

**MINUTES OF MEETING  
LEGISLATIVE COUNCIL  
AUDIT COMMITTEE  
February 25, 2021**

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A meeting of the Audit Committee was held on Thursday, February 25, 2021. This meeting was held electronically, via Zoom, due to the Covid-19 Pandemic. The meeting was called to order at 7:07 P.M. by Kristin Dolan, Chair.

**MEMBERS PRESENT:** Kristin Dolan, Chair; Kathleen Schomaker, Vice-Chair; Jeron Alston; Berita Rowe-Lewis; Mick McGarry, LC President (Ex Officio)

**MEMBERS ABSENT:** Valerie Horsley; Marjorie Bonadies; Austin Cesare

**ALSO IN ATTENDANCE:** Auditor Dave Cappelletti, Acting Finance Director Scott Jackson

Ms. Schomaker made a motion to receive the audit. Ms. Rowe-Lewis seconded the motion.

Ms. Dolan thanked Mr. Cappelletti for being there and asked him to give an overview and then there would be time for questions and answers. She added that Mr. Cappelletti will be joining them again on March 29 with the full Council. She said tonight is a preview to digest the audit report and have a few weeks to submit any questions. Her plan is to have everyone submit questions to her and she will forward them to Mr. Cappelletti. Questions can then be asked in the open meeting on the floor and this way, Mr. Cappelletti will be prepared and there can be a dialogue.

Mr. Cappelletti displayed a screen headed "Town of Hamden Balance Sheet Governmental Funds". He said they would go through beginning with "Exhibit C" and go through each of the categories individually and have any questions as they go along fund by fund.

Mr. Cappelletti said "You do have an Audit, an unmodified opinion", but we did find two findings in internal controls which we will go over after the financial statements.

Mr. Cappelletti continued saying In front of you is the Governmental Funds Financial statements broken up into the General Fund, Capital Projects Funds and the Non-Major Governmental Funds. He said he would begin with the General Fund and would likely be referring to his Management

letter which the Council Audit Committee may have read, which will help with understanding things he mentioned in the financial statements or findings and provide more detail.

Mr. Cappelletti said what you see here is, you have a 4.2 million deficit of which 5 million was an operating deficit, which leaves your General Fund balance down to a 2.2 million dollar fund balance deficit. That is against State Statutes so you will have to have a corrective action plan to bring that to zero. He said he was going over to the Budget to Actual report to look at some things that may have caused this to happen. He referenced Exhibit F. He said one pops right out - Obviously you have a 5 million deficit. 7.7 million because of revenues coming in short. In the Management Letter he tried to summarize some of the larger items that caused this. On page 3 of the Management letter, the Property taxes were short 3 million dollars. He said 1.8 of that was probably a shortfall of collections and 1.2 was the incomplete Property Tax Audits, some initiatives that were put into the budget that either never began or weren't completed, specifically the Personal Property Tax Audits.

Another shortfall was Charges for Services, a 998 thousand dollar shortfall. One of the largest things in that was an Audit Adjustment- a substantial portion of fees for Police private duty was not collected from two large clients. If you don't collect the fees within 90 days/60 days, then we don't allow it to be recognized in the Fiscal Year. There is a large list of delinquent receivables in that account. Licenses and Permitting was down 1.5 million. Some of that could have been COVID related but suggested you look at why. Usually in towns and cities now, they are seeing that Property Taxes were under collected, but it was made up in Licensing and Permitting. That was not the case in Hamden. The Miscellaneous was down 2.6 million, 1.7 attributed to colleges under contributing 1.7 of the Budget. Also, you always had some annual reimbursement from the Bond Fund. There was none of that this year, so in the Budget you had 950 thousand and we recorded zero as a revenue item. Also, in the Management letter Re: Capital Projects you normally had 3 ways of providing finances to the General Fund. One would be to reimburse them for direct costs. One of the areas you did this was road construction, so you would in house road construction, and that would be paid through bonds. The other way you would do it is indirect costs. Costs associated with capital projects or bond costs - you are able to take so much of the bond toward that and on an annual basis you would normally take a small portion for that, and you did not do any of that, this year. Third, is what is commonly known as "the sweep" historically, which was basically taking the unused balance of the bonds on projects that have ended or cancelled and put them into the General Fund to pay back that original bond. Of those three, none were recorded in the General Fund.

