

SCRANTON CITY COUNCIL

PUBLIC HEARING

IN RE: FILE OF THE COUNCIL NO. 28, 2014 – AUTHORIZING THE MAYOR AND OTHER APPROPRIATE OFFICIALS OF THE CITY OF SCRANTON TO TAKE ALL NECESSARY ACTIONS TO IMPLEMENT NUMEROUS ACCOUNTING ADJUSTMENTS TO THE CITY OF SCRANTON’S IDIS SYSTEM FOR COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS BY DECREASING FUNDING FOR VARIOUS PROGRAMS TO ACCOUNT FOR DEFICIENCIES IN THE CITY OF SCRANTON’S LINE OF CREDIT WITH THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (“HUD”) DUE TO UNPLANNED SECTION 108 PAYMENTS BY THE CITY OF SCRANTON IN THE AMOUNT OF \$1,662,043.98.

AND FILE OF THE COUNCIL NO. 29, 2014 – AMENDING FILE OF THE COUNCIL NO. 56 OF 2012 TITLED “AUTHORIZING THE MAYOR AND OTHER APPROPRIATE OFFICIALS OF THE CITY OF SCRANTON TO TAKE ALL NECESSARY ACTIONS TO IMPLEMENT THE CONSOLIDATED SUBMISSION FOR COMMUNITY PLANNING AND DEVELOPMENT PROGRAMS TO BE FUNDED UNDER THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM, HOME INVESTMENT PARTNERSHIP (HOME) PROGRAM AND EMERGENCY SOLUTIONS GRANT (ESG) PROGRAM FOR THE PERIOD BEGINNING JANUARY 1, 2013” BY DECREASING FUNDING FOR VARIOUS PROGRAMS TO ACCOUNT FOR DEFICIENCIES IN THE CITY OF SCRANTON’S LINE OF CREDIT WITH THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (“HUD”) DUE TO DEFAULTED PAYMENTS IN VARIOUS SECTION 108 LOANS GUARANTEED BY THE CITY OF SCRANTON IN THE AMOUNT OF \$1,662,043.98.

HELD:

Thursday, May 29, 2014

LOCATION:

Council Chambers

Scranton City Hall

340 North Washington Avenue

Scranton, Pennsylvania

CATHENE S. NARDOZZI, RPR - OFFICIAL COURT REPORTER

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CITY OF SCRANTON COUNCIL:

ROBERT MCGOFF, PRESIDENT

PATRICK ROGAN, VICE-PRESIDENT

JOHN LOSCOMBE

JOSEPH WECHSLER

WILLIAM GAUGHAN

LORI REED, CITY CLERK

JAMIE MARCIANO, ASSISTANT CITY CLERK

AMIL MINORA, SOLICITOR

1 MR. MCGOFF: I'd like to call this
2 public hearing to order. Roll call, please.

3 MS. MARCIANO: Mr. Wechsler.

4 MR. WECHSLER: Here.

5 MS. MARCIANO: Mr. Rogan.

6 MR. ROGAN: Here.

7 MS. MARCIANO: Mr. Loscombe.

8 MR. LOSCOMBE: Here.

9 MS. MARCIANO: Mr. Gaughan.

10 MR. GAUGHAN: Here.

11 MS. MARCIANO: Mr. McGoff.

12 MR. MCGOFF: Here. The purpose of
13 said public hearing is to hear testimony and
14 discuss the following:

15 FILE OF THE COUNCIL NO. 28, 2014 -
16 AUTHORIZING THE MAYOR AND OTHER APPROPRIATE
17 OFFICIALS OF THE CITY OF SCRANTON TO TAKE
18 ALL NECESSARY ACTIONS TO IMPLEMENT NUMEROUS
19 ACCOUNTING ADJUSTMENTS TO THE CITY OF
20 SCRANTON'S IDIS SYSTEM FOR COMMUNITY
21 DEVELOPMENT BLOCK GRANT FUNDS BY DECREASING
22 FUNDING FOR VARIOUS PROGRAMS TO ACCOUNT FOR
23 DEFICIENCIES IN THE CITY OF SCRANTON'S LINE
24 OF CREDIT WITH THE DEPARTMENT OF HOUSING AND
25 URBAN DEVELOPMENT ("HUD") DUE TO UNPLANNED

