

Vaughn Cascade County Water & Sewer



1161 6th Ave, Vaughn, MT 59487

Special Board Meeting Minutes

June 28th, 2022

Notice: *These minutes are paraphrased and reflect the proceedings of the Board of Directors.*

MCA 7-4-2611 (2) (b). These minutes were officially approved at the _____ Board meeting.

Call to order/Quorum: Herb Phinney President at 6:04

Pledge of Allegiance

Roll Call: Herb Phinney, Tina Cole, Rex Heckle

Employees: Annette Kniffen, James (Rusty) South

Herb: to discuss the meeting with the auditor and the district accountant on June 22 2022.

Sandra Dail arrived at 6:09: 2:37

Herb: Sandra have you had a chance to go through the minutes of the meeting with the auditor?

Sandra: I am just going through them now.

Herb: at the beginning of the meeting there was a lot of discussion between the auditor Bob Denning and our accountant Marca. It was auditor talk. If you are not an accountant or an auditor it was pretty hard to follow what they were discussing.

Bottom of the first page we really need to discuss health insurance. It is a suggestion and a recommendation, it is not something we have to do. **Annette:** the auditor couldn't tell if we were taking taxes out of the health insurance or not. We had to pull a W-2 and a W-3 off the computer to show we are taking taxes out. If taxes weren't being taken out then we would have to sign up for a health care savings account. **Tina:** so if you are paying the premium pre-tax? **Annette:** we get a stipend each month depending on hours worked to help pay for our health insurance. It is just one of our benefits. Herb: since we don't have a health savings account how do we keep track of this stipend? Every month Rusty and Annette get a stipend to help pay for their insurance. It is not part of a health insurance plan. How is that taxed?

Annette: it is put in our pay checks as a payroll item so it gets taxed just like our pay does.

On the W-2 & W-3 it is in box one along with our payroll.

Herb: one of the big problems we ran into is it sounded like Bob (auditor) is use to Black Mountain software, he wanted us to switch to Black Mountain and we don't have to. He had a hard time understanding the QuickBooks we use. **Rusty:** he didn't even know what version he uses. Whether it is an

accounting version or over the counter. **Annette:** we use QB. Marca our accountant gets a copy of our QB but she uses the accountant version. She can pull up reports I can't.

Herb: that is why at the beginning it was conversation between auditor and our accountant. Whether he didn't know to pull up the reports or whatever he was more familiar with Black Mountain. It was a communication problem. We are not required to use Black Mountain.

Rex: so we are going to stay with QB and not going to Black Mountain? **Annette:** I talked to Marca our accountant and I also talked to Montana Rural water accountant. MRW accountant sent me an email that said no don't switch to Black Mountain, you are not big enough, you don't use meters you are on a flat rate. Black Mountain is for metered water and it is a lot harder.

Herb: any other questions or concerns on the meeting with the auditor? **Annette:** you keep calling them minutes, it was just a meeting. There was no quorum or anything.

Rex: I like what Marca said on top of page 8 where she said we are a small town and we have to make accommodations for people. **Herb:** I think Bob is use to auditing bigger towns. There was a question when a customer sends us a postdated check or asks us to hold a check. Bob was against that. We have customers living paycheck to paycheck and it is a lot more beneficial for us to work with them. I asked Bob what he suggested we do. He said to continue doing it the way we are doing it but disclose it on the financials put a foot note. **Annette:** undeposited funds is an account in QB, when someone sends me a check and I put it in QB it goes into that account until I deposit it in the bank. If I get a check from Joe down the street and he asked me to hold it until Friday that check would still be in the undeposited funds account. **Rusty:** so you just need to put a note on it saying so and so asked me to hold it until this date. **Annette:** I can't do that in QB. I would have to put the report into a spread sheet and add the foot note but it still wouldn't be in QB. **Herb:** Bob's concern was disclosing that you are holding a check. Marca agreed that a foot note should be done. **Rex:** so the customer wants us to know that he owes the money just don't deposit the check yet it might bounce. **Annette:** I have one customer that has 2 different accounts. He sends me 2 different checks, one he wants me to hold until Friday when I get paid. If I deposit the check right away and it bounces, it's a \$25 fee from us and \$30 fee from the bank, that's \$55 and who has \$55 to throw away. Or just not take postdated checks. **Rusty:** we would need to change our rules and regulations saying we can't take them and if you send us postdated checks or ask us to hold them they will get deposited as soon as we get them. **Annette:** Bob's concern was that it might look like we are hiding money, because we haven't deposited yet it could have went into someone's pocket. Tina: even though it is still logged into the system. **Annette:** I could go back and un-log it. Say someone gives me cash that goes in the bank right away, I don't keep cash in the office. What didn't make sense to me was the check isn't made out to me so I couldn't pocket it.

