

Minutes: May 12, 2016

DAVID R. MARTIN
MAYOR



BOARD OF FINANCE
RICHARD FREEDMAN
CHAIRMAN
MARY LOU T. RINALDI
VICE CHAIR
SAL GABRIELE
DUDLEY N. WILLIAMS
DAVID KOORIS
SHELLEY A. MICHELSON

BOARD OF FINANCE

STAMFORD GOVERNMENT CENTER
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REPORT OF AUDIT COMMITTEE MEETING OF THE BOARD OF FINANCE

HELD ON MAY 12, 2016

ATTENDEES: COMMITTEE CHAIR RICHARD FREEDMAN, COMMITTEE MEMBER SAL GABRIELE. ALSO IN ATTENDANCE WAS CONTROLLER DAVID YANIK.

Review of the 2014-2015 FY Management Letter

Chairman Freedman opened the meeting at 6:10 p.m. stating its purpose as being for the review of the FY2014-15 Management Letter which covered areas including: grants accounting; tax collector's report; City Audit readiness and pension fund financial reporting; timekeeping oversight and administration; Urban Redevelopment Commission (URC) – accounting and financial reporting; and the Internal Service Fund.

Mr. Freedman commented that it was a good report and that there were no material weaknesses or significant deficiencies. The auditor made some suggestions from which Mr. Freedman took notes and will follow up on.

After ascertaining that there were no further questions, Chairman Freedman called for a motion to adjourn the meeting. On a motion by Mr. Gabriele, which was seconded by Mr. Freedman, the Committee then adjourned the meeting at 6:35 P.M.

This meeting is on Video.

Richard Freedman, Audit Committee Chair

Sal Gabriele, Member

cc: Mayor David Martin
Michael Handler, Director of Administration
Kathryn Emmett, Director of Legal Affairs
Lou Casolo, City Engineer
Randall Skigen, President, Board of Representatives
Jay Fountain, Interim Director of OPM

David Yanik, Controller
Ernie Orgera, Director of Operations
Karen Vitali, Assistant Controller
Beverly Aveni, City Purchasing Agent
Donna Loglisci, City and Town Clerk

BlumShapiro

Accounting Tax Business Consulting

To the Members of the Board of Finance
City of Stamford, Connecticut

In planning and performing our audit of the financial statements of the City of Stamford, Connecticut, (the City) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

We noted the following new matters involving the internal control over financial reporting and its operation that we offer our recommendations as constructive suggestions for your consideration as part of the ongoing process of modifying and improving accounting controls and administrative practices.

Grants Accounting

All grants, including capital grants, need to be analyzed on a timely basis in order to ensure that accounts receivable and deferred revenues are accurately recorded at year end. Upon audit inquiry, several journal entries were made to record changes to total grants accounts receivable and deferred revenues. In addition, it appears that numerous capital projects appear to be several years old and grants personnel are uncertain as to why the receivables haven't been collected.

Recommendation

We recommend that the City implement policies and procedures to ensure grants accounts receivable and deferred revenues are recorded timely. In addition, policies and procedure should be in place to ensure accounts receivables are collected on completed projects and that any aged receivables are reviewed for collectability.

Tax Collector's Report

In order for us to complete our audit procedures related to the Tax Collector's Office, we made numerous follow-up requests prior to getting the final information required to complete our work. In some cases the initial information received was either incomplete, did not tie to the general ledger, or lacked appropriately detailed supporting information.

Recommendation

We recommend that supporting information requested should be shared with auditors from the initial due date of the request (as communicated by the Comptroller's Office) so the audit staff and the Tax Collector's Office are working with the same information and timeliness would not be an issue.

Matters Noted in Previous Years:

The following matters involving the internal control over financial reporting and its operation were noted in previous years but have not been fully remediated. We offer our recommendations as constructive suggestions for your consideration as part of the ongoing process of modifying and improving accounting controls and administrative practices.

City Audit Readiness and Pension Fund Financial Reporting

We noted that not all journal entries were completed by the City as of the commencement of our audit. Over forty journal entries were recorded during the audit, some of which were proposed by management after the audit began. This is an improvement over the prior year but still an issue that should be addressed by the Controller's Office. We noted that many of the audit entries were related to the recording of pension plan activities.

In addition, the completion of the CAFR was significantly delayed by the late completion of the Fire and Police pension fund financial reporting as managed by the Fire and Police pension fund boards. Certain actuarial reports necessary to complete the new GASB 68 pension disclosures could not be completed until the Fire and Police pension fund financial reports were finalized. These actuarial reports were finally issued in early December (almost eight weeks later than originally planned), making it very challenging to issue the City's financial statements by their December 31 due date.

