

City of Ione Staff Response to Ledger Dispatch Article

February 8, 2013

The Ledger Dispatch article published by Matthew Hedger at the top front page of the February 8th issue presents misleading and inaccurate information. Mr. Hedger distorts the information presented at the City of Ione's finance workshop January 31, 2013 and does an injustice to the recent hard work successfully completed by City staff and an outside Certified Public Accountant. The poor reporting also calls in to question the objectivity of the Ledger Dispatch. Mr. Hedger failed to even attend the finance workshop, and instead, relied on incomplete information to represent his findings.

In his article, Mr. Hedger presented the FY 10/11 audit findings as if they are findings from the current fiscal year. Mr. Hedger failed to recognize the recent reconciliation work that staff and the Collins Accounting firm performed during the rebuilding of the current financial database. As presented by Mr. Craig Collins, the comprehensive reconciliation did not find any fraud, which also involved review of records dating back to the year 2000. In addition, Mr. Larry Bain, Auditor, stated repeatedly that his audit did not discover any fraud despite a public member's distortion of a sentence identifying the potential for fraud because of past poor accounting practices.

Not only did Mr. Hedger not attend the informative workshop, Mr. Hedger did not contact any staff or elected officials to investigate his story. His use of second-hand information and incomplete analysis of the handouts resulted in the "factually incorrect" story. The following information is presented to provide "factually correct" talking points to educate the Ledger Dispatch and the community concerning the state of City of Ione finances:

- ◆ The headline, "Auditor digs up millions unaccounted for in Ione," implies that millions of dollars are missing or stolen. In Larry Bain's presentation to the City Council, he specifically indicated that, although a heightened risk of fraud was present, his procedures had not identified any fraud.
- ◆ All audits performed under generally accepted auditing standards provide reasonable but not absolute assurance, so no prudent auditor will express absolute certainty in any situation that no fraud has occurred.
- ◆ Although finding 11-4 mentions a prior year condition of cash not being reconciled since 2005 (as noted with the caption "Prior Year Finding 07-18"), the current year status section notes that the cash activity was being reconciled during 2010-2011.
- ◆ The article notes that the City's substandard accounting procedures have "left open the possibility of fraud involving over \$1,000,000 in unreconciled cash revenues." Assuming the author is referring to the unreconciled differences in cash that were identified by the auditor, \$920,220 involved a cash disbursement and not a "revenue." The disbursement was made to the bond trustee for the purpose of making payments to the Community Facilities District bond holders. The finding did not identify any fraud regarding these amounts and the cash was traced from one City account to another.
- ◆ After listing the bank activity identified in the prior year bank reconciliation by the auditor, the article goes on to state that "[s]everal other unexplained transactions were also noted," implying that the \$920,220 transfer to the Community Facilities District and a \$75,000 collection for a land purchase were unexplained transactions. Although these transactions had not been properly

recorded, auditor's bank reconciliation did turn up satisfactory explanations for them and there is nothing suspicious about the transactions.

- ◆ The article points out the City's failure to reconcile numerous accounts which prevented the auditor from expressing an opinion. The article does not discuss the Collins Accountancy presentation at all, during which it was announced that loans receivable (referred to in the article as "Community Development Block Grant program loans"), accounts payable, capital assets, and accrued payroll had been reconciled as of the time of the financial workshop (January 31, 2013). The presentation also announced that approximate outstanding balances had been determined by individual developer. Larry Bain stated during the council meeting that the City had taken a "big step" in hiring Collins Accountancy to assist in addressing its issues.
- ◆ The article states that "Ione leaders okayed the spending of \$518,593 for unspecified services and supplies." The detail of this number is public information but was presented in summarized format for the City Council's convenience. Information regarding these services and supplies could easily have been obtained by the Ledger-Dispatch with a simple call to City staff or by examining the Council's approved budget for the current fiscal year. The purpose of the workshop was to present figures and not to obtain council approval of the information.
- ◆ The article states that "Other expenses to the City's general fund in 2011/12 included \$112,630 to the city attorney, \$86,387 to the building department, \$73,918 to the city clerk, \$46,900 to the city manager..." (emphasis added). The use of the word "to" could imply that the funds simply went to pay payroll for the department heads, when actually the expenditures included other amounts, such as services and supplies, required by each department.
- ◆ The article incorrectly stated that revenues taken in as of January 31, 2013 were \$487,441, and mentioned a shortage of \$1,021,654. The revenues were actually shown as of December 31, 2012. In addition, the figures given show only the "General" department and omit the other city departments listed. If all departments are taken together, the City has collected 37.4% of budgeted revenues compared with 40.2% by this time last year. As discussed and shown in the presentation, the City's revenues are not consistent throughout the year and significant chunks of revenue are expected in 2013 during the months of January, April and May.
- ◆ The article also assumes that expenses were as of January 31, 2013 ("...with less than five months left in the year") when in fact they were as of December 31, 2012. The City is right on target for the current fiscal year having spent 50.6% of its budget as of December 31, 2012.
- ◆ The mid-year budget report and auditor's report had, in fact had been posted to the City's website prior to the publication of this story. Mr. Hedger should have clicked on the link to City Finances in the right-hand column of the City's website.

Please forward any questions you or your reporters may have to City staff. To date, despite the invite for financial questions to be submitted to City staff at the close of the last City Council meeting, no questions from the community have been received. In the interim, we would ask that you publish a retraction and/or correction to the misleading and inaccurate front page article. Given the prominence of the article, the City asks that the retraction or correction also be placed on the front page.

Please see the City of Ione's web site for the presentation material:

<http://www.ione-ca.com/home/ione/financials.htm>