you know first off, all we want are just answers to know exactly what took place and how to make corrections if need be as far as the legislative body is concerned.

Mr. Kemp: Madame Chairman, we appreciate the opportunity to come to speak to you. We will follow whatever format you want us to. We are open to questions or I can just explain –

Councilwoman Bowman: We would like for you to explain first, I don't know if you have – do you have a presentation here?

Mr. Kemp: No ma'am, for the most part we handed out a spreadsheet.

Councilwoman Bowman: Okay, well we have that so you can go on and explain this sheet that you have given us which says, "Exhibit 1 Fleet Services Operations by Year."

Mr. Kemp: Yes ma'am, and before I get into this spreadsheet. I guess there has been a comment that the auditors required this, a journal entry to be made. Well I just want to clarify that these are the City's financial statements and management is responsible for making journal entries. Yes, the journal entry was brought to us, we reviewed it, thought it made sense at the time since the General Fund – since Fleet Services was coming into General Fund to close out the Fleet Services Fund, that made the most sense at that point and time for that entry to be made there.

Councilwoman Bowman: Let me ask you a question since you brought that up. Did you tell the comptroller to move that money out of General Fund?

Mr. Kemp: To my knowledge, no physical money was moved from one fund to the other. From our purposes it was just a close out entry.

Councilwoman Bowman: But did you tell him to do that because that's our understanding.

Mr. Kemp: No ma'am. The entry was presented to us, we reviewed it and –

Councilwoman Bowman: So it was already done?

Mr. Kemp: Yes, the City personnel developed the entry and said we are closing out the Fleet Services Fund, we believe this is the most proper way to handle that entry and we looked at it at that point and time again based on the facts we had, that made sense.

Councilwoman Bowman: Thank you for that but again, your answer is, no.

Mr. Kemp: No, we did not come up with the entry or make it.

Councilwoman Bowman: Okay, I want that clarified.

Mr. Kemp: Okay, what you have in front of you – I'm going to try to make this – I know there are a lot of questions, how does Fleet Services end up with a deficient over the twelve year period –

Councilwoman Bowman: Excuse me. Do you have another two copies of this sheet that you – does everyone have a copy?

Councilman Long: Just put up on the overhead

Councilwoman Bowman: Sharon, would you do that? Go ahead. I am in control of the meeting and everyone will be recognized by me before they speak. Thank you.

Mr. Kemp: Okay. Well, the first two line items that you see on the spreadsheet is revenues and cost of services. Now to make this kind of simplistic we are going to assume that this is just operating cash coming in which is the revenues versus cost of services which will be the expenses going out. If you go over to the far right you will see that cumulative for this eleven month period – eleven year period, you brought in \$39.6 Million in revenue and expended 39.8 Million, so just from a pure operational standpoint the Fleet Service Fund was basically in a deficit of \$100,000. The third line item is Depreciation which is a non-cash item so I want exclude that from my purposes today, I mean it does impact the Fleet Services bottom line but it doesn't impact the cash coming in or the cash going out. The Non-Operating Revenues and Expenses would be – that is the net of Interest Income Earned by Fleet Services Funds versus Interest Expense paid by Fleet Services through either capital leases, bonds, that was the portion of debt allocated to the Fleet Services Funds and that was their share of Interest Expense. So again, if you go to the far right you had \$268,000 of Operating Expense for the eleven year period. Okay, I'm going to skip a few lines and you come down to Net Income Loss Excluding Depreciation – again, that's just a -- each year you know if you see 1998 was a lost of 391,000 again that was the first year of operations I assume that you probably anticipated that, no new business venture makes money the first year. Again, I want to focus a cumulative effect, far right, you will see that from operations and Non-Operating Revenues and Expenses again excluding depreciation cumulative you had \$375,000 of lost at year end or period end.

Councilman Long: Kevin, what would be essentially or whoever could answer this -- Administration, on the Non-Operating Expenses Revenues, what would fall under that category?

Mr. Kemp: From looking at the CAFR and from our pass couple of years the majority of it again is Interest Income, some money was allocated there to the Fleet Service Fund but the biggest chunk was Interest Expense which I assume was from debt issued by capital assets.

Councilman Long: Okay, thank you.

Mr. Kemp: So, from my standpoint if you will look over the history from just an operating standpoint and factoring Interest Expense which is real dollars going out the Fleet Service Fund had a net deficit of \$375,000. Then one thing that is not reflected on your financial statements on an annual basis you would have to go to the statement of Cash Flow, the Fleet Services Fund, the next line item Capital additions also purchased \$600,000 of new assets over those years.

Councilwoman Bowman: What year was that?

Mr. Kemp: That's cumulative. If you would see like in 1998, \$138,000 was purchased; 1999, \$310,000 was purchased; and a cumulative effect was \$600,000. So those outlays are not reflected in your operating cost, that's pure operating cash going out the door to buy capital additions. Again, we didn't go back in time to look at was purchased in 1999.

