

STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

DRAFT MINUTES

MUNICIPAL FINANCE ADVISORY COMMISSION

REGULAR MEETING

WEDNESDAY, APRIL 20, 2022

Meeting Location: Telephonic Meeting

Date/Time: April 20, 2022, 10:02 A.M.

Members Present: Ms. Kathleen Clarke Buch, Commission Chair
Mr. Anthony Genovese
Ms. Kimberly Kennison
Mr. Michael LeBlanc
Mr. Glenn Rybacki
Ms. Rebecca A. Sielman
Ms. Diane Waldron

Members Absent: Mr. John Schuyler

Others Present: Julian Freund, OPM Staff
William Plummer, OPM Staff
Michael Reis, OPM Staff
Morgan Rice, OPM Staff
Austin Tanner, First Selectman, Town of Brooklyn
Rushie Bean, Finance Director, Town of Brooklyn
Richard Dziekan, Mayor, City of Derby
Lauren Garrett, Mayor, Town of Hamden
Curtis Eatman, Finance Director, Town Hamden
Rick Galarza, Deputy Finance Director, Town of Hamden
David Cappelletti, External Auditor, Town of Hamden
Grace Zweig, Town of Plymouth

1. Call to order

The meeting was called to order at 10:02 a.m. by Commission Chair Buch.

2. Approval of the Minutes to the February 16, 2022, Meeting

Ms. Kennison made a motion to approve the minutes with a second by Ms. Sielman. The minutes of the February 16, 2022, meeting was unanimously approved.

3. Town of Brooklyn

Commission Chair Buch indicated that she had reviewed the material provided by the Town and inquired as to the status of the internal controls including details regarding the repeated audit findings included in the FY 2021 audit report. Finance Director Rushie Bean indicated that the repeated finding was due to the amount of adjusting entries the auditors had to make at the end of the fiscal year. For FY 2021, The entries were greatly reduced which means progress had been made towards accuracy in recording the entries and after further discussions with the auditor, it appears the finding will not be repeated in the FY 2022 audit. Commission Chair Buch inquired as to whether the Town had a fund balance policy in place. Ms. Bean indicated that the Town had approved a fund balance policy in October of 2021. Mr. LeBlanc noted that fund balance is moving in the right direction based upon the 2021 audit results. He inquired as to whether the Town believes that its FY 2021-22 operations would result in additional increase to fund balance. First Selectman Tanner commented that it was the Town's goal to continue to build upon its fund balance and that projections to date for FY 2021-22 are in line with the budget. He indicated that the Town plans to submit its proposed FY 2022-23 budget to Board of Finance on April 28 which will include a change in salary to the Administration department as the plan is to take on an additional employee in the finance office.

Ms. Sielman noted that there had been large variances in the actuarial numbers from one year to another, especially regarding the differences between expected and actual experience. She would therefore recommend that the Town discuss this matter with its actuary. Ms. Kennison indicated that according to the June 30, 2021, audit report, the Town was assuming an investment rate of return of 7% which would appear to be high. Ms. Sielman agreed with Ms. Kennison and stated that very few asset assumptions would support that high a percentage. The Town indicated that it would review this matter with its actuary. Ms. Kennison indicated that a review of the significant deficiency that has been repeated going back to the 2019 audit included a recommendation by the auditor for implementation of policies and procedures but there was not a clear description as to the policies and procedures that needed to be implemented. Ms. Buch suggested that the Town have its auditor provide a description of the specific internal controls for which the auditor had concerns and what actions the auditor recommends the Town to make in order to eliminate the internal control deficiency. Ms. Bean indicated that she would follow up with the auditor and communicate back to OPM via email before the next scheduled meeting. The Commission indicated that the Town was on a good track with its finances and thanked the Town for attending today's meeting.

4. City of Derby

Commissioner Rybacki indicated that the City of Derby was a client of his firm.