Herb: in the interest of transparency we don't want to just have people think that we have undeposited funds and it is a slush fund or something.

Annette: I always put a note in QB in the customer's account but I can't do footnotes in the financials.

Rusty: we can start treating it like power and gas and just deposit the checks when we get them. Then it is on the customer.

Discussion continued on holding checks.

Discussion on class codes in QB: 17:25

Auditor said there is 7 class codes and Marca said more like 27. There are really only 3 classes, Water, Sewer and General the rest are sub-classes.

Discussion on redoing the account codes: 18:51

Auditor wants district to use BARS (budgeting, accounting and reporting system) coding. We use BARS already. When auditor pulls a report it doesn't show that because of the way he pulled the report. He can go in add the column to the report.

Rusty: 20:17 what I got out of the whole thing is he is uneducated in the software of QB. He has hounded Annette for report after report. His secretary would call her and now his secretary quit. She was the one that started the audit and now he is calling. He's pushing harder and harder to get this audit done and now he is behind schedule. He's putting us between a rock and a hard space. He's pretty much saying: you have to hire me for another year or I'm going to have to right all these discrepancy's up.

Herb: this audit for 2021 has to be completed by June 30 2022. **Rusty:** he's drug his feet and didn't get started on time. The secretary didn't know how to do anything in QB. She kept calling Annette and having her print and mail her reports. **Herb:** that is why he wanted us to switch to Black Mountain because that is what he knows how to read. By following his recommendations and changing terminology and way reports read, he is satisfied by that. He told us at the meeting last Wednesday that if he files now he would have to give us a bad report. **Rusty:** it is partially his fault. Had he started when he said he would and if he was familiar with QB he would have been done already.

Discussion on how we recorded assets: 24:00

Auditor says our assets account is not up to date and Marca said they are up to date, we got the numbers for somewhere. He want's Rusty to go around and look at the assets and determine how much each asset costs at time of installation. Auditor said it would be ok to estimate. **Tina:** as if Rusty doesn't have enough to do. **Annette:** it is already on the asset list. **Herb:** in the discussion it was said that we are listing assets that are \$500 or more. The state only requires \$2500 or more. Federal is \$5,000. If we go with the \$2,500 and we get audited it will cover us for both a Federal and State audit.

Discussion continued: talking about depreciation schedule. The total dollar number assets and it would say see attached schedule.

Rusty: did the question ever come up why he is going back so far? **Sandra:** because he can't make the numbers work. I was just reading where, on our prior audits there were questions and that is why he is being so thorough. **Annette:** he did say that but Marca said, that the previous auditors, the owner of that company is the president of some kind of big audit board so they are familiar with the rules and regulations of an audit. **Herb:** that discussion went before 2015, we did tell him there was a lot of mismanagement back then and even our accountant said that. When we asked for the records we didn't get a full set of records. The previous accountant had legal problems herself. Annette came on in January 2017 and she had the challenge of trying to find records that were lost and try to reassemble the records. **Rusty:** he is only supposed to audit us for last year, why is he going that far back? **Sandra:** I am trying to find it. **Rusty:** I was just wondering if that question ever got asked. **Herb:** there is an accounting/bookkeeping issue form 2015 that was still carried on to our accounting system. **Rusty:** like the deprecation stuff? **Herb:** yes. We told him Marca and Annette are working on cleaning up our system and starting fresh so we don't run in to this again. **Annette:** Marca and I have been discussing this. I didn't bring it up she did, once this audit is done and it is the way he wants it, we need to end this set of books June 30 2022 since it is our fiscal year and start another set July 1st 2022. The June 30th and before will not disappear they will still be in the system but they will be archived. **Herb:** so we will do away with the headaches.