1 SECTION 108 PAYMENTS BY THE CITY OF SCRANTON
2 IN THE AMOUNT OF \$1,662,043.98. AND FILE OF
3 THE COUNCIL NO. 29, 2014 - AMENDING FILE OF
4 THE COUNCIL NO. 56 OF 2012 TITLED
5 "AUTHORIZING THE MAYOR AND OTHER APPROPRIATE
6 OFFICIALS OF THE CITY OF SCRANTON TO TAKE
7 ALL NECESSARY ACTIONS TO IMPLEMENT THE
8 CONSOLIDATED SUBMISSION FOR COMMUNITY
9 PLANNING AND DEVELOPMENT PROGRAMS TO BE
10 FUNDED UNDER THE COMMUNITY DEVELOPMENT BLOCK
11 GRANT (CDBG) PROGRAM, HOME INVESTMENT
12 PARTNERSHIP (HOME) PROGRAM AND EMERGENCY
13 SOLUTIONS GRANT (ESG) PROGRAM FOR THE
14 PERIOD BEGINNING JANUARY 1, 2013" BY
15 DECREASING FUNDING FOR VARIOUS PROGRAMS TO
16 ACCOUNT FOR DEFICIENCIES IN THE CITY OF
17 SCRANTON'S LINE OF CREDIT WITH THE
18 DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
19 ("HUD") DUE TO DEFAULTED PAYMENTS IN
20 VARIOUS SECTION 108 LOANS GUARANTEED BY THE
21 CITY OF SCRANTON IN THE AMOUNT OF
22 \$1,662,043.98.

23 MR. ROGAN: Before we begin, there
24 was just one question I wanted to ask, and I
25 thank Attorney Hickey for taking the time to

1 talk to me this morning and think this is
2 the question I think the public wants to
3 know the most so I think we should get it
4 out of the way right from the get-go. Is
5 there a missing million dollars?

6 MR. HICKEY: May I go up to the
7 podium?

8 MR. MCGOFF: Please.

9 MR. HICKEY: Eugene Hickey,
10 solicitor to the Office of Economic and
11 Community Development. The answer to that
12 question is no, there is not a missing
13 million dollars or more in the City of
14 Scranton's OECD funding, and I'll get into
15 that in a little bit.

16 To explain, there is a difference
17 between accounting issues and cash and I
18 think that's where the big dilemma arose
19 with the newspaper article yesterday and I
20 think the follow-up article today so if I
21 could briefly go through this. I apologize
22 to council and I apologized to OECD earlier,
23 my son was ill and in surgery and I wasn't
24 here to talk to anyone when that story ran
25 so I couldn't explain the legalities of the

1 what it was that OECD was doing and as
2 result of that I think that the Times'
3 article got severely misunderstood and
4 misconstrued as to what it is we are doing
5 here today, so I do apologize for that.

6 But talking about the first
7 ordinance, which is the \$1.662 million
8 dollars, this is primarily an accounting
9 function that we are talking about. We are
10 not talking about dollars and cents in the
11 perspective of missing money, and let me
12 explain the best I can in terms of the
13 city's financial system. The city works
14 through HUD an IDIS, and IDIS is a system,
15 it's similar to a checkbook, so to speak,
16 that accounts for money that comes in, and
17 it accounts for money going out during
18 programming years, so it operates somewhat
19 as a checking account and in that account
20 the City of Scranton has a line of credit,
21 and the line of the credit is through the
22 Department of Housing and Urban Development
23 and in that line of credit that's the money
24 that the city receives for it's various
25 programs, and they fund the programs through

1 that line. You know, come August or July
2 you are going to get another program here
3 for 2015, it's the same system.

