

A. CALL TO ORDER:

A Special Meeting of the Troy City Council was held on Wednesday, July 17, 2019, at City Hall, 500 W. Big Beaver Rd. Mayor Pro Tem Baker called the meeting to order at 6:02 PM.

B. ROLL CALL:

- (a) Mayor Dane Slater - Absent
Edna Abraham
Mayor Pro Tem Ethan Baker
David Hamilton
Dave Henderson
Ellen Hodorek
Ed Pennington

- (b) Absent Council Members:

Resolution #2019-07-071

Moved by Baker

Seconded by Abraham

RESOLVED, That Troy City Council hereby **EXCUSES** the absence of Mayor Dane Slater at the City Council Special Meeting of Wednesday, July 17, 2019 due to being out of the county.

Yes: Abraham, Baker, Hamilton, Henderson, Hodorek, Pennington

No: None

Absent: Slater

MOTION PASSED

C. DISCUSSION ITEM:

C-1 Forensic Engagement Report Distribution and Presentation and Request for Additional Compensation

Mayor Pro Tem Baker introduced the topic and turned the discussion over to City Attorney Bluhm.

Ms. Bluhm explained that Plante Moran has conducted a forensic engagement for the City of Troy and turned the discussion over to Ms. Michelle McHale and Mr. Eric Conforti from Plante Moran to present their findings.

Ms. McHale explained that the presentation highlights the scope and their process, data analytics, internal control recommendations, and a summary with Q&A.

Ms. McHale began the presentation by explaining the scope of engagement to investigate and identify anomalies within disbursements, conduct interviews with key employees, identify areas for improvement, and provide recommendations to strengthen internal controls. She explained that the scope period was from November 2012 through March 2018, and they selected transactions based on a judgment basis, but focused on disbursements, including petty cash and purchase cards.

Mr. Conforti explained the process by conducting background research, data testing, conducting interviews, and detailed testing. He said they obtained the employee files and vendor files and used the Thompson Reuters CLEAR system to identify associations between select individuals and businesses. He said they obtained background information, such as general ledgers, policies, procedures regarding all disbursements, including credit cards and petty cash. He said they interviewed sixteen employees, which also included some follow up interviews. He said they performed their analysis to determine findings and patterns and then created the draft report.

Council Member Pennington asked about the scope of engagement for disbursements. Ms. McHale responded that they investigated all disbursements, but it also included credit cards and petty cash transactions. Mr. Conforti explained that the specific language was used because it was included in the RFP document.

Council Member Hamilton asked how they compiled the interview data and if there are transcripts. Mr. Conforti responded that they have notes for every interview. Council Member Hamilton asked if the notes are available. Mr. Conforti responded that the notes would not be included in the report, especially if it is to be released publicly.

Council Member Henderson asked if the number of interviews corresponded with the number of people interviewed in the Lange report. Mr. Conforti responded that the number of interviews were similar; although, they did interview more people. He said many of the findings were similar since the scope periods overlapped.

Mr. Conforti discussed an overview of each data test performed. He said they used the CLEAR system to run background research on Mr. Kischnick. He said they compiled and analyzed the results to identify any hidden information. He said they ran a check on the entire employee database and compared it to the vendor file. He said they performed analytics of bid splitting and determined that transactions were not provided. Mr. Conforti said they conducted background research on the Finance Director. Mr. Conforti said the data testing results in the report outlines the potential risk, data test performed to address risk, results from data test, and research needed to identify if results are problematic. He said it is important to note that a result from a data analytic does not equate fraud - it merely indicates an anomaly to be researched to determine if it is acceptable or legitimate.

Mr. Conforti discussed the results from each of the data tests performed. He discussed the result from Data Test #1 on Mr. Kischnick to the EMF. He explained that they used "fuzzy matching" to assist them in their testing. He discussed the results of the Data Test #2 on Mr. Kischnick to the VMF. He discussed the results of Data Test #3 for employee addresses to the VMF. He discussed the results of Data Test #4 to identify potential bid splitting. He discussed the results of Data Test #5 on the Finance Director to the VMF.

Mayor Pro Tem Baker spoke about bid splitting and that Mr. Kischnick simply ignored the process. Mr. Conforti responded that he will address that later in the presentation.

Council Member Pennington commented on one over \$10,000 purchase that was not approved by City Council that was included in the Lange report. Mr. Conforti responded that in addition to that transaction, there was an issue of Ad Memos being changed or adjusted to appear different than what was presented to City Council.

