AUDIT FINDINGS SUBCOMMITTEE MEETING
August 3, 2017
Minutes

Members Present: Anthony, Grebner, McGrain, and Naeyaert
Members Absent: None
Others Present: Treasurer Eric Schertzing, Dawn VanHalst, Beth LeBlanc, Tim Dolehanty, and Liz Kane

The meeting was called to order by Chairperson Grebner at 3:12 p.m. in the Personnel Conference Room “A” of the Human Services Building, 5303 S. Cedar Street, Lansing, Michigan.

Additions to the Agenda

None.

Limited Public Comment

None.

1. Discussion of the 2016 Audit Findings

Tim Dolehanty, Controller, introduced the report of audit findings from Plante Moran, and the documents his office had provided to the Subcommittee. He stated that the issues identified by the auditors were not just issues that related to the audit, but were rather day-to-day issues in the County.

Mr. Dolehanty stated that when the auditors showed up to perform the audit, they expected the ledgers to already be balanced. He further stated that the audit only concerned the General Fund and its challenges, not any other fund in the County.

Mr. Dolehanty outlined the issues identified in the 2016 audit. He stated that the main theme in the auditor’s findings was the fact that there was an issue with general oversight and execution, and documents were missing when the auditors searched for them.

Mr. Dolehanty stated he was also concerned with the lateness of the audit’s completion this year. He further stated that if the audit had not been completed by the deadline, then the County would have had to ask the Michigan Department of Treasury for an extension.
Mr. Dolehanty stated the Treasury did not usually allow extensions to audits anymore, and if the County had needed one, it might have affected the rate at which the County bonded in the future. He further stated that the County’s records were not complicated to manage; it was just a matter of keeping up the accounting at all times.

Mr. Dolehanty stated the suggestion from the Controller’s Office was to transfer two General Fund positions from the Treasurer’s Office to the Financial Services Department. He further stated the transfer would allow the employees to better focus on the day-to-day balances of the accounts, and to get some mentoring from the experienced accountants in the department.

Mr. Dolehanty stated that in the past when issues were identified in an audit, the County had improved communication and brought in Plante Moran to work with staff to try and make things better, but since there were still issues, he felt it was time to try something else. He further stated that the transfer would not be a challenge, because there was room in the Financial Services Department, and there would be specific accounting help and oversight for those employees.

Commissioner Naeyaert asked if there was a list of specific positions and duties in the Treasurer’s Office.

Eric Schertzing, Treasurer, stated that the Chief Deputy Treasurer and the two employees that the Controller recommended to be transferred were the employees who dealt with accounting. He further stated he was pleased to be addressing the situation with the Subcommittee and the Controller, as he acknowledged there was a lot of frustration.

Treasurer Schertzing stated he had not had a chance to fully read through the Controller’s recommendations, but he thought there were some segregation of duties and bank reconciliation items that also needed to be addressed as the constitutional officer’s responsibilities. He further stated that the Chief Deputy Treasurer was on currently on vacation so she could not join the meeting, but she was experienced and had done the type of work for a number of years as an auditor at a community college, but there were communication, cooperation or agreement issues that needed to be addressed.

Commissioner Naeyaert stated when she had worked with the Treasurer through the City of Mason, she had appreciated the work he had done with the Land Bank that helped the City of Mason. She further stated that it was concerning that the County had gone through audits for the last four years with similar unsatisfactory statements regarding the Treasurer’s Office.

Commissioner Naeyaert related two instances in which employees in the Treasurer’s Office had misinformed local treasurers about quarterly taxes or not taken the collection of local taxes seriously. She stated that when she had asked the auditors at the Finance Committee meeting what the main issues were, they had mentioned training, competency and sloppy work as the main items.

Commissioner Naeyaert stated it was the responsibility of the Treasurer to efficiently oversee the County’s tax dollars. She further stated the County had already tried to work through the issues by bringing in Plante Moran to train the Treasurer’s staff on how to do the audit correctly.
Commissioner Naeyaert stated she understood there were some issues between the Treasurer’s Office and the Financial Services Department, but those parameters were put in place to try and fix them and nothing had changed. She further stated that the Treasurer had the ability to appoint or unappoint a Deputy Chief Treasurer; as well as the responsibility to manage the staff and know their abilities, know what general accounting happened in the office, and come to the Board of Commissioners if he needed help.

Commissioner Naeyaert stated that in a previous meeting, the Treasurer had said managing the Land Bank as well as the Controller’s Office was not too much to handle, but there were weaknesses in the Land Bank as well. She further stated that she was infuriated that during the Finance Committee meeting where the audit results were discussed, the Treasurer looked glib and there was no contrition, because it seemed like it did not matter to him after four years.

