

**EPHRAIM CITY COUNCIL MEETING
EPHRAIM CITY BUILDING
5 S. MAIN
WEDNESDAY, NOVEMBER 3, 2004
7:00 PM**

MEMBERS PRESENT

Morris Casperson, Mayor
Don Olson, Mayor Pro Tem
Jannette Anderson
Kim Cragun
Penny Kittelsrud
Garth Sorenson

OTHERS PRESENT

Richard Anderson, City Mgr/Recorder
Bryan Kimball, City Planner
Leigh Ann Warnock

OTHERS PRESENT

John Hales
Dale Christensen
Tammy Christensen
Troy Shelley
Kerry Nielson
Tom Larsen
Brett
Shelley Jensen
Larry Nielson
Richard Nielson
Gayleene Duncan
Debbie Empey

Douglas Olson
Josh Hveem
David Hveem
Mary Casperson
Lori Walker
Karen Robinson
Richelle Kimball
Brian R. Nielson
Bonnie Nielson
Richard Duncan
Ron Rasmussen
Dean Cox

Mayor Casperson called the meeting to order at 7:05 PM.

PUBLIC SESSION

APPROVAL OF MINUTES

The Council reviewed the minutes of the October 20, 2004 City Council meeting.

Councilmember Cragun moved to approve the minutes of the City Council meeting. Seconded by Councilmember Anderson. The vote was unanimous. The motion passed.

APPROVAL OF WARRANT REGISTER

The Council reviewed the Warrant Register of October 14, 2004.

Councilmember Cragun moved to approve the warrant register of October 14, 2004. Seconded by Don. The vote was unanimous. The motion passed.

PUBLIC COMMENT PERIOD

Zion's bank has requested permission to put a trailer on the two lots they are considering purchasing at the Ephraim Commercial Subdivision. They have suggested a five year time period in which to determine whether business justifies a permanent building. Ephraim's current ordinance prohibits construction trailers for more than a year. This would require the structure to be approved as a modular building.

The Council expressed concern about the five year time period and it's affect on other businesses wanting to locate there.

The Council speculated on changing the time to three years. City Manager, Richard Anderson will negotiate with Zion's for perhaps a 1½ year agreement with an option for a 1½ year extension.

Councilmember Cragun moved to have Richard Anderson negotiate for a modified agreement with Zion's Bank at a year and a half with an optional renewal of a year and a half for a total of three years. Seconded by Councilmember Sorenson. The vote was 3-2 in favor. Council members Olson and Kittelsrud voted against. The motion passed.

APPROVAL OF DALE CHRISTENSEN SUBDIVISION

Mr. Christensen addressed the Council stating that the bond for the subdivision is complete and has been given to City Planner, Bryan Kimball. Everything necessary to begin construction has been turned in. Mr. Christensen reiterated his concern about being allowed to install four foot sidewalks as opposed to the five foot walks required by the City's ordinance. Richard Anderson mentioned that the Council is seriously considering the option of a four foot sidewalk in certain areas within the City. It was suggested that the City enter into an extension agreement with Mr. Christensen which states that he will install the sidewalks in the width decided upon by the City at that time. The Council will be looking at the subdivision issue over the next three months in order to revise the ordinance. Mr. Christensen is willing to sign the agreement in order to begin work on his subdivision.

Councilmember Cragun again declared a conflict of interest in this case, as his property adjoins Mr. Christensen's and he has family who will be purchasing property in this subdivision.

Councilmember Olson moved to approve the subdivision with the proviso that Mr. Christensen signs the agreement. Seconded by Councilmember Sorenson. The vote was unanimous. The motion passed.

NAMES FOR BOARD OF ADJUSTMENT

Cliff Birrell, Don Nielson, and Larry Black will continue on the board. New members for approval are Brian Fletcher, James Jensen, and Lyle Chamberlain as an alternate. Mayor Casperson recommends that the Council appoint these new members to the board, with Larry Black as Chairman.

