

**CITY COUNCIL  
121 N CHURCH STREET, HUDSON, MI  
SPECIAL MEETING  
August 10, 2021**

**747359:**

The special meeting was called to order by Mayor Carmel Camp at 7:00 pm.

ROLL CALL: PRESENT: Carmel Camp, Lee Ann Minton, Rick Moreno, Carl Sword, Pam Ely, Darlene VandeZande and Lee Daugherty  
ABSENT: none

ALSO PRESENT: Ian Wendt – WLEN News Director, Tammy Jewell, DPW Superintendent Jay Best & Candi Best, Barb Ireland – Hudson Post Gazette, Richard & Carolyn Halliwill, Bill Camp, John Irving, Dan Schudel, Jack Ely, Cindy Corner, Don Kerr, Mike Mills, Walter Paletis, Joseph Yeider, Mike McClellan Jr., Brenda Burlew, Deputy Treasurer Linda J Cross, Interim City Manager Charles Weir, and City Clerk Jeaniene McClellan

**ORDERS OF THE DAY:****PUBLIC COMMENT:**

No comments received

**NEW BUSINESS:****Severance Pay and Benefits discussion and disposition for Steven W. Hartsel:**

Mayor Carmel Camp had a special meeting to discuss the severance pay and benefits with Steven W. Hartsel after receiving the forensic audit.

Councilmember Minton stated that if this meeting continued the City will end up into a Law Suit with some people will be held personally accountable.

Councilmember Darlene VandeZande stated that she believes that the City Council was not kept up to date on the financials. She also believes that Mr Hartsel was ~~negligence~~ negligent in his duties.

**747360:**

Motion by Darlene VandeZande, seconded by Pam Ely **as of August 10<sup>th</sup>, the City Council has ~~consider~~ considered Steven Hartsel deemed to be terminated without further benefits or severance pay.** CARRIED 5-2 by roll call vote (Camp, Ely, Moreno, Sword, VandeZande – yes Minton, Daugherty – no)

**COUNCIL COMMENTS:**

**Councilmember Lee Ann Minton wanted the following included in the minutes.**

21 July 2021

From: Steven Hartsel, former City Manager of Hudson, Michigan, 2009-2021

Subj: Response to Report of Forensic Audit of City of Hudson by Maner Costerisan dated July 12, 2021

Encl: Response to Specific Findings of Audit Report

1. The stated objective of the audit was to assess the causes of the current cash flow situation, and determine the amount of loss due to missing or misused funds. According to the report, an audit was not conducted on the accounting records. The report relied upon information received from Interim Manager Weir, appointed to the position following my suspension on April 24<sup>th</sup>. Chief Weir possessed limited knowledge of recent City business outside of the Police Department. Also providing information to the auditors were City Clerk McClellan and Mayor Camp, both of whom had been communicating and coordinating with each other without my knowledge (in violation of City Charter Section 4.8) ahead of my sudden suspension on April 24<sup>th</sup>, and who both lacked detailed knowledge of the majority of the City business and activities in which I was engaged. The remaining providers of information to the auditors were newly-hired part-time Treasurer Brandon Hudson and also Deputy Treasurer Linda Cross, who had been away from work for weeks due to a serious family medical matter. The auditors also include a preliminary May 2<sup>nd</sup> memo from nearby Morenci City Administrator Michael Sessions, whom I had asked to provide assistance in responding to the crisis and who had weathered a similar situation to this involving his former Public Works Department Head. Notably, input from the two most senior Council members, Daugherty and Minton, with several decades of experience on Council between them, was not sought by the auditors. Nor was I contacted by the auditors. Much of the input provided to the auditors on this report was incomplete, inaccurate or incorrect. Enclosure (1) lists corrections and/or additions and comments to the audit report findings.

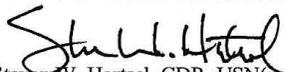
As one example of the report as a whole, the top paragraph of page 2 contains inaccurate, often third-hand information and hearsay. The paragraph is written in a way that minimizes attribution of fault to former Treasurer Ben Farley. An example of this is "a number of checks written by the City were unable to clear the bank." The bad checks were generated by former Treasurer Farley, who had to have known they would bounce when he wrote them. A comparison of paragraph 2 of the audit executive summary to the following accurate and more complete description of events that I provide illustrates this point:

