



BOARD OF ALDERMEN SHELTON, CONNECTICUT

SPECIAL MEETING - ALDERMANIC FINANCE COMMITTEE
TUESDAY, JANUARY 28, 2014

Call to Order / Pledge of Allegiance

Finance Committee Chairman Stanley Kudej called the special meeting of the Finance Committee of the Board of Aldermen to order at 6 p.m. All those present stood and pledged allegiance to the flag.

Roll Call

Alderman John F. Anglace, Jr., President – present
Alderman Stanley Kudej – present
Alderman Anthony Simonetti – present

Alderman John Papa
Alderman Lynne Farrell
Alderman Jack Finn
Alderman Noreen McGorty
Alderman Eric McPherson

City Treasurer Ray O'Leary, Finance Director Paul Hiller

PUBLIC SESSION

Louis Dagostine, 14 Greenfield Drive

I'm here to urge the Board of Aldermen to hire an independent forensic auditor to conduct an audit of the Finance Department. As we're all aware, Mrs. Sharon Scanlon, former Assistant Finance Director, is scheduled to be sentenced in criminal court later this week. In the original criminal indictment, Mrs. Scanlon was accused of stealing over \$900,000 from the City. I believe Shelton residents are entitled to the following:

- To know the complete time period the alleged theft took place
- The specific amount of money that was stolen
- The control systems that were in place during the times of the theft
- The control systems that are now in place to prevent the theft from happening again

I believe we need to learn from this experience so we can make sure it doesn't happen again. I for one am concerned that Shelton may not recover all of the money that Mrs. Scanlon allegedly stole. I am also concerned by the findings in one of the audits on your

agenda today. Specifically, in the Federal and State single audit reports for the year ending June 30, 2013, Page 10. "The City's Finance Office does not maintain internal controls of the monthly closing and routine maintenance of the accounting records. This includes proper reconciliation of balance sheet accounts such as cash, accounts receivable, and accounts payable, on a routine basis." The audits before you today are not forensic audits. I urge you to hire a new auditing firm to conduct forensic audits. It will provide us with the extent of the losses and also any weaknesses that may have existed in the control system in the Finance Department.

Wayne Bragg, 85 Park Avenue

I'd like to make a few brief comments about the need for a reserve account again. I found it interesting in the [inaudible] report that the budget under-runs in many of the operating departments are referred to as "performance improvements" when in fact all they really are, are headcounts that did not materialize. There are no process improvements that are visible in the audit report that were made that led to reductions in manpower because we were more effective or more efficient. The methodology that we have here is one of comingling the reserve account with the operating expenses which makes it incredibly confusing and very difficult to manage. Two of the Board of Apportionment and Taxation's chairpersons in the past have recommended that this be incorporated and to date it is not. My feeling is we look at 22 years of budget under-runs and we pat ourselves on the back and say "what a great job we did." I have 30 years of budgeting experience and running in a Fortune 50 company and I teach budgeting at the graduate level at the University of Connecticut. If I had 22 years of budget under-runs in double digits, that's just inaccurate budgeting; that's what it comes down to. I think it's time that we bring this together, we look at it in a real accounting context, and we take the monies that are necessary for the reserve and we separate them, we put them into a reserve account, and we put it in the budget, the real operating expenses that we need to run the departments. Typically when you have large budget under-runs it means one of two things - either the budget is inaccurate, or the services are not being accomplished and the services are not being provided to the citizens of the City. It's time to make that change. It does not have any increase in the taxes, it's just moving money from one account to another account. I think it's time to do this now. Thank you for indulging me again.

AGENDA ITEMS

1. AUDIT DISCUSSION

Dave Cappelletti, Auditor

On page 10, the financial statements are presented on an unmodified basis. We have the revenues and expenditures on a budgetary basis. We found the revenues over expenditures on a budgetary basis were \$7.7 million in surplus from operations. In addition some other non-operating adjustments were made, such as the resolution of the school construction litigation. You designated \$4.3 million to next year's surplus. That leaves a change in your undesignated assigned balance of \$3.6 million.

The notes and the schedules show a little bit more attention to detail. If you have any questions, we can turn to any of those pages.

In response to questions, Mr. Cappelletti explained that on Page 94-95 Table C, that compares a 10-year analysis of debt payments and your debt over 10 years. It's broken up between your clean water loans and your general obligations. For the last three years you've been paying down your debt. The big increase was the WPCA State-mandated. The other large one was the school construction grant that you just got done with. This also shows the debt per capita. Also, on Page 96 shows the debt as it relates to the population, also the assessed value. There you're really going to see the straight line.