Councilmember Anderson moved to appoint Brian Fletcher, James Jensen, and Lyle Chamberlain to the Board of Adjustments. Seconded by Garth. The vote was unanimous. The motion passed.

DISCUSSION OF CITY AUDIT REPORT

Debbie Empey, of the State Auditor's Office, was present and explained that at the request of Ephraim City, her office conducted an in depth audit. Ms. Empey explained that it is the objective of the auditor to look at books, internal controls, procedures, and daily performance, and then make recommendations. The auditor also checked for any indication of missing money and noncompliance or violations of policies and procedures. This audit encompassed the time period of July 2001 through December 2003. Ms. Empey emphasized that their objective was not to identify missing money, but to improve procedures for the future. The audit reports 12 findings, or problem areas.

When asked how Ephraim City compares to other cities audited, Ms. Empey replied that the results were average.

At this point, Mayor Casperson set forth the rules and guidelines for questions from the public. He pointed out that a regular audit reviews a sampling of checks, reports, etc. while this audit was very detailed and included all of them with the intent to help build better policies and a better City. Each of the Council addressed individual issues, gave a response and then opened the floor to questions.

1. Mayor Casperson - Inadequate Separation of Duties. The Mayor pointed out that since we requested the audit, we have hired an accountant who does not handle the money, and the Caselle software system is being better utilized which has helped to eliminate the need for more personnel to handle things. We have to be able to trust our employees, while maintaining internal control as a protection for them and for the community.
2. Councilmember Olson – No Reconciliation of Handwritten Receipts to General Ledger. When people came into the office to pay their bills, they got reconciliation in the form of a printed receipt. If the power

was out, or we were having computer problems, handwritten receipts were given. These were not always properly recorded in Caselle. This has been corrected. All receipts are documented.

Lori Walker – was the cash that was missing ever found?

Councilmember Olson responded by saying that it has not been concluded that the money is missing.

Debby Empey – We don't know whether there is missing funds or just bad documentation. We know the money was received, but could not trace it to a bank deposit. We did see examples where there was just not enough information to identify a receipt so we did not know what to tie it to.

Lori Walker– Does this happen in other areas too?

Richard Anderson – The constant theme has been poor documentation.

Troy Shelley –Are you going to research this until we find out whether it is a case of missing money or not, and if so, when would we see a report to see how much was missing and why?

Councilmember Olson – On some issues, there will be continued research.

Debbie Empey – from the auditor's standpoint, I don't think there is any more to find.

3. Councilmember Cragun - Inadequate Internal Control over Checking Accounts. The City had four checking accounts, including accounts for the library, Parks and Recreation, Piñata Festival, and Miss Ephraim. Each had an overseer that ran them. We have since closed all four accounts and everything will now come out of the City office with our regular account. The original accounts were put in place for convenience sake. We are still working on a system that will allow more flexibility, while maintaining control.

John Hales - How long ago were the accounts closed?

Richard Anderson – The library account was closed a year and a half ago. The others were closed within the last three months, more or less.

4. Councilmember Olson – Inadequate documentation for Accounts Receivable Adjustments. The Judge must sign off on adjustments. That was not happening, but has been corrected. Everything is documented and signed by the Judge.

Brian Nielson – If this is the case, then the Judge violated the rules and regulations. Which Judge was this?

Councilmember Olson – That would be Judge Breinholt.

Debbie Empey - This is not mandated by a law or ordinance, but auditors recommend that it be done.

Councilmember Cragun – Verbal agreement may have been made, there were just no signatures.

5. Councilmember Cragun - Cash Proceeds Not Accounted For or Controlled. The City has changed the policy with regards to the pop machine. It gets emptied once a month and amounts to a very small amount of change. As to overages and shortages in the till, the City has installed Caselle software which reports overages and shortages, and makes adjustments in order to balance at the end of each business day.

Bonnie Nielson – How do you have shortages and then just mark them off?

