

# STATE OF CONNECTICUT

*OFFICE OF POLICY AND MANAGEMENT*

## OFFICIAL MINUTES

### MUNICIPAL FINANCE ADVISORY COMMISSION

#### REGULAR MEETING

**THURSDAY, SEPTEMBER 17, 2015**

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

Date/Time: September 17, 2015, 10:00 A.M.

Members Present: Chairman Thomas Hamilton  
Mr. Robert Burbank  
Mr. Douglas Gillette  
Mr. Scott Jackson  
Ms. Rebecca A. Sielman  
Ms. Diane Waldron

Members Absent: Ms. Kathleen Clarke Buch  
Mr. John Schuyler

Others Present: Jean Gula, OPM Staff  
William Plummer, OPM Staff  
Dale Martin, Town Manager, Town of Winchester  
Candace Bouchard, Mayor, Town of Winchester  
Bruce Stratford, Finance Director of Winchester  
David Merchant, Mayor, Town of Plymouth  
Ann Marie Rheault, Interim Finance Director, Plymouth  
Nicole Johnson, Staff Accountant, Plymouth  
Philip Penn, School Business Manager, Plymouth  
Nikoleta McTigue, Blum Shapiro, Plymouth External Auditor

1. Call to order

Chairman Hamilton called the meeting to order at 10:05 a.m.

Chairman Hamilton noted that there were several new individuals at today's meeting to provide information to the Commission. He therefore requested that Commissioners briefly introduce themselves to those in attendance.

2. Approval of Minutes to May 14, 2015 Meeting

The minutes of the May 14, 2015 meeting were unanimously approved by all Commissioners in attendance. (Note: Commissioner Burbank arrived at 10:12 a.m., subsequent to the approval of the minutes).

3. Town of Winchester –Financial Condition Update

Prior to discussion on the Town's finances, Commissioner Gillette stated for the record that his firm serves as bond counsel to the Town.

Chairman Hamilton noted that the Town had submitted a number of financial documents for today's meeting and requested that Town Manager Dale Martin provide a brief overview of the Town's current overall fiscal condition. Mr. Martin indicated that the Town adopted its FY 2015-16 budget at the first budget referendum which is a rare occurrence for Winchester. He also indicated that the State had appointed a receiver for the Town's school system and that the receiver has been well received by town residents as an opportunity to put in place some of the plans and policies that the Town and Board of Education had been considering. The Town was also seriously considering a consolidated financial accounting system to be used by both the Town and school system. Mr. Martin noted that the Town had retained a new finance director, Bruce Stratford, who was at today's meeting and would provide more details on the Town's current finances.

Mr. Stratford introduced himself and Chairman Hamilton requested that he go over the financial documents that were provided by the Town for today's meeting. Mr. Stratford indicated that the adopted FY 2015-16 budget includes a \$450,000 increase to the Town's fund balance. In regard to the anticipated results for FY 2014-15, preliminary results would indicate that the Town potentially will report an operating surplus of approximately \$1.5 million. Mr. Stratford went on to describe the revenue and expenditure items in the FY 2014-15 budget that led to the apparent surplus. Commissioners asked a number of questions of Mr. Stratford including the FY 2014-15 results of the Town's non-general funds, the status of FY 2014-15 financial information from the Board of Education, the status of any repayment required by the Town to the State for overbillings related to the Excess Cost Grant, etc. Mr. Stratford also briefly discussed the cash flow projections that were provided to the Commission, including the timing of the ECS payments from the State. A brief discussion also occurred regarding recent and upcoming contractual agreements and pension contributions and their possible effects on the FY 2015-16 budget.

Commissioners congratulated the Town for what appeared to be significant improvements in its financial condition and thanked Winchester officials for attending the meeting.

#### 4. Town of Plymouth – Status of June 30, 2014 Audit and Related Audit Matters

Chairman Hamilton indicated that in the absence of objection, as no one from the City of West Haven was in attendance to make a presentation, the Town of Plymouth would be moved up on the agenda so that Town officials could make their presentation without further delay.

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

Chairman Hamilton requested that Mr. Plummer inform the Commissioners why the Town was on the agenda for today's meeting. Mr. Plummer indicated that the Town's former finance director had committed fraudulent activities affecting the Town's finances and in addition the Town's financial records had been poorly maintained by him such that the Town was now in the stages of recreating and adjusting its financial records. This has led to the significant delay in completing the FY 2013-14 audit which was to have been issued by December 31, 2014. This lack of current financial information had caused Moody's Investment Services to withdraw the Town's bond rating.

Plymouth officials introduced themselves to the Commission. Chairman Hamilton then provided a summary of the role of the Commission, and explained that the Commission was made up of municipal chief finance officers and chief executive officers, and others with various expertise in municipal finance. He described the role of the Commission, indicating that its primary role was to assist municipalities in identifying their financial problems and to assist in developing solutions going forward to resolve such problems.

Chairman Hamilton acknowledged the investigative report that was included in packet provided to the Commission which detailed the fraudulent activities of the former finance director. He requested that the Town provide updated information to the Commission on matters related to the audit, including internal control issues. Interim Finance Director Ann Marie Rheault provided a background on the condition of records she encountered once she came aboard in January 2015. She indicated the difficulty she encountered in formulating the FY 2015-16 budget due to the lack of current financial information and the way the budget had been developed in the past with little input from Town departments. Once the budget was finally adopted she went on to address the FY 2013-14 audit. Ms. Rheault described the poor records that had been maintained requiring transactions to be analyzed and a number of journal entries made to record the transactions and bring the records up-to-date such that the auditor would be able to proceed with the audit. A part-time accountant was hired in May 2015 to assist the finance office with audit related matters.