4 So what happens is going back into
5 1998 there are various monies that are owed
6 to the City of Scranton and we turn over the
7 money to the federal government and they
8 refer 108, Section 108 loans. If you look
9 on our attachment to the first ordinance you
10 will see where we have a transfer two.

11 There was a few items in there, one was the
12 1998 Steamtown Mall. There is a '99 one, a
13 2000 one, and a 2001 Steamtown Mall entry.
14 The legislation that is in front of you was
15 in no way suggesting that those payments
16 were not made or that the city did not
17 receive those funds. The problem lies
18 within the City of Scranton accounting
19 system.

20 In other words, when the money came
21 in to Scranton nobody accounted for those
22 funds in the IDIS system, so what happens is
23 the money comes into the city, it's either
24 untimely or the city gets the payment
25 untimely to HUD. HUD has the ability under

1 our line of credit to immediately come in
2 and they withdrawal the funds right out of
3 our line of credit.

4 So when HUD does that, although the
5 city has the funds in it's account, HUD
6 takes the money out of the line of credit.
7 At that time the city should have applied
8 the payment for those funds back into the
9 IDIS system. The city, for whatever reason,
10 and we are going back 16 years, which is at
11 least I think two administrations or three
12 administrations ago, they didn't make the
13 accounting adjustments within our system.

14 So what ends up happening is HUD
15 takes the money out, so we have less cash
16 showing in IDIS, all right, and the city
17 believes it has more cash, unbeknownst to
18 them that the money has been taken out and
19 these funds are to put in a separate city
20 account when they came in, the city
21 continually programmed those funds to
22 various activities, all right? It wasn't
23 until this year or the end of last year the
24 beginning of this year that the city's OECD
25 Department determined that the line of

1 credit was actually short those funds. It
2 wasn't the money didn't come to Scranton, I
3 want to be clear on that, OECD has done some
4 thorough investigation. There is an account
5 that establishes funds coming in, and being
6 utilized outside of the IDIS system by past
7 administrations, so there is an account
8 there. Instead of taking the money for a
9 mall repayment or a Globe Store repayment
10 and plugging that into IDIS, all right,
11 showing the money came in and the payment
12 went out, they actually didn't perform those
13 accounting functions.

14 The only payment that you are going
15 to see in here in the first piece of
16 legislation that we know for certain wasn't
17 made was the last \$613,000 payment --
18 \$613,842.94. That is the payment the mall
19 did not make I believe in July, if I'm not
20 mistaken, so that money we know wasn't paid,
21 the rest of the funds we have been able to
22 go back in through the records and there is
23 an account going back as far as 2002 or so
24 that shows the funds present in a Section
25 108 account that was never plugged back into

1 the IDIS system to make that line of credit
2 in our expenditures balance out.

3 Does that explain that for you,
4 Councilman Rogan?

5 MR. ROGAN: Yes. Thank you.

6 MR. WECHSLER: Attorney Hickey,
7 could I just ask a question?

8 MR. HICKEY: Sure.

9 MR. WECHSLER: Should that money
10 that HUD had withdrawn back in '98?

11 MR. HICKEY: We believe it was, all
12 right? We believe that HUD actually in
13 1998 -- if you look at your backup for that
14 first unplanned Steamtown Mall payment of
15 \$236,000, that money did come off the line,
16 all right? Now, how the city accounted for
17 it back then I can't tell you, I wasn't here
18 and neither were the individuals at OECD,
19 but what happened was when that happened
20 although HUD takes the money off the line
21 when the city got that payment in they
22 should have just went into the system and
23 reapplied it onto the line of the credit and
24 onto the payment that was due for Steamtown
25 Mall. Those issues didn't happen and it

1 really -- it wasn't until recently that we
2 became aware of all of these issues, and
3 I've got to be honest with council here, it
4 was a very, very, very frustrating process
5 with HUD because when we called HUD and
6 said, "Can you tell me why you took these
7 funds?"