Treasurer Schertzing stated he had put a great deal of time into the processes in the Treasurer’s Office, but he believed it would be a much richer conversation if the Chief Deputy Treasurer had been able to attend the meeting. He further stated that he did not personally do the bank reconciliations, and he did not think that people electing him expected him to do so.

Treasurer Schertzing stated that the Land Bank Authority had its own separate issues, with foreclosure processes being challenging in their own right, and while some things have improved, there was obviously still room for improvement. He further stated that at the Finance Committee meeting where the audit results were discussed, there was not a speaking role expected or wanted for him to respond.

Treasurer Schertzing stated he took the findings seriously, and he thought the results were unfortunate, but he thought they could get themselves to a better place. He further stated that the issues at the Land Bank were one-time issues, where property management processes were set up the wrong way, and they had trouble finding an Executive Director which led to issues with a segregation of duties.

Treasurer Schertzing stated that in the Treasurer’s Office, they dealt with a lot of cash flow, so the numbers reported in the audit seemed big, but it was how the funds were set up. He further stated he did not completely agree with how the auditors thought they should look at those dollars, because he thought the County was in a strong enough position with people paying their taxes they did not have to apply fees to taxes owed.

Commissioner Naeyaert asked why the Treasurer’s Office was not following the processes that the auditors had suggested, since they knew that was what they needed to do to score better on an audit. She further stated that there might be issues between the Financial Services Department and the Treasurer’s Office, but those issues needed to be rectified after four years of unsatisfactory audits.

Commissioner Naeyaert stated she did not expect the Treasurer to manage the bank statements, but was his responsibility to oversee staff and if they could not perform their duties, then
possibly the Treasurer should replace them with someone who could. She further stated she needed to see something concrete that would change.

Treasurer Schertzing stated he looked forward to the corrective process, as he did not want to have to address this audit issue any more than the Board of Commissioners wanted to. He further stated that he would work with the Controller on his recommendations, but he wanted his staff to have some input.

Treasurer Schertzing stated there had already been shifts in staff over the past four years. He further stated that he and his staff had felt blindsided by the results of the audit and the discussion at the Finance Committee about it.

Treasurer Schertzing stated he had a good conversation with the auditors, as he had reached out to find out what they meant by “sloppy work.”

Commissioner Naeyaert asked Treasurer Schertzing if he had spoken with his staff regarding the audit findings. She further stated that drastic changes needed to be made.

Treasurer Schertzing stated the employees did read the minutes from the Finance Committee, but vacations and time off had prevented them from moving any quicker. He further stated he would work with the auditors to completely identify the issues.

Commissioner McGrain stated he felt like the Commissioners were blindsided by the audit findings, after they had put money aside previously to address the issue. He asked if the books in the Treasurer’s Office were reconciled now.

Treasurer Schertzing stated two years ago, Plante Moran had taught staff how to properly manage bank reconciliations, and he recently asked his employees if books were being balanced by the end of the month. He further stated while he expected things were fine with bank reconciliations, the recognition and agreement between the general ledgers on the cash side were more of moving targets for modifications because of their size.

Treasurer Schertzing stated that whatever the auditors were specifically looking for, his staff should be able to get them what they want.

Treasurer Schertzing stated that a conversation needed to include his staff to understand what had happened, what needed to happen, and how it happened. He further stated that there were some things that the staff needed to fix on their own.

Discussion.

Commissioner McGrain stated he was not as concerned about the issues with the Land Bank, as he understood there had been disputes about categorizing property and staffing issues that were being addressed.
Commissioner Naeyaert stated she had no doubt that the Land Bank’s recent improvements would come into play and the Land Bank would be just fine, with all of the properties and the oversight by some of the Commissioners.

Chairperson Grebner asked if there was a count of how many adjustments the auditors needed to do to reconcile the books when they came in to perform the audit. He further asked if there was a suspicion that other funds besides the General Fund were in similar states to the General Fund.

Treasurer Schertzing stated the scale of the General Fund was much larger than other funds.

Chairperson Grebner stated he understood that, but he was still concerned about the state of other funds.

Mr. Dolehanty stated that previously, funds had been intermingled, so it was a possibility that the funds were tangled together.

Treasurer Schertzing stated there were huge volumes of dollars flowing through the General Fund and other funds. He further stated that there were a lot of adjustments that needed to be made to reconcile all of those funds.

Chairperson Grebner stated the goal was to be able to catch reasonable mistakes in time, for instance, at the end of the month. He further stated he thought the auditors had established they did not have a system in place to catch mistakes of shifts in time or deposits of wrong amounts into wrong accounts.

