

**Lehigh Area School District
Lehigh, Pennsylvania
Finance Committee Meeting
Monday June 10, 2019 at 6:00 PM**

Finance Committee Minutes

Present

- ☒ Andrew Yenser
- ☒ Richard Beltz
- ☒ Rita Spinelli
- ☒ Patricia Denicola
- ☐ Tina Champ
- ☒ Jonathan Cleaver
- ☒ Larry Stern
- ☒ Wayne Wentz
- ☒ Stephen Holland
- ☒ Gail Maholick
- ☒ David Bradley
- ☒ Rebecca Karpowicz- Recording Secretary
- ☐ Meghan Christman- Recording Secretary

- Mr. Bradley asked why there is no courtesy of the floor forms
 - Mr. Cleaver stated it is not a formal board meeting with a courtesy of the floor; the public will have time to speak at the end of the meeting during open discussion
 - Mr. Bradley said he thinks it would be a good idea to give the public a chance to speak
 - Mr. Cleaver agreed; asked if anyone would like to speak
 - No speakers

George's Transportation Daily Run Bill for Approval

- All attending committee members agreed to pay the May 2019 transportation bill

Self-Insurance Overview

- At the last meeting there was some discussion about the current medical benefits structure regarding how much employees pay and why they aren't required to pay more
 - Enacted by current collective bargaining agreements and can't adjust until negotiations

2019-2020 Budget Discussion

➤ Overview of current budget status

- Budget regarding personnel costs was built upon the current collective bargaining agreements
 - Budget includes \$30 mil for personnel costs (\$16.6 mil salaries, \$7 mil PSERS/employer taxes and \$6.4 mil employee benefits)
- The remaining 2019-2020 budget for non-personnel related costs was built upon the current YTD expenditures and most recent 3-year average
 - Budget includes \$15 mil for non-personnel related costs (\$1.5 mil for mandated charter school costs, \$1.73 mil in support of CCTI, \$234,000 in support of LCCC, \$20,000 in support of the Lehigh Memorial Library, \$2.6 mil in special education costs to the IU and other entities, \$3.7 mil for bond payments and \$5.13 for other expenditures that include supplies, books, technology, repairs, occupancy costs and any other costs the district must incur)
- Mr. Bradley asked how much of the bond payment would be interest
 - Ms. Denicola stated \$1.9 mil
- Mr. Stern asked if the district is still working off of the current proposed numbers or if there have been adjustments made
 - Ms. Denicola said there have been some minor adjustments to take out one time expenditures but nothing substantial
- Mr. Stern asked how much of the fund balance would be consumed if the budget stays in its current state
 - Ms. Denicola if the budget stays in its' current state, the district is looking at around a \$4 mil shortfall
 - There are things that could trend in a more positive direction (charter school enrollments, claims cost in healthcare, etc.)
- Mr. Bradley asked if the benefits are a big portion of the budget shortfall
 - Ms. Denicola said yes

➤ Mr. Bradley asked if Ms. Denicola could explain what happened with the lack of recording by Mr. Feick

- She stated throughout the 2018-2019 year, benefit payments were not indicated in the expenditure reports for the district
 - From July through December, the board reports were not showing the healthcare costs
 - Payments were made to the carriers, however, it was not shown in the expenditures of the district
 - In the March statements, the board will see a lump sum adjustment to record what was paid in the 2018-2019 year that as of that point had not been shown in the expenditures
- Mr. Bradley asked if it would be done monthly
- Ms. Denicola stated yes
- Mr. Bradley asked whose responsibility it is within the office to debit the expenditure to the budget
- Ms. Denicola stated she was not here when the former Business Administrator was here and she did not know how he handled that, however, she believes it was the benefits department that would do that allocation
- Mr. Bradley asked if that Mrs. Melanie Windhorn would be the Benefits and Accounting person
- Ms. Denicola said yes
- Mr. Bradley stated that he is under the impression that Mrs. Champ, the Assistant Business Administrator, provides the bank reconciliation reports, the board audit work and the monthly treasurers report