8 Their answer was, "We don't know."

9 They are the ones that took the
10 money, all right? But their records didn't
11 go back to far and basically what they said
12 to us was, "You got to go and prove that
13 these payments were made," and that's where
14 OECD went and did it's due diligence and
15 made these determinations, so I can tell you
16 that the funds are not missing, we don't
17 have a million dollars floating around out
18 there somewhere, the problem is when the
19 money came in that money got allocated out
20 to different issues outside of the IDIS
21 system, so although the money was there and
22 it was spent it wasn't put back in for those
23 programs that you see are taking the brunt
24 of the issue now.

25 So what ends up happening is from an

1 accounting standpoint to make sure this
2 doesn't happen going further and we don't
3 keep reallocating funds that are not in that
4 system that we don't have, we have to make
5 these adjustments to balance out those books
6 on the debit and credit side so that this
7 issue doesn't arise again.

8 MR. WECHSLER: I'm just trying to
9 understand HUD took the money and the city
10 continued to operate like the money was
11 there and continued to spend it?

12 MR. HICKEY: Yes. Well, I wouldn't
13 say they continued to spend --

14 MR. WECHSLER: Continued to help
15 allocate.

16 MR. HICKEY: They didn't spend it,
17 they didn't spend it, but they certainly
18 allocated it, all right? The allocations
19 kept going as if the money was -- as if the
20 money wasn't deducted from the line of
21 credit, all right? And that's why when you
22 look you have all of these programs that are
23 being funded, the total is up here but the
24 actual line of credit balance is down here
25 when you get through all of the research

1 that was done.

2 MR. WECHSLER: That's make it easier
3 for me to understand that they are not
4 taking the money twice then?

5 MR. HICKEY: Correct.

6 MR. WECHSLER: We continued to
7 utilize it and now they finally took it like
8 they did so now we are even.

9 MR. HICKEY: Well, we are even to
10 the extent that we know that the money came
11 in from those prior projects, we are not
12 even from the extent that the mall still
13 missed it's \$613,000 payment. I want to be
14 clear about that. We don't have those funds
15 and as a result of that when HUD took that
16 money out that was actual dollars coming
17 from these other programs, all right? So
18 let's not -- I want to be clear on that
19 issue, but that is basically what's in front
20 of council on the first piece of
21 legislation. Does anybody else have any
22 questions on that particular piece of the
23 legislation?

24 MR. LOSCOMBE: Just quickly, I think
25 you alluded to it going forward we have

1 check and balances that this doesn't happen
2 again or --

3 MR. HICKEY: Yeah. The checks,
4 quite frankly, and the balances were there
5 before, but it's a computer system, no
6 different than if it was just a regular
7 checkbook, if you don't put the information
8 in, the system is only as good at people
9 that are utilizing it, all right? So all I
10 can tell you is going forward now the system
11 is going to balance out and we know exactly
12 what we have, and what we can allocate and
13 we know what's been allocated and we know
14 it's going to be funded if it was allocated.

15 The problem you have with this is
16 once we do those accounting entries and we
17 fix that fund balance we get into the second
18 piece of the legislation, which is
19 elimination of the programming of the funds
20 for the various entities that thought they
21 were getting money when it actuality now
22 they are not. That's the difference.

23 MR. LOSCOMBE: Just quickly, this
24 isn't something that an audit through the
25 years would have picked up or anything on

1 that aspect or?

2 MR. HICKEY: Yeah, Councilman
3 Loscombe, I don't know if it would have, I'm
4 sure it would have picked up the account
5 that the funds were actually put in, whether
6 or not the audit would have picked up the
7 fact that the information was not inputted
8 into IDIS that I can't tell you. What I can
9 say it -- I can tell you working with the
10 staff at OECD I know that the I's are dotted
11 and the T's are crossed because if they
12 weren't being done now we wouldn't be in
13 front of you. This problem would have
14 perpetuated itself well beyond this point.