On April 5, 2021, I was called by Old National Bank manager Pat Gilpin, who asked if I knew that the City accounts there were overdrawn by more than \$100,000, and that Treasurer Ben Farley was working with her and City Attorney Denis Jodis to obtain a line of credit with the bank. I told her that I did not know any of this, only that we had three recent instances of the direct deposit payroll not posting on time, which Mr. Farley had explained to me was the fault of Old National Bank. Ms. Gilpin explained that the fault was not with the bank, but that there was not enough money in the payroll account. Mr. Farley had lied to me about this. I met with Ms. Gilpin at the bank shortly after to begin assessing the situation and developing a course of action going forward. Before meeting with her, I spoke with City Attorney Jodis about the situation- he said that he had not spoken with Mr. Farley in months and knew nothing about a line of credit. Many bounced checks arrived in the mail that day. Meanwhile, Treasurer Farley left the office on a family emergency. **With much difficulty, the Clerk and I got Mr. Farley to meet with us at the office that**

evening, where he explained to both of us that he had lost control of the City's finances, that he had been trying to fix the problems on his own, and that he hadn't told any of us "because I didn't want to disappoint you." I placed him on leave while we began investigating the scope and severity of the crisis. I also asked for assistance from Morenci's Administrator, Michael Sessions, to start looking into the books while I focused primarily on putting out the immediate fires, such as the imminent cancellation of the employees' health care policy and gas and electric service shutoff. I terminated Mr. Farley effective April 10<sup>th</sup>, the day after I hired Blissfield Treasurer Brandon Hudson as the new Treasurer. At the next Council meeting on April 20<sup>th</sup>, I briefed Council on the crisis and our actions and intentions. I shared my estimate that revenue (including the Federal ERA grant and expected LCSA funding) ought to exceed expenses in June.

If the paragraph in the Executive Summary is indicative of the quality of the information provided to the auditors, the entire report should be viewed with a jaundiced eye. The facts highlighted in bold in the paragraph above are important and are known to the Clerk, but they are nowhere in the audit report. There are many additional errors in the report. On the very first page of the audit report, the auditors claim that the end date of the investigation is March 31, 2020, instead of March 31, 2021. This appears to be a typographic error, but for a profession whose essential competency is numerical precision and attention to detail, this reflects poorly on the quality of the report. There is no excuse for the instances of missing information cited in the report, such as the bid information for the N. Maple Grove Reconstruction Project Phase 1. At the time of my suspension, the "missing" bid information remained either with the rest of the project paperwork alone on the large circular table in my office or adjacent to this paperwork in the large plastic file container holding the remaining project documents and blueprints. Or the auditors or any City staff could have contacted project engineers Jones & Henry or me for the information, but they did not choose to do so. Further, the focus in the report on Jones & Henry Engineers, Ltd (the City's Engineer of Record) is noteworthy. Was the information given to the auditors prompting them to look into Jones & Henry an attempt to discover a non-existent conflict-of-interest between Jones & Henry and me in order to attempt to establish misconduct? If so, this renders the audit even more political in nature. The information provided to the auditors creates a narrative that falsely ties me to the intentional improper actions of former Treasurer Farley, who I fired over 3 three months ago. Council has still failed to confirm my termination of Mr. Farley, in violation of City Charter Section 4.7. There is a difference between being responsible for the unknown actions of one's subordinates and engaging in those actions personally. City Council was not lied to or intentionally deceived- but I was.

The audit report highlights my inherent responsibility as the Chief Executive of the City for the current financial crisis while minimizing or ignoring the premeditated actions and deceptions of the former Treasurer that directly led to the crisis. This flawed report is instead being used as a tool to attempt to establish misconduct, in order to wrongfully terminate me with cause more than 6 weeks after I properly initiated termination without cause under my existing employment agreement.



Steven W. Hartsel, CDR, USN(ret.)

Cc: Jennifer J. Antonini, Lutz & Antonini Law, LLP  
Donald Gasiorek, Gasiorek, Morgan, Greco, McCauley & Kotzian, P.C.

Enclosure (1) Response to Specific Findings of Audit ReportPage 1

Paragraph 3 (Scope): Lists March 31, 2020. Should read March 31, 2021.

Page 2

Paragraph 1: See my comments on page 1 of my response letter. I was told by Pat Gilpin that the City was more than \$100,000 overdrawn at Old National. The \$6800 figure is wrong, and possibly refers instead to the amount of overdraft fees on the bounced checks as of that day. I placed Treasurer Farley on paid administrative leave on April 5<sup>th</sup>, and later terminated him effective April 10<sup>th</sup>.

Paragraph 2: The Council motion that passed 4-3 was to suspend me, not place me on paid administrative leave, and per the Council minutes, the motion did not include "until completion of the audit."

Page 4

Paragraph 2 (Inquiries of City Staff):

1<sup>st</sup> sentence- subjective, not factual.

2<sup>nd</sup> sentence- "City staff found cash and uncashed checks loose in a box." Where? In the Treasurer's locked office. How much cash? Was the cash Mr. Farley's money or City cash? Were the cash and checks still in his office due to me placing him on immediate leave on the evening of April 5<sup>th</sup> and not permitting him to re-enter his office and finish his work that day?

