



BOARD OF ALDERMEN
SHELTON, CONNECTICUT
FINANCE COMMITTEE MEETING MINUTES
TUESDAY, MAY 22, 2018

CALL TO ORDER/PLEDGE OF ALLEGIANCE

Chairman Kudej called the Finance Committee Meeting of the Board of Aldermen to order at approximately 6:30 p.m. All those present rose and pledged allegiance to the Flag of the United States of America.

ROLL CALL

Alderman John F. Anglace, Jr., President – present
Alderman Stanley Kudej – present
Alderman Anthony Simonetti – not present

Also in Attendance:

David Cappelletti, Auditor - present
Raymond O'Leary, City Treasurer - present
Paul Hiller, Finance Director- present
Alderman Cris Balamaci - present

PUBLIC PORTION

No one from public addressed the board.

AGENDA ITEM

1. NEW DEPOSITORY RECONCILIATION POLICIES & PROCEDURES

Alderman Anglace: Let me just introduce the committee and give you a little background. I guess it was about a year ago that this all started and it was a persistent effort to get it done. It wasn't easy, but it's done. Ray O'Leary, the City Treasurer, provided the chairmanship and leadership throughout. He kept us all on our toes. Paul Hiller, the Finance Director was a major contributor. Lynne Piscitelli, the Assistant Finance Director, was a contributor as well as myself. We ran everything by the mayor and he is on board. Dave Cappelletti, the City Auditor, has reviewed it and he will give his comments. The purpose of this meeting is to make it as a matter of record so the public knows what we have done and why we did it and that we are on the right track and we have everybody's

blessing. We will have the city side in order and then we will move to the Board of Education. We will move to Ray O'Leary now.

Ray O'Leary: I just thought I would summarize to make it simpler, what is in this. We looked at the current bank reconciliation policies which is in the package that you received. We thought we would look at the current policy and some of things we saw missing. It's pretty much talking about procedures. There were limited policy statements. Procedures are how you implement those policies. It didn't adequately address the transparency and oversight by this board that is required. We needed to improve on that so that this committee and others would be notified if there were any issues. Also, the State of Connecticut Banking Department gave us a directive to close certain accounts and we did. We wanted to put in place a process that addresses all those issues. It's one that would help when Dave comes in to do the audit. We wanted Dave's input because when he comes in he is going to be looking at all these accounts. You saw the list of them. There are a number of accounts that all require reconciliation and balancing. We wanted to make sure that we picked up on this and Dave's comments to the Board of Aldermen that John pointed out about 18 months ago. Part of the problem was that the reconciliations were a little late and that made the audit late and when you have reconciliations that are late you are not sure they are going to balance. So, we wanted to make sure that got improved. Then to improve the transparency as we talked about by establishing a formal procedure of escalation if there are issues. So that no one can sit here in this Board of Aldermen Finance Committee or in Paul's seat or my seat or the Mayor's and say I didn't know. It can't happen. This sets up a structure that escalates any issues. Risk Assessment - we improved it by certainly making that master list. We never had one. This master list will be changed. An account will be added to it every time we open one. It will be taken off every time we close one. Any signatures that change will be on this list. So, we will always know who signed on which account, what is the short name for that account, so no one can say that they are not familiar with the accounts. They need to pay attention to those accounts and are they reconciled and are they balanced correctly. This is critical for this Board of Aldermen Finance Committee. All unresolved items over 90 days old or on three consecutive bank statements are escalated to the city's management which involves all those management people mentioned. If there is anything unresolved on a statement. It has to be resolved. When I say resolved, it comes off. Another entry is made that either writes it off, issues a new check, gets it off one way or another which means you make a decision on an item that has been there too long or you have a good reason for it and you leave it there and you explain it to others. That is our intention here.

Ray O'Leary read the letter written to the board which outlines this:

The Depository Reconciliation Project is a proactive effort by the Administration to continually enhance the City's Risk Management efforts as well as to address some major changes involving the State of Connecticut Banking Department's directive to Municipalities to close Depository Accounts currently held with the Wells Fargo Bank. The City has a number of critical accounts with Wells Fargo and we are in the process of closing these and moving them to another Financial Institution.