15 MR. LOSCOMBE: Thank you.

16 MR. HICKEY: All right. Is there
17 any questions on -- the second piece
18 legislation is really OECD coming in and
19 because of that shortfall reprogramming
20 dollars to cover items that, one, are
21 already under contract and we have to spend
22 the money; and two, eliminating funding for
23 various projects that because of the
24 shortfall we had to do.

25 The main point I want to make on the

1 second piece of the legislation is this
2 isn't something that can be easily or
3 readily changeable. OECD I think did a fine
4 job. Several weeks ago we met with every --
5 or we invited every program that was
6 affected by the legislation to give them a
7 heads up that, look, we had this issue, we
8 explained it to them, we told them that this
9 was going to become an issue down the road,
10 that their funding may be jeopardized as a
11 result of that and that, unfortunately,
12 because of the way the dollars would fall,
13 like, we weren't going to be able to fund
14 these projects. I don't know if anyone of
15 them are here this evening, but for the most
16 part the subrecipients understood what was
17 going on, I won't say that they were pleased
18 with it, but we were happy that they came,
19 they understood, and they seemed to know
20 what's happening with regard to those
21 program years.

22 MR. LOSCOMBE: I believe that had to
23 be a monumental task and, you know, just
24 looking at the figures and what you had to
25 do and there was some hard decisions.

1 Unfortunately, it's where we are at at this
2 point and, you know, for the future we can
3 help these programs out with upcoming
4 legislation.

5 MR. ROGAN: I agree completely, and
6 I think it was about three or four weeks ago
7 Councilman McGoff and myself met with staff
8 from OECD and Attorney Hickey and that's one
9 of the things that we discussed was that we
10 would like to, if possible, see these
11 program funded in this year's allocation
12 coming up when we do them at the end of the
13 year to makeup for the promise that couldn't
14 be kept because of the accounting error that
15 was made 20 years ago.

16 MR. HICKEY: Right, and the missed
17 payment, it's two-fold.

18 MR. ROGAN: Right.

19 MR. HICKEY: The other thing I would
20 say on those upcoming fundings, one of the
21 things that I would ask council and I have
22 been on both sides of the equation with the
23 council before and the administration, one
24 of the things that we have talked about
25 internally is it becomes very difficult to

1 get some of these projects off the ground if
2 council when they get the funding
3 application changes it, and in past years
4 there was some funding that was eliminated
5 or reduced and because of the reduction the
6 project couldn't go forward because there
7 wasn't enough money there to complete it and
8 the program recipient didn't have the funds
9 necessary to supplement the shortage in
10 funds from the city.

11 So I think if council can, I know
12 Linda and I and Tom and the mayor talked
13 about this today, some dialogue between the
14 administration and council to make sure that
15 they don't have that happen because there is
16 a timeliness issue with HUD that we have to
17 get these dollars spent and if we don't
18 spend them within that timeliness period
19 there is a chance that the city could lose
20 the funds and we are back to square one, so
21 it's important from OECD's perspective to
22 try and get everybody on the same page. I
23 know there won't always be agreement between
24 the administration and council, but at least
25 from the standpoint if you are going to fund

1 we need to fund the particular project
2 completely rather than a portion of it. For
3 the most part, those projects can't go
4 forward.

5 MR. WECHSLER: What would happen if
6 for some reason someone decided to pay the
7 money that they owed, would it come back
8 into the HUD fund or --

9 MR. HICKEY: It should come back in
10 and get programmed back into the IDIS system
11 so that now what we would have is instead of
12 a million dollar balance it would be --
13 let's say Boscov's or the mall paid
14 \$613,000, that money could come in, we would
15 have an increase of \$613,000 in cash but no
16 allocation for it, and then we would
17 allocate those funds and we would be
18 balanced again.