Mr. Thompson: Kevin, are you sure that wasn't paid for by the General Fund?

Mr. Kemp: I mean it was showing us on the Cash Flow as an expenditure by the Fleet Service Fund.

Mr. Ernie Skyrme: And there was no note, like in the first time in 1998 about a Capital Transfer over from the General Fund, that's how it was in 98' and going forward there was not one so that would lead me to believe that, no, it actually wasn't transferred right over from the General Fund.

Councilwoman Bowman: So it was actual purchases?

Mr. Kemp: Correct. So again, cumulative you almost had – what it boils down to is a Fleet Service Fund had almost a million dollars of expenditures that wasn't reimbursed by other funds. And when you factor in depreciation into the operations you know it kind of offsets the Capital asset additions, which is what you hope as you depreciate items hope you're replacing them. So that is why at the end of 2008 when y'all decided as a council to close the Fleet Services Fund you did end up with a deficit. Again, and I don't want to go into a lot accounting – accrual versus cash basis but for General Fund purposes any net fixed assets you do not get to place back into the General Fund for accounting purposes they don't allow fixed assets to be in the General Fund. So in theory, unfortunately, the liability that was associated with those funds gets brought into the General Fund but the assets themselves do not get brought back into the General Fund. I mean they are counted for later on in government wide financial statements but you know that is a liability that the Fleet Services Fund had accumulated over the years. Any questions on that piece?

Councilman Walford: I do. Maybe I'm missing something but when the Capital asset additions – when assets were purchased and the fund was done away with, what happens to the assets?

Mr. Kemp: The asset comes back to the City. But if you'll look at your General Fund financial statements, just General Fund, you will not see Capital Assets on your balance sheet. Before GASB 34 in 2002 and 2003 you always maintained a separate fund called a General Fixed Asset Account Group and that's where the City accumulated all of its Capital Assets that were non-enterprise fund related. So again, even if you look at the Fleet Service Fund at the end of 2008 you'll see a Net Book Value of your Capital Assets for \$300,000. That is just an accounting number. I couldn't tell you what your Capital Assets were worth. I mean they may be worth a million dollars, they may be worth \$50,000 but again, from accounting standpoint you would appreciate over their estimated useful life and that is its Net Book Value.

Councilwoman Bowman: Another question, you just mentioned the Capital Assets, what about the General Fund to replace that – to cover that deficit to go and take real money, that's what I call it, real money from the General Fund to put it over here to cover that deficit. Is there a way for instance and I had this discussion with someone and – for

instance all of the value or whatever on City buildings, can that be taken, I mean a percentage of that, to add up to this amount to go into Fleets account instead of taking from the General Fund?

Mr. Kemp: What I would recommend looking into and from a legal standpoint make sure that's appropriate, is in theory whoever was utilizing Fleet Services Funds was not making it whole every year. I mean as a council you could have said Fleet Services should never end up in a deficit situation, so at the end of the year we are going to zero it out by transferring more money out of the General Fund, the Water and Sewer, whatever fund was utilizing Fleet Service. So this problem as you can see if you would look at our spreadsheet, it accumulated over the eleven or twelve year period. So is it fair for the General Fund to absorb all of that? I would say probably not. So I would almost recommend you looking into the fact is can these other funds now reimburse the General Fund for their portion of – let's not just worry about the Capital Assets but the loss of the Fleet Service Fund. Can you proportionally allocate that out to the other funds and transfer in that money at the end of '09 or '10 to offset some of this loss?

Councilwoman Bowman: I like that.

Mr. Thompson: Does the cost of services include the debt service for the Capital assets additions?

Mr. Kemp: No, that would be the Interest Expense and that would be down in the Non-Operating Revenues and Expenses line item.

Mr. Thompson: The reason I'm confused here is, I thought that each year we budgeted monies to pay for that debt service and what I'm hearing you say is that we did not.

Mr. Kemp: I haven't looked at your budgets, I'm just saying if you at the audits themselves that each year you were running, well not every year but in certain years you were running a deficit and so either the revenue wasn't as much as you budgeted for or your expenses were more than you anticipated. And I don't think that you all usually go back and retroactively adjust your budget. I mean you try to fix it on a go forward basis not a retro basis.

Mr. Thompson: Are you saying that the deficit excluding the depreciation is \$374,038 plus 603.

Mr. Kemp: No, if you look a just your CAFR, your annual financial statements, if you would exclude depreciation then your net accumulative loss would only be the \$374, 000. The reason that we put in the Capital assets additions is because that is truly cash outlays that is not reflected as an expense anywhere else other than through depreciation. But again, you are depreciating old assets, you are depreciating new assets that's why I was trying not to bring in depreciation into the mix because depreciation was 733,000 non-cash item, Capital assets additions was \$603,000 actual cash items, so to me those kind of – they

don't net dollar for dollar but they net pretty closely. So that's why I'm saying you have, again this not accounting or proper accounting but you spent \$977,000 as apposed to \$1,100,000.