It was noted that Mayor Dziekan was the only City representative in attendance for today's meeting. Commission Chair Buch indicated that she had reviewed the City's submissions and raised a question about the healthcare benefits to which Mayor Dziekan stated the City utilized a broker. Ms. Buch suggested hiring a consultant who can analyze and evaluate the City's claims information on a regular basis. The consultant would also be able to advocate on the City's behalf as to why a significant increase in premiums is not justified. Ms. Buch indicated that in the City's update to the Commission, it seemed to equate compensated absences with OPEB. She indicated that the two were distinctly different and briefly explained the differences. She also provided some suggestions for putting aside funds for the payment of the City's compensated absences.

Commissioners had several questions and concerns in regard to assumptions in the proposed FY 2022-23 budget, outstanding items that remained to be completed to issue the June 30, 2021, audit report, staffing issues in the finance department, unresolved internal control weaknesses, etc. Commissioners expressed their concerns that several their questions would go unanswered as Mayor Dziekan was the only representative from the City in attendance. Furthermore, Commissioners expressed their concern that the City had not made significant systemic improvements to its finances and financial practices, especially in light of the staffing issues in the finance office. Mayor Dziekan informed the Commission that the City had retained a temporary part-time assistant finance director and that the City was actively searching to fill the position on a permanent basis. In regard to the outstanding June 30, 2021, audit report Mayor Dziekan indicated that the City side of the audit had been completed but that the Board of Education lost its business manager and there were items that needed to be completed by the Board of Education before the audit could be completed and issued. Ms. Kennison stated that the City should consider hiring a professional firm to assist with financial related matters including completion of open items that the audit firm is seeking in order to complete the June 30, 2021, audit resolution of audit findings and a plan to transition to a new financial accounting system.

Commissioner Buch inquired as to what the method would be for the Commission to recommend a municipality be placed under the oversight of the MARB. Ms. Kennison indicated that OPM would review this matter and update the Commission.

Commissioners thanked Mayor Dziekan for attending today's meeting.

5. Town of Hamden

Mayor Garrett introduced Curtis Eatman, Finance Director and Rick Galarza, Deputy Finance Director as well as David Cappelletti, the Town's external auditor. At the request of Commission Chair Buch, Mr. Cappelletti described the audit findings included in the June 30, 2021, audit report. Audit findings included:

- **Significant Finding:** The Town is not following its policies and procedures as it relates to its Employee Retirement Pension Plan and its OPEB program (similar finding reported in the FY 2020 audit report).
 - The Town was unable to complete an actuarial valuation of the OPEB programs within 24 months of the June 30, 2021, financial statements.
 - The annual valuation of the pension fund was not completed to conform with the State pension bond statute.
 - During the audit it was discovered that the contribution to the OPEB fund of \$250,000 was instead deposited to the pension investment fund.
 - The pension fund paid for services from a vendor which was not received.
- **Management Letter Comments described by the auditor include:**
 - Bond proceeds (premium on bonds) are being used towards the operating budget and the accumulation of fund balance in the General Fund. Bond restructuring is used to restructure and reduce/delay annual debt service costs. These items are not considered recurring revenues or recurring expenditures and are not sustainable as to the long-term financial condition of the Town.
 - Certain cash received from bond proceeds should be accounted for in the Capital Projects Fund rather than the General Fund.
 - Certain revenue items assumed in the adopted budget should be evaluated to determine if the revenue and amounts are realistic assumptions.
 - Budget transfers are being made during the year with line items not included in the operating budget or General Fund.
 - The Bd. of Education reimburses the Town for employee benefits but there is no support as to actual expenses. Fringe benefit reimbursements are not requested on most federal and state grants.
 - School construction programs are not closed out on a timely basis.
 - The Insurance Risk Program and Ice Rink Program are underfunded.
 - The Town should fund its defined benefit pension plan at the actuarial required rate to conform with the State's Pension Bond Statute.