Also, our Committee updated the current Depository Reconciliation Policies and procedures to include these changes as well as further define staff responsibilities

related to reconciliations and the expanding of supervisory oversight aimed at consistent, timely and improvement of the overall accountability of the reconciliation process.

All Financial Institutions' monthly statements will be reconciled to the City's corresponding General Ledger Account by the assigned Custodian and counter signed by the Assistant Finance Director or the Finance Director before posting to the General Ledger. A master list of all accounts and their status will be provided to the Mayor, Board of Aldermen's Finance Committee and the City Treasurer as defined in the new policy.

In closing, we are hoping to gain the Mayor's final approval during the first week of May and followed by the Board of Aldermen's Finance Committee approval at their May meeting. When approved, we will commence our work on the Board of Education's Depository Accounts.

Ray O'Leary: That is pretty much what we are trying to accomplish. The next page is the current policy, This is the policy that's been in place. One of the things that should be on the policy is the date it was approved.

Alderman Balamaci: And any revisions?

Ray O'Leary: You should have identifications of the policy but it's not on there. This really talks mostly about procedures. It doesn't say really what happens other than direct financial review and approval of bank records. There are what 70 something Paul?

Paul Hiller: Yes. One of the issues is all the activity accounts with the schools.

Ray O'Leary: They get it for certain situations such as the football team and cheerleaders.

Paul Hiller: Yes. The athletic accounts. The activity accounts.

Ray O'Leary: Those are accounts that do not appear on our General Ledger. So, they are a little bit different. That's the old policy. Now, this is the reconciliation policy. We took the opportunity to just mention what each one of the issues is in the major categories.

Depository Reconciliation Policy

Policy Statement: The Goal of this Policy is to provide the framework for the standard and consistent balance sheet account reconciliation of all Depository Accounts listed on the General Ledger.

Definitions:

The General Ledger contains all City Financial transactions. The information contained in the General Ledger is utilized by City Officials to report, monitor and analyze the results of all City financial business.

Balance Sheet Depository Reconciliation is the comparison of each individual depository account's General Ledger to the balance recorded on the bank statement, STIF account or any other third-party depository statements.

Master List of Depository Accounts is an official listing of all depository accounts as recorded on the City's General Ledger and/or has City Officials as signatories. This list will be updated by the Assistant Director of Finance and verified to the City's General Ledger on a monthly basis. The Director of Finance will review and initial as accepted and reconciled.

Custodian(s) will be assigned to each depository account and will be responsible for reconciling each account statement to the City's General Ledger. The Custodian compiles the supporting documentation and is responsible for archiving both the reconciliation and support documentation to the central source for review by management, city officials and auditors on an as-needed basis.

Supporting Documentation will contain all the detail and information that was utilized to substantiate the reconciliation of the Account to the General Ledger. (e.g: reports, statements, journals, fees, adjustments and any other documentation describing the balancing process to third parties.)

Reconciling Items/Journal Entries, etc. are adjusting items that represent the difference between the City's General Ledger and the Depository Institutions monthly statements. Clear and precise explanations are required complete documentation is retained with support documentation.

Approvals by each Custodian and the Assistant Director of Finance are required before updating the Master List of Accounts. The Director of Finance will approve the reconciliations and provide a complete status report to the Mayor, Board of Alderman Finance Committee and the City Treasurer on at least a calendar quarterly basis.

The Depository Account Reconciliation Procedures

1. All City Depository accounts are to be reconciled to the General Ledger's corresponding account on a monthly basis. The assigned account Custodians will be responsible for reconciling their assigned accounts. The purpose of the bank reconciliations is to compare the bank record of cash and cash transactions with the City's records and to resolve and adjust differences.
2. The Accounting Officer receives the bank statements unopened from the bank and distributes them to the various Custodians responsible for each of the reconciliations.
3. The reconciliation procedure includes the following with respect to DEPOSITS:

Comparison of dates and amounts of daily deposits as shown on the bank statements with the cash receipts journal.

Investigation of bank transfers to determine that both sides of the transactions have been properly recorded in the General Ledger corresponding account.

Items subsequently charged back by the bank are investigated and adjusted in the General Ledger accordingly.