Mr. Thompson: Of the \$697,000 based on what you have given us, can you tell us what amount of that is not due to depreciation?

Mr. Kemp: I don't believe any of that would be due to depreciation.

Mr. Thompson: So you think all of it is real money so to speak.

Mr. Kemp: Right, monies that weren't reimbursed over the eleven year period.

Mr. Thompson: Okay.

Councilman Shyne: Maybe you answered this before I got here but what is the upside to doing this at this particular time?

Mr. Kemp: I mean that's truly a management decision. I think y'all voted, I guess back in, at the end of 2008 to close it out or somewhere in the 2008 early 2009. I mean if you had elected to keep it as an Enterprise Fund, that's totally up to you but again an Enterprise Fund is – but well this is Internal Service who operates as an Enterprise Fund, in theory it should be meeting its own obligations, so revenue should be meeting its expenses. I think y'all decided I guess from a management standpoint that hopefully you could bring it back internally and do a little bit better job of controlling the expenses and things of that nature. Timing I think is irrelevant at this point and time.

Councilman Shyne: You know because I was kind of thinking since we're kind of, I don't want to use the word, in a jam, but we are kind of tight for, if I can say cash flow or for money at this particular time and it was no rush reason why we needed to zero this account out, you know it is kind of like having a charge card and you got a balance on there but over the last three or four years Visa hadn't called you to ask you to pay the account off and money is a little tight but you go ahead on and pay it off anyway, I mean you could use that money to do something else with it.

Mr. Kemp: I can see your point but again, if you ignore that situation all you are really doing is getting a deficit larger and larger in the Fleet Service and at some point in time you are going to have to make the other funds whole again that loan the money to Fleet Services.

Councilman Shyne: If Fleet Services is closed out, how do you make it larger and larger?

Mr. Kemp: Oh, you just wanted to leave the deficit in Fleet Services?

Councilman Shyne: Yes.

Mr. Kemp: Oh, okay. Well, again it's an obligation –

Councilman Shyne: Okay, what I'm trying to figure out is there an advantage of paying it off at this particular time, then lets say maybe waiting a year and half or two years or have paid it off earlier? Is there an advantage at this particular time?

Mr. Kemp: Well, and really from my understanding of the situation, really you haven't lost cash. I mean the cash that December 31st is probably the same cash you had January 1, what has happened though is the accumulative loss was collapsed into the General Fund therefore you had less amount of reserve equity or reserves to spend. Your cash was still the same it's just that the amount available to spend was less.

Councilwoman Bowman: And see that's where our problem is. Our main problem is the fact that Operating Reserves that's street money, that's money that we could use for other projects within the City and now it's been moved from here to a dead zone basically –

Mr. Kemp: It's been obligated.

Councilwoman Bowman: Right, that's what I mean and I think that's was what had most of us pretty upset about it and number two, the fact that we really didn't know about it.

Mr. Kemp: Well again, you know the liability was just setting in another fund. It was a true liability if you looked at the financial statements every year but I understand your concern and –

Councilwoman Bowman: Okay, tell me this, now that we have gotten through this portion of it, how do we fix this and take that money back from Fleet, put it back in the Operating Reserves and look at what other means can we look at, I just need to know this for myself and for who's going to go back and fix it. How do we take that from other areas, what other areas would we take it in order to fix Fleet?

Mr. Kemp: Again it's – from a legal standpoint I'd want that clarified but to me if you are wanting to replace that the first place I would look is allocate the existing loss to the funds that helped create the loss. I don't know what the proportionate share of that would be but that would be step one. I mean step two I guess – it would have to be from a transfer in or from another fund that has the ability to help offset that loss.

Councilman Long: The challenge is that sooner of later this bullet is going to have to get rolled, it just can't hang out there on a closed fund. It's going to have to go somewhere. We might get a little relief going to some of the other funds that we have that you could comfortably allocate their share of the Fleet Services function, be it Fire, Police, whoever, which again are all predominately in the General Fund. I mean they are not out there separately by themselves. I mean what other separate funds do we have to play with. Dale, Charles, what are the other separate funds that might even have a balance that could even be utilized to help offset this particular situation?

Mr. Madden: The other funds that used it would be the Water and Sewer, Airport, Community Development, and at some extent Risk and IT.

Councilwoman Bowman: What about Buildings?

Mr. Madden: Any department that had motor vehicles, any fund that had motor vehicles in it because that's all they did was work on motor vehicles.

Mr. Sibley: And the majority seems to be, Madame Chair and Councilmen, in packers, garbage packers the highest maintenance.

Councilman Long: So, you get a little relief from that but then what happens is you can maybe reduce that fund reserve for that or wherever that is but the net at the end of the day it all – when you consolidate it all it's still going to be the same number. I mean right now if you add them all up and get a balance it's going to be the same. What they are doing is they are moving it from one bucket to the other bucket and that's where again the problem of our General Fund reserve being reduced and having access to that for emergency and other purposes.