Treasurer Schertzing stated that for the 2015 audit, the Treasurer’s Office had a college intern prepare the spreadsheet for the audit, and then another employee checked the work. He further stated for the 2016 audit, the employee put together the spreadsheet and he was not sure if someone double checked it, but he believed the double-check of the spreadsheet was a great way to catch mistakes.

Chairperson Grebner stated the improvement the County needed was to have mechanisms that routinely checked to make sure things balanced all the time.

Treasurer Schertzing stated that the Treasurer’s Office had staff turnover in 2013, 2014, and 2015, which had positive and negative effects. He further stated because of the recent staff turnover, he was hesitant that the solution this time should be turnover.

Treasurer Schertzing stated every option was still on the table, but so far, he would like to keep consistency. He further stated there had been progress in different areas, but it had not gotten them to where they needed to be yet.

Commissioner Naeyaert asked the Treasurer if they had had an intern prepare the spreadsheet for the 2015 audit.
Treasurer Schertzing stated the intern did prepare the spreadsheet, with supervision and data provided by an employee.

Commissioner Naeyaert stated when she used to do audits for the school district, she never had anyone else work with auditors since it was her job to oversee the finances and make sure everything was alright. She further stated the County needed to figure out why there were or were not certain procedures in place.

Treasurer Schertzing stated Commissioner Naeyaert was asking him to answer to specific instances that had happened with his staff.

Commissioner Naeyaert stated she was asking him to take responsibility for his staff.

Treasurer Schertzing stated he was taking responsibility for his staff, as he was responsible for his office and staff. He further stated he did not run from that in any way, shape or form.

Commissioner Naeyaert stated she appreciated that, especially after the County had spent additional money for multiple years to make sure the staff was learning what they needed to be doing.

Treasurer Schertzing asked to have the staff be able to respond to some of the questions posed in the meeting. He stated this meeting was the beginning of the beginning of fixing the audit findings.

Chairperson Grebner asked if the transfer of two people to the Financial Services Department from the Treasurer was going to create loose ends for the County. He further asked if other issues would be found in the audit next year once these issues were reconciled.

Mr. Dolehanty stated he thought the transfer would help fix some of these issues before the auditors arrived, but some things could not be managed by the Board of Commissioners, as they were the constitutional duties of the Treasurer. He further stated the County could duplicate these duties, but then they would be paying for same work twice.

Mr. Dolehanty stated for the purposes of internal control, they had to have some separate functions for different items.

Chairperson Grebner asked if the changes would be implemented in the budget process and implemented on January 1, 2018, or if it would be sooner than that and be a mid-year change.

Mr. Dolehanty stated the cleanest change would be to start on January 1, 2018, but one issue was that the fiscal year for the Health Department began October 1, 2017, so some issues would still exist.

Chairperson Grebner asked the Treasurer if he had any idea about the timing of implementing the changes in his office.
Treasurer Schertzing stated he wanted to caution the Commissioners to slow down, as this was the beginning of the beginning of the process. He further stated he could see one position being moved to the Financial Services Department easier than two positions, as one position was partly funded through the tax revolving fund.

Chairperson Grebner stated he assumed the Controller wanted to make the changes sooner, and if the Board of Commissioners needed to pass resolutions, they needed to do so soon.

Mr. Dolchanyt stated the sooner these changes could be made, the better it would be. He further stated there was a rough outline of a calendar in the materials he handed out to the Subcommittee, and suggested the Board of Commissioners could authorize the staff reorganization in September.

Commissioner Anthony stated that based on the conversations she had with staff, constituents, and other Commissioners before the meeting, the frustration people had with the audit findings was warranted. She further stated she acknowledged that this was the beginning of the conversation, but they needed to expedite the solution.

Commissioner Anthony stated that the Board of Commissioners did not have faith that what they were hearing from the Treasurer’s Office was good enough to fix the issues after they were given a directive in previous years. She further stated the thought the Subcommittee could deliver a set timeline for the process, which she advocated should be implemented as soon as possible, due to the urgency of the situation.

Commissioner Anthony stated she heard there was a loss of trust by the Commissioners. She further stated it was disheartening that the County was not working as a team, but there was no use in pointing fingers, as they all needed to own the financial process and the issues to address what needed to happen to move forward.

Commissioner Anthony stated that part of the process needed to be a concrete plan for real oversight, as the Board of Commissioners had previously met about the same issue and they did not want to relive history and get the same results as previous years. She further stated she wanted to reassure the Board of Commissioners that the County would not be in same place next year.

Commissioner Anthony stated her two goals for the Subcommittee were to set a concrete timeline, and create specific oversight responsibilities in the process somewhere to hold people accountable.