Mr. Cappelletti explained, the Board of Education set up a new system specifically for their payroll. We looked at these areas extremely carefully because of the Scanlon case. It's one area where we've looked at the year end but through the year to make sure it's done timely every month.

He continued, what we've done through our audit, we come in and we audit the books. We are not supposed to make any adjustments or do any additional work; it's supposed to be provided to us. From time to time we do see areas like this. For instance, in this situation we came in with the Board of Education Finance and the City Finance and sat together and we did it together. I would like to see it being done before we get it. I am an external control. What I'd like to see is internal controls take care of that without my oversight. It was all redone with my oversight. We recommended it be done without our oversight.

Alderman Finn stated, your firm has been auditing for a number of years. I know we just renewed your contract for five years. Only last year did the audit mention the money was missing; there was nothing prior to that.

Mr. Cappelletti stated, we had findings every single year that's similar to what we're reading. It also says the bank reconciliations were not being reconciled timely. If we mentioned that money was missing before last year we would have called the Police directly as we did this past year. It wasn't caught before because of the control weaknesses that we reported prior to that year.

Alderman Finn stated, [inaudible] attorneys made mention of the fact they may bring litigation against your firm. It was in the paper, it said Sharon Scanlon's attorney, William Dow, said "a potential for action against the auditors."

Mr. Cappelletti stated, you can say anything to the papers. Dow is Sharon Scanlon's attorney. We have never worked for Sharon Scanlon.

Alderman Finn asked, wouldn't it be best to have a forensic audit so everything would be in line?

Mr. Cappelletti replied, the process we followed during the situation when it came to our attention we closed off everyone from the Board of Finance. Within three days we knew the number. Internal controls were locked up and closed. We were able to do that. During my audit period we had that number because we were the ones that mandated that we maintain the records. Through my audit period it was four years, we knew exactly how much was stolen and we were also able to protect the rest of the City's.

Mr. Cappelletti then explained in detail the audit process.

The Board of Education cash accounts have been cleared up and the oversight is the City's.

Finance Director Paul Hiller explained that the City has hired a new employee that is a CPA to assist in the office and is working on a part-time basis to make sure that everything is reconciled.

In response to a question from Alderman Finn, Mr. Cappelletti explained, I do forensic audits. They are very expensive and detail-oriented. If you're going to bring a forensic audit in, you're going to have an idea of what they're going to look at. Otherwise, if you say "look at every single transaction" it's going to be extraordinarily a lot. The State Police was brought in and the District Attorney. They did their investigation on the State's money. You lost the Finance Director and the Assistant Finance Director at the same time. They were the ones that made sure everything connected together. When they left, you have clerks and a new Finance Director trying to pick up the pieces. I would say that if I didn't report a significant deficiency or finding this year it would be strange, because for all new people to come into a \$100 million plus budget and say that everything's running and operating fine within six months would be an amazing feat. This is a still ongoing process and we are still adding to the people there. I think it's very important that someone come in on a monthly basis that has a CPA to oversee, to double-check everything being done.

The Assistant Finance Director really acted almost as a Comptroller. That position now is no more. An oversight is needed still. Day to day operations are working well. We were able to go through these areas and reconcile them without much problem at all. If it was done internally without the help of the auditors it would be a step in the right direction.

Alderman Anglace stated, I heard the comment earlier, "hire a new auditing firm." We do a RFQ from the auditing firms on a 3-year basis. The first year of any cycle is a learning experience. I know the amount of effort that our Finance people have to put in that first year. Given the comment, what do you think? Should we hire a new accounting firm or can you get the job done?

Mr. Cappelletti explained, we use standard auditing procedures.

Alderman Anglace asked, what have the other towns done? Have they done forensic audits?

Mr. Cappelletti replied, there have been towns that have done that, yes. When you do a forensic audit, and you're not giving a specific reason why, then you are paying for a general audit, which we are already performing. If you had a concern in one area, first, you already pay us to do that, you can say, in this area, I need more detail. You already pay us to do that. If we had problems we would come back to you, and then you would hire a forensic audit.

Alderman Anglace stated, in my discussion with a forensic auditor he indicated to me that most of his work comes from areas where there is an investigation taking place, as opposed to just going in and doing a carte blanche forensic audit of the entire City. It would cost millions of dollars to do something like that. They are focused and detailed on that particular issue; that particular time period. I understand how the public might think some changes need to be made. In view of the discovery of fund losses suffered over a period of time, what, if any, changes do you recommend regarding internal controls and future audit procedures?

Mr. Cappelletti explained, once we know there is a high risk area, instead of taking what the information was year end, we went month-by-month. Once you call something high risk to us, we have to automatically do more procedures. If you don't tell us, we try to find those areas ourselves and we pick random areas to do that. We try to do that over multiple years so we catch what we think we caught theft in other towns and cities. In this situation, we've done more detailed work on those oversight positions.