Mr. Thompson: Kevin, when we first heard about this I understood that this problem was caused by the depreciation of assets and that was why this fund negative \$697,000 or whatever, now what I'm understanding you to say is it's not about the depreciation expenses, it's about the fact that we did not put enough money in the fund to pay for the employees salaries, for their retirement, for notes that were due, for things that required real money and that's why we owe the \$697,000. Is that –

Mr. Kemp: Yes, in a non-accounting – I know looking at the financial statements you see depreciation and you are like, why is that not the issue. That's part of the issue on the Fleet Services Fund but that doesn't present the whole picture.

Mr. Thompson: So I think what you are telling us is that our Operating Fund balance is actually \$697,000 less than we thought it was because we have actually spent this money but it hasn't been accounted for in a cash way.

Mr. Kemp: Well it was accounted for in a cash way by the Fleet Service because they had this "due to" other funds.

Councilman Lester: I guess the thing that I'm struggling with and please I apologize for my non-accounting background but what I don't understand and please help me with, things that required money over this arc of ten years, salaries and things of that nature that General Fund is down, were clearly paid by somebody, by some fund so if the debit was there or the obligation was created at the time and I know, I mean I wasn't here in 98' but I'm pretty sure that those checks didn't bounce, so if those checks didn't bounce and those checks were paid then why is it now that we are saying that we have take the money from General Fund? It would seem as if we were paying for something twice.

Mr. Kemp: Well, like I said you had a liability setting on Fleet Services “due to” a fund. You also had a receivable setting on another fund that’s “due from” Fleet Service, those zero out. And the reason why there is a due to, due from, is the City pulls it’s cash, so in that theory as long as the City has a whole has cash then your bills get paid but Fleet Service maybe not didn’t generate enough cash to pay for its bills so the General Fund or another fund transferred money or – again, it’s a pull cash account, so it’s a due to, due from – you are really not paying for it twice, it’s just somebody else paid for Fleet Service.

Councilman Lester: Okay, so I guess my question is, if somebody else paid for Fleet Service and that is a debt that was clearly covered –

Mr. Thompson: Part of our assets are due from other funds and wouldn’t be cash.

Councilwoman Bowman: But we are using cash to replace it.

Councilman Lester: But I guess that’s where I have the problem, if part of what created the whole is – let me not assume that, let me back up. Is what created this situation that we are in, are we talking about something that was real dollars? Couldn’t we agree to that or not?

Mr. Kemp: I’ll agree with that.

Councilman Lester: So part of what created was real dollars and part of the deficit was the fund had obligations that were not enough money budgeted to cover.

Mr. Kemp: Correct.

Councilman Lester: Can we agree to that?

Mr. Kemp: Or not budgeted or the Fleet Service Fund didn’t generate enough.

Councilman Lester: Didn’t generate enough. It did not have enough revenue to meet its obligations.

Mr. Kemp: Correct.

Councilman Lester: Okay, now can we also agree that even though the funds were not there in this fund some other fund in the General – under the umbrella of the City was used to cover that shortfall.

Mr. Kemp: That is correct.

Councilman Lester: So if every year there was a shortfall and consequently every year a fund was used to cover that shortfall which means those real live debits were covered every year, what I don’t understand is, how is it now in 2008 that we are saying that none of those

were created and we have to take real live dollars in 2008 and cover something that was covered each year over the past ten years. That's the part that I don't understand.

Mr. Kemp: And maybe I can simplify it. Again, there was no cash transferred and – or you didn't utilize cash but to your scenario the only way that it could work is that Fund A, whoever was owed the money from Fleet Services forgave Fleet Services of that obligation –

Councilman Lester: Okay. Stop. If that happened and I would surmise that, that probably and more than likely clearly that's what happened. If it was forgiven by the fund which gave it then again, why are we now having to make those funds – going back to my original question because it would seem that we are paying for something that we've already paid for.

Mr. Kemp: Well under that scenario, all I can say is that to our knowledge there has been no form of forgiveness and if –

Councilman Lester: All right, stop. Stop you right there. So if there has been no form of forgiveness it would seem then that there is a possibility of forgiveness and if there is a possibility of forgiveness for those funds then why can't we not have those individual funds execute that and say, we have forgiven this, we have forgiven this, line by line, year by year, with the paper transaction and save that cash.

Mr. Kemp: Well again, (1) that would be a legal question, I mean –

Councilman Lester: Assuming it's legal, let's take the law out of it. We are talking accounting.

Mr. Kemp: I mean assuming it's legal, yes you could forgive – I mean these funds can forgive that but at the end of the day certain funds are going to have less equity than they did initially.

Councilman Lester: Equity is a concept that banks talk about but that is not a cash situation isn't that correct?

Mr. Kemp: But in this situation your cash is still the same –

Councilman Lester: Can we answer that question?

Mr. Kemp: Repeat the question then.