4. The reconciliation procedure includes the following with the respect to Disbursements:

Comparison of cancelled checks with the disbursement journal as to number, date, payees and amount.

Account for sequence of check numbers.

Examination will be made of cancelled checks to identify unauthorized or missing signature (s), irregular endorsements, alterations or any other irregularities.

5. Checks that have been outstanding for more than 90 days will be investigated, payment stopped as warranted and an offsetting entry made to the General Ledger as required.
6. Reconciling items to the General Ledger will be processed by utilization of a journal entry voucher which will be approved by management and maintained in a binder in the Finance Department with the Reconciliation File.
7. The Assistant Director of Finance will be responsible for maintaining the Official Master List of the City's depository accounts. Also, all accounts will be reconciled on a monthly basis and balanced to the corresponding General Ledger Account without exception.
8. All monthly reconciliations and backup documentation will be kept on file in the Accounting Department under the control of the Assistant Finance Director for the current fiscal year. Prior year's reconciliations will be filed offsite after the current audit is completed and reviewed by management.
9. The Director of Finance will review and approve all bank reconciliations for compliance with policy and risk management.
10. The Assistant Director of Finance will provide a report (updated Master List) to the Director of Finance complete with the necessary write up of ALL items over 90 days old on a monthly basis.
11. The Director of Finance will provide a written report to the Mayor, Board of Aldermen's Finance Committee and City Treasurer on a calendar quarter end basis. This report should include a copy of the Quarter End Master List and comments related to all items over 90 days old and any other unresolved items that require attention.

Ray O'Leary: So those are major changes. The Reconciliations list is pretty much the same. (See below policy). There are a few changes but they are minor. The big thing is number #5. Checks that have been outstanding for more than 90 days will be investigated, payment stopped as warranted and an offsetting entry made to the General Ledger as required. We are not saying that at the end of 90 days all these checks need to be cancelled. You take a good common sense look at them. Possibly call the people and see who has a check outstanding. If it's okay, it's okay. Just write it up that way and report it to others. If it's over 90 days and there is a good reason for it, write it down and there it is. Now you have an understanding of open items. We call them journal entries and this is where Paul and Lynne must sign them. So, it won't get done without them. Paul will put a report together and I am asking this Finance Committee to put it on their agenda for follow up for the month after the close of the quarter. The close of the quarter of March would be on your April agenda. Get that report and you will hear any items over 90 days, items that shouldn't be on there, should be written up by the custodian, verified by Paul. Paul may say we fixed it and here is how we fixed it or he may say it's still open and here is our plan to fix it.

Alderman Anglace: I just want to pick up on that point and ask our Clerk to make note of that so she can put it on the agenda and remind us all that has to happen on a quarterly basis.

Ray O'Leary: The first Finance Committee meeting after the quarter. That way you are always looking at the quarterly report. Everybody has looked at it. Lynne and Paul, and Paul has put together a report handed it to you guys and then the mayor has already looked at it.

Paul Hiller: The only question I've got on this is, the Finance Committee usually meets prior to the Regular Board of Aldermen meeting or has a schedule. The Board of Aldermen meets on the second Thursday of the month which could mean as early as the 8th or as late as the 14th of the month. If you have a Finance Committee meeting before that, let's take June for example, we probably wouldn't have that report ready by June 5th or 6th.

Ray O'Leary: The report date ending June 30, 2018?

Paul Hiller: What I am saying is the Regular Board of Aldermen meeting in July is July 12th. Does the Board of Aldermen Finance Committee have a set date that they meet?

Clerk: Yes, the fourth Tuesday of every month.

Paul Hiller: Okay. Fourth Tuesday would be fine. We would have it ready for fourth Tuesday in July. My concern was if it was before the 15th that puts us on a pretty tight schedule. We don't get statements back from the bank often until the 10th.

Ray O'Leary: Keep in mind when we get to the master list I will show you how that will work.

Paul Hiller: If it's the fourth Tuesday that will work for July.

Clerk: Is it something that's going to need to go to the Full Board afterwards or is this just a Finance Committee item?

Paul Hiller: Doesn't have to. I believe as long as the Finance Committee reviews it.

Aldermen Anglace: No. It's just for review.

Ray O'Leary: If there is an issue then yes.

