

**MEMORANDUM  
OFFICE OF POLICY AND MANAGEMENT**

**To:** Members of the Municipal Accountability Review Board (MARB)

**From:** Kimberly Kennison, Executive Financial Officer, OPM  
Julian Freund, Policy Development Coordinator, OPM

**Subject:** Draft Recommendations for Consideration Regarding the City of West Haven

**Date:** April 1, 2022

As requested by the board, a draft set of recommendations regarding the City of West Haven are attached for MARB consideration. The list of options outlined in the attachment is subject to review and modification by the board and may expanded to include additional measures.

## **Executive Summary**

The City of West Haven has been under MARB oversight since the MARB was established. Various independent reviewers, including the City's auditors and specialized management consultants, have identified weaknesses in policies and procedures and internal controls in the City's financial operations. The MARB has consistently supported the City in the interest of addressing these deficiencies. The CohnReznick report reveals the depth of significant financial infrastructure weaknesses which require sustained good faith efforts by the City and further interventions by the MARB.

## **Summary of Findings by CohnReznick Review**

The findings in the CohnReznick report extend beyond instances of misuse of Covid Relief Funds (CRF) and have implications for overall management and leadership of the City.

The firm's findings can be grouped into several categories as follows:

1. Use of CRF on ineligible expenses (ex. summer sports camps)
2. Lack of supporting documentation to link certain expenses to eligible uses of CRF (ex. certain payroll expenses)
3. Lack of supporting documentation to verify goods or services were received or retained
4. Instances of questioned vendor charges (ex. vendor bonus payment)
5. Instances of unvalidated compensatory time or overtime payments to City employees (ex. comp. time payments to senior level staff)
6. Lack of policies, procedures and internal controls
7. Lack of enforcement of policies, procedures and internal controls

## **Corrective Actions for MARB Consideration To Be Taken By City:**

### **Centralization of the Procurement Function**

- Hire an experienced, qualified Procurement Director
- Establish policies and procedures and internal controls for contracts, procurement and p-card functions and provide training
- Hire a qualified Buyer – to centralize purchases of goods and services
- Hire additional Buyer to establish and oversee a p-card program

### **Centralization of the Accounts Payable Function**

- Hire an experienced, qualified Accounts Payable Manager
  - Manage Accounts Payable Specialist
  - Manage the p-card expense verification and bank card financial system
- Hire a qualified Accounts Payable Specialist or assign related duties to existing staff person.
- Establish Accounts Payable policies and procedures and internal controls and provide training
- Establish a Monthly Accounts Payable Tracking process to ensure all invoices are recorded by month end or record accruals.

### **Signatory Authority**

- Establish signatory authority policy for each level of approval by dollar amount and by position with standardized hierarchy structure and provide training.
- Establish controls for dual check signing processes and create a backup signatory
- Eliminate electronic signature from the financial system and ensure proper internal controls are in place by requiring a formal signature

### **Vendor Database**

- Complete review of existing Vendor Database (in Munis system), including mailing of all vendors to obtain current W-9 forms
- Establish policy and procedures for Vendor Database processes and management and provide training
- Review and approval of new vendors to be centralized in Procurement Director and approved by the Finance Director prior to new vendors set up
- No vendor shall be added to the database without full W-9 documentation
- No check shall be issued to a vendor without W-9 documentation on file and updated in Munis system
- Tax reporting (1099s) to be responsibility of Accounts Payable Manager
- Annual review of Vendor Database by Accounts Payable and Purchasing Director
- Close out or inactivate vendors (2 to 3 years of inactivity)

### **Centralized Grants Management, Administration and Compliance**

- Hire a qualified Grant Administrator to oversee all federal and state grants in accordance to regulations that reports to the Finance Director
- Establish policies and procedures and internal controls for grants administration and compliance according to federal and state regulations and provide training.
- Approves all accounts payable invoices related to grants
- Manages grant funding and expenditures and oversight based on restrictions

### **Monthly and Year-End Financial Close**

- Check-off of all items to be performed and reviewed in the closing process to include all assets, liabilities, revenue, and expenditures accounts, and reconciliations, responsibilities, and sign offs

## **Review of Existing Charter and Ordinance Provisions**

- Mayor and Finance Director to review current Charter provisions related to financial management, signatory authority, and procurement to ensure they are not in conflict with best practices in public finance
- Establish a complete set of financial policies and procedures with detailed step-by-step processes and assigned responsibilities

## **Human Resources**

- Establish a robust set of policies and procedures to include anti-fraud policy, code of conduct, conflict of interest, code of ethics, related party, etc. that will be incorporated into an Employee Staff Manual, and provide training on all policies and procedures
- Employee training will be mandatory with written acknowledgement that the employee has read and understands the policies and procedures. The employee must adhere to such policies and procedures or may be subject to disciplinary action up to and including termination
- Mandatory department heads training with expectations roles and responsibilities

## **Payroll Timekeeping**

- Establish a robust payroll policies and procedures, and provide training
- Adopt a complete policy for exempt employees to include vacation, sick, compensatory time
- Automate within the Payroll system pre-approval by supervisor for earnings and usage of vacation and compensatory time.
- Track and maintain compensatory time earned in payroll
- Establish limits on amounts of compensatory time may be earned and how long it may remain on the books
- Establish rules for conditions under which compensatory time may be paid out and impact on the financial liabilities

- Implementation of process and procedures for properly recording payroll in the general ledger and ensuring payroll support for the payroll journal entries is retained, including charging payroll to grants.
- Develop, enhance, and streamline payroll reporting for payroll journal entries, grant reporting, monthly financial reporting, etc.