Chairperson Grebner stated that would mean amending Michigan statutes, because the Treasurer and the Controller’s Offices were separate.

Treasurer Schertzing stated the structure of the Treasurer’s Office was the structure he had inherited from his predecessor. He further stated that dialogue was not what it needed to be between departments, which made the process more challenging.
Treasurer Schertzing stated he would like to advocate that his staff should come to a meeting to talk about these issues as well.

Discussion.

Commissioner Naeyaert stated that the Treasurer did not need to bring his staff to a meeting, because as their employer it was his responsibility to relay their frustrations. She further stated she would like to see a plan in place for the office, position by position, to remedy what needed to be done.

Discussion.

Chairperson Grebner stated that communication problems in units of government were usually attributed to the organization of staff, whereas it was usually a particular person or two that ended up being the problem. He further stated when the Board of Commissioners moved positions around to fix problems, it invariably ended up costing the County more.

Chairperson Grebner stated that in terms of the Board of Commissioners’ role, it was fine to get them moving through rhetoric, but in the end, there might need to be a reassignment of staff, or staff resigned or retired. He further stated he was concerned about fitting these changes into the Board Commissioners’ procedures, and the best place for it to happen would be when they were adopting the budget.

Commissioner Anthony stated she thought the Board of Commissioners needed to put a written plan in place, especially given the feedback from other Commissioners about the lack of improvement after addressing the issue in previous years. She further stated the Board of Commissioners should outline their proposed actions as soon as possible.

Commissioner McGrain clarified that this Subcommittee would meet until about the end of September, and they would be advancing a plan for the changes to take place, which would then be relayed to the Finance Committee and the full Board of Commissioners.

Commissioner Anthony stated Commissioner McGrain’s interpretation was correct, as she wanted the Subcommittee to dig deeper and make recommendations.

Chairperson Grebner asked the Controller to present a plan with input from auditors and the Treasurer, with the expectation that the plan would be implemented no later than January 1, 2018.

Commissioner Anthony asked what the next steps were for the Subcommittee, and what the next goal was.

Chairperson Grebner stated the next step would be to look at the plan the Controller would present to the Subcommittee at their next meeting.
Commissioner McGrain stated that one thing that was made clear at the Finance Committee meeting was that they were already halfway through the 2017 fiscal year, and he could imagine there was cleanup of the books to do for this year. He further stated that the Board of Commissioners needed a warning bell in the plan as well, because learning of issues six months into the fiscal year was too late.

Treasurer Schertzing stated that part of the issue was the data they received late in the audit process, so there were issues that arose in June that were not issues earlier in the audit process. He further stated there were new footnotes or GASB rules that also affected the process.

Discussion.

Chairperson Grebner asked when the auditors knew they would have extra work to do for the County’s audit.

Treasurer Schertzing stated some issues were identified early on in the process, in March.

Chairperson Grebner stated he would suggest that in the future, the auditors make those concerns known as they arose, so the Board of Commissioners was not blindsided by the issues.

Treasurer Schertzing stated he would also like to know earlier, as they were all working together as a team.

**MOVED BY COMM. ANTHONY, SUPPORTED BY COMM. NAeyaERT, FOR THE AUDIT FINDINGS SUBCOMMITTEE TO HAVE A PLAN READY TO PRESENT TO THE BOARD OF COMMISSIONERS, REGARDING NEXT STEPS TO ADDRESS THE AUDIT FINDINGS BY AUGUST 31.**

Discussion.

Chairperson Grebner asked the Controller to create a plan to present to the Subcommittee by the end of August, for future consideration and probable adoption by the Board of Commissioners. He stated if they needed further discussion, they could meet in mid-September as well.

Discussion.

**THE MOTION CARRIED UNANIMOUSLY.**

Chairperson Grebner stated he would also like to have a list of adjustments that auditors had to make when going through the process.

Commissioner Naeyaert stated she was reluctant to talk to department heads about how they do their work, but she would like to know if the interactions with townships where they were misinformed were recorded.
Treasurer Schertzing stated the Chief Deputy Treasurer would be better suited to answer those questions. He further stated he was not sure what the penalty would be for townships if the Treasurer’s Office had made the mistake.

Chairperson Grebner suggested Commissioner Naeyaert meet with the Treasurer and his staff before the next meeting, and report back about these issues.

Discussion.

Chairperson Grebner stated when a constitutional office was having a problem and the Board of Commissioners took over part of the function, they could end up with complicated standing agreements between the offices. He further suggested they involve the County Attorney if there was a chance they were stepping on any toes.

Announcements

None.

Public Comment

None.

Adjournment

The meeting was adjourned at 4:26 p.m.

BARB BYRUM, CLERK OF THE BOARD