

Sullivan County NH

Type of meeting: Special Board of Commissioners Meeting – Review Draft FY 07 Audit
Date/Time: Friday, September 14, 2007; 1 PM
Place: Newport – Remington Woodhull County Complex, 14 Main Street, Commissioners' Conference Room, 1st Floor

Attendees: Commissioner Ethel Jarvis – *Chair*, Bennie Nelson – Vice Chair (arrived later), Jeffrey Barrette – *Clerk*; Ed Gil de Rubio – *County Manager*; Jeff Graham – *Graham and Graham CPA*; Cynthia Sweeney – *County Treasurer*; Sharon Johnson-Callum (minute taker).

Public attendees: Suzanne Gottling – State/County Delegate, Peter Franklin – State/County Delegate

1:10 Commissioner Jarvis opened the meeting and requested copies of the draft audit report the Board received be disbursed to the public attendees.

Mr. Gil de Rubio noted he and Dodi met with auditors last Friday, found discrepancies with the auditor's figures and County's, and turned the issue over to Mr. Graham. Mr. Gil de Rubio confirmed Mr. Graham was here to discuss the draft and outcomes. Mr. Gil de Rubio reminded all this was the DRAFT audit, he has not evaluated the entire draft, just portions, and the auditors will schedule a formal Exit Interview when the final report is submitted.

Mr. Graham expressed concerns with some numbers reflected in the draft. He will contact Melanson Heath and Associates (MH & A) to review their working papers thoroughly and to make sure the County expectations jive with where the auditors are going. Mr. Graham noted the key issues were encumbrances from year 2006 year end vs. encumbrances reported being paid 2006 and 2007 year; MH & A reported a higher number than the County. Other highlights of concern pertain to items reflected in the auditors expressed deficit, non-cash depreciation and capital assets, and their use of numbers to begin and start a year. However, the reconciliation of the encumbered money is the biggest question. He explained encumbered monies were amounts committed by the County on projects not yet completed; for example, a department head begins a project for the year-end, does not want to lose the budgeted money, and requests an encumbrance. MH & A has conflicting dollar amounts and he will investigate why. He noted he and Dodi come up with \$197,000, while MH & A reflects 1.205 million. Mr. Graham discussed the difference between the two accounting systems, one to account to the Department Heads on what they spend, and the other GAAP. Mr. Gil de Rubio discussed how the County was instructed to report Fund 50 and how because it is GAAP it should not be included in monthly reports. Mr. Gil de Rubio confirmed he had the monthly report available for July 2007. Mr. Graham noted there was a change two years ago in accounting software systems and they need to review that process also. Encumbrances are a pre-account payable. When the reconciliation was performed a year ago, the number dropped, he wants to confirm the Budget Sense program reconciliation was done and numbers are reflected correctly.

Commissioner Barrette questioned if there was a mechanism to wipe away encumbrances? If so, is the audit a living document where you make changes to affect

last year? Mr. Graham illustrated how encumbrances brought forth and projects not complete are adjusted with the following year budget. Commissioner Jarvis and Mr. Graham discussed the deficit numbers on the draft audit report.

Commissioner Barrette questioned the purpose of depreciation in a County setting? Mr. Gil de Rubio noted they budget for cash, not GAAP, therefore begin as a deficit. Mr. Graham discussed accrual accounting to the new system and the depreciation. He spoke of the audit system, depreciation. Depreciation is part of GAAP. Budgetary to GAAP must include depreciation. He noted the County's capital expenses and depreciation would be higher. Mr. Gil de Rubio reminded all the County does not have long-term debt. Mr. Graham noted the cash surplus in other years has depleted, revenues are low in the Nursing Home, and this is why the County is continually borrowing. Mr. Gil de Rubio added the infrastructure is also crumbling. Mr. Graham recommends budgeting depreciation as a "sinking fund"; for example a "fire truck fund", you take the depreciation, place it aside into an account so that you have, essentially, a capital reserve. Mr. Gil de Rubio pointed out they tried to attempt that a couple years ago, but, politically, it did not work. Mr. Gil de Rubio noted, since '02 the County has seen surpluses; tried to implement capital reserve, infrastructure crumbled, invested in capital and had pointed out in 2002 the County needed to develop capital reserve or it would catch up to them. Mr. Graham noted they spent a lot on the nursing home, now they are spending on capital, and currently revenues from the nursing home are expected to pay for improvements; with the nursing home not performing well, they see the deficit.

Commissioner Barrette, asked, "Making assumption numbers are correct, \$1,586,894, how is deficit handled?" Mr. Graham "if you have cash deficit and go to some other way to finance, you can borrow back. You work on improving revenues." Mr. Graham recommended they do an assessment of long term vs. short-term borrowing. Commissioner Barrette questioned if they could sell assets or change activities? Mr. Gil de Rubio asked where the Board envisioned the nursing home future? Commissioner Nelson noted Mr. Graham's previous cash flow analysis showed the County looking pretty good and inquired how they got from there to here and questioned if it was due to the census or overspending in capital. Mr. Gil de Rubio would like to involve Mr. Chanis in discussions on capital, as Mr. Chanis was involved in the tracking.

