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**MINUTES OF THE *SPECIAL* WORK SESSION  
BOARD OF MAYOR AND ALDERMEN  
FRANKLIN, TENNESSEE  
CITY HALL BOARDROOM  
MONDAY, JANUARY 12, 2009 – 5:00 P.M.**

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**Board Members**

Mayor John Schroer	P	Alderman Dana McLendon	<b>A</b>
Alderman Clyde Barnhill	P	Alderman Ken Moore	P
Alderman Pearl Bransford	P	Alderman Ann Petersen	P
Alderman Beverly Burger	P	Alderman Michael Skinner	P
Alderman Dan Klatt	P		

**Department Directors/Staff**

Eric Stuckey, City Administrator	P	Eric Gardner, Engineering Director	A
Vernon Gerth, ACA Community & Economic Development	P	Shirley Harmon, HR Director	P
Russell Truell, ACA Finance & Administration	P	Mark Hilty, Water/Wastewater Director	A
David Parker, City Engineer	P	Gary Luffman, Planning Director	P
Shauna Billingsley, Interim City Attorney	A	Tom Marsh, Interim Codes Director	A
Rocky Garzarek, Fire Chief	A	Joe York, Streets Director	P
Jackie Moore, Police Chief	P	Becky Caldwell, Assistant Director Solid Waste	A
Fred Banner, MIT Director	A	Lanaï Benne, Assistant City Recorder	P
Lisa Clayton, Parks Director	P	Linda Fulwider, Board Recording Secretary	P

**1. Call to Order**

Mayor John Schroer called to order the *Special* Work Session of the Board of Mayor and Aldermen, City of Franklin, Tennessee, Monday, January 12, 2009 at 5:00 p.m. in the City Hall Boardroom.

**WORK SESSION DISCUSSION ITEMS**

**2. Receipt of FY 2007-2008 Comprehensive Annual Financial Report**

**Russell Truell, ACA Finance & Administration**

Michael Hewitt and John Whybrew of Alexander Thompson Arnold Certified Public Accountants were present to review the audit report for year ended June 30, 2008.

Reviewed were basic financial statements, fund financial statements, governmental activity (including Water/Sewer Funds), net assets, net worth of the City. Business-type activities reviewed as well. Donated infrastructure recorded as revenue discussed in relation to how the value of donated right-of-way is determined.

Alderman Petersen asked about prior period adjustments. Mr. Hewitt said the majority is infrastructure in prior years not owned by City. The process shows accurate numbers now and the process will work going forward. Part of vagueness was due to a lack of communication in prior years. It was exacerbated

by decentralization issues. That issue has been resolved. Mr. Hewitt said he is confident the City now knows how to identify these items.

Review continued with the balance sheet on page 15 and a report on page 17 akin to a monthly statement with fixed assets and long-term debt. Page 18, net changes in fund balance equate to net income for year.

### Findings

All prior year findings have been satisfactorily resolved.

### Current findings

#### 1) Failure to Update Building Permit Rates

The rate on building permits changed by the Board effective January 1, 2008, but not updated in the system until February 15, 2008.

There were approximately 80 building permits issued during the time period that were not charged the proper rates resulting in reduced collections by the City of approximately \$46,000.

Recommendation: A designated official responsible for updating and checking rates when the Board votes to change rates.

#### 2) Duplicate Expenses Recorded in the Accounts Payable System

While testing capital asset expenditures it was noted that \$255,441 in duplicate expenses were recorded in the accounts payable system due to the use of purchase orders. The error discovered in September 2008 more than two months after year-end by the accounting staff.

The City's internal control procedures should not allow for the entry of duplicate entries. When it does occur, it should be corrected within a reasonable time.

Accounts payable and expenses overstated by \$255,441 at year-end.

Recommendation: Someone to review the accrued purchases account on a regular basis to determine what makes up the account and whether there is any duplication of payables.

Software is available for this purpose. These were not paid twice just recorded twice.

### 3) Cash Account not Recorded on the Books

While testing cash and debt it was noted that the escrow account related to the 2007 Swap Agreement not recorded on the books.

The City loses control over an account when it is not recorded on the books of the City, which can result in misappropriation of funds.

Recommendation: All accounts recorded on the books and all income and expense related to the account be recorded on the books monthly, even if activity is limited.

### 4) Accounts Receivable not Recorded on the Books

Receivables related to cable franchise fees and beer and liquor tax were not recorded on the books.

City's accounts receivable understated by \$869,996 due to the receivables not recorded on the books.

Recommendation: Record all amounts due at June 30 as receivables on an annual basis.

Mr. Hewitt said he felt comfortable with the system in place to correct this.

### 5) Request for Reimbursements

Requests for reimbursement not submitted in a timely manner on the grants related to the Carothers Parkway projects. At the time of the audit, the City had \$3,387,879 in outstanding unrequested receivables on the grant with some of the related expenditures taking place as far back as Spring of 2007. Uniform administrative requirements for federal grants require adequate controls over grant accounting and period of availability. These general requirements mandate that grant projects be conducted in a timely manner and reimbursement requests be made in a timely fashion.

Failure to request grant funds in a timely manner resulted in the City temporarily financing a large portion of the project. Failure to perform grant administration in a timely manner could result in loss of funds in some cases. Need reimbursement if the money is spent.

Recommendation: Centralize the oversight of federal grant projects. Personnel given this responsibility should be knowledgeable of various federal cost circulars and provide communication between the departments receiving the grants and the finance department. This person should maintain all grant files and be able to make determinations as to what receivables and payables should be recorded on the books.

