



BOARD OF ALDERMEN
SHELTON, CONNECTICUT
FINANCE COMMITTEE
SPECIAL MEETING MINUTES
TUESDAY, JANUARY 24, 2017

CALL TO ORDER/PLEDGE OF ALLEGIANCE

Chairman Kudej called the Special Finance Committee Meeting of the Board of Aldermen to order at approximately 7:47 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
Alderman Jack Finn
Alderman Eric McPherson
Alderman Lynn Farrell
Alderman Jim Capra
Alderman Noreen McGorty

Raymond O'Leary, City Treasurer - present

Paul Hiller, Finance Director- not present

PUBLIC PORTION

No session.

AGENDA ITEM**1. REPORT OF THE AUDITOR**

Alderman Anglace: I had asked that Paul Hiller, Finance Director, attend this meeting and he assured me that he would attend tonight.

David Cappelletti reports on the City of Shelton Audit.

David Cappelletti: We have an unmodified opinion. I will walk through the Financial Statements, giving you a brief discussion. Any questions, let me know and we can go to that specific page.

For those who are not familiar with the financial statements, they are broken up into four different parts now. The schedules, which have the detailed numbers of the financials and then it goes into the notes. The financial statements are in the beginning, which is more of a summary.

Page 7 & 8

What we show here is your basic financial statements for your governmental activities.

The General Fund, Capital Project Funds are your major funds. After that, you have your other governmentals, which are your Special Revenue funds.

As you can see, the fund balance for the General Fund was decreased by \$4.6 million, to \$12,700,000. One of the larger reasons for the decrease, you had a balanced budget. Your special appropriations taking unreserved money out the General Fund for Capital Projects during the year. There was also a timing difference in the collection of your taxes for a small amount.

Alderman Finn: You had indicated that the surplus is \$12,717,944.

David Cappelletti: Yes, that was for the General Fund Surplus; down from \$17,000. The big difference there was the appropriations of the Aldermen that were made during the year.

Alderman Finn: That is around a \$3 million decrease.

David Cappelletti: Yes. We can look at that in a little more detail on page 10.

I am going to go through Exhibit M. This is the budget actual report; it is on a budgetary basis. It basically shows the change in unrestricted, or undesignated funds. With the contributions from the previous fund balance, your revenues over your expenses were about \$3 million; better than expected. When you made the budget, you made a balanced budget and expected to use around \$5 million of that surplus. Of that, you still had \$3.2 million as a remainder.

Below is just some of your surplus spendings that you have done through your Capital appropriations during the year. Is there any specific questions about the City that you have questions with?

Alderman Finn: Page 45 of the audit; it has been a pet peeve of mine. Worker's Compensation keeps growing and growing. We are now \$6,670,763, and it already says future employee payments. This has grown \$3 million in the past two years.

David Cappelletti: Page 79, Schedule 7: What Jack asked about was some information about Worker's Compensation. Worker's Compensation has had a deficit for some years now; there a couple of reasons for that. There were a couple of large cases that the City has been settling over for a couple of years. Also the funding of this has changed dramatically. There is medical insurance and Worker's Compensation fund. You have funded the Worker's Comp Fund for \$1.7 million, and the benefits that you paid out was \$1.2 million. That was a favorable year. On page 78, what you do not see is a balance sheet of Worker's Comp Fund. You always have \$75,000 in cash, and the General Fund has forwarded \$3.3 million. The other item is claims incurred, but not reported and this is a long term liability. This means if we had to settle all of the cases right now, that would cost \$2.7 million.

Alderman Finn: You had indicated that the payments of the fund have changed. How have they changed over the years?

David Cappelletti: We are going back 5 to 6 years, the Board of Education paid the same amount. It was underfunded in the Board of Education for years, and this is going back a long time ago. Originally, they were funding it around \$250,000 per year, and that has increased to around \$650,000 per year. That is really to take care of a one time accrual of an incident that happened several years ago. There was an injury of several different employees at the Board of Education, so that was a litigation that filled this deficit. Now that the City has a plan to pay

it over the next several years, instead of one year. That is what the deficit is really doing, and that is a good place to look, Jack, because it has been turned around from this year to last year. It settled out last year, and this year it is starting to build a surplus from this large deficit.