### **Audit, Compliance, Risk Board**

- Establish an audit, compliance and risk board that is independent of the City administration
- Create an Internal Auditor position reporting to Audit, Compliance and Risk Board
  - Identify operational and programmatic areas of highest risk
  - Develop audit plan for areas of highest risk
- Risk Manager position should report to this board

### **Code of Ethics**

- Review or establish a code of ethics or create code of ethics consistent with best practices and provide training
- Establish or revive Board of Ethics
- Establish conflict of interest and related party forms and update annually for all Council members, board members, management and employees, volunteers participating in vendor selection processes

### **Next Step Considerations for MARB:**

It is West Haven leadership's responsibility to safeguard the assets of the City and ensure proper controls are in place to mitigate against waste, fraud and abuse. Since the questionable and potentially fraudulent use of Covid Relief Funds and other irregularities surfaced, the City has taken little action to address the seriousness of vulnerabilities to further losses.

A number of the findings in the CohnReznick report echo issues raised previously by independent auditors and the MARB. For example, some of the findings regarding inadequate procurement processes and controls are consistent with findings in prior year audits. The resolution of these and other deficiencies were made requirements in the City's Memorandum of Agreement as a condition for the distribution of Municipal Restructuring Funds. Lack of progress and staffing to resolving these matters has resulted in Municipal Restructuring Funds being withheld and many items remain unresolved today.

#### **Tier IV**

The MARB has repeatedly questioned the City's leadership commitment and ability to execute the necessary changes required. Therefore, the MARB should consider whether the City is capable of implementing the corrective action plan detailed in the previous section. If the MARB determines that City leadership does not have both the ability and will to implement needed corrective actions, it may consider recommending the City be designated at Tier IV. It should be noted that there are limitations on the degree of oversight provided under Tier IV. Even under a Tier IV designation, complete day-to-day management of the City's finances may not be attainable.

#### **Appointment of Financial Manager**

If the City is designated at Tier IV, the MARB has the authority to hire a Finance Manager. The MARB could delegate certain powers that it has under Tier IV to the Finance Manager. It should be noted that the Finance Manager appointed in a Tier IV scenario does not override any existing local authority or autonomy. A MARB appointed Finance Manager does not have supervisory, hiring or firing authority over municipal staff, nor approval authority over any municipal financial decisions other than those granted to, and delegated by, the MARB.

### **Recovery of Cost of Audit**

As previously discussed, the MARB will be requiring the City to reimburse the State for the cost of West Haven's CRF forensic audit.

### **FY 2023 and FY2024 Funding to Implement Corrective Action Plan**

Correcting the extensive deficiencies in the City will likely require considerable staffing and resources. The MARB may consider utilizing previously withheld Municipal Restructuring Funds for OPM administrative support, hiring of specialized consultants, to concentrate on with the corrective action plan and hire a Financial Manager (pursuant to Tier IV).

### **Hire an Independent Auditor Consultant**

An independent auditor consultant would conduct an in-depth review of the City's internal control structure and policies and procedures. The consultant will identify and document a list of policies, procedures, and internal controls to be addressed, prioritize by highest risk to lowest risk level that will be used as a guidance for the Financial Manager, the City and the MARB to address the deficiencies.

### **Recovery of Covid Relief Funds**

Some portion of the City's expenditures on Covid Relief Funds may need to be repaid to the U.S. Treasury. MARB may consider making remittance to the State for the portion that must be repaid a condition for approval of the FY 2023 budget.

### **Special Measures Related to ARPA Spending**

The report raises serious questions regarding the City's ability to manage and implement the use of awarded ARPA funds. The City's plan for the use of ARPA funds will require considerable oversight and project management capacity, which arguably does not currently exist, in a relatively short timeframe (\$29 million must be obligated by the end of calendar year 2024). Although the City has allocated a portion of the ARPA funds (\$700,000) for grant administration, reporting and

compliance assistance, the City's underlying lack of accountability and responsibility, inadequate staffing and expertise in place to adhere to federal regulatory requirements, internal control weaknesses, lack of financial policies and procedures, and processes represent serious vulnerabilities.

### **Review Recommendations for Further Inquiries**

The report identified several instances of conflict of interest or other matters that warrant further investigation. MARB may consider reviewing these recommendations and facilitating referral to the appropriate entities or authorities.

### **Legislative Action**

In the event that a Tier IV designation does not lead to systemic improvements in the management of the City, the MARB may consider proposing legislative measures. Depending on specific circumstances, options might include enhanced powers under a Tier IV designation or the appointment of a receiver or special oversight board with more authority than the MARB under the current Tier IV structure.