



Village of Three Oaks

14 Maple Street
Three Oaks, MI 49128

June 15, 2009

Robert J. Kleine, State Treasurer and Chair
Emergency Financial Assistance Loan Board
Michigan Department of Treasury
Bureau of Local Government Services
4th Floor Treasury Building
430 West Allegan Street
Lansing, MI 48922

Dear Mr. Kleine:

This is the second quarterly report of the Emergency Financial Manager for the Village of Three Oaks submitted for your consideration. The quarterly report details the time period from March 15, 2009 through June 15, 2009.

Respectfully Submitted,

Pamela Amato, Emergency Financial Manager
Village of Three Oaks

Attachments

cc: Frederick Headen, Bureau Director
Valdemar Washington, Deputy State Treasurer
Robert L. Emerson, State Budget Director
Susan Corbin, Department of Energy, Labor and Economic Growth



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QUARTERLY REPORT II MARCH 15, 2009 – JUNE 15, 2009 COMPLIANCE MONITORING REPORT

1) *Revenues recorded in the most recent quarterly financial statements are fairly stated in all material respects on a modified accrual basis of accounting*

Revenues are properly recorded in the various funds. I have been working with the Village Treasurer to establish funds, re-title existing funds and characterize the funds so that they more accurately describe the purpose of the fund, the source of revenue and whether the fund is restricted/unrestricted. The Treasurer has also been instructed to contact a few of the local banks that the Village currently does not do business with to determine what type of services the bank can offer the Village. The Village has established the following operational funds: general, municipal street, major street, local street, rubbish, building, water repair/maintenance and sewer general purpose. The Village has established the following restricted funds: drug forfeiture, police training (302), DDA, rubbish, sewer dept, sewer bond reserve, water CD, sewer repair/improvement, water repair/improvement, water junior lien reserve, water junior lien revenue and RDA water redemption.

The Village continues to operate under the safeguards that were noted in the March 15th report with some additional measures. Access to various accounts and records has been restricted to only that person assigned that duty. For example, the only person that has the ability to make corrections to water/sewer bills is the water/sewer clerk. The EFM, clerk, president and treasurer may review files, but do not have clearance to change accounts. I restricted access to programs after I discovered that at the BS&A training session, each person listed above was given access to modify accounts. I am in the process of speaking with BS&A to determine an efficient method to perform additional random checks of various accounts. Property taxes for the Village will be due in July 2009 and will be separately recorded and verified by the clerk and the treasurer.

2) *Expenditures recorded in the most recent quarterly financial statements are fairly stated in all material respects on a modified accrual basis of accounting*

Expenditures are recognized in the period in which the liability is incurred except for those pursuant to governmental accounting rules. The invoice or expenditure is date stamped and is posted in a timely manner. The financial records are being maintained properly.

I have been initialing each expenditure by the Village before it is paid. Payables come into the Village, the appropriate account code is assigned and they are placed in a folder for my review. Any questions are resolved before I affix my signature. *(This process has brought to light that the Village has excessively high phone bills and has at least four carriers. The clerk and I are investigating consolidating the bills and switching carriers.)* The Village president or department head may sign an invoice, but the check does not cut until I have approved the purchase. Department heads have diligent in following my instruction that all non-routine purchases over \$100 must be approved either by the Village president or the EFM.

3) *Appropriate inter-fund transactions have been recorded in the financial records of the Village*

The Village continues to work successfully with the BS&A software recording and clearing “due to’s” and “due from’s” for the various accounts. Each month the due to’s and due from’s for payables is cleared and on a bi-weekly basis for payroll. Any lingering unresolved inter-fund transaction is timely addressed. Reports for each of the funds are printed monthly; these are stored in the clerk’s office and are reconciled by the Treasurer to the bank account statements.