19 MR. WECHSLER: Am I right to
20 understand every year this is going to be
21 something that we face if that loan isn't
22 paid; correct? This is an ongoing 108 loan,
23 it's an ongoing thing that we are going to
24 face every year.

25 MR. HICKEY: Yeah, my understanding

1 is there is additional loans out there from
2 the city to the mall that if not paid and,
3 quite frankly, if the mall goes through the
4 foreclosure process like we all think it's
5 going to, they are not going to be paid.
6 Those monies that are owed to Scranton get
7 eliminated, there is no way to collect them,
8 all right, and as a result of that, yeah, we
9 are going to have future years where we have
10 to allocate funds.

11 But that brings up a great point
12 because we were a little surprised by HUD's
13 action in this, we would have thought HUD
14 would have come in and said, "Look, you
15 didn't get this money," if they came to us
16 before they took the money out, well, we
17 would have said "Can we pay back \$100,000 a
18 year rather than \$600,000 all the one time?"

19 The effect would have been much more
20 minimal on the program recipients, and the
21 city has done that in the past. I believe
22 it was done when the Globe Store back in the
23 90's, but for whatever reason this
24 particular time HUD just came in and scooped
25 it and took it without telling the city they

1 were going to do it and we didn't have that
2 dialogue with HUD to try to ease the burden
3 on the subrecipients in the community.

4 MR. ROGAN: I would just like to
5 echo what Councilman Wechsler said regarding
6 the Section 108 loan, that \$600,000 being an
7 ongoing issue, and I know that everyone in
8 the administration and all of us on council
9 are committed to working with Mr. Boscov and
10 the Mall Partners to see that that money is
11 paid, but eventually it's going to have to
12 come down to whether Mr. Boscov is a man of
13 his word or not and at that point in time,
14 you know -- or at this point let's hope that
15 he does, he makes the city whole, and if he
16 does the city will be certainly grateful for
17 it, but if not it's going to be a difficult
18 task for Mr. Boscov to do business in the
19 city.

20 MR. HICKEY: Anything else, Council?

21 MR. MCGOFF: Any other questions,
22 Council?

23 MR. HICKEY: Thank you.

24 MR. MCGOFF: Thank you. We do have
25 public comment. The first person listed is

1 Joan Hodowanitz.

2 MS. HODOWANITZ: Joan Hodowanitz,
3 city resident.

4 MR. LOSCOMBE: Good evening.

5 MS. HODOWANITZ: You know, I feel
6 like Alice after she fell down the rabbit
7 hole, either that or I'm in the twilight
8 zone. A one million dollar accounting error
9 going back 16 years only gets caught now? I
10 looked on the website for the city and I see
11 that the earliest audit is for 2002, that
12 was Rossi who is still doing the audits now,
13 I guess his company has been doing the
14 audits all of this time.

15 I don't know. I don't know how a
16 thing like that could go on for 16 years. I
17 would expect the auditor would catch such a
18 material misstatement and that's what it
19 looks like to me. That's a million dollars
20 that's not in the right column. You know,
21 your books have got to balance, that's not
22 trivial. How is the residents of this city
23 supposed to have any confidence in your
24 financial statements or the auditor's
25 attesting to those financial statements?

1 This is just -- this boggles the
2 mind. And then, you know, to read the paper
3 yesterday and see Mr. Boscov, you know,
4 getting paid repayments, you know, for those
5 three years or four years and then today's
6 paper where he says, you know, I did make
7 that payment, the one I missed was last
8 July, but, you know, I don't owe that money
9 from all those years ago. What did he say
10 at the end of his article? "In all honesty,
11 it's embarrassing because we are trying to
12 save the mall, Mr. Boscov said. It makes us
13 look like skunks. We are trying to steal
14 the city's money. We are not. We are
15 trying to save the mall and make sure the
16 city is whole."