### 6) Failure to Record Accounts Payable related to Grants

Accounts payable totaling \$1,421,971 related to the Carothers Parkway project not recorded at year-end due to the Finance Department not made aware that outstanding bills remained on the project.

All grant related payables of the City should be booked at year-end, so that proper determination can be made as to the amount of related receivables that should be booked.

Failure to notify the Finance Department of the outstanding payables resulted in assets and liabilities of the City understated at year-end.

Work further to centralize the oversight of federal grant projects. Personnel given this responsibility should be knowledgeable of various federal cost circulars and provide communication between the departments receiving the grants and the Finance Department. This person should maintain all grant files and be able to make determinations as to what receivables and payables should be recorded on the books.

#### Prior Year Findings

##### 8) Compliance with Davis Bacon Act (Prevailing Wages)

The City nor the consultant hired by the City obtained and reviewed certified payroll reports from the contractor on the Transit Authority building project to ensure compliance with the Davis Bacon Act as required by federal grant regulations.

Office of Management (OMB) Circular A-102 and other applicable grant regulations require that contractors on certain federally funded grant projects pay construction workers a minimum wage rate for the job classification and the geographic location of the project as determined by the United States Department of Labor. Recipients of affected federal grants are required to monitor contractor certified payrolls, DOL wage rates, and other requirements through the grant project.

Failure to ensure the contractors pay the minimum prevailing wages could result in the City incurring additional expenses to become grant compliant.

The City should ensure that applicable grant requirements related to prevailing wages is monitored on federally funded construction projects. This could be performed by City personnel or included as requirement in the contract with the project consultant. Centralization of federal grant oversight would also assist in Davis Bacon compliance.

#### Current Year Findings

No current year findings related to federal awards. The process is defined clearly in government regulations and most contractors comply but do but not voluntarily send a report to the City. Recording is deficient but all were paid as they should have been.

### **3. Discussion of Report with Representative from Outside Auditors (Alexander, Thompson, LLC) Russell Truell, ACA Finance & Administration**

#### Internal Control Deficiencies

1) Professional service agreements are not awarded in a competitive process by the City. While this is not against City policy, we believe that large professional service agreements should be awarded by competitive process. The City is open to overpaying for a project and a look of impropriety if one firm is working on multiple projects.

2) The Purchasing Department does not maintain all contracts as well as approve all payments on contracts prior to payment. The Purchasing Department generally should be the centralized location for contracts to be kept and all payments on contracts to be made from. This allows for additional oversight outside of the department heads to monitor contracts in process and determine that contracts are being bid and monitored properly. In general, all contract payments should be approved through the Purchasing Department prior to the payment being issued.

3) There does not appear to be any oversight or monitoring of the different departments involved in the process to determine that each department is collecting all the fees due to the City. The City should set up an electronic system so that when the Planning Department approves a project and collects its fee; the Engineering Department can see that and then knows what it should collect. This would follow through to the Codes Department and on down the line. This would ensure that each department is aware of what is in process in the other departments and can then evaluate whether it is collecting all necessary fees. There are also impact fee agreements that affect the Water/Sewer Department and the Codes Department, but there is no system in place for each side to see when a development is complete so that they know they are paid in full. On two subdivisions, the Codes Department and the Water/Sewer Department differed on the number of lots that the developer had paid permits on.

Progress seen on permits for new construction.

A variety of impact fees collected in each department. Fees do not match other departments. Central database needed. The City has the software but it has not been implemented.

4) City policy was not always followed on employee reimbursement requests. There were several instances where credit card summary receipts were submitted for reimbursement, there was no supporting documentation attached to the request, and no notation was made for the purpose of meal reimbursements.

Tremendous progress with a few exceptions.

The City spends a lot on professional service fees. That is the nature of a fast growing city; things are done as necessitated by growth. Mr. Hewitt commented that it might behoove the City to go out and hire someone to do this in-house.

The Mayor asked if the City would be in violation of State law to bid professional services. Mr. Hewitt recommended the City take proposals for qualifications with no quote given and select the most qualified. Then negotiate the cost. The award is based on proposals received. Price can be requested but the contract cannot be awarded solely based on price. Typically, engineering services of the City look at the scope of projects lined up and take requests from engineering firms to submit services, which can include estimated fees or not.

Mayor Schroer asked if the City has a project and asks three professional services to bid and all are deemed equally capable, can they all be asked to give a price and then choose. Mr. Hewitt related the City can pick any price and it does not have to be the lowest. If fees are miles apart, ask the lowest if they understand the full scope of the contract.

Eric Stuckey is looking at each of these items and making action plans with each department. He related a process in which prospective firms submit qualifications then submit sealed prices. It is decided which firm is the most qualified. Then the sealed price envelope is opened. The other envelopes are not usually opened. Mr. Hewitt said it is common to get both to move the process along. Use the language "competitive proposal", and not "bid proposal".

Mr. Truell noted a lot of progress made on some findings cited last year. Some came from having new auditors this year. Centralization has been a struggle in some departments. Contracts and grants will be centralized.

Alderman Moore asked about unaccounted water at 23% in reference to lost revenue. Russ Truell said 23% is not bad compared to other cities. As the City upgrades infrastructure improvement will be seen. Public buildings were not metered before. He can provide some reports from the State. The State wants places with 50-60% water loss to be accountable. There will always be some loss.

Mayor Schroer thanked Mr. Hewitt and Mr. Whybrew for coming to address the report.

## **ADJOURN**

Work Session adjourned 5:55 pm.

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Mayor John C. Schroer

Minutes prepared by: Linda Fulwider, Board Recording Secretary, City Administrator's Office - 1/29/2009 1:42 PM