

Minutes of the Finance Committee Meeting

The Finance Committee of the McLean County Board met on Tuesday, August 7, 2001 at 5:30 p.m. in Room 700 of the McLean County Law and Justice Center, 104 W. Front Street, Bloomington, Illinois.

Members Present: Chairman Sorensen, Members Renner, Rodman, Arnold, Kinzinger, Berglund, Renner

Members Absent: None

Staff Present: Mr. John Zeunik, County Administrator; Mr. Terry Lindberg, Assistant County Administrator; Ms. Lucretia Wood, Human Resources Assistant, County Administrator's Office

Elected Officials/

Department Heads: Mr. James Boylan, Treasurer; Ms. Rebecca McNeil, Assistant Treasurer; Mr. Don Lee, Administrator, McLean County Nursing Home; Ms. Sandra Parker, Circuit Clerk; Ms. Jackie Dozier, County Auditor; Mr. Walter Hunt, Internal Auditor, County Auditor's Office; Ms. Jennifer Ho, Risk Manager; Sheriff Dave Owens; Mr. Tom Phares, Jail Superintendent, McLean County Sheriff's Department; Mr. Derick Love, Chief Deputy Sheriff, McLean County Sheriff's Department

Chairman Sorensen called the meeting to order at 5:36 p.m.

Chairman Sorensen stated that if there are no objections, the minutes of the July 3, 2001 meeting will be approved and placed on file as presented.

Ms. Rebecca McNeil, Assistant County Treasurer, presented the County Treasurer's Report as of July 31, 2001, the Investment Report as of July 31, 2001 and the Employee Benefit Fund Report as of July 31, 2001.

Ms. McNeil noted that the payroll account shows a negative balance on the County Treasurer's Report. The report reflects the amount at the end date of the reporting period and money is not transferred to the account until the Thursday prior to payday, which was August 2, 2001. Therefore, the transferred amount will be reflected on the August County Treasurer's Report.

Ms. McNeil directed the Committee to review the Investment Report. She noted that the Certificates of Deposit that are earning 5% to 6% have not matured as of yet. The Certificates of Deposit that have matured were re-invested at much lower interest rates. The lower rates will effect the interest income earned this year.

Motion by Renner/Berglund to accept and place on file the County Treasurer's Report as of July 31, 2001, the Investment Report as of July 31, 2001 and the Employee Benefit Fund Report as of July 31, 2001. Motion carried.

Ms. McNeil presented the CDAP Revolving Loan Report. She explained that on page two, the accounts in bold are accounts with outstanding balances. These accounts are current or ahead by one payment. The balances collected on the accounts with an outstanding balance is \$332,558.63, which equals the total amount available in the Revolving Loan Fund. \$625,926.81 reflects the amount to be collected. Once the \$625,926.81 is collected, the County will have recuperated over \$1 million from the original grant that equaled \$600,000.00. The payments collected are deposited into an interest bearing account at 3.75%.

Mr. Arnold asked where the grant originated. Ms. McNeil replied that the grant originated with the State of Illinois Department of Commercial Community Affairs. The initial State grant "seed money" was approved for two business loans in the County. These are revolving loans. Any money recaptured is available to loan out to another business.

Mr. John Zeunik, County Administrator, explained that the U.S. Department of Housing and Urban Development is the original source of the funds granted to the State with the intention that the funds would be given to Counties to use to promote and foster economic development.

Mr. Arnold asked how much money was granted to the County. Mr. Zeunik stated that the original amount granted was \$500,000.00, which was loaned to American OTR through the County Board. Another \$100,000.00 was granted to Bear Computing. American OTR is now Bridgestone-Firestone and the original loan has been paid in full. The funds have been re-loaned out. The loan was not recovered from Bear Computing, when Bear Computing went bankrupt, Laesch Dairy received a revolving loan through the County. When Laesch Dairy went out of business, these funds were lost.

Mr. Arnold asked what is the term of the revolving loan to Victory Enterprises. Ms. McNeil replied that she would have to look in the Victory Enterprise file to see what the term is for the loan.

