

Open Work Session

FISCAL YEAR 2017 AND 2018 BUDGETS

September 26, 2017

Mr. Wayne Strausburg, Wicomico County's Director of Administration, Mrs. Dawn Mitchell Parks, Finance Director, and Mr. Paul Wilber, County Attorney came before Council. Mr. Strausburg said he provided Laura with background material this morning covering discussion topics for both the open session and the closed session. He said he is hoping that Council has those. If Council has not had the opportunity to read through them, we can pause for a couple minutes if Council would like to do that. Or, if you'd like me to proceed ahead, we can do that as well. Mr. Cannon responded that they would follow along with him and that this may require a second work session once they have had a chance to absorb it, but as far as right now, to just go ahead and they would follow along. Mr. Strausburg said, in summary, since Mrs. Parks took the position as Finance Director, she has spent a considerable amount of time reviewing Finance Department files and work product. In doing so, she discovered errors in both the 2017 and 2018 budgets. The administration felt that it was important to discuss these errors with Council as early as possible. He said there are four significant errors that have been found, one in fiscal 2017 and three in fiscal 2018. They are detailed for Council in Mrs. Parks' September 18th memorandum to me, a copy of which has been provided. Mr. Strausburg said in both 2017 and 2018, bond principal and interest payments were underestimated. The 2017 underestimate can be covered by the overall county appropriation for 2017. As Council knows, the 2017 fiscal year has essentially been closed out. On audit, fiscal 2017 results indicate that approximately 1.8 million dollars will still be spent to fund balance after absorbing the necessary principal and interest payments that were not budgeted. He said as Mr. Cannon eluded, we should still, however, discuss how to address the budget actual variance in our financial statements and whether or not we need to take any legislative action to cover these missteps. In 2018 they will need approximately \$225,000 from contingency to cover two errors that they cannot absorb otherwise, which were failure to budget for a Tyler Technology contract in finance, which is a significant software upgrade to the MUNIS System, and failure to accurately budget workers compensation premiums. Mr. Strausburg said they can absorb the 2018 principal and interest underestimate. They may have to revisit that in the fourth quarter of the year, but he thinks they can probably absorb it through other savings that they might realize during the year. Mr. Dodd asked if this would be from another funding source, to which Mr. Strausburg responded, yes. He then turned the discussion over to Council to ask questions of Mrs. Parks. He said she has the details and she is the one who has done the leg work and is happy to discuss it further with Council.

Mr. Kilmer then asked whether the workers compensation is for the Volunteer Fire Department and whether it was due to dropping Station 2 and 16 as it would be \$145,000. He then asked about Station 1/13 and whether the County was still paying for them. Mr. Strausburg said the \$145,000 would be for the recognized volunteer stations in the unincorporated areas. Mr. Kilmer said Mr. Strausburg mentioned, due to dropping Stations 2 and 16, Human Resources estimated the cost will be \$145,000 because of the new Fire Service Agreement with the City. He then asked, in reference to Station 1/13, are we also dropping coverage for them, or are we still covering them, to which Mr. Strausburg responded, no, we are not covering them. They have not been assigned a territory and they are not operating a volunteer station in the unincorporated area. This essentially was estimating what the workers compensation premiums are. He said Council may recall the year before they had a significant premium increase as a result of some pretty bad experiences relating to several major claims. Going

from 2017 to 2018, the funding for the volunteer fire company got overlooked in the Finance Department and it was just simply an error. The County will have to pay the premiums and he cannot find a way to absorb it otherwise, so they are going to need an appropriation from contingency in order to cover those premiums. There is simply no other way to cover this, unfortunately.

Mr. Kilmer then asked how much is in contingency, to which Mr. Strausburg responded the contingency started out at \$756,000 round numbers. In total today, they are asking for a transfer of \$225,000, so that will leave \$525,000 for the balance of the year.