Council Member Henderson asked if the Ad Memos were changed before or after the Lange report. Mr. Conforti responded that the other issues identified were addressed in the Lange report.

Mr. Conforti explained that they conducted additional detailed testing on petty cash and purchasing card transactions. He said they evaluated 30 petty cash transactions, 12 transactions from Mr. Kischnick's purchasing card, and 25 transactions from the City Manager's Office card for compliance to the policies and procedures and to determine if the transactions involved losses to the City. He said they found additional phone accessories and meal purchases that were not identified in the Lange report. He said they evaluated the transactions to determine if they were problematic in nature. He discussed a chart of transactions which revealed that 42% of the transactions contained at least one problematic finding and established a pattern. Mr. Conforti explained that the findings revealed a procedure/policy compliance issue.

Mr. Conforti discussed the results from the employee interviews. He said there was a common theme from the interviews revealing a culture of complicity that was allowed to continue. He said the policies set in place after the Lange report were not reinforced or consequences implemented.

Ms. McHale explained that having a tone at the top consisting of honesty, integrity and ethics, enforcement of consequences, and an "open door" policy, demonstrates to employees that they have a safe place to report violations without consequences.

Council Member Pennington asked if any interviews were conducted with past employees or police department employees. Mr. Conforti explained that no interviews were conducted with past employees. He said they spoke with the police department to ensure that there were no other matters that had not surfaced with the FBI investigation.

Ms. McHale handed out a Specialized Control Review Recommendation Log, which listed the internal control recommendations by priority. Mr. Conforti continued with the presentation by discussing each process, their observations, the possible risk, and their recommendations. He commented that the policy for petty cash transactions require an approval signature by a department head; however, it was revealed that some of Mr. Kischnick's transactions were signed off by an assistant, creating a difficult situation.

Council Member Pennington asked if this process occurred before or after the Lange report. Mr. Miller responded that the policies and processes have not changed and were in place prior to Mr. Kischnick.

Mr. Conforti continued the presentation. He explained that Mr. Kischnick modified at least one memorandum that was prepared by a department head to be presented to City Council, and he provided recommendations for a checks-and-balance process. He said that documentation for the new hire process is not always maintained, and he provided recommendations for new hire process that would be maintained in the personnel file to document any exceptions to the process during an audit. Mr. Conforti discussed the Whistle Blower Policy and explained that it was updated midway during their audit process.

Council Member Pennington asked about the Whistle Blower Policy. City Attorney Bluhm explained that the policy was revised in August, 2017. She said employees now have the ability to go to City Council with concerns.

Mr. Conforti continued the presentation and discussed the overall tone at the top. He said the City can benefit in changing the perception at the top by making it comfortable for an employee to report an incident, reassuring them that it will be addressed and if deemed to be a violation, then consequences will be enforced. Mr. Conforti said they identified numerous meal purchases to upscale restaurants using petty cash or a purchase card, and he recommended to have a clear policy in place to address meal reimbursements.

Council Member Pennington commented on the meal reimbursements. Mr. Conforti explained that their recommendation is to establish a policy or procedures containing dollar thresholds and have a process in place to handle deviations from the policy. City Attorney Bluhm responded that these are recommendations. City Manager Miller explained that he is encumbered by the Code of Ethics from the ICMA and it helps dictate his behavior. He said the policy needs to be addressed. Assistant City Manager Bob Bruner responded that adopting the Federal Government GSA per diem policy would be an easy fix.

Mr. Conforti continued discussing the internal control recommendations. He discussed the free rounds of golf provided to Mr. Kischnick and recommended implementing a policy to address employees using City assets.

Council Member Hodorek commented that employees took issue with this situation and it was documented in the Lange report. She said it is important for there to be a policy. City Attorney Bluhm explained that there needs to be a policy that provides clear direction and is enforced.

Mr. Conforti continued discussing the internal control recommendations.

Council Member Henderson asked if City Administration could provide a quarterly report. Mr. Miller explained that that the City's check register is available on the City website in Open Troy and it is updated in real time. Mr. Conforti said they had not seen that before and were impressed at the transparency of the City.

Council Member Pennington asked if they found any other purchases classified as emergency purchases that were not emergency purchases. Mr. Conforti said they did not find any additional transactions.

Mr. Conforti discussed onboarding new vendors. He said that kickbacks are very difficult to detect, and he stressed the importance of vetting new vendors and ensuring there is no conflict of interest.