4) *The Village is in compliance with its budget for the fiscal year on a year to date basis and has been amended as required by law*

The Village is in compliance with its budget for its 2008-2009 fiscal year. At each council meeting, the budgeted amounts are compared with actual amounts and those variances are noted and addressed. The Village has been operating as lean as possible and has even been under budget on some line items. The Village is in the preliminary stages of drafting the budget for its 2009-2010 fiscal year. We continue to pare down in anticipation of decreased revenues for many sources.

5) *Reconciliation of bank accounts has been completed and appropriate journal entries have been made to the general ledger*

(This section has not changed since the March 15th report.) The Bank accounts are being reconciled monthly and compared with entries in the respective journals and general ledger. The Village clerk and treasurer are responsible for various aspects of these functions. The treasurer maintains a spreadsheet much like a check register and each month the treasurer reconciles the bank statements to the spreadsheet. Each month the clerk balances the bank statements to the BS&A general ledger. In addition, each month the clerk and treasurer will compare their reconciliations as a further check and the clerk will provide the treasurer with a list of all the checks approved by the council.

6) *Remittance of payroll taxes, pension payments, 401(k) payments, debt payments and taxes collected for other governmental units were completed on time*

The Village is paying its bills as they come due. Payroll taxes, pension payments and 403(b) payments are timely paid. There was some confusion as to whether the employer contribution to the employee's 403(b) had been paid and after much investigation it was verified that it had not been paid and a check in that amount had not be drafted. The Village will be paying this amount this month however; the Village typically pays this amount in January. The Council had voted to change the contribution from a flat rate to a percentage, but after looking at the plan document, it states that each qualifying employee must receive the same flat dollar amount. According to Lincoln Financial, regulations require compliance review every number of years so if the Village wishes to make changes, this year would be the most cost effective. The DDA has paid its debt to the governmental entities and the Village has paid its debt to the DDA.

7) *Cash flow for the most recent preceding month has been fairly stated in all material aspects*

(This section has not changed since the March 15th report.) The cash flows for the Village are being monitored very closely and account balances are being reviewed for accuracy with random checks of various accounts. Additional accounts have been set up to provide greater detail and better tracking of cash flows. Previously, there were several "miscellaneous accounts". These accounts have almost been eliminated and accounts have established with meaningful designations.

8) *Overtime is properly disclosed and recorded in the most recent quarterly financial report of the Village*

Overtime for all Village employees has been discontinued effective February 1st. There has been no overtime since the March 15th report.

9) *The original source of all financial documents have been properly retained and preserved and that the Village is in compliance with all other legal requirements*

(This section has not changed since the March 15th report.) Files for all payables, vendors and associated transactions are being established as they are presented for payment. Originals are date stamped and placed in the file. Bank statements, pension information, 403(b) accountings and other sensitive documents are date stamped and kept in a locked file. Historical documents are being placed in the proper files as they are discovered.