- Said Mrs. Champ would have access to all of Mrs. Windhorn's information and would report that to Mr. Feick and the buck ends with Mr. Feick
 - Mr. Bradley asked if this is correct
- Ms. Denicola stated that is correct
- Mr. Bradley said he made a mistake in his statement; the buck actually ends with the board overseeing Mr. Feick because he is one of the boards subordinates
- Mr. Bradley asked Ms. Denicola how this occurrence took place in that short period of time prior to her employment but never before in Mr. Feick's time at the district
- Ms. Denicola stated that she could not speak to that because she was not at the district
 - When she came here, she was receiving items to approve for payment that were not coded to an expense account, she questioned it and digging into it further and discovered throughout the year the payments were not charged to expense
 - Checks were issued but the expenditure was not reflected within the expenditure statements
- Mr. Bradley questioned if it actually wasn't applied even though it is listed on the boards financial fund accounting register and was told to board that it was applied to those accounts
 - Ms. Denicola stated that is not what she said; the check was listed as a check payment but it was recorded to a balance sheet account instead of an expense account
 - It was not shown as part of the expenditures that the district was incurring throughout the year
 - Correction was made and all of the expenditures incurred from July 1 forward is now appropriately reflected within the 200 object expenditure codes
- Discussion on the budget coding of bills; specifically, Highmark bills
 - Mr. Bradley asked Ms. Denicola to explain this in simpler terms
 - When he looks at a check register, how are things not recorded to an account expenditure but a liability and when are they transferred to an actual account
 - Ms. Denicola stated they should have been recorded to an expenditure as they occurred; was not reflected in the total expenditures as a district
 - It is now reflected in the total YTD expenditures of the district because it has been corrected
 - Moved from balance sheet account to expenditures where it should have been
 - Explained that right now the expense is sitting in 5800-200 for suspense to be allocated amongst all the other expenditure functions by the primary job functions according to the chart of accounts
 - Mr. Bradley stated that these payments were still incurred by the district and not seen by the board or the management on any of the reports given to the board and asked if that's why that expenditure account is off by \$3.4 mil
 - Ms. Denicola stated at the point she began at the district in March, the expenditures for benefits was understated on the budget summary report because throughout the year the district made payments and even though the check was listed on a report given to the board, it was not recorded in the expense accounts
 - Mr. Bradley asked if the district overspent money as a result of claims
 - Ms. Denicola stated the district claims were at a higher level than what the budget anticipated
- Discussion about what ETA Benefits/Highmark do for the district
 - Mr. Bradley asked if anyone talked to Mr. Pilla about the claims
 - Mr. Cleaver stated that Mr. Pilla does not set the budget, the Business Administrator does
 - Mr. Bradley said he understands that, however, Mr. Pilla would assist when making the budget to review what claims have been and helping the district understand what they are anticipated to be

- Helped the district get away from the consortium because claims and rating were low
 - The first year the district saved half a million dollars
 - The second year the district saved \$250,000
- Ms. Denicola explained there are a number of other items beyond benefits
- Mrs. Spinelli stated that Mr. Bradley didn't see this issue either until it was brought to their attention by Ms. Denicola
- Mr. Bradley stated he invited Mr. Pilla
- Mr. Pilla stated that he deals with employees and retirees not budget
 - Stated that if Mr. Feick needed help budgeting or looking at data analysis, he could have asked but didn't
 - The stop loss broker is more involved in the finances
 - Want to continue servicing the district and does not want this to create a bad image for ETA
- Mr. Bradley asked what the district's budget was last year for this expense item
- Ms. Denicola explained the board was not seeing in the expense reports the full cost the district was incurring
- Mr. Bradley asked if she was referring to the budget summary report
- Ms. Denicola confirmed the budget summary report only shows revenues and expenditures; does not include balance sheet
- Mr. Bradley is showing that those expenses were there
- Ms. Denicola explained there are a number of other expenditures in what he is referring to
 - Ms. Denicola said she could run the full detail for the entire year and show each individual posting to the 200 object accounts
- Mr. Bradley stated they were still incurred
 - Explained it is like a chess game; all pieces are on the board depending on who is in the seat and how they decide to move them is up for interpretation
 - At the end of the day those same pieces are on the board until consumed
 - If there wasn't an overconsumption the district would still be within the budget
- Mr. Cleaver explained the budget that was approved did not include the actual information
 - The district budgeted for the 200 benefits \$11.5 mil was budgeted and YTD is \$14.9 mil
- Mr. Bradley said School Code 607 states unless there are sufficient funds in the treasury of the district to pay the same, a separate order shall be drawn for each account or payment
 - Asked how this could have happened
- Mr. Stern asked if any of the reports showed the budget at or near 100% consumption for benefits
 - Mr. Bradley stated no
- Mr. Stern asked how they would know unless it was on the budget summary reports
- Mr. Bradley stated the budget summary reports do have the expenditures, however, they are classified as a liability and asked if he was correct
- Ms. Denicola stated if it was classified as a liability, it would not be on an expenditure report
- Mr. Bradley asked how does the district spend \$3.4 mil more than budgeted without an alarm being raised
 - Stated Mr. Feick had an understanding of transparency and he thinks he did a fantastic job and the reason he can say that is he was the most trustworthy guy in the district; feels Mr. Feick is trustworthy because he allowed people to trust him then verify what he did
 - Thinks there is a suggestion that Mr. Feick allowed something to go over budget by \$3.4 mil, he finds that hard to believe
 - Wants to trust and verify the new Business Administrator
- Mr. David Fisher and Mr. Timothy Sears asked what the expenditures were for just healthcare
 - Ms. Denicola stated she would have to pull that; only has everything combined
- Mr. Fisher asked if the district spent \$3.4 mil more than what was budgeted