Mr. Conforti discussed purchases that lacked supporting documentation. He recommended flagging problematic transactions, but also addressing those transactions and enforcing consequences if the transaction violates policy.

City Attorney Bluhm explained that the Specialized Control Review Recommendation Log is a draft document.

Mr. Conforti discussed the summary of the key findings regarding DiLisio Contracting, their data analytics, petty cash and purchasing card transactions, adverse influence by Mr. Kischnick, the tone at the top, and their recommendations.

Council Member Pennington asked when Plante Moran was contracted for the forensic audit and why it took so long to produce the report. Mr. Conforti said they were contacted in December 2018. Ms. McHale explained that the process was much more involved than originally anticipated and they had to prioritize and tend to clients that were in critical need.

Council Member Henderson asked what was missed in the RFP to warrant additional money. Mr. Conforti explained that the RFP did not anticipate the number of findings that required additional research, interviews, and work.

Council Member Henderson asked why the meeting was scheduled for this evening versus waiting for the Mayor to be in attendance. Council Member Hamilton responded that Monday's meeting is expected to be a very long meeting and he said the report deserves extra focus. Ms. McHale commented that her schedule also impacted the meeting date. Council Member Baker said he signed the call because the available dates were limited and the report needed to be addressed and made public. Mr. Bruner said he reviewed the RFP and there is a reference to an adjustment of fees.

Council Member Hodorek commented on setting the tone at the top and explained that City Council added and implemented the ICMA Code of Ethics for City Council. Mr. Conforti responded that a City Council Member asked for a report of the internal controls, but the process did not work because there were no consequences for policy or procedure violations. He said the reports and policies were being revised by Mr. Kischnick. Mr. Miller clarified that Mr. Kischnick did not work on any of the policies and that he had City Staff prepare the policies.

Council Member Henderson said that City Council is part-time and they do not see the day-to-day activities with employees. Ms. McHale recommends performing a random and periodic check can be a powerful tool. Mr. Conforti said it's important to establish a procedure that works for the City for employees to relay information to City Council.

Council Member Abraham thanked Plante Moran for their time and effort during their investigation and providing the report. She said that while report appears to be a report on Mr. Kischnick, it is City Council's responsibility to set the tone at the top and move forward in a productive way.

Council Member Henderson spoke about the process over the past two years and asked City Manager Miller if some of the items have been addressed. Mr. Miller said they will review the report and create a plan for corrective action. Council Member Henderson said it is important to move forward instead of rehashing the past.

Council Member Hodorek spoke about the importance of oversight and ethics training for City Council. She said it is important for City Council to hold themselves equally accountable.

Mayor Pro Tem Baker thanked Ms. McHale and Mr. Conforti for their efforts on the report. He spoke about a comment from Mr. Miller this evening that demonstrates his standards and ethics and reinforced to him that he is the right person as City Manager. He commented that City Council is committed to do what is best for the City.

City Attorney Bluhm asked how long it will take to reveal the final report. Ms. McHale responded that the report can be released tomorrow.

Resolution #2019-07-072
Moved by Pennington
Seconded by Hodorek

a) Request for Additional Compensation

NOW THEREFORE, BE IT RESOLVED, That Troy City Council hereby **APPROVES** a supplemental payment in the amount of \$18,000 to Plante Moran for its additional work on the Forensic Engagement/Forensic Audit Services, which **SHALL BE** in addition to the \$50,000 already paid by the City, as authorized in Standard Purchasing Resolution 8: Best Value Award- Forensic Audit Services, Resolution #2018-12-196-J-4b (approved December 17, 2018).

AND

b) Forensic Engagement Report Distribution

BE IT FURTHER RESOLVED, That Troy City Council hereby **AUTHORIZES** the release of the final forensic engagement report, prepared and submitted to the City by its consultant, Plante Moran, and **DIRECTS** that the final report be included in the most appropriate location on the City’s webpage, and included in the City Council agenda packet for the next regular City Council meeting, and available for request under the Freedom of Information Act.

Yes: Baker, Hamilton, Henderson, Hodorek, Pennington, Abraham
No: None
Absent: Slater

MOTION PASSED

D. PUBLIC COMMENT:

John Kulesz	Spoke about the Plante Moran presentation
Sunil Sivaraman	Spoke about the Plante Moran presentation
Aaron Green	Spoke about comments by City Council.

E. ADJOURNMENT:

The Meeting **ADJOURNED** at 7:54 PM.

Mayor Dane Slater

Cheryl A. Stewart, CMC
Deputy City Clerk