Recommendation

We continue to recommend that the City work with the respective Fire and Police pension fund boards to implement corrective actions to ensure that all required adjustments are recorded prior to the commencement of the audit to ensure the timely completion of the City's financial reporting processes. This would enable the City's actuary to complete the required pension disclosures ahead of the deadlines for the issuance of the CAFR.

Timekeeping Oversight and Administration

Currently, City departments utilize the automated time and attendance system, Kronos®, to ensure that time and attendance are properly recorded for payroll purposes. Due to the varied introduction of the use of this software application to City departments, the monitoring of employee hours worked, as well as compensated absences, lacks common procedures for the approval of overtime. Our audit procedures indicate that a significant number of individuals can approve overtime and that an administrative or supervisory level individual is not always required for such approvals.

Recommendation

We continue to recommend that the City standardize payroll policies and procedures related to the use of Kronos® for all City departments (including the Board of Education). Written policies should be established that identify the level number and name of all authorized approvers. Also, overtime incurred should be reviewed and approved at the appropriate supervisory level to ensure that overtime is justified and that the reasons for the overtime are being clearly documented in accordance with established policies.

Urban Redevelopment Commission (URC) - Accounting and Financial Reporting

During our audit of the URC, we noted that certain receivable and payable balances between the URC and the City that have remained unchanged for several years. Also, during F2015, there was an additional advance from the City to the URC for its operations which required a review of the projected future cash inflows and outflows of the URC in order to ensure that the City could be repaid. If the City had not made the advance, it appears that the URC would have been incapable of completing its obligations as outlined in its real estate development contracts.

Recommendation

We recommend that the City should continue to monitor the projected cash inflows and outflows to ensure the repayment of the advances and that the City and the URC periodically continue to review all balance sheet accounts at year end to ensure that the URC accounts are properly stated and complete in all material respects.

Internal Service Fund

The City is self-insured for police officers' and firefighters' heart and hypertension claims as required by State Statute. The pay-as-you-go portion of the claims is paid from the City's Risk Management - Internal Service Fund. The City utilizes a third party to prepare an actuarial valuation to determine the heart and hypertension claims' liability. The claims' liability is being recorded at the government-wide level as required by GASB Statement No. 34 but it is not recorded in the Risk Management fund.

Recommendation

We continue to recommend that the City record the heart and hypertension liability in the Risk Management fund and establish a long-term plan to fund the deficit created by the recording of this liability.

This letter should be read in conjunction with our report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated December 31, 2015.

This communication is intended solely for the information and use of management, Members of the Board of Finance, others within the organization and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
December 31, 2015

To the Members of the Board of Finance
City of Stamford, Connecticut

In planning and performing our audit of the financial statements of the City of Stamford, Connecticut, (the City) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Stamford, Connecticut's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Stamford, Connecticut's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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Recommendation

We recommend that the City implement policies and procedures to ensure grants accounts receivable and deferred revenues are recorded timely. In addition, policies and procedure should be in place to ensure accounts receivables are collected on completed projects and that any aged receivables are reviewed for collectability.

Response and Remediation Plan - Grants Office staff is working with State personnel to implement required closeout procedures, including on-site audits, for all state funded grants capital projects. Grants Office staff will review all other grants funded projects and request reimbursement for current activity by June 30, 2016. In addition, beginning with the quarter ending March 31, 2016, the Grants Office staff will review, update, and adjust grants accounts receivable and deferred revenue on a quarterly basis to ensure accurate and timely recording.

Tax Collector's Report

In order for us to complete our audit procedures related to the Tax Collector's Office, we made numerous follow-up requests prior to getting the final information required to complete our work. In some cases the initial information received was either incomplete, did not tie to the general ledger, or lacked appropriately detailed supporting information.

Recommendation

We recommend that supporting information requested should be shared with auditors from the initial due date of the request (as communicated by the Comptroller's Office) so the audit staff and the Tax Collector's Office are working with the same information and timeliness would not be an issue.

Response and Remediation Plan - Recognizing that differences in the timing of transactions / adjustments posted to the HTE General Ledger (in some instances, post-dated) versus the Tax Department's Sub-Ledger (near real-time) as the primary cause for the reconciling items that complicated the Auditor's review of the City's tax-related audit support schedules, the Tax Department will work with the Controller's Office to complete the following in conjunction with the F2016 financial close:

1. *Prior to Year-end* - Meet with the Controller's Office to revise the closing instructions applicable to the Tax Collector's Office (and the deliverables in the Controller's Office Year-end Closing Checklist) to more accurately reflect the work performed by the Tax Collector's Office in conjunction with the year-end closing
2. *In late July* - Meet with the Controller's Office to identify and record all adjustments required to tie out the prepaid (and deferred) tax amounts as of the fiscal year-end
3. *Prior to the Auditor's arrival in mid to late September* - Meet with the Controller's Office to review all audit related deliverables and resolve any remaining differences between the HTE General Ledger and the tax-related audit support schedules based on the Tax Department's Sub-Ledger

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The following matters involving the internal control over financial reporting and its operation were noted in previous years but have not been fully remediated. We offer our recommendations as constructive suggestions for your consideration as part of the ongoing process of modifying and improving accounting controls and administrative practices.

