

STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

DRAFT MINUTES

MUNICIPAL FINANCE ADVISORY COMMISSION

SPECIAL MEETING

WEDNESDAY, AUGUST 7, 2019

Meeting Location: Office of Policy and Management
450 Capitol Avenue, Conference Room 4A
Hartford, CT 06106

Date/Time: August 7, 2019, 10:00 A.M.

Members Present: Ms. Kathleen Clarke Buch, Chair
Mr. Douglas Gillette
Ms. Kimberly Kennison
Mr. John Schuyler
Ms. Rebecca A. Sielman
Ms. Diane Waldron

Members Absent: Mr. Michael LeBlanc

Others Present: Julian Freund, OPM Staff
Jean Gula, OPM Staff
William Plummer, OPM Staff
Morgan Rice, OPM Staff
Greg White, Finance Director, Town of Ellington
Christopher King, King, King and Associates
Ann Marie Rheault, Finance Director, Town of Plymouth
Michael VanDeventer, Mahoney Sabol & Company
Marie Moylan Hoadley, State Treasurer's Office
Glenn Rybacki, Day Pitney, LLP

1. Introduction/Call to order

The meeting was called to order at 10:04 a.m. by the Commission Chair, Commissioner Buch.

2. Approval of the Minutes to the June 5, 2019 Meeting

The minutes of the June 5, 2019 meeting were approved with one abstention from Commissioner Sielman.

Commissioner Buch noted that there were new individuals in attendance for today's meeting and requested that Commissioners introduce themselves.

3. Town of Ellington – Corrective Action Plan for Financial Reporting

Commissioner Gillette stated for the record that his firm serves as bond counsel to the Town of Ellington.

Greg White, the recently hired finance director introduced himself and conveyed the apologies of First Selectman Spielman who could not be at the meeting due to a scheduling conflict. Mr. White gave a brief history of his background. Michael VanDeventer from the audit firm of Mahoney Sabol & Company that is conducting the June 30, 2018 audit of the Town introduced himself. He went through the history of the Town's audit filing status. He indicated that the primary reason that contributed to the years of late filing and that has delayed the filing of the June 30, 2018 audit report was the Town's manually intensive closing process. The process was solely done by the previous finance director who had been dealing with some medical issues for several years, which added to the delays. Commissioner Buch asked Mr. VanDeventer to elaborate on why it is manually intensive and asked if it had to do with the software the Town uses. According to Mr. VanDeventer, the software provides a single trial balance and is not set up for fund accounting so the closing process involves manual adjustments to create all the funds that flow into the financial statements. Commissioner Buch inquired whether as the audit firm for the past several years, had the firm previously recommended that the Town address the problems with its financial accounting software. Mr. VanDeventer indicated that historically, the recommendations of the auditing firm were for the Town to complete the closing process in a timely manner and did not specifically address the software issue.

Commissioners asked a number of questions in regard to the Town's closing process and the adjustments that occurred at year end to ensure correct reporting by funds. There was also a discussion of the Town's LOSAP program and how it would be reported in the audit. According to Mr. VanDeventer, the day to day accounting is accurate. On a go forward basis, Mr. White indicated that he and his staff is hoping to do closing entries on a monthly or bi-monthly basis. Mr. VanDeventer indicated that the June 30, 2018 audit has essentially been completed and the report will be drafted next week. The goal is to issue it at the end of August. He does expect, however, to encounter similar problems in regard to the June 30, 2019 audit report as it relates to the Town's accounting software issues.

Commissioner Buch asked what the Town needs for resources in order to correct their findings. Mr. White said the Town was looking into hiring the auditing firm for consulting, understanding that this would be just for the period of time needed to correct its financial reporting issues. Commissioner Buch inquired whether the Town was planning to get new software. Mr. VanDeventer indicated that a benefit that resulted with the consulting work done by him and his firm for the Town in regard to the June 30, 2018 audit, is that he has a better understanding of the closing processes

that the Town goes through annually. He believes that he will be able to provide some specific guidance and recommendations to improve the process. He believes that the long term solution ultimately is that the Town should integrate to the Board of Education software. It does not appear that this will be implemented right away, and it is up to the Town to decide when to make the switch.