Paul Hiller: Yes, if there is an issue then it should go to the Full Board.

Ray O'Leary: If there is no issue their job as Fiscal Authority to look at it is done. Also, please look at #8. Backup documentation will be kept. We are keeping all this as we mentioned before. The custodian keeps all this. Paul reviews it all and makes sure the bank reconciliations are done. They have all the documentation.

Alderman Anglace: So, in other words when the auditor shows up you just turn it all over to him.

Ray O'Leary: Yes. We supply him with the master list and whatever he wants to look at. Especially the adjustments and accounts over 90 days. Right Dave?

Dave Cappelletti: Right. So far everything looks good.

Ray O'Leary: Then the written report is #11. The procedures, what I want Lynne to do, personally as Treasurer, I would ask if that if you get somebody new that you show them the procedures and see if those procedures alone would help that person balance that account and show them the responsibilities. If it doesn't then those have to be written. There should be written instructions on how to balance as a custodian of that account. Please let me know when you do it. So now if you would, let's look at the next thing. This is the gospel page. This is just a sample. This is the master list of accounts. We will have a heading on it. It identifies the bank and in particular when you see Wells Fargo, those are the accounts that we have to close.

Paul Hiller: That's by order of the State Treasurer.

Ray O'Leary: Those are all in the process of closing. So, at some point those should be closed. And one thing you have to look out for is that at the end when it's closed is there a balance or is there a shortage? That would say that it wasn't reconciled or if there are fees unposted or something so then Paul would have to look at it and say well I know what that is and then write that off and bring it to a zero balance to close the account. That would require transaction.

Paul Hiller: By the end of this year we will primarily be at three banks: People's United, Webster and TD Bank and also the State.

Ray O'Leary: They are identified here and anything with Wells Fargo has to be closed so you will see, if you look over, you will see an account number, those are the last four digits to the account, we don't give them out. That's for security purposes.

Paul Hiller: We had 17 accounts at Wells Fargo. We are down to six right now. By the end of this month we should be down to two.

Ray O'Leary: So, we list the checking account. The first one is Wells Fargo, There's the checking account, there's your number and there's your comments. It's reconciled by the custodian Lynne and her backup is Kathy so when Lynne is out, there are no excuses, it's Kathy's responsibility. And there is a GL account number associated with the account where you just saw 7160 is in this GL. Those two have to be in balance. Date of last reconciliation is key to this committee: 3-31-18. That's the balance that should be on the end of the month's balance sheet. So, if you go down they are all there and if there are some that are December which is on the second page and Paul can speak to that. There are some accounts that have not been balanced since December 2017.

Paul Hiller: Well, it's primarily Board of Education accounts.

Ray O'Leary: Well, yes they are Board of Education but they haven't been balanced since December which is why we are including the Board of Education.

Paul Hiller; We will be including the Board of Education. Once we get through this process we intend to meet with them because they have two major accounts, they have numerous little accounts but the two major accounts are their grant account and their School Lunch Account.

Ray O'Leary: If you look at the bottom of page 2 that one account General Fund Board of Education where it says December 31, 2017. It's the last reconciliation. The second one from the bottom. See the signers right in the middle of the page there. The Mayor, City Treasurer, Paul. We are on it, and it's out of balance since December. Not a good sign.

Paul Hiller: That account, I am trying to think when the last checks were written were roughly the end of February.

Ray O'Leary: Well it should be closed then.

Paul Hiller: There are still open items.

Ray O'Leary. Right. This is the exact point this policy makes. This is an account that hasn't been balanced since 12/31/2017. There are extenuating circumstances explained by Paul. One of which is, it probably closed in February, we are not sure yet. It required some kind of adjustment to close it out, right?

Paul Hiller: Well there were still outstanding items.

Ray O'Leary: Outstanding items, so there is a reason for it but we don't know it until somebody tells us. Transparency. That should be told to us and this committee. That that is why it's still open.

John Anglace: Will the Board of Education have the same responsibility to notify the Board of Aldermen Finance Committee if something is out of whack?

Ray O'Leary: Yes. Absolutely. Especially with the money we provide to the Board of Education.

Dave Cappalletti: The Director of Finance for the Board of Education, has he seen this?

Paul Hiller: No, they have not.

