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Presentation of the Annual Financial Report for the year ended June 30, 2019

City of West Haven,
Connecticut

April 1, 2020

A large teal circular graphic with a white center, containing the text "KNOW GREATER VALUE".

**KNOW
GREATER
VALUE**

Agenda

Discuss the various reports issued

- a. Annual Financial Report (AFR)
- b. Federal and State Single Audits
- c. Recommendations to Management
- d. Extended procedures

Notable items in the 2019 AFR

- General Fund fund balance increased by \$2,766,945
- Education Department over expended by \$566,400
- Prior period adjustments (pg. 80) for the general fund totaling \$3,589,176
- Unassigned fund balance at year end after prior period adjustment was \$1,358,918
- Subsequent Events Footnote (pg. 80) regarding the potential economic impact of the COVID-19 (coronavirus) pandemic on the City's 2020 and 2021 budget

AFR (Annual Financial Report)

- Opinion on Financial Statements (pgs. 2-4)

Section headings – Level of responsibility:

- Opinions – Unmodified opinion on financial statements
- Other Matters
 - Required Supplementary Information (RSI) (limited)
 - Supplementary information (in relation to)
 - Introductory section (no responsibility)
 - Trend information (no responsibility)

Management's Discussion and Analysis

- Management's Discussion and Analysis (pgs. 5-13)

Executive summary of financial highlights and discussion of changes compared to the prior year:

- a. Financial highlights – First section (pg. 5)
- b. Discussion of current year changes:
 1. General Fund budgetary highlights (pg. 11)
 2. Allingtown Fire Department Fund (pg. 11)
 3. Sewer Fund (pg. 11)
 4. Capital assets and long-term liabilities activity/changes (pgs. 12-13)

Exhibit C – General Fund

- Unassigned fund balance of \$1,358,918 (pg. 17)
- Unassigned fund balance as a percentage of expenditures was 0.85%
- Prior period adjustments ad follows:

Unrecorded accounts payable:

| | |
|-----------------------|----------------------------|
| Education | \$ 3,262,652 |
| City | 144,540 |
| Deficit fund balances | 50,093 |
| Withholding accounts | 131,891 |
| Total | <u><u>\$ 3,589,176</u></u> |

General Fund Operations

- Exhibit D (pg. 19)
- RSI-1A – RSI-1C (Budgetary Basis) (pgs. 81-85)

| | | |
|---------------------|--|---------------------|
| Schedule 1 (pg. 17) | Net increase in fund balance | <u>\$ 2,766,945</u> |
| RSI-1A (pg. 81) | Revenues less than budgeted | \$(2,084,031) |
| RSI-1B (pg. 81) | Spending savings | 4,106,135 |
| RSI-1A & B (pg. 81) | Net other financing sources and (uses) budget variance | <u>744,841</u> |
| | Net increase in fund balance | <u>\$ 2,766,945</u> |

General Fund Operations

- Net increase was due to:
 1. Revenues were less than budgeted by \$2,084,031:
 - Received \$5,000,000 from MARB grant
(\$8,000,000 budgeted)
 2. Spending savings of \$4,106,135:

| | |
|--------------------------|-------------|
| ■ General government | \$2,181,626 |
| ■ Public safety | 552,946 |
| ■ Benefits and Insurance | 1,465,208 |
| ■ Education | (566,400) |

Allingtown Fire Department Operations

- Exhibit D (pg. 19)
- Net increase in fund balance of \$1,342,433
- Ending fund balance of \$1,223,574 (2018 deficit of \$118,859)
- RSI-1D – RSI-1G (Budgetary Basis) (pgs. 86-88)
- Net increase was due to:
 1. Revenues exceeded budget by \$668,225 primarily from:
 - Property taxes of \$538,701
 2. Spending savings of \$674,208 primarily from:
 - Personnel expenditures of \$466,238

Sewer Fund Operations

- Exhibit D (pg. 19)
- Net increase in fund balance of \$1,456,582
- Net increase was due to:
 1. Revenues in excess of estimates by approximately \$95,000
 2. Expenditures less than anticipated of \$1,361,415 due to:
 - Debt service contingency \$450,000
 - Sewer plant capital improvements 250,000
 - Equipment maintenance/repair 98,000
 - Collection system capital improvements 93,000

Internal Service Funds

Exhibits F - H (pgs. 22-24)

| | 2019 | 2018 | Change |
|------------------------|--------------|--------------|--------------|
| Claims payable | \$ 9,797,303 | \$ 9,975,413 | \$ (178,110) |
| Charges for services | 31,804,963 | 32,336,382 | (531,419) |
| Claims | 28,468,876 | 28,706,114 | (237,238) |
| Change in net position | 200,189 | 481,946 | (281,757) |
| Net position | (9,697,304) | (9,897,493) | 200,189 |

Internal Service Funds

Schedules 5-7 (pgs. 108-110)

| | Medical | General Liability | Workers' Compensation | Total |
|----------------------------------|----------------|-------------------|-----------------------|----------------|
| Change in net position | \$ 121,915 | \$ 126,661 | \$ (48,387) | \$ 200,189 |
| Net position | \$ (1,852,860) | \$ (496,938) | \$ (7,345,506) | \$ (9,695,304) |
| Current claims payable | \$ 1,952,860 | \$ 299,363 | \$ 1,843,201 | \$ 4,095,424 |
| Long-term claims payable | - | 199,575 | 5,502,304 | 5,701,879 |
| Total claims payable | \$ 1,952,860 | \$ 498,938 | \$ 7,345,505 | \$ 9,797,303 |
| Current ratio (target over 1.00) | 0.48 | 0.00 | 0.01 | 0.30 |