Councilman Lester: The question is equity is – if what we are talking about is equity that's in other funds and that being a paper non-cash concept, can we not utilize the equity in the non-cash concept to ameliorate this situation. Let's take legal – we are talking about GAAP (General Accepted Accounting Principles), can that happen? Yes or no?

Mr. Kemp: From an accounting standpoint, yes, one fund can forgive the other.

Mr. Lester: Okay.

Councilman Long: But tell him the affect of the other fund, please.

Councilwoman Bowman: The Chair recognizes Councilman Long.

Mr. Kemp: But again, if Fund A forgave Fleet Service then now Fund A's equity is less.

Councilman Lester: But equity is not a cash concept, correct?

Mr. Kemp: That is true but on the General Fund situation right now, cash is still the same but your equity is less. So, just so that we are all clear, I mean I don't want to mislead anybody.

Councilman Lester: The concern that I have as it relates to equity, at the point that I don't have the ability to use something that I thought was there, that cash is gone. So excuse my lack of defining it as an accountant would but to me it seems we have walked our way through a situation that will resolve itself with those funds. I would feel much more comfortable with those individual funds having less equity given the fact that those funds have already paid the bill as appose to dealing with the General Fund which is our nest egg, our safety net, our whole everything that deals with real live cash situation and it would seem – I'm not faulting you guys. Cause clearly it seems that our folks, comptroller asked you, I have this, can I do it this way and the answer is yes but there is a better way as far as what I'm sitting up here saying and if we can use this better way that would save our General Fund and still not have those issues, I would feel much more comfortable doing it that way as we just talked our way through it.

Mr. Kemp: Again, that would be a management decision, that would be y'all decision –

Councilman Lester: But it is not something, cause I don't want to put words in you all's – but I want to be specific on this point, if we were to follow that particular procedure that would not be offensive to generally accepted accounting practices, yes or no?

Mr. Kemp: No.

Councilman Lester: I'm done.

Mr. Kemp: But again you would like to have legal's opinion, is could one fund forgive another fund.

Councilman Lester: Understand

Mr. Kemp: And on the flip side, I mean if we want to talk about the General Funds cash you having less cash in the General Fund, now on whoever forgives this debt in you all's mind will now have less fund or less cash to utilize.

Councilman Lester: But important fact, they already have less because they already met the obligation. Isn't that correct? I mean if they paid – clearly they paid the bills. I think we can all agree –

Mr. Kemp: Under the assumption that Fleet Service at one point and time would pay them back.

Mr. Sibley: I wanted to be sure because it sounds like Councilman Lester when you said they, what I hear you asking is did the – these are departments, city departments, the question is: 1) is there something that the other departments paid the bill and you established that's not what happened. They didn't pay the bills because Fleet didn't have enough money to cover their expenses and I think that's something clear because you are under the assumption that he is saying that the other departments paid it. They haven't paid it that is why the gap is there. The other departments didn't transfer enough over and that is what I want to ask to clarify.

Mr. Kemp: Well, the way I took it was he was saying the bills were paid. I mean a bill back in 1998 was paid.

Mr. Sibley: Fleet's bills.

Mr. Kemp: Right

Mr. Sibley: But not necessarily the departments that were suppose to transfer.

Mr. Kemp: Right, somebody paid it out of the pull cash theory.

Mr. Sibley: If the departments – because if it is not depreciation and you said it was cash meaning they didn't recover enough or enough wasn't budgeted that means that those transfers and I guess I will put this in the form of a – those transfers should have gone from say, DOS to Fleet didn't really occur so in essence – cause the bill would have DOS's bill right? That's the person getting the service.

Mr. Kemp: Oh, okay.

Mr. Sibley: It would have been their bill. If they didn't pay enough, Fleet never got enough to cover what would have been – Fleet has a bill to DOS for \$3,000; DOS sends them two. DOS didn't pay enough to cover that bill, that's what I thought I understood you to say, when you got beyond the depreciation you said it was actual cash that wasn't –

Mr. Kemp: I was just looking at it from a global standpoint though that Fleet owed “x” amount, yes they didn’t bounce any checks or anything so somebody paid it and you’re doing it through the pull cash method.

Mr. Sibley: The confusion may be us non-accountants trying to understand accounting but again, it makes it sound – because if you said it was paid, it makes it sound like somewhere out of that City’s whole that y’all look at funds were paid to cover those bills therefore sounds like it is being paid twice.

Councilman Lester: But with respect Mr. Sibley I thought I heard you because I was real clear on the question. As I appreciate it that did happen. There was a real live bill from Fleet that Fleet didn’t have the money to cover and because Fleet didn’t have the money to cover someone under the umbrella of the City did in fact take care of that.

Mr. Kemp: And I think to hopefully tie both of y’all back together, I think what you are saying is, some other fund that may not have used Fleet Services paid –

Councilwoman Bowman: How could we find out?

Councilman Lester: But, but, hold on –

Mr. Thompson: But I want to get to your point.

Councilman Lester: Okay.