Next section of audit meeting: 33:29

Herb: I did tell him I could guarantee that there was no theft of funds. They we have an excellent operator/manager and an excellent bookkeeper and they have been cleaning up our infrastructure problems and or financial problems. **Annette:** I think part of the problem the auditor thinks our financials aren't right is because when I started there was almost \$100,000 missing. The last bookkeeper would get a grant check in and put it in her drawer and never deposit it. After 90 days those checks are no good. I had to reapply for the checks. When I got the checks again, I dated to them to the date I received them, I didn't back date them so that is probably part of the problem.

Herb: 34:55

The auditor is suggesting a biannual audit. So for 2 years 2021 and 2022. That gives us until June 30th 2023 to have them done. **Annette:** if this audit isn't done by June 30th this year we can get a fine and not be eligible for any more grant funding. If he does a 2 year audit they will be in the same report but won't have to be done until June 30 2023, so that gives him more time to do it.

Herb: it is good for us to get our asset list up to date and our record keeping corrected. That shows the customers we are being transparent. Since we are going to have to have an audit for this past fiscal year, we will be taking care of 2 audits. **Rusty:** the question is do we hire him for another year that is what we are here for. We are kind of at the point that we have to hire him or be dinged. We have to make stipulations on the contract. I don't want to give him to the June 30th date that is wrong. **Herb:** you are recommending a date. **Rusty:** a date way prior to that 2-3 months before. **Annette:** in the contract it says he will start the audit September 1st and be finished June 30 2023. What we originally hired him for was audit for FY 2021. **Rex:** so when is this audit supposed to be done? **Annette:** June 30th this year so in 2 days. If it isn't done then we get penalized. **Herb:** unless we change our annual audit to a biannual audit. The state allows a biannual audit.

Sandra: 39:17 why can't we go to the state and file for a biannual audit and go find another company?

Herb: he has left us in a position that we don't have time to find another auditor. **Rusty:** what she is saying is we can find another firm and have them apply for a biannual audit. We end up paying him \$15,000 because we are in a contract with him.

Sandra: I kind of like this guy. I know you don't like him. I like what he is doing. As far as closing everything out the end of June and starting over in QB has anyone asked him about that? We are going to need another audit eventually. **Annette:** I am going by what our account says. **Sandra:** I think we should ask the auditor. This guy seems sharp, I know he is a pain in the butt. **Tina:** I think if some of the terminology could be translated between Black Mountain and QB's so both parties know what is being referred to it will alleviate some of this. Sandra: I think what he is asking for isn't bad. And as far as depreciation, if we don't have that. **Annette:** We do have depreciation. Marca has a whole list of depreciation stuff. **Sandra:** maybe create some different accounts so it could be a little clearer? Herb: our water, sewer and general accounts more accurate. **Sandra:** instead of throwing them into something. **Herb:** right. **Annette:** I separate them between water and sewer every time I put them in the computer. **Rusty:** he just doesn't know how to pull them up. **Herb:** It is frustrating for Annette and Marca because they have been keeping track of all this and Bob is having a hard time seeing it. If you look on page 10 there is a list of things or Marca so it is easier for him to see it. It will help him feel confident so that he can sign off on what we are doing is right.

Annette how do you feel about what he is asking for. **Annette:** I am an employee so whatever the board wants is what I do. Herb: is it doable? **Annette:** yes it is but I will need more hours to get it done. **Herb:** all

Annette has to do is keep track of the undeposited funds. **Rusty:** no, because he wants account numbers changed. **Annette:** we changed them all last year to BARS. **Rusty:** and now he wants us to change it to match Black Mountain. **Herb:** he wanted us to change it to GAAP. **Sandra:** are we using BARS? **Annette:** yes we are using BARS. **Herb:** he wants to redo the income statement to comply with BARS.

Annette explained the cash flow statement, if someone asked me today how much in the checking account is water and how much is sewer, I would have to run the reports but I can get that. He wants an excel spreadsheet where I can pull it up. It will take me about an hour to transfer the reports to excel. **Rusty:** it should be done in QB. **Annette:** it is but that is what he is asking for.

Discussion on the lien accounts: 48:58

Herb: these accounts are liens that are filed against a property for nonpayment. **Annette:** right now it is in an asset account. It is money we should be getting in. We are not guaranteed that money. So he wants us to put it in an allowance account which I understand. That way if we get the money it is bonus money.