Mr. Dodd asked if he was able to identify some of the volunteers that might be in multiple departments on different rosters, to which Mr. Strausburg responded that he would really have to sift through those details with the Human Resources Department. Mr. Dodd then asked if a name came up twice, would they notice that, to which Mr. Strausburg responded they would catch that. Mr. Dodd said there are some good volunteers that like helping different departments out.

Mr. Hall said these are some pretty significant errors. He then asked how did you detect them; how did you find them? Would the audit pick these up typically? Mr. Strausburg said the audit would pick them up, but they picked them up before the audit picked them up. He said Dawn can explain how she found these errors and then when we go into the closed work session. He can discuss some details further in the closed work session.

Mrs. Parks said their office provides a budget analysis pretty much on a weekly basis, so they first started appearing right when she first got there. As far as the debt schedule, they are shown on there as the Board of Education having a \$900,000 unfavorable variance, so that was picked up by the accounting department as part of their weekly work. She said as far as the contract for Tyler, when reviewing her own department, she found that they were over budget and then the analysis came into play.

Mr. Hall asked if the checks and balances are done on a weekly basis. Mr. Strausburg said when Dawn came into the department, one of the things the department was asked to do, as quickly as possible, was a weekly flash budget actual report so that they could monitor on a weekly basis where each department stood with regard to its appropriations, and it took a while to put that together. It is fairly complicated to put a report like that together. The 2017 report, when he put the first version of it out, and after going through it, everybody looked fine except the Board of Education, and they could not understand how the Board of Education could be over budget. With the 2018 budget, one of the issues with looking at the budget early in the year, is the seasonality of spending. She said every department should look fine at this point in time of the year except those who get their entire appropriation in a lump sum. The only way to delve deeper into that, to look at it on a week-to-week basis and have a better feel for how a department was performing, would be if they budgeted on a weekly basis, which they do not do. She said it would be nice if they could, but that would be a monumental task. Mrs. Parks said, at the end of the quarter, you can get a sense by department if they have exceeded a quarter of their budget already, and, if so, we should be asking questions. She said that is the purpose of the report and that is how they found the 2017 issue, which led to saying let's look at what happened in FY18.

Mr. Cannon asked, when you note in here Department 43 debt service, is that associated with Department 30, or is that a different debt service? Mrs. Parks answered we do separate the Board of Ed debt service with the County debt service, so the interest for the County debt was underestimated by \$153,000. Mr. Cannon then asked if there was any particular reason for that, to which Mrs. Parks responded, normally when they do the budget, they look at if they are getting ready to go to bond sale in December, and they would estimate any interest payments that they may have to make before the end of the year. She said it is very difficult to do now because you are looking a year and a half away.

The budget of FY17 was actually March of 2016. They did not go to sale until fall of 2016. It is difficult to estimate that, as by then you have to be looking at your CIP and try to decide how much should go into bond sale. That is not unusual, as usually they do a little more of an over estimate than an underestimate for that.

Mr. Hall said that he assumes the Board of Education looks at this a little bit differently than the County looks at it, to which Mr. Strausburg responded, the Board of Education would not be looking at it at all as these are the County's debt payments. He said this is basically an allocation of principal and interest between the Board of Ed and the various county departments, so the Board of Ed would not pick this up, and would not see it. Mrs. Parks added that it would not be until the financial statements come out, and they look to see if they are correct. Mr. Dodd said he was glad she picked up on some of these things, and he thinks it is very important. He said it is important that we are talking about them today, and he really appreciates her finding these.

Mr. Kilmer then asked about the other issues mentioned, like the janitorial issues. Mr. Strausburg said that he thinks they can find a way to manage those. He said he would revisit that later in the year, and if it is not going to be possible, probably in the fourth quarter, but he would let Council know. Mr. Dodd said he thought he read somewhere that there was a statement that said something could not be funded. He then asked if he had misread that. Mr. Strausburg replied that in fiscal 18 they are going to need \$145,000 from contingency for workers comp and they are going to need approximately \$86,000 to cover the shortfall in the Tyler Technologies contract. He said they will try to manage through the rest of that shortfall within the Finance Department. Mr. Dodd then asked if they were going to try to get that waived and both Mr. Strausburg and Mrs. Parks responded, yes. Mrs. Parks said she would speak with Mr. Cordrey to see if they could get the interest waived.