Mr. White asked how the late filing will affect the Town's credit rating. Commissioner Buch noted that the reasons behind the late filing may be evaluated by the rating agencies as a lack of good management practices and incorrect reporting and therefore could have a negative effect. Commissioners thanked Mr. White and Mr. VanDeventer for attending today's meeting and requested that the Town attend the October meeting of the Commission.

4. Town of Brooklyn – Corrective Action Plan for Financial Reporting / June 30, 2018 Independent Auditor's Opinion

The First Selectman and the Finance Director of the Town of Brooklyn were unavailable make a presentation on the Town to the Commission due to a scheduling conflict. Christopher King from the audit firm of King and King that conducted the June 30, 2018 audit of the Town introduced himself. Commissioner Buch asked where the Town of Brooklyn stood with respect to its audit submission for June 30, 2018. Mr. King indicated that the Town had recently filed its report, and that an accounting system breakdown is the primary reason for the late submission. There were also some turnover and vacancies in the finance department.

Mr. King distributed a document that was prepared for today's meeting by Kelly Vachon, the Town's finance director. Mr. King indicated that he was not in complete agreement with the statement provided in the document that beginning cash balances have been established. He indicated that the restatement of beginning balances is still a work in progress. The beginning balances currently are not restated. The Town will be reconciling the various balance sheet accounts, locking in the differences, and then restating the opening balances. In July of 2019, Mr. King had a meeting with the Town's consultant that had already reconciled the Board of Education (BOE) side up to May 2018. It was common practice that when staff recording transactions was unsure of the correct entries, the other side of the entry was often made to Due To/Due From accounts, resulting in incorrect interfund balances. The accounting system was also doing this automatically. A consultant helped change the system setup and how the BOE does Due To/Due From entries. Now that the BOE side issues are resolved, those updated processes and procedures would be presented to the Board of Selectman for implementation by the Town. Commissioner Schuyler asked if the finance departments of the Town and BOE were consolidated. Mr. King stated that they were recently consolidated and that previously the superintendent of schools had taken BOE financial duties.

Mr. King referred to the document submitted by the Town's finance director that indicated that as a result of the improved accounting procedures implemented, the fiscal year June 30, 2019 audit should be completed by December 31, 2019. Although the Town is making progress with its reconciliations for the restatement of

beginning balances, Mr. King does not believe that the Town will be able to issue the June 30, 2019 report by the December 31st statutory due date but does believe that the report can be issued earlier than the six additional months it took for the Town to issue the June 30, 2018 audit report. He indicated that the results of the 2018 audit indicated a General Fund operating surplus and based upon Town Meeting minutes he reviewed, the Town is projecting a surplus also for fiscal year ended 2019. Financial condition therefore, has not been an issue. Mr. King noted that the current staff of the Town is now two generations removed from the 2018 audit and they now have a new position of finance director that is held by someone with previous experience. Commissioner Buch asked Mr. King for his thoughts on the current internal control and processes. He stated that BOE policies and procedures are in place and that those controls are now being transitioned over to the Board of Selectman. The Town has made improvements to its controls but there is still significant work to be done in this area. Commissioners discussed with Mr. King the Town's internal control processes, staffing needs, the accounting system currently in use, the Town's plan in the near-term for issuing debt and other items.

Mr. King referenced the Disclaimer of Opinion provided in the June 30, 2018 audit report resulting from a lack of adequate evidence for the numbers presented in the Town's financial statements. He indicated that this is the first disclaimer he can recall that the audit firm has ever had to issue. Commissioner Buch asked how the State treats the disclaimer, and whether there were any implications of any kind? Mr. Plummer indicated that the Secretary of OPM had several options available. Understanding the reason for the disclaimer, OPM decided that inviting the Town to come before the Commission would be best.