Mr. Arnold asked what is the revolving loan process. Mr. Zeunik replied that the applicant is required to receive a recommendation from a neutral, third party banker as to whether or not the applicant should be approved for the amount of the loan requested. The Finance Committee then reviews the application and the bank's recommendation. If the Finance Committee accepts the recommendation, the proposed loan agreement is

presented to the County Board for approval. Ms. McNeil added that if the Committee would like to review the finding or recommendations for the revolving loans, the paperwork is filed in the Treasurer's Office.

Ms. McNeil reviewed page 3 of the report with the Committee. She explained the Total Amount of Revolving Loan Funds are computer by adding the amount of Total Recaptured Principle from the Revolving Loans and the Total Recaptured Interest from the Revolving Loans together and then subtracting the Total Eligible Infrastructure Expenditures and Administrative Expenses.

Motion by Kinzinger/Berglund to accept and place on file the CDAP Revolving Loan Fund Semi-Annual Report as presented. Motion carried.

Chairman Sorensen suggested that if the Committee Members want to learn more about the revolving loans that the members meet with the County Administrator. Mr. Zeunik advised the Committee that he met with a possible applicant today. The application may be presented to the Committee later this year.

Ms. McNeil presented the Treasurer's response to the Outside Auditor's Management Letter. On July 3, 2001, the Finance Committee of the McLean County Board accepted and placed on file the Combined Annual Financial Statements for Fiscal Year 2000 and the Management Letter of Advisory Comments from Clifton Gunderson, L.L.C., the external auditor for the County. In the Management Letter, the external auditors made observations in the following areas: Accounts Receivable, Interfund Accounts, The Condemnation/Abandoned Property Fund.

Ms. McNeil stated that during the audit, Clifton & Gunderson noted that numerous accounts receivable required adjustments since they had not been adjusted since the previous 1999 audit. During the year 2000, some of the accounts had been adjusted but supporting documentation was not readily available. The Treasurer's Office plans to work with the Departments and Elected Officials to implement policies and procedures that will enable this process to be done on a monthly/quarterly basis.

In most cases, the Departments will advise the Treasurer's Office when revenue is expected to be received so that it can be accrued and recognized in the receivable and revenue accounts. When the revenue is actually received, the Departments make a turn-in, which reduces the receivable balance and increases cash. Generally, if the County receives the full amount, the receivable is wiped out. There are cases though when the funds received only cover a portion of the accrual that was originally booked by the Treasurer's Office receivable. In turn, this leaves an outstanding receivable amount. The Treasurer's Office will work with the Departments in suggesting that they clearly identify a turn-in that is made to reduce the receivable accounts. This will enable the Treasurer's

Office to clearly track what has been received and account for the outstanding balances. On a monthly/quarterly basis, the Treasurer's Office will advise the Departments on the outstanding receivables so that they can determine within an appropriate timeframe if an adjustment/write off needs to be made to the receivable and revenue balances.

Mr. Renner asked if the adjustments to receivables are a long term problem. Ms. McNeil replied that the adjustments have been a problem on past audits.

Ms. McNeil stated that the InterFund Accounts, such as the "Due To /Due From" were balanced in the 2000 audit process. Apparently, the journal entries were not made though to clear up these accounts before Clifton & Gunderson completed the audit. The Treasurer's Office will contact Clifton & Gunderson and find out what ramifications will incur if these balances are adjusted at this time. The Treasurer's Office will also develop procedures that will enable these accounts to be balanced on a monthly/quarterly basis. This process will be handled in a similar manner as the receivables.

In March 2001, the Treasurer's Office reported to the State of Illinois all of the funds in its possession that were being held in the Condemnations and Abandoned Property Fund beyond seven years. We appreciate Clifton & Gunderson addressing the importance of continuing to comply with this State requirement. The Treasurer's Office will do the appropriate research to specifically determine the reporting requirements for government entities and establish procedures to ensure that any departments holding unclaimed property are aware of these reporting requirements.

Ms. McNeil stated that the Government Accounting Standards Board (GASB) issued Statement 33 and 34, which establish new accounting and reporting standards for state and local governments. The Treasurer's Office will work to acquire the appropriate information necessary to help us become knowledgeable with these new reporting standards. We will also continue to use the valuable resources that are available to us through the Auditor's Office and the County's external auditor to identify potential problems, issues and concerns that may arise.