Ray O'Leary: As Treasurer I look at this as official and I think Paul and John look at it the same way. If you look at this what's important to me is the date of the last reconciliation. Any of us can go to any one of these accounts and pull out the file as we stated is in a central file and look at that account and verify that it was reconciled in an audit like Dave would do. If there is a transaction that brought it to be reconciled, the copy of that transaction or journal will be in there. \$538,000 is unreconciled in one. So if they are closing in February with a high balance on December 31st. So let's see what happened. When Paul gives his report in July he will be explaining that which isn't happening up until now and he is happy to do it.

Cris Balamaci: Do you think this will be well received by the Board of Education?

John Anglace: I suppose it all depends on how we approach them. If we approach them in an informative manner and set it up as we did ourselves then I think they will be very receptive. If we do it in more of an auditing fashion and it's like pointing fingers then...

Cris Balamaci: Right, this is more of a helpful tool for them.

Paul Hiller: They get somewhat defensive particularly about their school lunch item. They get federal grants into that account. They have to have a separate and distinct fund for the school lunch account and they are very protective of it. My concern on that is, and John's heard me on this for years, is that the big checks that go out of that account are to the concessionaire for the school lunches and the city basically winds up loaning them money, over a million dollars, at various times. I showed John a month or so back a check that they gave us for \$725,000 which means that city had advanced \$725,000 to them for a point in time. I can't tell from that where that cut off was. Obviously, it was exact numbers \$725,000. That's kind of an arbitrary figure I suppose. I don't know if they owed us \$726,000 or a million dollars at that point. I guarantee you that at this point in time right now, what about a month ago I showed you that check, they us more money right now. Maybe not that much but they owe us something right now.

Ray O'Leary: But see we don't know it.

Paul Hiller: We have been getting their check runs so we can identify it. Before we weren't getting which accounts they were taking it out of. They will just give us an accounts payable run and I can see a big check to Whitsons which is the food service they are using, so I can identify it. But there may be other smaller checks.

Dave Cappalletti: Most of it's payroll, so you have to look at the payroll.

Paul Hiller: Again, we don't know. On that account they have always been close mouthed.

John Anglace: I think the intent here is to do the right thing and be transparent. I think that should be the same approach with them. I don't think we are in any position to cast stones. That's not the object behind this thing. Once this gets running, we will get feedback when Dave does his audit to whether this program is working or does it need to be improved.

Dave Cappalletti: When is it being implemented?

Ray O'Leary: After tonight. Paul's July report as of June. What I was going to say before is that what you will see in July when Paul gives his report to this committee, is the date of reconciliation may be one-month difference because the statements came in late. You will begin to see a pattern. What we don't want to say is so and so is on vacation, so and so was out sick, that won't work, we have back-up. Right Paul?

Paul Hiller: Correct. We have a full-time position budgeted which is from when Lynne was promoted to the Assistant Finance Director position last fall we need to fill her former position. We also should be posting soon for a new part-time position. I anticipate we may be able to fill it during June.

Ray O'Leary: The Mayor already said it's a good idea. The other comment about the BOE, having been on the Board of Education, Dave can help us with this. These three accounts that we are most concerned about are on our General Ledger. Dave can enforce it that these three accounts on the GL be reconciled. If you put in your report that you have to have better control of the three accounts listed here then they must do it. We just want to make sure our balance sheet is all reconciled and this is why we are starting our discussions.

Dave Cappalletti: Yes, I believe in the past it was just communication. Like I said before you develop the policies for the whole city and they have to follow them.

Paul Hiller: I don't anticipate any problems.

Dave Cappalletti: I think they will be happy to know what their responsibilities are. It's a great tool for communication.

Ray O' Leary: We are trying to help and we have a balance sheet that needs to be audited.

Alderman Anglace MOVED to recommend to the Full Board to accept the report of the Depository Reconciliation Project Committee. Seconded by Stan Kudej.
Motion passed unanimously.

ADJOURNMENT

Alderman Kudej MOVED to adjourn at approximately 7:30 p.m.

SECONDED by Alderman Anglace. A voice vote was taken and the motion passed unanimously.

Respectfully Submitted,

Theresa Adcox
Clerk, Board of Alderman