Several questions from Commissioners were generated as a result of Mr. Cappelletti's walk-through of the audit findings. Mayor Garrett described a number of corrective actions the Town has taken since the June 30, 2021, fiscal year ended to assist in resolving the audit findings. She indicated that the Town has begun to take a very conservative approach in its revenue assumptions, including the assumptions used in the FY 2022-23 proposed budget. Steps were also taken in the FY 2022-23 budget to reduce the City's healthcare costs. Mayor Garrett indicated that ARPA funds were not utilized for the FY 2022-23 proposed budget. Commissioners indicated that the Town appeared to have made improvements upon some of its past financial practices especially as it relates to the budget process, however there were areas of concerns regarding:

- The significant unfunded pension and OPEB liabilities and the funding of these liabilities as expressed by Commissioner Sielman. She recommended that the

Town ensure that it is accurately measuring its pension and OPEB liabilities and she provided several suggestions that the Town should consider including conducting an experience study of the pension plan and that valuations should be conducted annually due to the size of the pension and OPEB liabilities. She also recommended that in negotiations of labor contracts, proposals should be fully analyzed to determine the current and long-term impact on pension and OPEB liabilities before any agreements are made.

- The use of bond premiums as expressed by Commissioner Rybacki. He indicated his concerns regarding the use of bond premiums in the General Fund as there are a number of regulatory rules regarding such premiums. He indicated that bond premiums typically are not to be used as a method to accumulate fund balance. The Town should closely review its use of bond premiums going forward. Mayor Garrett indicated that the bond premium that was budgeted in the past was a practice used by the past administration.

Commissioners thanked Mayor Garrett and her staff for attending today's meeting.

6. Town of Plymouth

Commissioner Sielman indicated that her firm provides actuarial services for the Town.

Commission Chair Buch inquired as to the FY 2021-22 projected results from operations. Finance Director Grace Zweig indicated that certain amounts included in the FY 2021-22 budget vs. actual results provided to the Commission were not up to date. Commissioners expressed concerns to that regard and inquired as to what the plan is for the Town to get its records updated, including the posting of revenues and expenditure transactions. Staffing levels of the finance office was discussed between the Town and the Commission. Commissioners indicated that it was apparent that there was a staffing shortage in the finance office. Commissioners also expressed their concerns in the lack of a June 30, 2021, audit report.

The Commission indicated their desire to see an action plan with target dates regarding the concerns from the Commission which would include:

- The recording of transactions (including timely bank reconciliations) within the financial accounting system, enabling the Town to produce updated, timely and accurate reports on its finances.
- The issuance of the June 30, 2021, audit including completion of outstanding items needed by the auditor from the Town to complete the audit.
- The filling of vacancies in the finance office.

Commissioners indicated their desire for the Town to develop such a plan and provide it to the Commission as soon as it is available. The Town should not wait until the next meeting with the Commission to provide the plan to Commissioners. Commissioner Kennison recommended that the Town hire someone whose job would be to get the Town's financial records up to date so that the Town doesn't fall even further behind. Updated records would enable the Town and the Commission to have confidence in the numbers generated from Plymouth's financial accounting system. A number of other questions were posed to Ms. Zweig and she responded to those questions.

Commissioners expressed their appreciation for Ms. Zweig's attendance.

7. Other Business

- Outstanding Audit Reports
 - Mr. Plummer indicated there were 27 municipalities with outstanding June 30, 2021, audit reports and referenced the list provided to Commissioners of those municipalities that have a history of late filings. Commissioners indicated that OPM should keep the Commission apprised of the outstanding audits.
- Legislation Update
 - Ms. Kennison updated the Commission on proposed bill 5427 and reminded Commissioners that the proposed legislation would impact the criteria and process for MFAC and MARB oversight. She indicated that the proposed legislation seems to be progressing but had yet to be adopted.

8. Adjourned

Meeting adjourned at 11:33 p.m.

Respectfully submitted,

Kimberly Kennison
Acting Commission Secretary