Alderman Finn: So we are going to see the \$6 million disappear some time in the future?

David Cappelletti: Yes so what has happened, was an incident that happens once every ten to twenty years. The thought is that the City wants to fund that deficit over ten to twenty years. With this increase by the Board of Education and the City, it is giving larger and larger money with small amounts per year. Otherwise you would be hit with \$1 million per year, or more. So this is something that you maintain an internal service fund for. Insurances go up and down, liabilities –sometimes you have incidences one year, and you have good years and bad years. What an internal service fund says is on average over a ten or twenty-year period, you only pay an average amount. The idea behind an internal service fund is paying that amount every year and as it goes up and down, there is either a surplus or a deficit. As long as the number is approaching zero, the auditor is happy. If the auditor sees a multiple time where under normal operations that is growing in one direction- either a surplus or a big deficit. Then the auditor will mention something to say that it is not going correctly; you need to either fund it or underfund it.

Alderman Finn: As an auditor, have you ever given any recommendations or advice on how to reduce that?

David Cappelletti: Years ago I did give the recommendation to increase, so that is where the increase from the Board of Education came from when we pulled it apart and said this deficit is growing under normal operations, why is that? When we ripped it apart and looked at it, the Board of Education is not really paying for the share that it really should be because of that one time issue. This was years ago, and the Board of Education and City talked and looked at the deficit and came up with the new numbers.

Alderman Finn: There is one other thing, and I am not sure if it is in the audit book: I received a phone call home from the accountant who was doing someone's paperwork. He wanted to pay his taxes in advance, and he has done that for 12 years. The City has always accepted the money in advance. This year, the City was advised not to accept advance payments due to the fact that there is nothing to charge against.

David Cappelletti: I think the incident that you are talking about is after year end. It would have to do with the policy of the Tax Collector. I do

not think that the Tax Office has a policy of not accepting money, but some tax offices do have a policy where they do not know the proper bill is then they will not accept the money. I do not think that you have that policy here. Under normal situations they would accept it, unless there were some other legal means. Are they trying to hide money? Then the Tax Collector has the choice and the decision to accept or not to accept the money.

Alderman Finn: There is a policy now, that they would not accept the payments for July because no invoice has gone out asking that they send the money in, and nothing posted against.

David Cappelletti: By the way, the state law on that is the taxes are due no matter if an invoice is received or not. People come in and say that you never sent me a bill, so therefore I did not pay it. As a citizen and you own property, you know that there is tax due so it is our obligation to pay the tax. The Tax Collector, who has the ability to collect or not to collect taxes also has an ability to make a policy. If he/she feels as though that money was taken for false reasons, is it hiding money or something like that where he/she is not ethically dealing. Like I said, I do not have a policy on that.

Alderman Finn: I can see that as a good policy, but why was this person allowed to do that for the past twelve years, and all of a sudden says no?

David Cappelletti: You had the same auditor for the last twelve years, and last year you started with a new Tax Collector. With that new Tax Collector, she may have different policies. Like I said, the Tax Collector has the authority to collect or not to collect taxes. I do not know the circumstance, but the Tax Collector has the ability to not accept payment when it's false.

Alderman Finn: I agree with the Tax Collector, I was just curious as to why this was acceptable for twelve years. The Accountant said that the City Auditor said this.

David Cappelletti: The City Auditors do not make that decision. If the Tax Collector asked if they should accept it, then we would say you are the Tax Collector. If you do not feel comfortable accepting it, then you do not need to accept it. We would not say, no you do not accept it. As long as they properly record it and the City Treasurer is able to review it to see if it is appropriate.

Alderman Kudej: Does the City Treasurer have any observations?

Ray O'Leary: I do not have a copy of the audit.

Alderman Anglace: That is one of the reasons why the Finance Director was supposed to be here, to give him a copy of the audit.

Do you have any idea of what the tax collection rate was last year?