17 I don't know. How did this get into
18 the paper yesterday to begin with when we
19 weren't sure of fact, that we have the right
20 facts? How did it get to the paper? Who
21 talked to whom? Who gave them that
22 information that it got to the paper? You
23 know, do we have -- who is the person that's
24 cited in one of the articles, a Linda
25 Maroon? For the accounting error.

1 MR. HICKEY: Should I answer that?

2 MS. HODOWANITZ: How did that
3 happen? Who talked to the Scranton Times
4 and gave them the misinformation?

5 MR. HICKEY: The misinformation
6 isn't in what the city gave to Scranton
7 Times, I believe it was in the
8 interpretation of the information. If you
9 look at the backup to the ordinance, the
10 actual amendment, I believe that the paper
11 thought that because we were transferring
12 funds to Scranton Mall loan repayments they
13 took the -- I think they interpreted that to
14 mean the payments weren't made. As I said,
15 this is an accounting issue, had nothing to
16 do with whether a payment was or was not
17 made. It's just it had to be reflected
18 within the system and I think that's where
19 the confusion arose from, and how it got
20 there is because the public hearing was
21 advertised. The Times became aware of the
22 issue and contacted OECD. There is
23 obviously nothing we can do about that.

24 MS. HODOWANITZ: Well, there seemed
25 to be some very specific facts in here.

1 Some very specific facts. It looks
2 like more than looking at your spreadsheet,
3 you know? I mean, the fact that people
4 actually quoted. I mean, I'm just
5 flabbergasted, you know. I don't mind
6 paying taxes as high as they are, you know,
7 if the taxes are going to be used wisely,
8 but even though the money may not have been
9 misplaced this kind of an accounting error
10 is serious, okay? How am I supposed to
11 believe your next financial statement? I'll
12 tell you right now, I probably won't. Why
13 do we even bother to pay Rossi to audit them
14 because it's recorded as payment. Why don't
15 we get some two-bit outfit and we won't have
16 to pay so much money.

17 I'm sorry, but I find this
18 disturbing on many, many levels and I would
19 like to see the city give the paper the
20 correct information so that tomorrow or the
21 day after I can see the full story and all
22 of the tax spreadsheets, all of the exhibits
23 because I think you have done a -- I just
24 think this was not right, okay, and if you
25 want to correct the situation you go and put

1 the correct information in the paper so that
2 you can say Scranton Times got it wrong,
3 here is the correct information for the
4 taxpayers of Scranton because I'm one of
5 them and I want to know what happened.

6 MR. LOSCOMBE: Mrs. Hodowanitz, I'm
7 not sure if I'm correct, maybe Attorney
8 Hickey can correct this, I don't know if
9 that that falls under Mr. Rossi, the Rossi
10 firms audit, that might be a federal audit?

11 MR. HICKEY: I can't answer that
12 question right now.

13 MS. HODOWANITZ: But if you have --
14 Attorney Hickey, if have you the correct
15 information give it to the Scranton Times,
16 let's get it in the paper so we can all read
17 it.

18 MR. LOSCOMBE: That's if they print
19 it properly; right?

20 MR. MCGOFF: Mr. Quinn?

21 MR. QUINN: Good evening. Ozzie
22 Quinn, Scranton/Lackawanna Taxpayers'
23 Association, Incorporated.

24 MR. LOSCOMBE: Good evening.

25 MR. QUINN: I have to go along with

1 the Times-Tribune's article because of the
2 fact that I have been here several times
3 before in regards to the 2010 Office of
4 Inspector General audit out of Pittsburgh
5 whereby the city was found to be unsupported
6 \$11,735 and 92 -- \$735,924. Finding number
7 one, okay, Mr. Hickey? "The city did not
8 administer the CDBG program in accordance
9 with HUD requirements. The city failed to
10 maintain adequate accounting records
11 identifying the source and application of
12 the funds for its HUD sponsored activities.

13 Two, did not maintain adequate
14 documentation and budget controls to
15 demonstrate that expenditure completed with
16 program requirements.