Mr. Thompson: Okay, we did pay for those services during the year and lets assume that they were all paid for from the General Fund during the year. Now the way we reconcile that is that at the end of the year we try to determine what’s in the fund balance. We look at everything that went out that year and we try to figure out what we had left. Now, the fund balance, I think and if I’m wrong about this there is a difference between fund assets and fund liabilities. Okay, now the assets that we have that we are looking at is not just cash and cash equivalents but it is also investments, property tax receivables but the important one here is due from other funds. So we don’t reduce the amount of cash we have we make it up by saying we have an I.O.U. from Fleet Services. Fleet Services owe us this amount of money and so that’s how we reconcile the account and come up with our fund balance. If we forgive it then we tear up the I.O.U. and we reduce our fund balance.

Councilman Lester: Which is a paper –?

Mr. Thompson: No, that’s real money that’s gone now.

Councilman Lester: If we tear up the I.O.U. , okay that’s fine but I get where I am is that if we declare an I.O.U. then we can declare the I.O.U. and leave it where it is and we don’t have to use real cash because what –

Mr. Thompson: But if the fund no longer exist there is no possibility of ever getting your money, so you have to tear it up if you are honest.

Councilwoman Bowman: Well we don't know about that.

Mr. Thompson: No, I'm talking about intellectually honest.

Councilman Lester: Yeah, well I have been called a lot of things.

Mr. Thompson: No, I'm not talking about –

Councilman Lester: I guess the thing that I keep struggling with and I'm through with it Madame Chair is, how do you carry forward this negative balance for a ten year period on real live cash when we know good and well that those issues were taken care of. It would seem that at some point there is some forensic accountant that can sit down and say, this is the money, came from here at this point, these dollars came from here from this point and – as oppose to saying, you know what we know over the arc of the ten years that the number came out to be this, lets just make it easy and lets just give them the cash and move on. Cause I don't want to give the cash and just move on because – I'm through.

Councilwoman Bowman: But he is right. That's where we are now. So we need to find someone or somebody in accounting or somebody legal I guess to show us exactly where we can go, what department areas to take that back and to put it in Fleet Services and transfer that money back to General Fund, Operating Reserves. I mean, we can do that.

Mr. Kemp: Again, it would probably be a paper entry because this needs to go back as a 12-31-2009 –

Councilwoman Bowman: Right, you want it as a paper entry but we want this other back there where if I have some sidewalks and somebody else had some streets then this stuff needs to be fixed then it's in there to do that.

Mr. Kemp: Then again, my only two points would be that is fine from an accounting standpoint. I just want y'all to realize that, yes you can possibly make the General Fund whole again but another fund will suffer because of it and (2) it needs to be again, can a fund legally forgive that debt? That's my two main concerns.

Councilwoman Bowman: Right, as long as this is legal. That's where we are. Dale did you –

Mr. Sibley: Yes ma'am, just I wanted to ask the question more plainly and I also wanted to say, I think one of the things that we have learned in this process is from the audit and the accounting point of view. They see the City's budget, the City's money as one pot and even in example where Councilman Lester was asking you have this negative balance in Fleet – it was paid somehow out of that pot of the City's money. Well, when you got back to start

doing the inter-departmental transfer of the stuff the pot is still the same because if you take it from the obvious sources, DOS, SPAR, or Police and I think DOS and Police were the biggest users, their numbers will go down but then they are short of what was budgeted so they got to come back and ask for it from some place else anyhow. So there is no way to avoid the number going down somewhere. What the accountants have shared with us is that they see it as a single pot. You can take it from Police or DOS but it still, your bottom line it's still coming out of your money. So I wanted to ask the question more directly, the \$697,000 deficit that is there, is there another way to cover that other than transferring the cash out of General Fund and I think the second question, if there is, how do we do that? And if the question is getting that legal question answered in terms of – because there was a question of whether or not you could go back and amend a budget that no longer exist. Can you go back and amend an '09 budget when you are into the 2010 budget year but is there something within accounting, within audit that would allow us to deal with that deficit assuming the deficit is valid and has to be dealt with without having to impact the City's bottom line which is minus almost \$700,000 in cash. I think that is the basic question that everybody is wondering. So is there a way to do it other than that.

Mr. Kemp: And from a pure General Fund standpoint, I mean, I'm open to suggestions and will look into it but other than like we discussed earlier transferring in money from other funds that helped contribute to the deficit that would be probably my number one recommendation.

Mr. Sibley: That would cover it from an accounting point of view but would it save \$700,000?

Mr. Kemp: It would save the General Fund a portion of the \$700,000.

Mr. Sibley: But would it save the City overall because whether you take from General Fund or whether you take it from DOS, whether you take it from Police –

Mr. Kemp: From an accounting standpoint you know you got two different types of recognitions, you got full accrual on Fleet Services and you got modified cash on the General Fund, so what has happened is General Fund took a you say an almost \$700,000 hit but that is because, and we could talk about this all day, for the General Fund purposes you don't get to recognize your net fixed assets on the General Fund which I think it netted about three or four hundred thousand. So if you could have put that over there then the net effect would only have been three hundred thousand but from accounting purposes that's not how it is done.