Richard Anderson – This is not taken cavalierly. We want to balance, and very rarely don't, but in the case of an overage or shortage, we have to have a record of that instead of just dismissing it as not being able to balance. We spend an awful lot of time trying to balance. We have changed the Treasurer's work schedule from 8:00 until 5:00 to 8:30 until 5:30 so that she can spend the time necessary to balance without having to worry about people coming to the window.

Mayor Casperson - It also gives us a record so that if one person is consistently short, we can track that.

6. Councilmember Cragun – Internal Control Weaknesses Over Petty Cash. We used to have petty cash fund of \$500.00. This was a significant amount. We found that some of the receipts were missing. We don't know where it went because of poor record keeping. We have since dropped the amount to \$50. The assigned Treasurer is to be the guardian of the petty cash. When people have a petty cash expense, a receipt will be kept, it will be documented, and when the

\$50 needs to be replaced, receipts will be given to the accountant and a new check written to petty cash. Funds will be subject to random audits by the accountant.

Lori Walker – Is the library under the petty cash rule?

Richard Anderson – No. The Library deposits their funds daily.

Lori Walker - We need to have more control over the money at the Library. Would you have that happen? I could be in trouble if money were missing. I'd like it to be counted every day.

Richard Anderson – One reason the Library account was closed was to exercise a little control over the library funds, but we still need to spend some more time on a system. There is not a lot of money over there, but it does demand our attention.

Dean Cox – Each person who has access to the cash should have their own cash. If someone else is taking payments at the window they should have their own cash tray as well. There is no control and no responsibility because you can't trace it. Maybe each person could log in and out whenever someone else takes over the window.

Lori Walker – This is also a problem at the Library. Six to seven people have access to the money all day long. Plus there are other people behind desk at different times that also have access to that.

David Hveem - Everyone should have their own drawer to protect themselves. How often is petty cash accounted for?

Councilmember Cragun – Petty Cash is counted at least once a month aside from the random audits.

David Hveem – In that amount of time one person could float themselves a loan, making sure it was back in the box before it was counted. There need to be checks and balances every day.

Mayor Casperson – Further controls still need to be put into place. We are still working on that.

David Hveem – Coke machines hold hundreds of bottles of pop. How is that accounted for? Maybe someone keeps some of that money.

Richard Anderson - We're not inventorying the pop

7. Councilmember Kittelsrud – Lack of Policies and Procedures over Cash Disbursements. You can see there were eight or nine issues here. We have created policies and procedures where they were lacking.

A. Review of Disbursements. At every City Council meeting we review the warrant register, which lists all the checks for the two week period. Every department manager has to approve the invoices.

B. No policies and procedures. We have adopted our own policies and procedures.

C. Access to signature stamps. The practice of signature stamps has been discontinued.

D. Overpayments or duplicate payments. We have taken the accounts payable duties from the Recorder. The accountant now handles all of the accounts payable.

E. Handwritten Checks. Checks are only handwritten by the accountant when there is no time to print one, or if the power is out and Caselle cannot be accessed. All of the handwritten checks are recorded promptly in the general ledger by the accountant.

F. Credit Card Receipts. Every time the accountant pays a credit card bill, a check is made to assure there are receipts for all charges.

G. Multiple Wal-Mart Cards. We now just have one Wal-Mart card. Everyone has to get it from the Treasurer and sign for it.

H. Travel Policy. A new travel policy has been written to ensure that all expenses are accounted for and approved by the department manager.

I. Store Charges. Whenever purchases are charged at a store, they have to have the same documentation as every other purchase.

Bonne Nielson – Can people go into stores and purchase things for the city?

Mayor Casperson – Yes, they can.

Bonnie Nielson – How are these accounted for?

Richard Anderson – We have sent a memo to all vendors indicating what is required with charged purchases. There must be three things on each receipt, including the printed name of the person making the purchase, their signature, and the department the purchase should be charged to. Once that's done, it is stamped with the date it is received, the department code and an approval signature.

Bonnie Nielson – who checks to see that the item that was purchased actually goes to that department?

Richard Anderson – It is up to the department head who signed the receipt.

