

CITY OF NEWTON

IN BOARD OF ALDERMEN

POST AUDIT & OVERSIGHT COMMITTEE REPORT

TUESDAY, JANUARY 26, 2010

Present: Ald. Swiston (Chairman), Shapiro, Johnson and Rice
Absent: Ald. Lennon, Sangiolo, Schnipper and Freedman
City Staff: David Wilkinson (Comptroller)

#30-10 ALD. SWISTON & SHAPIRO requesting a review and discussion of the special legislation that created the Newton Community Development Authority in 1975.
[01/12/10 @ 2:27 PM]

ACTION: **NO ACTION NECESSARY 4-0**

NOTE: David Wilkinson, Comptroller joined the Committee for discussion on this item.

Chairman Swiston said she and Ald. Shapiro docketed this item because of some issues that were brought to the City's attention in a financial report provided by Sullivan, Rogers & Co. LLC (S&R) in December 2009, in order for this Committee to review and discuss the special legislation that created the Newton Community Development Authority (NCDA).

Mr. Wilkinson provided Committee members with a letter dated October 23, 2009 regarding the NCDA loans receivable report, attached to this report. Mr. Wilkinson said S&R and himself were unaware of any actions taken by the City on the community development loans that the current administration forgave in the summer of 2009 for \$785,108.69. Therefore, no entries were made to the City's general daily ledger. Approximately ten years ago, the NCDA accounts were brought on the City's ledgers only at the year-end for external reporting, that is audited. At this time, Mr. Wilkinson had a conversation with the Planning Director suggesting all activity be put on the City's ledger. This process was on the verge of being completed when other folks raised objection because they wanted to receive funds immediately to pay vendors.

Mr. Wilkinson said Amy Yuhasz Community Development Program Manager, Planning & Development Department is receptive of working with him in order to add all entries to the City's general daily ledger, which will begin on July 1, 2010. This new process will allow the City the capability to run reports more often and the ability to deal with transparency and oversight. This process will not allow the governance or the decision making process as an authority role to grant loans and forgive loans.

Ald. Shapiro asked if this ACT was a state or city law. Mr. Wilkinson said the City received a special act of the legislature to create this entity back in 1970's. Chairman Swiston said the current ACT of 1975 states the Director of Planning & Development has complete control and supervision of the work of the department.

Ald Shapiro asked was it a person or board who initiated the conversation to have loans forgiven. Mr. Wilkinson said it appears to be the Planning & Development Board.

Chairman Swiston said the loans that were forgiven this summer would be followed by this Committee.

Ald. Johnson made the suggestion to docket the following item and have it referred to the Programs & Services Committee. The Committee agreed.

Committee Clerk's Note: This item will be referred to the Zoning & Planning Committee.

REFERRED TO ZONING & PLANNING COMMITTEE

#30-10(2) POST AUDIT & OVERSIGHT COMMITTEE requesting a discussion with the Planning & Development Department to review the governance process, make recommendations, and changes to the NCDA. [01/26/09 @ 9:00 PM]

It is the intention for Chairman Swiston and Ald. Shapiro to docket the following item. The Committee agreed.

POST AUDIT & OVERSIGHT COMMITTEE requesting a discussion with the Planning & Development Board to review the actions on the decision making process that lead to the forgiving of the NCDA loans on June 1, 2009. [01/26/09]

Ald. Johnson made the motion to move No Action Necessary on the original item. The Committee voted in favor 4-0.

At approximately 9:05 pm, Ald. Rice moved for adjournment and the Committee voted in favor 4-0.

Respectfully submitted,

Greer Tan Swiston, Chairman

COMPTROLLER'S OFFICE
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October 23, 2009

TO: File
FROM: David Wilkinson
SUBJECT: NCDA (Fund 17) Loans Receivable

During the course of the City's October 14, 2009 audit committee meeting, the Chairman of the Board of Aldermen's Finance Committee requested that S&R look into certain community development loans that the current City administration had forgiven over the past summer. Neither S&R nor the Comptroller was aware of any such action by the City.

When the Comptroller inquired of the City's Director of Planning and Development about the comments of the Finance Committee Chairman, the Planning and Development Director confirmed that the loans were Newton Community Development Authority (NCDA) direct and forgivable loans and provided copies of staff recommendations and Planning and Development Board minutes that addressed the issue.

At the recommendation of staff, the Planning and Development Board voted at their June 1, 2009 meeting to forgive (7) **direct loans** that had been made to the organization Citizens for Affordable Housing in Newton Development Organization, Inc. (CANDO). These loans, in the amount of \$528,003.69 were included as direct loans receivable on the NCDA's books at June 30, 2009. The NCDA's bookkeeper was not made aware of the actions of the Planning and Development Board prior to July of 2009 and because of confirming documentation from the loan servicing bank that the loans were charged off on July 23, 2009, was under the impression that this was a July 2009 transaction. Based upon documentation provided to the Comptroller, and a verification of actual loan balances on the June 30, 2009 NCDA loans receivable trial balance, the following journal entry has been recorded on the City's general ledger as of period #13 of 2009:

DR	Grant expenditure (17114A-5797)	\$528,003.69
DR	Fund balance reserved for loans (17-3280)	\$528,003.69

CR	NCDA loans receivable (17-151003)	\$528,003.69
CR	Undesignated fund balance (17-3599)	\$528,003.69

At the recommendation of the staff of the Department of Planning and Development, the City's Planning and Development Board also voted at their July 13, 2009 meeting to forgive (2) **additional forgivable loans** that had previously been made to the CANDO organization, one for \$257,105 that was funded with HOME fund resources and a second for \$134,000 that was funded with Community Development Block grant fund resources. Both loans were for a property at 29 Coyne Road in Newton. When the Comptroller reviewed supporting documentation and attempted to trace both forgivable loans to the NCDA's June 30, 2009 loans receivable trial balance, only one such loan could be identified – the \$257,105 loan funded by the HOME program. The other deferred loan was never recorded on the NCDA's books. Accordingly, the following adjusting journal entry has been recorded on the City's general ledger at period #13 of fy 2009:

DR	Grant expenditure (17A114-5797)	\$257,105.00
DR	Fund balance reserved for loans (17-3820)	\$257,105.00
CR	NCDA loans receivable (17-151003)	\$257,105.00
	Undesignated fund balance (17-3599)	\$257,105.00

Supporting documentation is attached.

Cc: Mary Walsh, Planning and Development Department
Mike Kruse, Planning and Development Department
Amy Yuhasz, Planning and Development Department