Commissioners expressed their belief that it is important for the Town to come to the next meeting and for the Town to submit a more comprehensive document detailing the work it has done to date to restate its beginning balances including reconciliations made to date and improvements made to its internal control, including the controls related to its accounting system, recording of transactions by staff, and timely filing of future audit reports. This information should be segregated between the Board of Selectman (Town) and the BOE as it appears that the BOE is further along in improving its processes and procedures. The information should be provided a week or two before the next meeting allowing Commissioners ample time to review the information and for follow-up with the Town if it is needed.

Commissioners expressed their appreciation for Mr. King's attendance at today's meeting.

5. Town of Plymouth –Fiscal Condition Update

Commissioner Sielman stated for the record that her firm provides actuarial services to the Town of Plymouth.

Ms. Ann Marie Rheault, finance director of the Town of Plymouth introduced herself to Commissioners and provided an update on the Town's financial condition. She referenced the information that she had earlier provided for today's meeting. In

regard to FY 2018-19, there was a miscalculation with the Board of Education (BOE) budget as it relates to the minimum budget requirement (MBR) for that year. The town utilized preliminary data that did not factor certain changes in the ECS funding entitlement when setting its FY 2018-19 BOE budget. So instead of increasing the BOE budget as to conform with the MBR, the BOE budget was reduced for FY 2018-19. To resolve the FY 2018-19 MRB shortfall of approximately \$400,000, the Town has increased its FY 2019-20 BOE budget by the approximate \$400,000 previous year shortfall. The State has indicated that this approach would be acceptable.

In March of 2018, the Town incurred a Ransomware attack. Fortunately, the attack was detected early enough for the Town to engage cyber specialists for data recovery and for a subsequent comprehensive review of the Town's systems. There was no ransom payment made and the net cost was covered by insurance. The Town and BOE has since implemented some immediate upgrades to protect their systems. Software and antivirus updates have occurred and there has been a movement to a single platform for the entire town allowing the shared IT department improved monitoring of all systems and related processes. Ms. Rheault noted that they have not started regular training for their employees because they are still trying to put a policy in place for password updates and training employees. There was no personal employee data compromised.

A discussion occurred between Commissioners and Ms. Rheault regarding the new accounting system, staffing in the finance department, the improved controls made/being made in regard to cash handling procedures and activities, etc.. Ms. Rheault also described recent sales of town property, the proceeds generated from those sales and how the proceeds would be used.

The Town is targeting December 2019 for the issuance of its June 30, 2019 audit report. The Town is in a better position now when compared to prior years as it is not playing catch up and they are working with current financial information. Ms. Rheault also provided a narrative of the FY 2019-20 adopted budget and the assumptions included in that budget. Commissioners expressed their appreciation for her attendance and presentation.

6. Legislation Adopted Affecting the Municipal Finance Advisory Commission

Mr. Plummer referred Commissioners to the document in today's packet regarding legislation that was adopted in the 2019 session that provides specific criteria as to when a municipality be referred to the Commission. Preliminary data collected will need to be finalized to determine the list of towns that need to be reviewed and that may need to be presented to the Commission.

7. Review of Draft Indicators for Assessing the Financial Condition of Municipalities Meeting Tier III Criteria – Findings and Reports to the Secretary as Provided Under Section 7-576c of the General Statutes/ Preliminary Information

Mr. Plummer provided the Commission with the Financial Indicators Evaluation Results for the City of Bridgeport. It was noted that the Internal Service Fund was significantly in a negative position as of June 30, 2018. Commissioner Sielman noted that the City's pension fund is only 39% funded. The data was discussed among Commissioners. Mr. Plummer indicated similar data could be provided to Commissioners for the remaining two municipalities that had earlier met the Tier III criteria.

8. Other Business

Commissioner Kennison advised members that a letter had been sent to the City of Derby regarding the fifteen findings that were noted in its June 30, 2018 State Single Audit Report. She believes that at some point, the City's fiscal status may need to be reviewed by the Commission. She also advised the Commission that the City of Bridgeport had transmitted a letter to the OPM Secretary and to the State Treasurer indicating the City's intent to issue \$120 million in pension obligation bonds.

9. Adjourned.

The meeting was adjourned at 11:49 a.m.

Respectfully submitted,

Douglas W. Gillette
Commission Secretary