Mr. Arnold suggested that the County look into alternative ways to improve cash handling, such as a Cashier's window where all payments are made, no matter the department. Ms. McNeil stated that the Treasurer's Office has a position designated as a cashier who receives revenue from each County Office on a daily or weekly basis. Mr. Arnold stated that the customer could go straight to the Treasurer's Office for payments thus eliminating cash handling in all other offices. Ms. McNeil stated that the Treasurer's Office would have to know how to process fines and fees for every office in the County and that most offices want to have control over their own bank accounts. Mr. Arnold stated that even though this change would add additional responsibilities in the

Treasurer's Office, this is a better internal control system. Chairman Sorensen stated that

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the Elected Officials have legal authority to maintain their own bank accounts and to collect fines and fees.

Ms. McNeil suggested that if the Committee would like to pursue changing cash handling procedures for departments, the Committee should consult with all the Department Heads. Ms. McNeil stated that the current procedure allows for a check and balance system between departments and the Treasurer's Office. If all cash handling was done in the Treasurer's Office, the check and balance system would no longer be in place.

Mr. Arnold stated that streamlining the system would allow for faster access to funds by the Department Heads. Mr. Renner stated that, although it would probably not be necessary, the County Board could hold up departmental budgets for Department Heads that did not want to cooperate with changes to the cash handling system.

Mr. Zeunik stated that Elected Officials have the statutory right to maintain bank accounts and make all decisions regarding the accounts. Illinois is a strong State in regards to the exercise of internal control by the Elected Officials. The courts have consistently supported allowing Elected Officials to maintain internal control over their offices.

Mr. Kinzinger asked what reasons would the Elected Officials oppose changes in the cash handling system. Chairman Sorensen stated that Customer Service is one reason for opposition. If a person needs services in the Recorder's Office, the person would have to go to the Recorder's Office to get a bill. Then the person would have to go to the Treasurer's Office to pay the bill. Then, the person would have to return to the Recorder's Office to show that the bill is paid and receive the requested service. Mr. Arnold stated that the University has a central Cashier's office in place in which fees for all services are collected. The system could be improved upon without obstacles.

Chairman Sorensen stated that the Outside Auditor's report is a "breath of fresh air". He congratulated the Treasurer's Office on a job well done.

Ms. Sandra Parker, Circuit Clerk, presented the Circuit Clerk's response to the Management Letter. She stated that currently there is a \$2,000.00 discrepancy. It is very complicated to review all files on a case by case basis. The Circuit Clerk's Office is currently looking for old or missing files to see if these files are the cause of the discrepancy from either the data load or staff error. The staff is working hard to find the discrepancies and make the correction before the next audit.

Chairman Sorensen stated that structural inconsistencies occurred when the bond records from the old system was loaded into EJS. Ms. Parker stated that there were inconsistencies in how the EJS system interpreted the old bond reports. The basic report

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in EJS took more information than it was supposed to. Originally, the bank balance showed more money than the EJS financial reports were reflecting. Since then, the EJS base reports have started showing more money than the bank balance reflects. The discrepancies are consistent for June and July. The staff is reviewing records on a case by case basis. This includes reviewing individual entries of all bonds applied or not, court fees, and fines. Guthoff and Company is aware of the process being used to solve the discrepancies.

Mr. Don Lee, Administrator, McLean County Nursing Home, presented the Monthly Reports for the Nursing Home. Mr. Rodman stated that he spoke to Mr. Lee regarding the private pay daily rate. Mr. Rodman presented the Committee with a report on the McLean County Nursing Home cost plus rate calculations for FY'2001 Budget Year.