Mr. Graham will work with MH & A on a good date to meet to review all his encumbrance questions. The Board requested he attain a date from them while they were there. Mr. Graham left the room to contact MH & A.

Commissioner Barrette noted, based on the bed count today, revenues down and expenses over budget, they need to do a serious analysis, line by line, on expenses and revenues and finish this year in the black. Mr. Gil de Rubio noted it is tough with revenues and they are marginal with expenses, agrees with coming up with expenditures on capitals and that they need to discuss all options of the nursing home. Commissioner Jarvis noted all departments were running at a negative and they need to review all. Mr. Gil de Rubio noted, there "is no grey area, you need to run as a business, we need a culture change". Commissioner Barrette noted he feels they have a performance problem, not a policy issue, "our performance is not realizing our expectations". Mr. Gil de Rubio noted the nursing home "is not a normal governmental enterprise fund who can count on "x" amount of people. We have to market to get people to come in and counting on this, we need to operate it as a business. We are not

doing this as we have a culture that is not changed to entrepreneurial, management wise – marketing when we bring in census we have issues with staffing and union, when census goes down – we are unable to allow employees to go home”. Commissioner Barrette observed agency nursing is still being called on and that the Board has not tied anyone’s hands to run it as a business. Mr. Gil de Rubio indicated they need hard opinions and numbers, a game plan thinking out 2-3 yrs down the road on the vision; the quality of care is excellent, but staffing and union are areas that need a lot of improvement. He noted these are big issues holding us back and if they want an entrepreneur setting, they need change. Commissioner Barrette feels they were not honest in their budget. Commissioner Jarvis concurred. Commissioner Nelson noted he likes the word “optimistic” better than “honest”. Mr. Gil de Rubio asked again for their vision with the nursing home, “Do you want it to be supported by taxes?” In response to Commissioner Barrette discussing the decrease in revenues and increase in expenses, the group discussed the resident census that dropped with employee level remaining with benefits, the high level of call outs that benefits are still paid on and the call outs that force the use of contract coverage. It was noted with union setting and current environment there is no way to control the cost.

Mr. Graham confirmed he would be meeting with MH & A Wednesday @ 9 am. MH & A will send working papers to him ahead of time, regarding the concerns he has presented, and he will e-mail a date to reconvene with the Board. Commissioner Barrette and Commissioner Jarvis requested more input from Mr. Graham in the future. Mr. Graham suggested a quarterly review the Board could perform.

Commissioner Jarvis opened the floor for public participation.

Representative Franklin expressed disappointment with Mr. Graham for not passing out any typed numbers and feels the draft audit is meaningless. He feels they are not facing up to the facts that performance is not there. He noted something was said clearly wrong when it was noted the Commissioners tried to have a capital reserve fund and do the whole program of putting money aside. He indicated the Delegation appropriated \$220,000 to set up a capital reserve fund and for two years they refused to. They spent over a 1 million a year in cap improvements in fund 42. What they wouldn’t set up as a capital reserve, they are trying to raise in taxes. He noted if they look over the last 3-4 budgets they’d see a trend. It’s been down, that’s by looking at the audit, and they can see what’s happened to fund balance, profit or loss. “We have to return to honesty and budgeting”. He quoted the first page of the draft audit, next to the last sentence regarding financial statements. He noted numbers reflected are from the Manager who gives them to the auditor. Auditors are here to give unbiased opinion of the quality of work.

Representative Gottling noted we “have outstanding 2.5 million, that someone has to fit into all these figures for end of year ’07, and do not see a plan of attack for that”. She agrees they need to look carefully at it. She noted, she was also part of the budget process and feels accountable that she did not do a good job. She noted she was new too, but won’t hide.

Rep. Converse noted he was there too and allowed it to happen.

Commissioner Nelson pointed out there was a committee made up of Commissioners and Delegation members that could not come to a consensus regarding the Capital

reserve. Rep. Franklin refuted his statement. Rep. Gottling compared their town capital reserve set up with funds to purchase a new fire truck, "x" dollar amount is placed into a fund, and they are all named. Mr. Gil de Rubio concurred, noting that was proposed and they even had a schedule.

Cynthia Sweeney indicated she agreed they need more honesty in the budget put forth. She noted they all said they had not made any allowance for the 2.5 borrowed and should have and needs to show it.

2:40 Commissioner Barrette moved to go into Executive Session for personnel issue [per RSA 91-A:3.II.c.] Commissioner Nelson seconded the motion. There was no discussion. A roll call vote was taken. The motion carried, unanimously.

2:41 Delegates Gottling, Converse and Franklin picked up copies of the July 2007 monthly report and left the room. Commissioner Jarvis noted they do not have the monthly report for June 2007.

3:18 Commissioner Barrette moved to come out Executive Session. Commissioner Nelson seconded the motion. There was no discussion. A voice vote was taken. The motion carried, unanimously.

3:19 Commissioner Barrette moved to adjourn the meeting. Commissioner Nelson seconded the motion. There was no discussion. A voice vote was taken. The motion carried, unanimously.

Respectfully submitted,


Jeffrey Barrette

JB/s.j-c.

Date signed: 10/3/07