Mr. Sibley: So you are not aware of right now –

Mr. Kemp: I'm not – as of right now – I thought about it, I can't think of any other way to handle this other than like I said, transfers in from other funds or again, the fund forgiveness.

Mr. Sibley: And the transfers in from other funds would then impact those funds.

Mr. Kemp: That would lower their spendable –

Mr. Sibley: And the net effect to the City would essentially be the same.

Mr. Kemp: It all would come out one way or the other to \$700,000. I think somebody brought up the credit card a while ago. Just think about that way over an eleven year period you were adding about \$50,000 a year to your credit card.

Councilwoman Bowman: That was Councilman Shyne.

Councilman Shyne: I brought that up because Joyce and my wife use credit cards a lot.

Councilman Wooley: I think you made mention of this earlier but I want to ask you because it was something that was said last week, I guess was a little disturbing. We were told that you guys told the comptroller to move that money. Is that true? Yes or no.

Mr. Kemp: No.

Councilman Wooley: Okay. I know we were told that and I really didn't think it was you all's place to be instructing the City how to move money, obviously you presented the facts and then do what we want.

Mr. Kemp: I don't know if we were – Ernie's here, I don't think cash was ever mentioned to us. Again, it was a journal entry to close out the fund and I don't think that journal entry had anything to do with cash. So, I mean we agreed that if you wanted to close out the Fleet Services Fund an entry needed to be made and the entry proposed to us we believe was proper in a course of generally accepted accounting principles and all materials respect but again, I'm just uncertain that actual cash was transferred. I think it's an equity issue.

Mr. Wooley: You say you are uncertain?

Mr. Kemp: I mean, I have no knowledge that cash – physical cash was actually transferred.

Mr. Sibley: Well, it's on paper but it has the same impact.

Mr. Kemp: Right.

Mr. Wooley: Well, I'm just concerned about comments made, I don't know if anyone else caught that or not but –

Mrs. Bowman: Yes, we did catch it. Where's that –

Mr. Kemp: I mean even if we find an entry that we think you need to make, it's still up to y'all to make it.

Mr. Wooley: Well you answered when you said no at the beginning – you answered the question.

Mrs. Bowman: We are not going to prolong time to much longer because the Commission got to meet in here but one of the things that we need to address before we leave is – and we tried to do that in some form or fashion, we need to look at fixing this problem. Going back even if it's through departments or however it needs to be done and make General Fund Operating Reserves whole, that's what the majority of the Council would like to see.

Mr. Kemp: That is what the majority of management desires and I think that is a feasible solution.

Mrs. Bowman: Number two, we need to make sure if it is done by resolution, if it is done by ordinance that Accounting, be it the comptroller, CAO, whoever is moving money, when you are doing something with – that deals with this amount, be it per-se, cash, be it something on paper, if we have to sit here for months working on a budget and then all of a sudden something like this occurs after that period – you see what I'm saying? Mr. Madden, do you understand what I'm saying?

Mr. Madden: I agree.

Mrs. Bowman: So, Julie, maybe you can look at this for us as far as some type of resolution in reference to transferring that amount of fund.

Ms. Glass: Yes, we have been looking at that.

Mrs. Bowman: Okay, good. I appreciate that. Mr. Mayor, do you have a comment before we close it?

Councilman Webb: Madame Chair, I have one comment. I was thinking about something Mr. Madden said in the meeting. All of the money goes in one pot and if you got \$700,000 that wipes out a negative balance, you still got the \$700,000 sitting in the pot. So if you forgive the debt and leave it where it is sitting, we still got the \$700,000. Right?

Mr. Madden: Of actual cash, correct.

Councilman Webb: Okay.

Councilman Lester: I wanted to say, I really appreciate you guys taking the time to explain these concepts to us non-accountants. Obviously, when you have responsibility for stuff like that we want to get down to it and you guys have been very professional and gracious about that and I appreciate that.

Mr. Kemp: Well, if anything ever comes up at the spur of the moment or even after the fact, again it ultimately boils down to a management decision but please call us. I mean we deal with these types of issues every day, so if we can help solve a problem we can give you our best practices, our recommendations but again, at the end of the day it is up to y'all to decide but we are more than happy to sit down with whoever and walk through these issues.

Mr. Lester: And I appreciate that and I do want to say to Art and our staff and the administration's staff, I appreciate the fact you guys have been having some communications about this. I think what our chairwoman said is accurate – I do think we need to have some type of policy that deals with this and not so – cause I have been informed that journal entries are something that's as common to the accountants upstairs as us walking around and walking and chewing gum and so I don't think that we necessarily want to be in a situation where if there are five hundred entries we have to do them but there should be –

Mrs. Bowman: No, we are looking at the amount of money – a large sum like that.