Mr. Rodman asked if the daily private pay rate is calculated to include IMRF and Social Security cost. Mr. Lee replied that the daily private pay rate is calculated to include the costs of IMRF and Social Security. Mr. Rodman stated that the private pay rate includes the IMRF and Social Security cost that the County anticipates will have to be aside for all employees at the Nursing Home. The County then transfers into the Nursing Home additional revenue from the pension funds. Mr. Arnold replied that 85% is brought in through the pension fund. Private pay patients are only 15%. Mr. Zeunik stated that the private pay covers 15% of the beds. The private pay patients are paying the full costs. The County does not receive full cost reimbursement from those that are not private pay. The transfer is coming in for the Medicare/Medicaid patients. Mr. Renner stated that the tax levy is based on 15% private pay patients. Mr. Rodman stated that the private pay patients are being charged the costs of IMRF and Social Security twice. Mr. Rodman stated that the Nursing Home is not 15% private pay. It is closer to 30%, which would reduce the amount of the transfer to the Nursing Home. Mr. Arnold agreed that if the private pay is at 30%, there is a greater chance that the private pay patients are being charged twice; once in their real estate taxes and once in their daily rate. Mr. Renner stated that the increase to 30% private pay is recent. Mr. Rodman stated that the rate has been high all year. Mr. Lee stated that most of this year; there have been 40 private pay patients. Mr. Rodman stated that, by definition, the Enterprise Fund is supposed to stand-alone, not depend on support from County tax levies. Mr. Rodman stated that he disagrees with the policy. Last year, \$391,840.00 was transferred from the IMRF and Social Security tax levy funds. The County needs to be closer to the actual number of private pay patients. The daily private pay rate should be calculated based on the actual numbers of private pay patients.

Mr. Rodman stated that there are 40 private pay patients at the Nursing Home. This is 27% of the Nursing Home's capacity. If the daily private pay rate was calculated based on 70%/30% private pay split, the levies would be reduced by \$44,313.00. Currently, the daily private pay rate is \$102.00. If the calculation was done on a cost plus basis, such as

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3% to 10% inflation, the daily pay rate based on 3% inflation would be \$105.00. Additional revenue of \$44,676.00 would be earned. Mr. Kinzinger asked if the calculations included a drop off in private pay. Mr. Rodman replied that the calculations did not include a drop off in private pay patients based on an increase in costs. Mr. Zeunik stated that the 40 private pay beds are assumed for 365 days. Mr. Arnold stated that if the levy is going to be impacted, considerations have to be made one year at a time. Mr. Renner stated that he would like to see a couple of years of increased numbers before making changes to the policy. Mr. Kinzinger stated that it is a misnomer to believe that people are upset that property taxes go toward the Nursing Home. If the County could take a survey, there would probably be support. Mr. Rodman stated that the survey would also have to include that the private pay rate is lower than the average rate in the County for the other nursing homes. Mr. Renner stated that there are the working poor that do not qualify for Medicare/Medicaid that may need the lower price. Mr. Rodman stated that there may be people caught in the middle. Mr. Renner stated that it is a public service to offer our Nursing Home at a lower cost. Mr. Rodman stated that if the transfer of funds from the tax levy funds had not been made, the Nursing Home would have been in the red. Mr. Kinzinger asked if the Committee moved on the proposed change in calculations, when would it be effective. He stated that he is not comfortable making another change so soon. Mr. Rodman replied that the proposal would be for the next budget cycle. Mr. Renner stated that if the change were made, he would like to track the private pay patients to see if the private pay census changes. Mr. Rodman asked Mr. Lee to bring the private pay census for the past two years and the private pay rate.

Chairman Sorensen stated that Ms. Ruth Weber, County Recorder is not at the meeting. The six-month financial report for the Recorder's Office is included in the packet. The report indicates that there is a significant increase in revenue year to date compared to past years.

Ms. Jennifer Ho, Risk Manager, presented the Risk Management Fund Report for the Fy' 2001 Second Quarter. The County's cumulative self-insured claims experience is presented for review in Table 1. Table 2 summarizes the claims experience for 2001. Table 1 shows how well the County's claims practice matches national benchmarks for casualty claims. Casualty claims take 6 to 7 years to close. As of this report, 94.5% of all reported claims are closed for all years. Prior to 1997, the closure rate for claim was 99%. The County's claims management practices are within the benchmarks set by the insurance industry for casualty claims and administration.

To maintain the low claims experience in the County, the Risk Management Department has been promoting employee safety. This year, the department held a safety week, awarding prizes to employees who answered questions on safety quizzes.