Alderman Anglace stated, being that this matter is still in litigation and coming to conclusion, the Aldermen, who are the fiscal authority of the City, we have very sparse information on the details – on the positions of various people that have been involved like the State Police. We don't have these reports. This is all in litigation. It's pretty hard for us to make judgments in terms of what should be done. Most of the funds that were missing came from the General Fund. We also have special revenue accounts. Does that need any looking at?

Mr. Cappelletti replied, special revenues are funded through State and Federal grants. Both the State Police and the FBI became involved and specifically asked those questions. I don't know the extent of their work, but if they were to find anything that would be their biggest concern. Once it came to my attention, I would have to know whether to call the local Police, the FBI, or the State Police. So when I did a full look of every fund I found that it was only stolen from the General Fund – from taxes collected. So the only phone call that was made was to the local Police.

Alderman Anglace stated, I am hopeful that in your role as City auditor you will continue to make the suggestions to our Finance Director as to what needs to take place, even though it's after the fact. The gentleman said before, how much was involved? That is still up in the air. We're all saying, how much? We may never know. We do know we

received some money back. We know our insurance came through, and she made restitution. A good sum of what was missing has been recovered.

Comparing what you read about the City of Shelton and other towns that have the same problem, the circle was closed so quickly in comparison. Sometimes these come three or four years down the line before you see the money. Here it was done very quickly. All questions were answered very quickly.

Alderman Finn stated, I'm not looking to hire a new auditor nor am I looking for a forensic audit of the whole City of Shelton. My remarks were geared toward the Accounting Department. The audit would determine the extent of any losses, the weakness in internal controls, policies and procedures.

Alderman Anglace stated, you're already addressed the issues in the Finance Department and made corrections within the Finance Department, with their controls.

Mr. Cappelletti concluded, once it becomes identified as a high risk area it doesn't become a forensic audit but it does become a very detailed audit. I think if you did bring a forensic audit it he will have very close conversation – similar conversation that I had with the management of the Board of Finance. You'll probably find a finding in front of you like that, and then also in conversation with your Finance Director to work detail to see how we can fix that as quick as you can. That was done already. I'm on contract to do what you're requesting to do.

2. FEBRUARY STATUTORY REFUNDS

Alderman Simonetti MOVED to recommend to the Full Board that the report of the Tax Collector relative to the refund of taxes for a total amount of \$10,403.04 be approved, and that the Finance Director be directed to make payments in accordance with the certified list received from the Tax Collector with funds to come from the Statutory Refunds Account 001-0000-311.13-00; SECONDED by Alderman Anglace. A voice vote was taken and the MOTION PASSED 3-0.

3. LIGHTING FIXTURES FOR HIGHWAYS & BRIDGES BUILDING – LOCIP ELIGIBLE

Alderman Simonetti MOVED to recommend to the Full Board to add the lighting fixtures for the Highways and Bridges Building to the Capital Improvement Plan with funding in the amount of \$11,797.93 to come from LOCIP; SECONDED by Alderman Anglace. A voice vote was taken and the MOTION PASSED 3-0.

4. CONVEYANCE TAX REFUND

Alderman Simonetti MOVED to recommend to the Full Board to approve the refund of Town Conveyance Taxes in the amount of \$565 made payable to Lori A. Tuccio of 465 Barton Drive, Orange, CT with funding to come from the Contingency General Account #001-9900-900.99-00; SECONDED by Alderman Anglace. A voice vote was taken and the MOTION PASSED 3-0.

Alderman Anglace stated, these last three items are all boilerplate things that come up every month and there is no reason to have a Finance Committee meeting to address these and say "recommend to the full Board..." That's just redundant. It's a waste of time. That's why we don't have Finance Committee meetings over redundant items. Things that are done every month - Statutory Refunds - everybody on the Board of Aldermen understands what they are. You don't need to hold a special meeting of the Finance Committee on a separate night to sit here and say "recommend to the full Board to do this." It's something that they do, boom, boom, boom. We can take these matters straight to the full Board. I just want the people to understand for the record the kind of issues that you get. Now, if you get something worthy of discussion like the audit report, that's why you call a meeting. These are on here because we called this meeting, so we just put them on.

ADJOURNMENT

Alderman Anglace MOVED to adjourn; SECONDED by Alderman Simonetti. A voice vote was taken and the MOTION PASSED 3-0.

The meeting adjourned at approximately 6:42 p.m.

Respectfully submitted,

Patricia M. Bruder, Clerk
Board of Aldermen

Date Submitted: _____

DATE APPROVED: _____

BY: _____

Mark A. Lauretti
Mayor, City of Shelton