4<sup>th</sup> sentence- Council approved the purchase of BS&A accounting software to replace the existing Financial Edge software on the night of April 20<sup>th</sup>. I began completing the BS&A agreement paperwork on April 21<sup>st</sup> and had it completed and almost ready to be sent back to the vendor by the end of the day on April 23<sup>rd</sup>. At the time of my surprise suspension the next morning, Saturday, April 24<sup>th</sup>, the agreement paperwork was prominently displayed on the center of my office desk. My successor should be able to explain why it was not promptly followed up on.

Paragraph 6: If the scope of the investigation was limited to July 1, 2015 through March 31, 2021, why did the auditors violate these stated parameters by going back to July 1, 2009? The statement "...since July 1, 2009, there have been significant annual declines in fund balance" relies on selective inclusion of certain funds and omission of others and makes no mention of the fact that Hudson was in very poor financial condition in 2009 and yet by 2016 overall had more than a quarter's operating expenses in reserve before that reserve began to decrease about 3 years ago. To portray the City's finances as having unwaveringly declined for the last decade is misleading.

Page 5

This page, perhaps more than any other page of the audit, is riddled with inaccuracy and falsehood.

Paragraph 1: First, the annual Capital Improvement Plan (CIP) approved by the Planning Commission is notional and includes estimated costs that normally change. The Plan does help to form the backbone upon which future actual City Budgets are constructed. Apart from this, there is no connection between the multi-year, multi-phase N. Maple Grove Reconstruction Project listing in the 2020-2026 CIP and the January 23, 2020 bid opening for the construction contract for Phase 1 of the Project. Contrary to the auditors' assertion, the bid opening was not based on the CIP. Competitive closed bidding for the construction contract for the project was properly conducted and awarded to the low bidder, Bailey

Excavating. The Clerk and Mayor know this, since they participated in it. After being returned from Jones & Henry on March 6, 2020, the bids were properly filed with the project paperwork in my office- the project is still active in the warranty phase. Jones & Henry Engineers, Ltd. was selected to be the Project Engineers due to their excellent track record in completing the Industrial Park and with ongoing City water system projects. Competitive bidding was not used in Council's awarding of the engineering contracts for Phase 1 as Jones & Henry has been the City's Engineer of Record for decades. Both the Design and Construction Engineering agreements (as well as the aforementioned construction contract bid data) were in the project files in my former office as well as in digital form on the office computer server under "City Manager/Current Docs/N Maple Grove Reconstruction/Ph 1." As the concerns provided to the auditors were erroneous, there was no genuine reason to "isolate and review transactions directly with the firm."

Paragraph 2:

2<sup>nd</sup> sentence: clarification- Jones & Henry was selected to serve as the City's Owner-Advisor for the \$5.1 million Wastewater Improvement SRF Project. This project used a complex Progressive Design-Build Delivery Method Project, completed in close association with EGLE. The Prime Engineering and Construction Contracts were competitively awarded to Fleis & VandenBrink.

3<sup>rd</sup> sentence: clarification- a significant amount of business was conducted with Jones & Henry because they are the City's Engineer of Record; during my tenure as City Manager, more projects were done and more business was conducted with Fleis & Vandenbrink Engineering than with Jones & Henry.

4<sup>th</sup> sentence: clarification- monthly trips- several months, not every month. There were several J&H engineers working on multiple projects for the City at this time (Water Asset Management Plan, GIS mapping, Drinking Water Grant with DEQ/EGLE, Water Reliability Study, Owner's Advisor for Wastewater Project, etc.) It was easier and far less expensive for me to travel to their office for meetings than for them to travel to Hudson every time.

This entire paragraph is overtly attributed to City staff input. The auditors conclude "no direct concerns or conflicts of interest were noted."

Page 6

Paragraph 1: Comment- After exploring various ways to fund the N. Maple Grove Avenue reconstruction, including a 40-year Rural Development Loan (which would have consumed the remainder of the City's discretionary income tax for the next 18 years), we opted to proceed with our original incremental approach of saving for future reconstruction in phases and constructing them with local funding and grants, such as the nearly \$200,000 MDOT TEDF grant received for Phase 1. The audit report is correct, we would indeed essentially be paying cash for the project, apart from grant money likely to be received. One thing we would not be paying for with this approach is 40 years of interest.

Paragraph 3: Comment- all reimbursements were proper and were listed in the Accounts Payable report provided to City Council every month for their review. The annual audits have never identified these payments as being handled improperly. "No employee is to approve their own reimbursement, nor should any employee review and approve their supervisor's reimbursements"- if this is so, how is it possible for the City Manager to ever be reimbursed?

Paragraph 4: (Credit Card use) “the lack of receipts indicates a lack of internal controls.” This is false- receipts have always been required to be turned in to the Treasurer for all credit card purchases- this internal control was strictly enforced during my tenure. I have always abided by this rule and I am not aware of any violations of it by others while I was employed there. More detail on the “lack of receipts” mentioned in the report is needed.