Mr. Cannon said Mr. Cordrey already waived interest on something and asked if it was the storm water, to which Mr. Strausburg responded yes, storm water. He said they met last week with Mayor Day and discussed some outstanding invoices that the City owes the County. He said when and if those invoices are paid, and he thinks they will be, netting what the County owes the City out of what they owe the County, we will still be receiving some unanticipated revenue and will come to Council to accept that revenue.

Mr. Cannon said the only good news was the PEG fees. He then asked what is the total offset that needs to come from contingency, to which Mr. Strausburg responded, he would get him an exact number but that in round numbers it is \$226,000. Mr. Hall said it is a relatively small number that they are looking at, like 0.2 percent of the entire budget, but it is the taxpayers' money of course, and he certainly appreciates them doing their due diligence to come up with this on their behalf. He said it is something that is necessary, and it is necessary that it continues also. He said these mistakes that have been made that are being corrected now is a very small number compared to the total budget, but it is not something they want to throw away either. Mr. Strausburg said it is a small number in the context of the total budget. Mr. Dodd said that he bets there are a lot of people who disagree that it is a small number, to which Mr. Strausburg responded, of course it is. It is a small number within context. They are errors that certainly they are not pleased with. Mr. Dodd then stated it is significant enough.

Mr. Hall asked how do you get the funding out of contingency, to which Mr. Strausburg responded, we can take it out the way we always do. He said there is some discussion to that and he thinks the 2018 errors are appropriately addressed through a transfer from contingency. In regards to 2017, we could really approach that in a number of ways. His personal preference is to do a resolution acknowledging the error and approving the disbursement of the funds. He said they are legally bound to make the

principal and interest payments by virtue of the bond legislation but, from his personal standpoint, he thinks there should be a resolution acknowledging the error in the budget and acknowledging that the payments were made. Mr. Strausburg said they will talk to PKS, but his working understanding is that the financial statements, the audited statements, will show the overage and it will be footnoted. When footnoting it, it would be helpful to have the resolution acknowledging that the County was aware of it and it has been appropriately approved by the legislative body, albeit in retrospect.

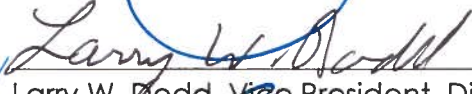
Mr. Joe Holloway said throughout the budget process, Council was pretty much criticized for their actions and the way they handled the budget. He said he would think that maybe in the future, before people jump up in front of the microphone and say things to discredit the Council, that they make sure their own house is in order. He said he is sitting here looking at this and thinking about all the things he has read in the paper and has seen on TV about what Council is doing wrong, but it looks like there were some problems on the other end too. He said he hopes that in the future maybe that will be handled differently.

Mr. Cannon said with the Board of Education principal bond and principal interest, that was almost a million dollars difference. He then asked how does that not come up at some point in time. He said he is just curious how that comes up or does not come up because that was FY17, and he does not understand how come it has taken this long into September for the County not to know that there was a shortage of almost a million dollars. Mr. Strausburg said they would discuss that in closed session. There was no further discussion.

**Minutes of Open Work Session
Fiscal Year 2017 and 2018 Budgets
September 26, 2017**



John T. Cannon, President



Larry W. Dodd, Vice-President, District 3



Ernest F. Davis, District 1



Marc Kilmer, District 2



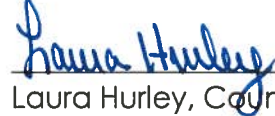
John B. Hall, District 4



Joe Holloway, District 5

absent

Matt Holloway, At-Large



Laura Hurley, Council Administrator