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One of the challenges for this year is the continued tightening of the casualty insurance market. The reinsurance companies are consolidating. The previous underwriting experience is less than desirable because of past investments. Rates are projected to increase by at least 15%. Underwriters need specific information in order to preserve the County's optimal stop-loss safety net. Mr. Arnold asked if the County would rebid the insurance. Ms. Ho said that some of the insurance would be rebid.

Ms. Jackie Dozier, County Auditor, presented the Auditor's response to the Outside Auditor's Management Letter. Ms. Dozier advised the Committee on the steps taken to bring the County into compliance with GASB 34.

Sheriff Dave Owens presented the Sheriff's Department's response to the Management Letter. Mr. Arnold asked how the new policy allowing no cash to leave the jail is accomplished. Sheriff Owens replied that the Correctional Sergeants use a banking program to cut the checks. The sergeants are responsible for the cash, which is deposited separately from other transactions.

Mr. Arnold asked if there is a separate bank account for the Commissary. Sheriff Owens replied that there is a separate bank account for the Commissary. O'Keefe is continuing to work with the system to correct problems, brought on because the system was implemented in the middle of the month instead of the beginning of the month. This information has been shared with the Internal Auditor.

Chairman Sorensen stated that the Recorder is at the State Fair and is unable to attend the meeting. However, it is appropriate to review the Recorder's response to the Management Letter. The Auditor's Office has prepared a counter response to the Recorder's response. Mr. Kinzinger asked if the Recorder will come to the September Finance Committee Meeting. Chairman Sorensen stated that he is optimistic that the Recorder will come to the September meeting after reading the minutes of this meeting.

Chairman Sorensen directed the Committee to page 18 of the packet. He stated that he would like to take each item in order and have the Internal Auditor respond to each item. In her response, Ms. Weber indicates all is well in regards to segregation of duties. The County Auditor's response states that all is not well. Mr. Walter Hunt, Internal Auditor, stated that there are always personnel issues in regards to how many people are available to do "x" amount of work. Mr. Hunt recommends that the Recorder assign her Chief Deputy, Sharon Durham, to do more supervision in the office. If the Chief Deputy were

to be separated from the routine tasks and be an Office Manager, duties could be segregated and still accomplish the work.

Mr. Renner stated that the fees collected are \$300.00 to \$400.00 a day. This is serious money. Mr. Hunt stated that the fees collected are about \$100,000.00 a year. Mr. Renner

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stated that Ms. Weber response is not clear. Mr. Renner added that the Recorder's response does not add confidence. Ms. Dozier stated that Mr. Hunt has been working with the County's outside auditor. Mr. Rodman stated that the Recorder's Office needs to think outside the box to think of alternatives. Mr. Kinzinger commented that the response is a "brush off".

Mr. Rodman asked how the Committee wants to respond to the Recorder's written response. Chairman Sorensen suggested that the Committee review the entire response first.

Mr. Hunt stated that there is not an edit list created by the third party software used in the Recorder's Office. If a transaction is processed, the transaction can be changed to show that no money was collected. The software developer should be able to incorporate an edit list that would indicate if any changes were made and who had made the changes. Since the software is third-party proprietary software, the vendor would have to make this change. Misappropriations were made in the past because this tracking is not in place.

Mr. Zeunik asked if the system does have a personal identification number system in place. Ms. Dozier replied that she believes the personnel identification numbers are available, but the Recorder's Office is not using them. Mr. Zeunik asked if that the software has the capability to track who handled the transaction. Mr. Hunt stated that without the edit list, the personal ID number is not all that helpful. The Recorder's Office has to be able to do a daily reconciliation. The report would only have to print exceptions. If there are no edits over the past 24 hours, there is nothing to do. If an edit has been entered, the edit should be printed and checked manually.

Ms. Berglund asked what reason the Recorder has for not using the PIN numbers. Mr. Kinzinger stated that he wishes the Recorder were at the Committee Meeting to answer the question. Ms. Dozier replied that it is not that she doesn't know that the PIN numbers exist, it has been brought up before. Mr. Zeunik replied that Clifton Gunderson has brought up the PIN numbers.

Mr. Hunt stated that he has spoken to Ms. Weber regarding the Reconciliation of Revenue. The cash is collected through the course of the day. The money had been deposited into the Recorder's own checking account on a daily basis. On a weekly basis,

a check was given to the Treasurer's Office. The check would cover the two weeks prior. Mr. Hunt recommends that the Treasurer's Office be given the money on a daily basis.