Paragraph 7: (Annual Audit) The most recent annual financial audit conducted by Auditor Brent Shea late last year was graded as another consecutive “unqualified” audit, the highest overall rating possible. I do not know what an “unmodified opinion” means, as cited in the forensic audit report. It is not unusual to have deficiencies of various degree identified in the annual financial audit report, and although Mr. Shea did characterize some deficiencies in the latest audit as significant, he stated that there were no Material Issues discovered and that our internal controls were adequate overall.

Page 7

Paragraph 1: This entire paragraph is in error. Refer to paragraph 2 of my letter of July 2, 2021 (entered into the record by Mayor Pro Tem Minton) for an accurate account. To restate, after receiving the Department of Treasury letter of November 13, 2020, I asked Treasurer Farley if he knew why we received the letter and he said he did not. I immediately directed him to contact Auditor Brent Shea to ask if Mr. Shea knew why we received it. Mr. Farley later informed me that he had called Mr. Shea and that Mr. Shea also did not know why we received the letter, but that he offered to assist us in preparation of our response to Treasury, since he had recently helped prepare one for Waldron, MI. In light of the many other false statements made to me by Mr. Farley, I suspected after April 5<sup>th</sup> that he was not honest with me about talking with Mr. Shea. I never claimed to have spoken with Mr. Shea myself about this matter.

Paragraphs 2-7 (Sessions Memo): Comment- This memo was a preliminary assessment provided by two outside persons I brought in to provide assistance while the Treasurer’s office was vacant. I dispute that all accounting functions ceased in December 2020. Mr. Farley provided the accounts payable reports, the revenue and expense report, completed the budget amendments and the draft budget, as well as issuing checks, payroll, W-2’s, and having tax settlement with the County as well as managing the income tax with the assistance of the Deputy Treasurer. The apparent near-collapse of the postal service in our region from December to March complicated the ability to manage finances, with some incoming and outgoing mail being delayed by 6 weeks during this period. This was simultaneous to the peak of COVID in Michigan and its effects on absenteeism and productivity. The audit states that it is not unusual to see negative cash throughout the year, and this is true. Ambulance billing intentionally does not occur in January or February. I dispute that there was a decline in oversight. Paragraph 4 should be characterized as a violation of internal controls by Mr. Farley, not a breakdown. Mr. Farley continued to claim weeks after his termination that he properly completed payroll-related withholding, according to a conversation he had with the Deputy Treasurer. Paragraph 6 refers to what I believe to be the most serious apparent improper action by Mr. Farley, which concerns the reversing of the SRF Bond Payment in December 2020. This transaction remained unknown until discovered by Mr. Hudson and/or Mr. Sessions after April 5th.

Page 9

Paragraph 1: Comment- Regarding overspending, the City in recent years had a budget surplus which was partly utilized, with Council's approval, to help pay for emergent opportunities for Capital improvements, such as the extra paving work completed throughout the City in the summer of 2019 before a significant increase in asphalt prices took effect; or in response to unforeseen emergencies, such as the partial reconstruction of Howard Street due to the collapse of the sewer and water lines between the post office and medical clinic. These expenses were not expected to result in deficits. The costs for the N. Maple Grove Reconstruction Project Phase 1 were properly budgeted and were based on estimates of fiscal revenue and expenses. MDOT grant money was successfully applied for (we actually re-bid the project a year later in order to get that grant money), and the project was completed for roughly \$60,000 less than the contract price. There were COVID-related construction delays which slid most of the project across fiscal years and could have made it more difficult for the Treasurer to account for the project, but I had no evidence of this.

Regarding the claim of mismanagement, I had no reason to distrust the information provided to me by the former Treasurer or any of the City Officers or Department Heads until the call from the bank on April 5th. I trusted my subordinates and had reason to, based on years of experience with them and based on the satisfactory results of inspections, audits and assist visits performed by outside authorities. I believed that I was providing accurate and complete information to Council in order for them to properly exercise their oversight responsibilities and to help us to work together to strengthen and improve the City, as we had for the previous 12 years. I recognize my responsibility as the former Chief Executive of the City for its overall management; however, the forensic audit (as corrected by this response) does not establish that I engaged in misconduct.

**ADJOURNMENT:**

**747361:**

Motion by Darlene VandeZande, seconded by Pam Ely to **adjourn the meeting at 7:10 pm**

APPROVED: \_\_\_\_\_

Carmel Camp, Mayor

ATTEST: \_\_\_\_\_

Jeaniene McClellan, City Clerk

REVIEWED BY: \_\_\_\_\_

George Truchan, City Attorney

Dated: \_\_\_\_\_