- Mr. Cleaver stated this is not just a benefits issue
 - 2016-2017 Special Ed costs were \$797,455
 - 2017-2018 Special Ed costs were \$997,040
 - In the 2018-2019 budget, that line item is \$680,000
 - For the 2019-2020 budget is based upon trends
- Mr. Fisher said he is sensitive to the budget shortfall, however, he is more sensitive to the healthcare expenditures
- Mr. Sears was in charge of looking at the Benecon arrangement for several years and studying whether or not the school district was winning or losing in that consortium
 - Period of 4 years, the district was a loser in the consortium because the district had better risk
- Mr. Bradley asked if Mr. Sears saw an overconsumption of what he predicted
 - Mr. Sears said there were minor claims and a claim of maybe \$200,000
- Discussion regarding broker transition from Mr. Sears and ETA Benefits to BSI
- Mr. Bradley references School Code 613, 610, 608, 609 and 513
 - Mr. Cleaver stated when looking at the figures in the beginning of the meeting, there is about \$5 mil that the district has flexibility with
 - Mr. Bradley stated that it seems like money was moved and didn't discuss it with the board prior
 - Mr. Bradley checked the Auditor General Reports from school districts in a similar predicament and a good portion of it is because of the morality of a school board that chooses to spend more than they have on items that are not needed
 - Mr. Stern questioned why they have a proposed budget from January showing \$230,000 of the fund balance being used; doesn't believe the numbers were in line
- Discussion about the board and administrator's duties and roles
- Mr. Bradley asked Ms. Denicola to verify where the \$3.8 mil was consumed
 - Ms. Denicola said she could run an account detail or every single account code on the revenue and expenses
 - Mrs. Spinelli asked what Mr. Feick told Mr. Bradley about this situation
 - Mr. Bradley informed everyone that Mr. Feick told him the responsibility of marking the expenditures is solely within the Business Administration market, therefore, the only way to find is to look at the detail Ms. Denicola is going to give
- Discussion regarding having Fire Police at graduation

Open Discussion

- Mr. Bradley asked who are Kelly Sheptock and Tony DaRe
 - Mr. Cleaver stated they are BSI employees
 - Mr. Cleaver asked for their contact information
 - Mrs. Spinelli stated they received that information during the RFP Interviews
 - Mr. Bradley questioned why they didn't bring back the top picks for another interview
 - Mrs. Spinelli stated they have given an answer and it has not changed
- Discussion about school code in relation to contracts
- Mrs. Gloria Bowman
 - Questioned budgetary reserves
 - Questioned PSERS fluctuation
 - Ms. Denicola explained PSERS certified rates
 - Questioned Budget Summary vs. Expenditures and how the board will receive information in the future
 - Ms. Denicola stated she thinks it would be helpful to give additional information

- Different breakout of the summary report that groups by line item, function in total and objects in total (budgeted and actuals)
- Mr. Jack Finnigan
 - Complimented Ms. Denicola on her professionalism
 - Asked if Ms. Denicola when this issue would have come to light if she did not discover it when she started at the district
 - Ms. Denicola stated it would have come out during the audit when closing the books as of June 30, 2019
- Discussion about past financial position
- Mr. David Krause
 - Discussion on closing the budget shortfall gap
- Mrs. Barbara Bowes
 - Questioned if the proposed budget would be available to view online in addition to being available at the office to view
 - Ms. Denicola said she could provide it on the website
- Mr. Bradley asked if she could also post the detailed line item report on the website
 - Ms. Denicola said she could do that
- Mr. Bradley asked if there will be another budget meeting before the budget is passed
 - Mr. Cleaver stated there is not one scheduled at this time, but that is a possibility
- Mr. Joe Pilla asked if his firm can still retain the life insurance and disability
 - Ms. Denicola stated the board did not approve a move on the life insurance and disability
- Discussion about Stop Loss and most recent RFP process
- Discussion about a proposal for a property tax rebate
 - Mr. Bradley asked if this is built into the budget and if the district is going to consider this 30% rebate of taxes
 - Ms. Denicola stated this is done at other districts that have a much larger commercial tax space that they can use to offset the residential taxes; Lehighton does not have a large commercial tax space that would allow this
 - Mrs. Bowman added that this rebate is for senior citizens, people who have a disability and widows
- Discussion on Homestead Act

Meeting adjourned 7:45 p.m.

Next Meeting Date: Monday July 8, 2019 6:00 p.m.
PJD/mmc