Other issues relating to the financial condition of the Village

- 1) Sometime in early 2008, the Department of Public Works (DPW Water/ Sewer and Streets) employees contacted a union representative. There was a certification meeting scheduled for June 2008. The DPW employees decided that they no longer had the same concerns and fears that prompted them to contact the union. The meeting was canceled after the employees notified the union representative. This represents a significant savings to the Village in attorney fees as the Village had to hire a labor attorney.
- 2) The Village is still awaiting the decision from Reliable Disposal as to whether they will accept the Village's offer in settlement of the \$15,000 mediation award. Several letters were exchanged as noted in the previous report to the ELB. In May, the deadline for Reliable to enter the Judgment expired and the Court dismissed the action. The Village stipulated to reinstating the case. The Court would most likely have reinstated the case on Reliable's Motion and the Village would have lost any hope of working with Reliable. Also during May, the attorney for Reliable was drafting a buy-out agreement for Reliable. I am not sure what this will mean for the Village. Reliable continues service the Village's maintenance garage (this is a small amount) as it did not seem wise to cancel this service at this time.
- 3) Police coverage for the Village and the Township has taken several turns before we arrived at the current arrangement. In May, I dissolved the police force except for the Chief of Police. This eliminated one full time, three part-time and a few reserve positions. The savings to the Village in payroll, insurance benefits, and associated costs was calculated at approximately \$4,800/month. Paul Bailey at the Berrien County Sheriff department and under-sheriff Chuck Heicht were going to coordinate with the Village Chief of Police to provide coverage for the Village and the Township. Over the next three weeks, the Township met and agreed to pay an additional \$2,500 if the Village would provide 165 hours per week coverage. Also during this time, the Village was informed that it would receive approximately \$70,000 from the Pokegan fund for public safety. This money is provided because of the increased issues of public safety in the Village due to the presence of the Casino. Given the additional funds, reinstating the police department was a reasonable financial decision and was responsive to the needs of the community. Except for the Chief of Police, all officers are part-time and do not receive benefits.
- 4) The Audit for year ending September 30, 2008 has been approved. The Village has corrected or is working on the deficiencies.
- 5) I am in the process of reviewing the draft Deficit Elimination Plan. The Plan calls for the elimination of debt in the Rubbish fund, Major Streets fund, Local Streets fund and Municipal Streets fund over the next two years. Given the financial conditions and the budget cuts that must be made at the State level, revenue from Act 51 and revenue

sharing money that is slated to assist in eliminating the debt in each of the funds requires a thorough review before the Plan is submitted.

- 6) I am working with Kurt Bursma, an insurance broker through the Michigan Municipal League to streamline the cost of Village employee health care. I anticipate that he will have some plans and costs for my review next month.
- 7) The Schwark drain/Crosby Oaks development is progressing. In my last report I noted that it was a thorn in the Village's side. The Village has granted the easements which will bring in approximately \$103,000 to the Village. The project went out for bid the week of June 15th. The preliminary plans are at the Village for review by the Village attorney, Village engineer, the DPW superintendents, Village president and me.
- 8) Lift Station – the Village owns a lift station which has the potential during a heavy rain to short-out and cause sewerage to run into a creek. After speaking with MDOT and MDEQ, it was determined that permits are not required therefore, the cost will be significantly less than the original estimate of between \$30,000 and \$45,000. The Village will be sending the project out for bid this month.
- 9) I am still awaiting a reply to my February 9th letter to Mark Campbell of Campbell, Krusterer & Co., the former auditing firm for the Village. This was noted on my previous report to the ELM. Their lack of response may indicate that they have decided to not pursue the issue or the Village may receive a complaint and summons at some point before the issue becomes too old.
- 10) The new water and sewer rates for the Village have been in effect since April 1st. The Village has received over \$52,000 in delinquent water and sewer bills by placing them on the County tax rolls.
- 11) The Village has received the \$250,000 from Berrien County for the sale of Watkins Park. The money has been deposited into the general fund. The transactions were approved at several county and state levels.
- 12) The retirement program for the Village is with Group Marketing and Baden Financial Services. I recently had the \$15 service fee/employee discontinued by Lincoln and also negotiated an asset fee reduction from .84 to .64. This will reduce the fees on the Village accounts and the employee accounts. The reduction is effective as of June 15th.
- 13) Effective July 1st, Village residents will no longer be permitted to sweep their grass clippings and other yard waste (leaves) to the curb for the Village to remove. This created an unhealthy working condition for our employees, was not environmentally friendly and was unsightly from a tourism and community pride perspective. Village residents may

contain their yard waste in biodegradable bags or approved yard waste containers. Each Monday during the season, the Village will collect the yard waste. The financial savings to the Village will be in man-hours and reduction in the use of the Village's aging equipment.

- 14) I drafted an Ordinance revoking the Ordinances that created the DDA which was approved by the Council at its May meeting. This dissolved the DDA and cleared the way for re-establishing the DDA and its funding structure correctly. We will meet with Dan Fette in the Berrien County in July to begin discussions. Payments to the DDA and from the DDA have been accomplished at appropriately recorded. Any money remaining in the DDA's account is reserved for start-up costs.