A discussion ensued as to the type of financial accounting system presently being used and the current staffing of the finance office. Ms. Rheault indicated that the current system was antiquated and would need to be replaced at some point once the financial records have been brought up to date. Chairman Hamilton indicated to Mayor Merchant that the necessary resources must be committed to both staffing and

the financial accounting system and other technologies needed to bring the Town up-to-date with issuing the audit and to ensure financial records are current to prevent future audits from being significantly delayed. Mayor Merchant indicated his commitment to provide the resources necessary, although he would like a clear plan for completion of the FY 2013-14 audit so that he can begin to tackle the overall problems in the finance office including staffing and technology resources needed. If the plan clearly indicates that an additional 2 or 3 people are needed to complete the FY 2013-14 audit and how those additional individuals would be utilized, he then would have the information needed to attempt to allocate the resources necessary.

The Commissioners and Town officials discussed whether the FY 2014-15 audit could be issued with a modified opinion regarding the accuracy of the financial information from the FY 2013-14 audit and whether such an opinion modification would be acceptable to OPM. Commissioner Jackson indicated that the opinion modification is normally looked at unfavorably by credit rating agencies and could be problematic for the Town in issuing bonds in the near future. Commissioner Gillette indicated that it was his belief from practical experience that having an audit issued with a qualification regarding the accuracy of the financial data would not be the way to proceed if the Town sought to achieve a high level of market access and the best rates on its upcoming bond issues.

Chairman Hamilton indicated that from listening to the Town's presentation, he believes that there are two distinct staffing issues, (1) What staffing resources are currently needed to complete the FY 2013-14 audit and to get the FY 2014-15 financial records in such a condition that their audit can be completed in a timely manner. If the current temporary accountant cannot take on additional hours, the Town should seriously consider contracting with a separate accounting firm that could step in and assist with ensuring that the FY 2013-14 and FY 2014-15 financial records are in auditable condition; and (2) On a long-term basis, what permanent staffing resources should the Town retain in order to complete the day-to-day activities needed of a finance office. In his opinion the Town's finance office, besides the finance director, needs one or two other professional accountants from what currently exists. A discussion ensued as to when the financial records would be in such a condition to be turned over to the auditor if there were no additional staffing resources currently brought in to assist with the financial records.

A brief discussion occurred on the Town's current financial condition. Ms. Rheault indicated that the Town has been able to meet all of its cash disbursements without any problems or delays in payments. Ms. Rheault also described changes in internal controls that she has made to prevent a similar occurrence of fraud occurring. On a going forward basis she has also changed certain policies and procedures to keep the Town's financial records up-to-date with timely journal entries and correct recording of transactions. She is also ensuring that school projects and other grant-funded projects are closed out on a timely basis so that reimbursements can be obtained from the State.

Commissioners indicated that the Town appears to be headed in the right direction although there appears to be a number of items that remains to be completed. The Commission thanked Town officials for their presentation.

5. City of West Haven – Financial Condition Update

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

Chairman Hamilton noted that the City had not provided any updated financial information to the Commission for today's meeting. Mr. Plummer indicated the items in today's packets consisted of a document that provided a brief history of the City's fund balances and a corrective action plan that the City had submitted several months ago to OPM, along with the management letter from the City's auditor in regard to the FY 2013-14 audit. He also informed the Commissioners that the Mayor and Finance Director had indicated to him that they would be unable to attend today's meeting but that they would be open to attending a special meeting in the future if the Commission so determines.

The Commissioners briefly reviewed the documents and inquired whether there was any more up-to-date information from the City. Mr. Plummer reminded Commissioners that the City at the May 14<sup>th</sup> meeting did provide FY 2014-15 budget to actual projections, and at that time the City was projecting an operating deficit of approximately \$1.6 million, due in large part from a significant underestimation in its health insurance benefits costs. The City did adopt its FY 2015-16 budget, which included significant increases in its permit fees receipts.

Commissioners indicated their desire for updated financial information from the City in order to assess its current financial condition and asked Mr. Plummer to draft a letter on behalf of the Commission for Chairman Hamilton's review and signature.

6. Borough of Jewett City – Update

Mr. Plummer indicated that there was nothing new to report regarding the Borough's finances at this time.

7. Other business

Commissioner Jackson informed the Commission of the City of New London's notification to OPM of its intent to issue Pension Obligation Bonds (POBs) in connection with the City's recent merger of its fire department pension plan into the State of Connecticut's Municipal Employees Retirement System (MERS). Commissioner Sielman indicated that her firm provides certain actuarial services for the City. The merger resulted in an approximate \$7.5 million in unfunded liability owed by the City to MERS for which MERS would charge an 8.0% interest rate to amortize the unfunded liability. The City's intent is to issue approximately \$4.0 million in pension bonds at an interest rate of less than 5.0% and deposit the proceeds into MERS to partially fund the unfunded liability.

8. Adjournment.

The meeting adjourned at approximately 12:05 p.m.

Respectfully submitted,

Douglas W. Gillette  
Commission Secretary