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We noted that not all journal entries were completed by the City as of the commencement of our audit. Over forty journal entries were recorded during the audit, some of which were proposed by management after the audit began. This is an improvement over the prior year but still an issue that should be addressed by the Controller's Office. We noted that many of the audit entries were related to the recording of pension plan activities.

In addition, the completion of the CAFR was significantly delayed by the late completion of the Fire and Police pension fund financial reporting as managed by the Fire and Police pension fund boards. Certain actuarial reports necessary to complete the new GASB 68 pension disclosures could not be completed until the Fire and Police pension fund financial reports were finalized. These actuarial reports were finally issued in early December (almost eight weeks later than originally planned), making it very challenging to issue the City's financial statements by their December 31 due date.

Recommendation

We continue to recommend that the City work with the respective Fire and Police pension fund boards to implement corrective actions to ensure that all required adjustments are recorded prior to the commencement of the audit to ensure the timely completion of the City's financial reporting processes. This would enable the City's actuary to complete the required pension disclosures ahead of the deadlines for the issuance of the CAFR.

Response and Remediation Plan – The Controller's Office is continuing to work with the Fire and Police pension fund boards to schedule mutually agreed upon reporting timeframes and to understand how best to collaborate with the fund's respective investment managers to expedite the valuation information needed to complete the pension fund's financial reporting processes. In addition, the Controller's Office continually examines its own accounting and financial reporting processes to optimize them in light of the many financial reporting challenges, including the availability of resources, during the fiscal year-end reporting process. We are focused on completing these tasks prior to, and in conjunction with, the F2016 year-end closing.

Timekeeping Oversight and Administration

Currently, City departments utilize the automated time and attendance system, Kronos® to ensure that time and attendance are properly recorded for payroll purposes. Due to the varied introduction of the use of this software application to City departments, the monitoring of employee hours worked, as well as compensated absences, lacks common procedures for the approval of overtime. Our audit procedures indicate that a significant number of individuals can approve overtime and that an administrative or supervisory level individual is not always required for such approvals.

Recommendation

We continue recommend that the City standardize payroll policies and procedures related to the use of Kronos® for all City departments (including the Board of Education). Written policies should be established that identify the level number and name of all authorized approvers. Also, overtime incurred should be reviewed and approved at the appropriate supervisory level to ensure that overtime is justified and that the reasons for the overtime are being clearly documented in accordance with established policies.

Response and Remediation Plan – Additional funding needed to secure the appropriate Kronos® version licenses was recently approved by the boards. The City plans to move both of these projects – the implementation of the automated time and attendance system and the standardization of the policies related to the system's usage – forward over the next twelve months.

Urban Redevelopment Commission (URC) - Accounting and Financial Reporting

During our audit of the URC, we noted that certain receivable and payable balances between the URC and the City that have remained unchanged for several years. Also, during F2015, there was an additional advance from the City to the URC for its operations which required a review of the projected future cash inflows and outflows of the URC in order to ensure that the City could be repaid. If the City had not made the advance, it appears that the URC would have been incapable of completing its obligations as outlined in its real estate development contracts.

Recommendation

We recommend that the City should continue to monitor the projected cash inflows and outflows to ensure the repayment of the advances and that the City and the URC continue to review all balance sheet accounts at year end to ensure that the URC accounts are properly stated and complete in all material respects

Response and Remediation Plan - The City's Internal Auditor has been asked to update the cash flow projections originally prepared by Blum in conjunction with the agreed-upon procedures review that was performed through the end of F2014 for the most recent fiscal year (and through the calendar year-end) and report the findings to the Mayor's Office and the boards. That review was initiated during February 2016 with a draft report deadline of mid-May, 2016.

Internal Service Fund

The City is self-insured for police officers' and firefighters' heart and hypertension claims as required by State Statute. The pay-as-you-go portion of the claims is paid from the City's Risk Management – Internal Service Fund. The City utilizes a third party to prepare an actuarial valuation to determine the heart and hypertension claims' liability. The claims' liability is being recorded at the government-wide level as required by GASB Statement No. 34 but it is not recorded in the Risk Management fund.

Recommendation

We recommend that the City record the heart and hypertension liability in the Risk Management fund and establish a long-term plan to fund the deficit created by the recording of this liability.

Response and Remediation Plan – The Mayor's Administration is currently looking at designing and recommending a funding approach (similar to OPEB) to the boards so the entire claim is addressed over time.

This letter should be read in conjunction with our report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated December 31, 2015.

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