



City of Jonesboro

900 West Monroe
Jonesboro, AR 72401

Meeting Minutes

Finance & Administration Council Committee

Tuesday, January 8, 2008

2:45 PM

Huntington Building

Special Called Meeting

1. Call To Order

Present 6 - Darrel Dover; John Street; Harold Perrin; Ann Williams; Jim Hargis and Judy Furr

2. New Business

Insurance for part-time employees

Councilman Perrin explained the question was with the cafeteria plan that there were elected officials on the plan. He further explained the new company was not aware the elected officials get W-2's from the City, but they know now and should have enrolled everyone in the plan on Monday. It was noted the cafeteria plan is just for health insurance.

Audit interviews

Thomas and Thomas

Mr. Randy Milligan and Ms. Pattie Weed from Thomas and Thomas, located in Little Rock, discussed their company. Mr. Milligan explained they have expertise with government entities and stated they work with City of Conway, Conway Corporation and Arkansas Teachers Retirement System. Ms. Weed added they also audit Legislative Audit. Mr. Milligan further discussed Thomas and Thomas. Chairman Dover questioned what areas they have audited and what direction they would need from the committee. Mr. Milligan noted the RFP was really agreed upon procedures and not an actual audit. He explained agreed upon procedures is more the committee telling them what the concerns are and agree on what the procedures will be. Ms. Weed also added they will also work with the committee to get the most for the money according to the committees concerns. Mr. Milligan stated Legislative Audit is very thorough. Finance Director Don Ray noted the 2005 audit is the last full audit but Legislative Audit is currently at the City working on the 2006 audit. Mr. Milligan explained he and Ms. Weed will be the ones interviewing the committee to find out what the concerns are. He stated he doesn't think the committee wants a true audit; rather, the committee wants agreed upon procedures and possibly consulting services. Chairman Dover questioned the process they would take. Mr. Milligan stated first it depends on how good the records are. Councilwoman Furr questioned their work with the City of Conway. Mr. Milligan explained they helped get the City of Conway where they needed to be, but their services aren't needed as much due to the new Director of Finance having a background in auditing. Councilwoman Furr questioned whether they worked department-by-department or just looked at the full picture. Mr. Milligan stated they looked at the departments the City of Conway asked them to look at. Chairman Dover questioned their background with Springbrook. Mr. Milligan explained they have heard of Springbrook but haven't worked with it. Ms. Weed added as with other

experience they can work with Springbrook to get the software to where it needs to be. Mr. Milligan then discussed what an audit really is as compared with agreed upon procedures. He explained audits are more samples based on materiality, which is set by numbers. He further explained agreed upon procedures can entail looking at everything as opposed to just a sampling. He noted audits are not 100% tested. Discussion was held concerning past experiences with agreed upon procedures and what they did. Councilwoman Furr explained Legislative Audit that make sure the City follows state procedures and Freeman & Co. to audit grants, but everything else is left unaudited. Mr. Milligan stated Legislative Audit should be covering everything. Councilwoman Furr noted some of the issues are not covered by state law. Ms. Weed explained Legislative Audit issues opinions on whether the financial statements are correct or not. Councilman Perrin detailed some of the changes that have taken place since the 2005 Legislative Audit, including a new Finance Director and Springbrook. Councilman Hargis questioned what they would do if they find funds are missing. Mr. Milligan stated they are required to go to the committee to discuss their suspicions of fraud and see where the committee wants to go next. He added the committee would have the option of them following through or to contact Legislative Audit. Ms. Weed noted they could do a forensic audit if instructed to do so. Discussion was then held regarding the request to look at capital improvements. Councilman Perrin questioned the software. Mr. Ray stated he thinks a large part of the problem was that the implementation was so poor. Ms. Weed explained in that situation they will also speak with the vendor to help resolve problems. Former Finance Director Herb Davis noted another problem was the number of un-opened bank statements he found when he was interim director in 2006. Councilwoman Furr stated that is a violation of state law to have un-opened bank statements because the accounts are supposed to be balanced every month. Mr. Milligan explained first they would want to get current financial statements from Springbrook before proceeding with agreed upon procedures. Ms. Weed further explained the first priority should be to get the system running. Councilwoman Furr stated just getting the system running will not answer all of the questions because they have repeatedly asked for the information. Mr. Ray stated they all have to work together to make financial statements the way the committee wants. He added they should get together with Springbrook to put the financial statements together. Ms. Weed stated you can't do a good audit until the General Ledger is fixed. Mr. Milligan added if they do the work to fix the General Ledger, then they can't audit the City because they'll be auditing their own work. Councilman Perrin suggested changing the resolution to re-list what work is to be done now that the committee has a better understanding of agreed upon procedures and audits.

Crowe Chizek

Mr. Bert Nuehring, Mr. Michael Claytor and Ms. Emy Neuman-Javornik discussed the company and their experience with auditing. Mr. Nuehring noted they are independent of the City of Jonesboro and they are also independent of the normal audit process as identified by Legislative Audit. He added he thinks they offer a fresh view of issues that affect the City. Mr. Claytor stated they have a group of people who only work with state and local governments. He further explained they look at how business is done and how it can be changed to do it better. He discussed a project with the Cook County jail system in which inmates are processed faster than before. Mr. Nuehring stated they have been involved in auditing agencies with Springbrook. Councilman Perrin questioned how many entities they've worked with. Mr. Nuehring stated they audited the financial statements from the Springbrook system and there are several cities they audit that have Springbrook. Chairman Dover questioned whether they have IT people who have the knowledge to assist the City in working out problems with Springbrook. Mr. Nuehring stated yes, they have a number of individuals who would be able to assist. Chairman Dover then questioned whether any cities they audited had problems being able to