David Cappelletti: Page 93 and 94, Schedule 13- This is the standard schedule that is required by the State of CT, as part of the audit. What it does is it looks at all of your receivables from the tax collections. It starts out from last year's numbers; the increases and decreases would be the change in the assessment. Transfers and Suspenses- these are the ones that are approved as the Tax Collector felt they were not collectable. It comes up to a new balance. The taxes collected are the first column on the second page. The total collected for this fiscal year was \$100,000,864. The total to be collected was \$101,000,891. If you were to divide those two numbers together, that is something that is called the tax collection rate.

Alderman Finn: Why does it say 2014 in front of it, instead of 2016?

David Cappelletti: How this is reported is by Grand List. You take the October 2014 Grand List, and it is approved in the 2015/2016 year. The October 31st is for the following year beginning July 1st.

Alderman Anglace: Dave to your knowledge, are the bank reconciliations being done on a monthly basis?

David Cappelletti: Yes, one thing that held up our audit a little bit because they were behind on their bank reconciliations. We had to forward them and ask them to catch up on their bank reconciliations before we can complete their audit. That was one of the areas that slowed us down, was the bank reconciliations.

Alderman Anglace: Would it be in order that the Board of Aldermen be advised if bank reconciliations are done on a regular basis. Say the account has not been balance for two months, there should be a red flag someplace.

David Cappelletti: Absolutely. By state statute, who has that responsibility would be given that procedure. The Treasurer is responsible for the cash holding and cash accounts. If I had a procedure, this would not happen again. It would probably be to report to the Treasurer that reconciliations are done properly, and the Treasurer could review any reconciliations he would have feelings with. Technically some the smaller towns would do this. The Treasurer is paid for this, but I would think it would be within the normal procedure for the Treasurer to

develop policies to be sure all bank recs are done on a timely basis. When not, the Treasurer would report that to the Board of Aldermen.

Alderman Anglace: Chairman Kudej, please note for the record that if any bank reconciliations are not done for two months in a row, then this Board should be advised just so we know there is a red flag. That was red flag that was raised in the past and I do not formally know what was being done so I think we should make that a formal request. When you send the minutes to the Finance Director, send a copy to the Treasurer as well. Between the two of them, they can notify us. We will have the Treasurer look over the shoulder of the Finance Director, vice versa. My discussions with my financial advisor, he advised that we do that. We see this audit report year after year, and we look at it with our limited spoke. We rely on people like yourself and the Treasurer. I have asked the Treasurer to take a more active, oversight role. Is not responsible for the day to day activity, but would be the perfect person for internal oversight.

Alderman Finn: In the audit book, where the auditor's firm made certain recommendations to the City for improvements. Is there something like that in the book? Where would I find it?

David Cappelletti: That would be part of the single audit sections. It should be read in conjunction with the financial statements. There are certain internal controls that we feel should be known, given the financial statements. One of the things that we have removed this year was the reconciliations between different offices and accounts. It is still a recommendation but it is something we feel that is not significant to the financial statements anymore. I think your Board of Education Finance Director has made large strides. These were accounts that could never get reconciled for the last years, which he has been doing that. He has also kept up with the special revenue funds. Usually the bank recs were always commented, and now they keep up with the larger bank reconciliations. Their General Fund was not even being reconciled years ago, so there is activity in there.

The slowness of the bank recs this year was because the absence of an employee. When someone takes an absence suddenly is that all of those duties were taken over by everyone else. That was very difficult for the Finance Office this year.

Alderman Finn: That has been ongoing for a couple of years.

David Cappelletti: With the absence from one the employees who did most of the bank recs, with her absence they have taken over a lot of her duties plus their own. There are some special circumstances that Paul can go through. I think this was an abnormal absence, but when

something does happen there should be written procedures to look up exactly how it works. They were able to catch up with the work that they needed to do, but it just did not happen in a very quick manner.

The area that I always go over is the Worker's Comp piece that I went over before. Also, sometimes it is hard for one department to reconcile with the other department. I would like to see that done on a monthly basis. The City can work better, absolutely. Do I think that there are significant problems that exist? No. I think we have to look at the timing when things need to get done, so that they are done automatically. So really, it is just tightening up the procedures now.

3. ADJOURNMENT

Alderman Kudej MOVED to adjourn at approximately 8:15pm.

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

Respectfully Submitted,

**Brittany Gannon
Clerk, Board of Alderman**