Bonnie Nielson – If you find discrepancy, or you're not receiving the item in that department, what do you do about that?

Richard Anderson – We can go back to name of the person on the receipt.

Councilmember Kittelsrud - We have to trust that we have hired honest people. It is not possible to be checking on our people 24 hours a day.

Bonnie Nielson – We have already tried the trust thing.

Ray Poulson – Snow College has a very good system. They give businesses a purchase order which is good for a certain dollar amount. When that amount is spent, they are through. It sounds like you have a good system, but there is no stopping place.

Mayor – We are hoping that by doing everything item by item, we will not have to do that purchase order system. Sometimes when you give people a purchase order they think they can spend the whole amount.

Councilmember Cragun – hopefully the department manager knows what his budget is and can tell person how much they can spend.

8. Councilmember Sorenson – Inadequate Documentation for Cash Disbursements. We have discontinued use of the debit card. A receipt must be attached or a formal Lost Receipt Form must be signed. With regards to gas purchases, each person must sign their

receipt and identify their department. The state auditor provided us with a list of all items that were questionable, and we have reviewed and investigated most of those items.

Dean Cox – Can you give us a dollar amount to the word most. And when will we hear what that is?

Councilmember Sorenson – No, I can't put a dollar amount here.

Richard Anderson - I don't think we could ever say "all," but we are not through looking at this.

Councilmember Sorenson – As to when you will hear, that will be when we have an answer. We can't get any closer than that, hopefully within a few months.

Mayor Casperson – Debbie was at a disadvantage while conducting this audit. There were no employees there to answer her questions. In this case she had to communicate directly with the attorney. Empey said this attorney did not want her to meet with Wendy Hansen. She had to submit every question to him and he would ask Wendy and get back to her.

9. Councilmember Anderson - Unreasonable/Questionable Disbursements. There were explanations for a lot of things under this finding, i.e. payments to softball were for umpires. It was noted that the amounts for clothing for the power vs. the public works personnel was not even. Some departments need more gear, and so these amounts are more reasonable than they appeared at first.
10. Councilmember Olson – Inappropriate Recording of Handwritten Checks. There will be no further handwritten checks unless the power is out, or tight time constraints. These handwritten checks were going directly to the general ledger and we were losing track of what they were for and where they went. The checks are now done by computer. There are no more rubber stamp signatures; everything must be signed personally. All invoices must be approved by the department head. These things are all taken through the proper channels before it goes into the general ledger.

Brian Nielson - Who was the Recorder and who was the Treasurer at that time?

Mayor Casperson – The Recorder was Wendy Hansen and the Treasurer was Gayleene Duncan.

Brian Nielson – Why were no charges brought against the Treasurer then?

Richard Anderson – Those issues will be researched and dealt with as appropriate.

11. Councilmember Sorenson – Internal Control Weaknesses Over Payroll. We have now required that supervisors sign all timesheets before they are turned in to the accountant. We are also using a computerized payroll system. This was done manually before. We have also instigated the trial of a time clock within the City Offices to avoid any future discrepancies. We can account for all but 48 of the hours in question pertaining to the Treasurer. We will continue to investigate as best we can to get this corrected and seek reimbursement where possible.

Brian Nielson - So the total amount of money that can be taken without charges, according to Utah code, is \$5,000. Over \$5,000 is a felony. If the amount of monies taken by the City Treasurer is equal to that or more, then charges can be filed. Is the City going to do anything about this?

Mayor Casperson – We will send a copy to the attorney. He will look at it and we will proceed from there.

Debbie Empey – We sent a copy of the audit to Ross Blackham, the County attorney.

12. Councilmember Cragun – Inappropriate Payroll-Related Expenditures. Checks that were cut did not go through proper channels. We will no longer make those types of payments. They all go through an accounting program so that taxes can be taken out. As to the severance policy, only the Position of City Manager qualifies for that, and it was felt that it would be negotiated and would be documented. This will be agreed upon and would be paid through the payroll system. The policy of pay advances has been discontinued.