generate financial statements. Mr. Nuehring answered in the instances that have Springbrook, they were able to complete their audit and render an opinion on the financial statements. Chairman Dover questioned whether they could work with Springbrook to get the software to the quality they wish. Mr. Nuehring stated yes, they have worked with a number of clients to understand issues that may cause the software to not work in the way they want it to and how to improve it. He stated he has personally be involved with one client working with Springbrook, in which the client was a city government with a 40,000 population. Councilman Hargis questioned whether they would have suggested another piece of software. Mr. Nuehring answered they were not involved in the selection of the software, but they were able to be provided with the records needed to complete the audit procedures to their satisfaction. Chairman Dover questioned how many cities they have worked with comparable to the size of Jonesboro. Mr. Nuehring answered they have worked with at least a dozen cities the size of Jonesboro from an audit prospective. Chairman Dover questioned what information the City would have to provide to accomplish what needs to be accomplished. Mr. Nuehring stated first they need to know what is expected to be accomplished and then ask questions about big issues and matters that need to be looked at. Councilman Perrin noted their proposal states "agreed upon procedures" as opposed to an audit. Councilman Hargis questioned how long it would take to perform the audit as suggested in the proposal. Mr. Nuehring answered they still need to know what is to be accomplished since an audit of the financial statements is different. Chairman Dover noted they are not sure Springbrook is able to provide an accurate view of the records. He added that has contributed to part of their concerns, but they don't know what has caused the problems. Councilman Hargis questioned whether they would use the reports from Legislative Audit. Mr. Nuehring answered yes and that they have already looked at the 2005 report but details would have to be looked at further to understand the circumstances around some things that were reported. Councilman Hargis then questioned what the procedure would be if they find funds are missing. Mr. Nuehring explained they would meet with the committee to discuss their concerns and then ask the committee to direct their next step. Councilman Province questioned how they would handle the different issues as set out in the resolution. Mr. Nuehring discussed the first item concerning the Capital Improvement Fund and explained they would perform a forensic audit to look at each of the expenditures to make sure they were classified right and if it fell within the contract or change orders for that project. Chairman Dover questioned if the agreed upon procedures included working with Springbrook to make sure the financial statements are up to date an accurate if they could perform the work. Mr. Nuehring answered as a final objective they could do that. Chairman Dover questioned former Finance Director Herb Davis as to whether Springbrook should be up and running so they can be confident in the reports it generates before an audit begins. Mr. Davis stated Springbrook needs to come to town and not leave until the problem is fixed. He added the other issues he doesn't know about, but questioned what would happen if something is found. He questioned whether the committee would follow through if anything negative is found. He explained while he was director there was confidence in him by the City Council. He further explained since the Finance Director was placed under the Mayor there has been an aura of mistrust. He urged the committee to consider putting the Finance Director back under the City Council. Councilman Perrin questioned how they can feel confident in the software's statements when some checks reflect three different amounts. Mr. Nuehring stated they have the expertise, know-how and experience to help address the issues with Springbrook. Councilman Perrin questioned Mr. Davis as to why he didn't make financial reports. Mr. Davis explained he couldn't put his stamp of approval that he knew what was going on. He further explained the computer program kept being changed and updated, which caused problems. He added that the state auditors had the same problem, in that they would read a statement and then the next day they would find someone in the Finance Department had made a change and the statement would be different. Mr. Nuehring questioned why statements would change from one day to another

and stated that would need to be figured out. He explained their recommendation would probably be to fix the issues with the software before moving on to looking into the items listed in the resolution. Councilwoman Furr questioned how long it would take to start work. Mr. Nuehring answered they could start pretty quickly due to the number of employees in the company. Councilwoman Furr then questioned how they would inform them as to what materials are needed. Mr. Nuehring stated they would provide a preliminary list of materials that are needed. Mr. Claytor suggested doing a two-week engagement to look at Springbrook and decide what needs to be done and whether Springbrook needs to come to town. Chairman Dover questioned how quickly they could start work if they were chosen. Mr. Nuehring stated after the decision is made they would typically need five business days to get started. He questioned whether a formal letter would be needed. Chairman Dover answered they could submit a formal letter specifying what work would be done concerning Springbrook over a two-week period and how much it would cost.

The committee then reconvened to discuss the two companies. Councilman Street said both presentations were similar and he was impressed with both. Councilman Perrin suggested hiring a company for a two-week period to look at Springbrook and make recommendations. Councilwoman Furr noted the company would not do the work; rather, they would just make recommendations and Springbrook would do the work. Chairman Dover expressed concern over being able to get the City employees to fix Springbrook since nothing has been resolved in the past. Councilwoman Williams added Crowe Chizek did not indicate helping with Springbrook would be a conflict of interest. Councilman Hargis noted the problem they are addressing is an audit and not Springbrook. Mr. Davis noted there are hard copies that would be able to assist in the audit. He added Springbrook is an ongoing problem that needs to be worked out. He explained at least during his time every check has a register with supporting documents and all of it is also in hard copies. He further explained he thinks Springbrook is capable of coming in and fixing the problem.

Councilman Street motioned, seconded by Councilwoman Williams, to hire Crowe Chizek and to decide on the agreed upon procedures. All voted aye.

3. Adjournment

A motion was made by Harold Perrin, seconded by Ann Williams, that this meeting be Adjourned. The motion CARRIED by a Voice Vote.

Aye: 5 - John Street; Harold Perrin; Ann Williams; Jim Hargis and Judy Furr