Mr. Lester: Right, but there should be something that says at a certain point this type of journal entry that will affect General Fund or those types of things, you know, kick in some kind of calculations that says, okay anything over a hundred thousand does this and everything under that and you just shoot us e-mails and keep our staff informed but I do appreciate that amount of scholarship, because I mean, you guys – cause y'all are going to have to deal with this because my candle is going down, thank God, -- have to deal with that but it does make sense to have some type of notice, so I appreciate that.

Mrs. Bowman: In addition to that what we, Council members especially, I wouldn't just say us, you too, Mr. Mayor – we are elected by the citizens and when something like this happens we have to be in a position that we can answer to the public. Last week we couldn't answer to the public because we didn't know and we need to be informed and that was our main purpose in all of this and in addition to trying to get some policies and procedures or ordinances and resolutions together to correct it where it will not happen again. So with that being said – Arthur.

Mr. Thompson: Concerning the issue of when we ought to have a policy and what the policy ought to be for non-routine adjustments, is there anything you all could send us anything that the Council could look at as it relates to that policy and if so would you let us know.

Mr. Kemp: We will do that and it depends on how specific y'all what to be – if you want us to work with Julie or whatever, we will be happy to do that, if she wants our input.

Mr. Thompson: I mean the Council has to approve it but you could give us maybe certain things for them to consider.

Mr. Lester: Could they even maybe get a snapshot of all of the transfers – I know it is a high number but if they could categorize the transfers that – or the journals entries that happened maybe last year, say okay these – we had five hundred at this level, two hundred at this level, cause at least we can have some numbers to look at and say okay well, we had – we can decide something

that's routine or not because it could be that most of them are on the routine on the small end but the big ones, that might help us too.

Mr. Kemp: I think the two things that I think are most important is that if you ever create a fund or close out a fund y'all would want to know the impact that's going to have –

Mr. Lester: But this was the first time we have done this isn't it?

Mr. Thompson: We have been required to do large journal entries because we didn't have enough designated and in this fund or that fund – I mean for liability purposes or something else in the past. Haven't there been large numbers that we have been required to --

Mr. Kemp: Again that is an accounting issue where the other post-employment benefits paying the retirees health insurance after they retired –

Mr. Thompson: The council ought to know about those too.

Mr. Shyne: Madame Chairman. I think one thing too, it goes back long before this council and it's no reflection on this administration, Tom Dark was doing this years ago and it's no reflection on you as the finance director now and I guess basically I'm –

Mrs. Bowman: Mr. Shyne, I beg to disagree. I don't think it is administration's fault, I'm not blaming them for anything but when Mr. Madden stood before this council and said that the external auditors told the comptroller to move that money that's when we really started looking at things, I mean really having a problem. I'm sorry Councilman Shyne but I'm just being honest with you. Now, you did say that and we have the video to play if we have to.

Mr. Shyne: And she is right, I mean, I'm not commenting on that aspect but I'm just saying that Tom Dark traditionally moved funds around and on this latest deal, I'm not commenting on that because whether you all told the comptroller to do that or not but I'm just saying this is kind of been a practice that – and I think it is kind of the time that we kind of need to bring it to an end where we can all be aware of what's going on but having been around a long time and – heck Cedric, this goes back to when you was on the council – and again, I'm not commenting on what the comptroller said but I'm just commenting on the practice of moving funds around and really not questioning – now I don't remember probably this large a number and Mr. Thompson, you can – cause you have been around a long time too – but this is kind of something that was that has kind of been a practice of the City. I don't think it was really a good practice. Tom is not here now and he is gone and I think that we do need to have some type of legislative policies in place so that we can correct this and we will not be in this jam again. Thank you all.

Mr. Walford: Five words. Mr. Shyne said them, “aware of what's going on,” and I think that's what we really are after.

Mayor Glover: Thank you Madame Chair. I appreciate the sentiments that have been expressed by the council and also I think Art alluded to one of the comments and that is obviously that you all

will put together your recommended best practices with regard to these types of issues. The question I would like to ask lastly, what would have been the outcome of your external audit had this journal entry not been made?

Mr. Kemp: Had it not been made?

Mayor Glover: Correct.

Mr. Kemp: Assuming that – would Fleet Services still be open?

Mayor Glover: Closed but you would have the situation as it currently exist right now. Fleet Services have been closed.

Mr. Kemp: We would have to analyze what impact it would have on the General Fund as a whole, on the financial statement as a whole and determine if it was material to the City overall and if it was determined to be material to the City overall then it would be a qualified opinion, it would not have been a clean opinion.

Mayor Glover: Say that again.

Mr. Kemp: If it was deemed to be material to the financial statements as a whole it would not have been a clean opinion. It could have potentially been misleading to the readers.

Mayor Glover: Thank you Mr. Kemp. Thank you Madame Chair.

Mrs. Bowman: Meeting adjourned.

There being no further business to come before the Council the Special Meeting adjourned at 3:35 PM.

//s// Joyce Bowman, Chairwoman

//s// Arthur G. Thompson, Clerk of Council