Troy Shelley - When Morris Casperson ran for Mayor, he stated at that time that the City was in financial trouble. We elected a Mayor with CPA background. Does he have full access to this information? Do you Morris?

Mayor Casperson – Yes, I do. Debbie Empey has said that she could not find proper documentation, and if she can't find it, I don't think we would be able to do any better.

Troy Shelley - Did Debbie find anything specific that will be followed up on? Will it be followed up on? Will we be reported back to on the findings?

Debbie Empey – Everything I found is already in this report.

Councilmember Olson – When we first discussed doing the audit, I told Debbie to do everything she needed to do to get Ephraim squared away and I want to thank her and her staff for what they have done. Ephraim will be a better place because of what she's found. Most weaknesses have been corrected. We will continue to work on this on an ongoing basis. We are going forward to make sure every penny is accounted for and in the proper place.

Troy Shelley - Is the city going to recover the funds?

Mayor Casperson – The bonding company will reimburse us on those. The question is what we can document and what we can't. This will be a legal battle.

Lori Walker – Do you really have that much that is documented to prove the issue? You're not going to be able to prove guilt and you won't get refunded.

Audience comment - Can we look back to things that happened before you were Mayor? Can we make sure things are not going to be destroyed?

Mayor Casperson - The county brought the suit and they are trying to get the records from the FDIC now. We don't know whether they will be able to get that.

Richard Anderson - Some of these checks were included in Ross Blackham's original charges.

Brian Nielson – How much are they bonded for?

Mayor Casperson - I believe over \$300,000 each.

Brian Nielson – The amounts should be higher.

Mayor Casperson – We have followed the requirements.

Councilmember Sorenson – With all the changes we have made, hopefully this could not happen again.

David Hveem – Regarding the hours not documented on the Recorder's timesheet, and the 48 hours on the Treasurer's, what steps have been taken to recoup that? What steps were taken regarding the double vacation?

Richard Anderson – It looks like the Treasurer was paid for a considerable number of hours over and above what the salary would normally be. This is not the case. The timesheets match up to everything but 48 hours. In a lot of cases she would put 38 hours of work assuming that since she had approved comp time, the person doing payroll would add that two hours of comp to bring the total to 40. In some cases, looking at the timesheet, comp time earned was taken off the number of hours on the timesheet, before entering into the computer. By doing this, it gave the appearance that she had worked less than what she actually had. Adjustments were made on the timesheets, not in the computer, which resulted in misleading statistics. This practice has been discontinued..

David Hveem – It looks like they were getting twice the amount of vacation than allotted. The City hasn't gone after reimbursement yet.

Councilmember Sorenson – This was just on one pay period. It did not happen every time.

David Hveem – Did you get that back? Has this happened with any other employees?

Debbie Empey – These were high risk people, so they were the only ones checked.

David Hveem – We should look at all City employees.

Richard Anderson – The timecards used for those two employees were different than other employees. Others had direct supervisors. There was no one signing their timesheets.

Bonnie Nielson – The employees who are supposed to be at the window are rarely there. Do they clock out when they go out, or are they just allowed three or four hours in the afternoon?

Mayor – Is this still happening?

Bonnie Nielson – No, not lately.

Richard – We have put a time clock in the office. You have to clock out and in with a fingerprint. We are trying it to see if it is going to work for us.

Mayor Casperson - Our intent is to have someone at the window at all times.

Mayor Casperson - We appreciate the time and effort that has been given on this audit. Our goal is to make the City better, make records safeguarded, and put in proper controls. Ask the employees if they like what we've been installing. You have to have controls, and some are still coming in the future. We can only change procedures so fast.

Richard Anderson – We have implemented a lot of changes. If you have an interest, you are welcome to look at the new procedures. We will look into the library concerns, the inventorying of the pop, and other concerns mentioned as well. We are open for suggestions.

ADJOURN

By Councilmember Kitt Stone moved the adjourn at 9:05 PM. The motion passed.

MINUTES APPROVED:

Mayor

Date

ATTEST:

City Recorder

Date