Pension Funds

Exhibits I and J (pgs. 25-26 and notes 78-79)

| <u>City Police</u> | <u>2019</u> | <u>2018</u> |
|------------------------|-------------|--------------|
| Change in net position | \$(472,857) | \$ 4,764,406 |
| Change in fair value | 488,709 | 8,486,175 |

| <u>Allingtown</u> | | |
|------------------------|---------|---------|
| Change in net position | 843,745 | 764,086 |
| Change in fair value | 347,983 | 247,176 |

Expenses

- City increased approximately \$283,000
- Allingtown increased approximately \$251,000

Pension Funds

RSI-2A and RSI-3A (pg. 90 and 93)

City Police

2019

2018

Funding percentages

85.99%

85.00%

Annual rates of return

3.95%

8.60%

Allingtown

Funding percentages

26.38%

23.99%

Annual rates of return

8.22%

7.77%



Pension Rate of Returns Six Year Average (RSI-2A/3A)

Police

| | |
|-------------------------------|---------------|
| 6 year average rate of return | 7.180% |
| Discount rate | 7.125% |
| Difference | <u>0.055%</u> |

Allingtown

| | |
|-------------------------------|--------------|
| 6 year average rate of return | 3.53% |
| Discount rate | 6.75% |
| Difference | <u>3.22%</u> |

Pension Funding Perspective

| Entity | Police and Fire Plans | |
|-----------------------------------|-----------------------|-----------------------|
| | Funded Percentage | FY 2019 Actual Assets |
| Westport | 94.34% | \$ 187,403,023 |
| Fairfield | 87.16% | 188,764,000 |
| West Haven | 85.99% | 120,075,618 |
| North Haven | 83.73% | 47,658,613 |
| Norwalk | 82.24% | 128,854,760 |
| New Britain | 74.05% | 140,634,000 |
| Stamford | 72.93% | 360,814,495 |
| Allingtown Fire Department | 26.38% | 8,106,124 |

OPEB

RSI-5 and RSI-6 (pg. 98-99)

- Trust established on June 14, 2019, no contribution was made at June 30, 2019. Budgeted for in 2020.
- OPEB liabilities:

| | <u>2019</u> | <u>2018</u> |
|------------|----------------|----------------|
| City | \$ 198,567,331 | \$ 183,170,127 |
| Allingtown | 28,164,607 | 25,312,009 |

Federal Single Audit

- Unmodified opinion on compliance (pgs. 3-5)
- Schedule of Federal monies spent (pgs. 6-7)
- 2 programs tested (pg. 10):
 - Child Nutrition Cluster
 - Title I Grants to Local Educational Agencies

Federal Single Audit

Findings or questioned costs (pgs. 11-14)

- Significant Deficiencies:
 - Segregation of Duties – Payroll:
 - City
 - Education Department
- Material Weakness:
 - Year End Cash Disbursements – Education Department

State Single Audit

- Unmodified opinion on compliance (pgs. 15-17)
- Schedule of State monies spent (pgs. 18-19)
- 7 programs tested (pg. 23):
 - Child Day Care
 - Urban Act Grant Program
 - Adult Education
 - Alliance District Funding Program
 - Outdoor Recreation Grant
 - Payment in Lieu of Taxes (PILOT) on Private Colleges and General/Chronic Disease Hospitals
 - Local Transportation Capital Improvement Program

State Single Audit

Findings or questioned costs (pgs. 24-27)

- Significant Deficiencies:
 - Segregation of Duties – Payroll:
 - City
 - Education Department
- Material Weakness:
 - Year End Cash Disbursements – Education Department
- Compliance:
 - Child Day Care Monitoring

Recommendations

(* Comments repeat from prior year)

Material Weakness

- Year End Cash Disbursements – Education Department*

Significant Deficiencies

- Payroll:
 - City*
 - Education Department

Recommendations

Other Matters – City

- Bidding Documentation – Completeness*
- City Clerk – Logins*
- Tax Collector - Void approvals*
- Pension Plans – Consolidate trustee – advisors*
- Alternative Investments – Information to City*
- Account Reconciliation – Withholding accounts

Recommendations

Other Matters – Allingtown

- Personnel Files – Human resources*
- Capital Assets – Disposals*
- Pension Fund

Other Matters – Education Department

- Journal Entries – Approvals*
- Student Activity Funds – General ledger control*
- General Fund /Education Grants Fund – Budgetary monitoring*

Recommendations

Best Practices

- Investment Policy*
- Minutes – Documentation of City Council Approvals (Suspense transfers/total budget)
- Financial System Permissions – Access controls

Additional Procedures Performed

We were engaged to perform additional audit procedures as follows:

- Expanded subsequent disbursement testing:

Procedures performed:

- Selected invoices charged to the 2020 budget for the City and Education Department
- Selected items based upon risk, dollar amount and results of previous testing
- Selected utilities and similar monthly vendors to verify vendors are current (within one month)

Additional Procedures Performed

- Expanded subsequent disbursement testing:

Results:

- Additional unrecorded liability amounts noted
- Invoices with unpaid balances noted
- Education Department - Electric and waste disposal accounts only had 11 months recorded
- Round dollar amount recorded as accounts payable vs actual invoices
- Current year adjustments
- Prior period adjustments
- Finding 2019-003

Additional Procedures Performed

- Review payroll withholding and related accounts:

Procedures performed:

- Reviewed all accounts with debit balances
- Tested year end balances by reviewing payments made in fiscal year 2020

Results:

- Current year adjustments
- Prior period adjustments
- Recommendation

Additional Procedures Performed

- Review of deficit fund balances and related accounts receivable:

Procedures performed:

- DEP Grant Fund:
 - Reviewed revenue and expenditure history to identify projects
 - Obtained and reviewed grant agreements for projects identified

Results:

- Current year adjustments (receivables)
- Prior period adjustment