

BEMIDJI CITY COUNCIL

Work Session Agenda

Monday, June 11, 2018

**City Hall
Conference Room
5:30 P.M.**



1. CALL TO ORDER / ROLL CALL

2. RESPONSE TO OFFICE OF STATE AUDITOR REGARDING SANFORD CENTER

5. ADJOURNMENT

NOTE: Please switch all cellphones and pagers to a non-audible function during Council and Committee meetings.

COUNCIL AGENDA ITEM



Meeting Date: June 11, 2018

Action Requested: Response to Office of State Auditor (OSA) letter regarding Sanford Center dated May 11, 2018

Prepared By: Ron Eischens, Finance Director *R. E.*

Reviewed By: Nate Mathews, City Manager *Nate*

This is a follow-up memorandum to the May 18th initial response. Some responses/issues remain unchanged since they have been previously resolved.

Even the best internal controls will not prevent a person from stealing. Controls are intended to be a deterrent and reduce risk. Years ago, the City discovered an employee stealing fuel. As a result, procedures and controls were strengthened on these types of purchases. BSU recently had a former employee charged with theft via credit card. Point being, theft occurs despite best efforts to minimize opportunity and temptation.

Listed below are the OSA findings and staff recommendations to correct these findings.

Bank Account and Authorized Signers

OSA urges City to discontinue practice of allowing any vendor authority over City bank accounts. OSA recommends the City work with its legal counsel to accomplish this.

Staff recommend changing the account structure as follows:

Operating Account – Remove Venuworks (VW) staff from signatory authority. Remaining signatories identical to other city bank accounts using the City federal identification numbers. Payments handled the same as other city payments, approved by Council prior to check release.

Box Office Account - Will be in VW name, identification number and with VW signatories. Account will receive event ticket or facility revenue amounts prior to being earned. Once the event takes place and revenue earned, appropriate payments will be made to the event's promoter and event day expenses, with all remaining dollars transferred to the City operating account.

Staff believe this addresses the OSA findings and offers the most efficient way to operate Sanford Center activities within those requirements.

Staff considered the alternative of running Sanford Center financial transactions through the City's accounting software. For the following reasons staff do not recommend this option:

1. Negates benefits of the new software VW is implementing including Enterprise Resource Planning (ERP)/Event Management/Accounting and point of sale (POS). These systems provide an audit trail from booking an event, settling, invoicing and electronically collecting customer payments. It provides immediate online access to financial transactions. VW is also planning to integrate the Sanford Center's current time keeping software and new POS system with the previously mentioned ERP software at a future date. City financial software does not have these abilities.
2. Additional personnel responsibilities requires hiring a Human Resource Director and payroll staff, adding additional City costs.

Debit/Credit Card – (no change from May 11th)

OSA recommends permanently discontinuing use of debit cards. If the City allows the use of credit cards, such use should be restricted to appropriate City employees and should be consistent with Minnesota law.

The City of Bemidji does not utilize debit cards. However, VW employees did utilize debit cards with access to a City bank account but VW cancelled their debit cards in September 2016. The City credit card policy complies with Minnesota law and department heads are responsible for their credit card activity. Credit card transactions have supporting detailed invoices.

Each VW location, including the Bemidji Sanford Center, issues a credit card to make online purchases, subject to VW credit card policy, approval and documentation requirements applied to purchases made with other forms of payment. Receipts and supporting documentation are stored on-site as well as the corporate office. These policies comply with OSA and legal requirements.

Advances – (no change from May 11th)

OSA urges the City to require itemized claims for payment and refrain from advancing money absent specific authority to do so. No check or other payment should be issued until the claim has been supported by an itemized invoice, time-sheet or other approved document.

The City does not advance money or make payment without supporting documentation. City employees do not receive advances for travel or other expense purposes. The VW former Executive Director did receive expense/travel advances, which policy VW has since discontinued.

Legal Authority and Public Purpose

The OSA recommends the City carefully review expenditures of public funds to ensure proper authorization is obtained and they serve a public purpose.

The OSA discovered payments related to VW staff entertainment, gifts, Rotary dues and donations that may lack public purpose. While the OSA did not provide a dollar amount for

these expenditures, the miscellaneous expense account was reviewed by City and VW, resulting in \$1,752 added to the amount VW reimburses the City.

Excessive Reliance on Vendor for Internal Controls – (no change since May 11th)

OSA recommends the City discontinue the practice of allowing any external entity or individual authority over any City bank account. City should work with legal counsel and auditor to establish needed internal controls to protect public funds and compliance with Minnesota law and City Charter. No check or payment should be issued until the claim is supported by an itemized bill, time sheet or other document.

This finding is similar to the first finding regarding bank accounts and authorized signors. No external entity nor VW has authority over any City bank account and no check or payment is made until there is adequate supporting documentation.

Legal/Investigation Update

The Beltrami County Sheriff's office is the criminal investigative agency on this matter. Timeline for completion is unknown but could be lengthy. The investigator indicated the threshold for criminal conviction is different from the internal and OSA investigation parameters, meaning the amount submitted for criminal charges will not be the same. VW will press charges once the investigation is complete.

Financial Reconciliation

The OSA report does not express an opinion on the amount owed by VW to the City due to the contractual nature of the relationship and interpretation. Between the VW internal review and the OSA audit, unapproved, undocumented or questionable transactions by Curtis Webb or other VW staff were reviewed. VW proposed reimbursement to the City of \$137,616.21 includes \$38,812 more than that reviewed by the State Auditor, see attachment.

The attachment summarizes results of the VW internal review and OSA report. The highlighted amounts totaling \$38,812 represent amounts or transactions not reviewed by the OSA but which VW believes represent funds they should reimburse the City because they are questionable in nature or do not meet VW standards for approval or documentation.

Recommendations

Staff recommend the following:

1. Changes to the account structure listed on page one, including removing VW staff from bank signatories and account ownership. If Council approves, a legal opinion should be obtained on this issue.
2. Modify management contract to reflect changes in account structure.
3. Accept VW payment of \$137,616.21 as reimbursement for unapproved, unsupported or inadequately supported or improper use of City or public funds.

Per VenuWorks	State Auditors	Repayment	Report section
3,939.68		3,939.68	Unapproved payments
22,733.59	22,733.59	22,733.59	Unsupported payments
44,580.22	44,580.00	44,580.22	Inadequate Support
10,687.02	5,616.00	5,616.00	Improper payments to Webb
8,540.06		8,540.06	Unapproved payments
40,938.09		40,938.09	no supporting docs/approval
2,305.22			Improper use of City Funds
27,197.17			Improper use of City Funds
3,925.39	37,751.00	37,751.00	Improper use of City Funds
1,752.44		1,752.44	Add'l Questionable items identified
(14,102.69)	(11,876.43)	(11,876.43)	reimb from Webb
(16,358.44)		(16,358.44)	reimb from Bloomington
136,137.75	98,804.16	137,616.21	
		38,811.83	Additional proposed reimbursement not reviewed by State Auditor