Mr. Arnold stated that there is \$100,000.00. Mr. Hunt replied that is in cash. Mr. Arnold asked if there is \$85,000.00 in the account. Mr. Hunt replied that the Recorder's deposits in all fees collected everyday. She waits at least a week to make sure that the checks clear. If the fees collected were deposited with the Treasurer's Office on a daily basis,

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this problem would not occur. Mr. Hunt expressed his hope that this change would be made very soon. Mr. Arnold stated that it sounds like the right solution.

Chairman Sorensen stated that Mr. Hunt was overly kind in his comments. Ms Weber blames the unavailability of the Internal Auditor and the Assistant Treasurer being on jury duty for her inability to provide satisfactory response to the Committee at this time. Mr. Hunt met with the Recorder six times and the Assistant County Treasurer was on jury duty for one-half day.

Chairman Sorensen stated that the Revenue Stamp Inventory and Cash Receipts has been on the Outside Auditor's Report since 1993. Chairman Sorensen replied that this comment has been cited more times than any other comment and by two different Outside Auditors. Ms. Weber reports that all is well and the Committee doesn't understand the problem. Mr. Hunt stated that the main point should be that the Recorder's Office should reconcile the stamp meter to the General Ledger. This is not occurring. This should probably be one of Chief Deputy's duties, but only if she is relieved of the duties she is currently performing at the service counter. Mr. Rodman stated that the Recorder does a daily reconciliation of the stamps sold, but it is not recorded on the General Ledger and is different from the physical inventory. The Recorder's response ignored this point in the Outside Auditor's Management Letter.

The Committee discussed how they wanted to respond to the Recorder. Chairman Sorensen noted that for Mr. Hunt to pursue his recommendation requires no action by the Committee. He has the authority and the responsibility under State statute to do so. Mr. Rodman stated that Mr. Hunt is doing a good job. Chairman Sorensen suggested that the Committee can state that the Recorder's response is unacceptable.

Motion by Kinzinger/Renner to require a more adequate response from the County Recorder taking into consideration the Internal Auditor's recommendations and to request that Ms. Weber be present at the next Committee meeting.

Chairman Sorensen stated that the Committee can ask Mr. Hunt to provide the Committee with a monthly update on the Recorder's progress.

Motion by Kinzinger/Renner to have Mr. Hunt provide the Committee with a monthly update on the Recorder's progress.

Mr. Hunt stated that he sent his response to the Recorder. She should receive it the week she returns. Mr. Renner stated that the motion is to have Mr. Hunt provide the Committee with a monthly update of the Recorder's progress. Chairman Sorensen stated that the Committee is asking the Recorder to be present with a more adequate response
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next month and for Mr. Hunt to provide an update thereafter on the progress made to address the issues in the Management Letter.

Mr. Rodman stated that he would like to see a specific recommendation as to how the segregation of duties can be accomplished, a time frame in which the software vendor will be able to add an edit listing to the software and the Revenue Stamp inventory reconciled to the General Ledger. Mr. Renner stated that he agrees. Mr. Renner noted that the Recorder's response is so vague, it sounds like she doesn't want to be bothered. Chairman Sorensen recommended that the motion be amended to say that the Committee would like to see action plans and time tables.

Amended Motion by Kinzinger/Renner to have Mr. Hunt provide the Committee with a monthly update of the Recorder's progress, and require the Recorder attend the September Finance Committee Meeting with adequate response from the Recorder taking into consideration the Internal Auditor's recommendation and action plans and time tables in place to address these issues. Motion carried.

Chairman Sorensen stated that there is no need to go into Executive Session since, there is nothing to present.

Chairman Sorensen presented the bills, which have been reviewed and recommended for transmittal to the Finance Committee by the County Auditor.

Motion by Berglund/Kinzinger to recommend payment of the bills as presented by the County Auditor. Motion carried.

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There being nothing further to come before the Committee at this time, Chairman Sorensen adjourned the meeting at 7:13 p.m.

Respectfully submitted,

Lucretia A. Wood
Recording Secretary