Herb: he has been very cordial. He is looking for bookkeeping that is what he can sign off on. Our form of bookkeeping does match up with that but he isn't used to it. It might be a good idea in the contract what Rusty was saying about a deadline date earlier than June 30th 2023. We need to sign off on the new contract so he can sign it and get it sent to the state before June 30th 2022.

Annette: I think the end date should be April 30th 2023, that way if he finds something else we have time to correct it. **Rusty:** end of March or April 1st. Have him complete it by April 1st, 2023. If we don't hold him accountable he could do the same thing to us again next year. **Sandra:** he hasn't been able to complete the audit is because he doesn't have all the information. I wouldn't sign off on it either. **Annette:** he signed that contract last year. He should have told us before now that he needed this stuff changed and fixed before now and only giving us 9 days to fix all he is asking for. **Sandra:** so a smart thing to do is because everybody sat down and we have this list of things we need to do, maybe we should have this type of meeting with this person every 3 months or so. So we can find out what he needs and we can keep this rolling. So we can be ready by April 1st so we don't have to scramble and go change more things. Why don't we continue with communication and do it that way. He has been cordial. **Rusty:** yes he is cordial but he didn't start the audit process until 2 month ago. He drug his feet. We can still have these meetings but he has to communicate to us what he needs. **Herb:** if we comply with all these recommendations it should be easy for him to get it done by April 1st. **Sandra:** we should still meet with him periodically. **Rusty:** maybe email him once a month and ask where are you with this audit, is there anything you need from us. **Annette:** I am thinking 2-3 times a month. **Rusty:** we asked him for a list before the meeting last Wednesday and we got nothing from him. **Herb:** he came with a list of stuff he needed but he didn't share it with us. **Rusty:** just because he came cordial to the meeting he has not been that way. That's why Annette is so frustrated.

Senate Bill 302: 55:30

Not only are we in trouble with the state if we don't file by June 30th 2021, it allows not only government penalties the state automatically shuts off all our funding. It also allows any tax payer to sue us for noncompliance.

Rusty: do we need to take a vote on if we are going to hire him? **Herb:** if we do a biannual we have to take a vote on that. Any thoughts? **Rusty:** we really need an end date. **Herb:** how do we do that. **Rusty:** change the end date in the contract and have him send a new one. **Sandra:** don't we already have a contract?

Rusty: We do but it expires June 30th and we get a bad report if we don't sign a new contract. That will cost us not getting any grant money. **Herb:** it shuts us off for all kinds of funding and opens us up to all kinds of lawsuit. **Sandra:** can we even give him an end date? **Herb:** we can ask for an end date of April 1st 2023
Sandra: can we call some other accounting firms and ask if they would be willing to do our audit and file paperwork for a biannual audit. Can we take a day and make some phone calls and see if it is a possibility?
Annette: we only have 2 days. By the time we get a new auditor to get us a contract and have another board meeting to get the board to approve that contract it will be way past June 30th. I don't think that is doable. **Tina:** if we have to have another meeting we have to post it 48 hours in advance.
Herb: whether this was intentional or negligence we have to decide to sign a 2 year contract.
Annette: what you can do is vote on accepting the contract with changes these changes, April 1st deadline and remove Herbert Phinney as employee.
Herb: the amount is \$15,900 for 2021 and \$15,900 for 2023 audits. **Annette:** he is supposed to bill us for the 2021 audit so I can get it put on the grant draw. The second year 2023 \$15,900 we may have to pay for out of our pocket. **Sandra:** why can't we put the whole amount on there? **Annette:** because the state required us to have an audit because of the water project.

Herb: auditor said we need checks and balances to watch over Rusty and Annette. We said we can't afford to hire any other employees just to monitor them. **Sandra:** maybe we should look into that. **Annette:** We can't afford to hire any more employees.

1:06:57

Rex: made a motion to accept the audit contract with the completion date of April 1st 2023

Sandra: second

All those in favor say Aye: Herb, Sandra, Tina, Rex

All those opposed same sign: none

Motion passes

Community Comments:

None

Adjournment:

With no further business before the board, the meeting stood adjourned. **Adjourned: 7:15**

Respectfully submitted:

Annette Kniffen, Secretary/Treasurer

Date

Herbert Phinney III, President

Date