17 Three, failed to evaluate proper
18 agreements to subrecipients.

19 And four, did not actually monitor
20 it's subrecipients.

21 During the recent audit the IG
22 auditor was provided a list of the accounts
23 payable income and expenses for the period
24 of the 2008 and '9 from OECD's accounting
25 system. The IDIS system indicated "X"

1 amount was withdrawal during that period or
2 the OECD account payable ledger there was a
3 discrepancy of \$2,764,263.75. This is due
4 to income and expenses deposited into the
5 CDBG checkbook from other funding sources
6 such as the State of Pennsylvania and other
7 federal sources from grants.

8 Two, the city failed to adequately
9 administer CDBG funds and could not
10 administer -- not demonstrate -- and could
11 not demonstrate that has used it's \$11.7
12 million CDBG funds in accordance with HUD
13 requirements."

14 Now, there is a comment -- they
15 comment on it, Mrs. Aebli commented on that
16 and the OIG came back and said, "As stated
17 in the audit report, we concluded the city
18 could not demonstrate that it used more than
19 \$11.7 million CDBG funds. In accordance
20 with applicable HUD requirements because its
21 county records did not distinguish between
22 expenses paid by HUD funds and those paid by
23 other funds. The city did not dispute that
24 it failed to maintain adequate accounting
25 records and did not develop procedures to

1 track expenses paid by HUD versus expenses
2 paid through other funding sources. We
3 commend the city for taking action to
4 improve controls by discontinuing the
5 practice of commingling funds and opening
6 two additional bank accounts to segregate
7 funds modifying the quick book system to
8 track expenditures by activity and failure
9 to provide documents to HUD for each
10 activity.

11 Okay, number two is in regards to
12 the budget. The city failed to adequately
13 administer CDBG fund and did not demonstrate
14 that it used \$11.7 million in accordance
15 with HUD requirements. As stated in the HUD
16 report regulations they state that the grant
17 -- the subgrantee must maintain records that
18 would adequately identify the source of the
19 used funds provided for financially
20 administered activities. Actually
21 expenditures or outweights must be compared
22 with budgeted amounts for each grant or
23 subgrant, to maintain records of the amounts
24 budgeted for eligible activities include
25 unexpended/unobligated funds for budgeted

1 categories and compare planning and first
2 actual obligations and expenditures. We
3 determined that the city did not prepare and
4 process a 50,000 -- a \$50 change order for
5 additional architectural/engineering costs
6 that increased the total CDBG funding for a
7 2008 subrecipient activity. The city
8 acknowledges the discrepancy and took
9 immediate action to repair the change order
10 during the audit. However, this occurrence
11 illustrates the city's need to improve its
12 budgeted controls.

13 Further, on numerous occasions
14 during the audit we requested the city to
15 provide documentation to support
16 expenditures.

17 Now, here is what I think Boscov is
18 vindicated, "Documentation such as invoices,
19 employees' time sheets, property payments,
20 receipts or cancelled checks to support
21 expenses were not located in the files."

22 That is the Inspector General, all
23 right? So obviously there is something
24 amiss, all right, and part of that \$11.7
25 million is a 2010 repayment of Section 108

1 funds were drawn down in 2010 of \$733,778.
2 I take that vindicates the Scranton Times
3 and I think it vindicates Mr. Boscov. They
4 just are not -- they did it all wrong,
5 that's all. It's there in black and white
6 Inspector General. Is there any more to
7 say? Thank you.

8 MR. LOSCOMBE: Thank you.

9 MR. MCGOFF: Is there anyone else
10 who wishes to speak on the issue? Anything
11 else from council? This public hearing is
12 adjourned.

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C E R T I F I C A T E

I hereby certify that the proceedings and evidence are contained fully and accurately in the notes of testimony taken by me at the hearing of the above-captioned matter and that the foregoing is a true and correct transcript of the same to the best of my ability.

CATHENE S. NARDOZZI, RPR
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