Mr. Cappelletti said people have asked re: - you did bond 2.8 million in August. If it had been done in June or during the year, would that have helped the General Fund? He said there is a yes and no to that. Yes, it would have helped your deficit, it would have brought your 2.2 million deficit to a six hundred thousand dollar in the black. But 'they' have always commented, and it is in the Management letter, he said he repeated it in the Management letter, it was in the letter in 2019, to keep in mind that historically, what the Town has done is maintain themselves in the

black by using either the premiums of the bond or the sweep sometimes. Now, in order to improve the financial position of the Town, what it really should be is in the way of increased operations so that other financing resources, one-time items, the Town is not dependent on. So, what we are really looking for is on "F", when we take the total revenues list, the expenses comes to 5 million dollars, underneath that we would add "premiums and sweeps". This year you didn't have any. That negative 5 million is what we really want to look at to make that a positive number to add to your Fund Balance in the long term. Mr. Cappelletti asked if there were any other questions on the Fund Balance. Ms. Dolan said in regard to receivables, he said that shortfall was due to a 1.8 million uncollected receivables, but the 1.2 million was incomplete property tax audits and other initiatives and asked what that means? Mr. Cappelletti said he would refer to Schedule 1, some things that were in the original budget, saying obviously your general funds were down 7 million dollars, so let's see where it was down. If we look under Property Taxes, the last two line items were "Out of State Motor Vehicle and Motor Vehicle Taxes". What they are saying to me here is, one, they were going to do a search of motor vehicles in the Town of Hamden that were registered out of state. That never occurred. Two is, it says "motor vehicle" but it really was that they had initiated a Property Tax which was not completed. So if we take the 500 here and the 700 we see 1.2. Whether the estimates were incorrect or the numbers didn't come in because of COVID or some other type of error, we don't know. Then he pointed to the top and said if we look up here at the first three numbers, here is the 1.8. Ms. Dolan said Later in the audit findings, you have on the balance sheet 14 million dollars of delinquent taxes and asked Mr. Cappelletti if he could evaluate what they are doing to collect that, if they are and what they should be doing and compare to other towns. Mr. Cappelletti said that he believes our collection rate is consistent with other towns. He reminded it has been a strange year especially with the executive orders that allowed people to have a lower tax interest rate, so there might have been some timing differences, but generally similar. What we are seeing here is 9 million dollars of taxes uncollected and associated with that is also interest. We are allowed to record the receivables of tax interest associated with the delinquent taxes. So the 14 million includes outstanding taxes, as well as interest and liens associated with those taxes. So at the State of Connecticut, you charge one and a half percent per month or 18% per year on the taxes, so you collect quite a bit of interest. He repeated that he believes we are consistent with other towns. He added that after 16 years you are not allowed to collect the taxes, there is a statute of limitations. He recommended, don't wait 16 years, but it is common for accounts to go 3 to 5 years. He reminded of the "Suspense's", when they/you feel you can't collect them so, you are only really writing off 10 million this year. Mr. Cappelletti said so overall it's not that bad.

He said he did find there were collection problems with the Police private duty, they are not being collected and that needs to be addressed.

Ms. Dolan asked, Since these taxes are uncollected but they are accruing interest, are we (unintelligible) of the interest, so are we exacerbating..(?). Mr. Cappelletti said, with governmental, you are not allowed to recognize interest or property taxes unless they are collected within 60 days and are available to relinquish current liabilities. None of the interest or

the revenues is recognized. The only portion of this that is recognized is what was collected in July and August. Ms. Dolan referenced the Police private duty, saying she hoped Mr. Jackson was on it and that it can be found money for our current year. Mr. Cappelletti said we should collect that as soon as possible, otherwise, the General Fund is paying for it. Ms. Dolan commented that she thought most of these are probably larger corporations if they are doing street work in the Town. She asked Mr. Cappelletti to quantify the number in private duty uncollected. Mr. Cappelletti said about 7 hundred thousand. Ms. Dolan asked Mr. Jackson if he wished to comment on this. Mr. Jackson said deciding what our collection processes are and assigning people to be Captains of certain areas is something they are working on. It is a significant amount and they want to make sure they are pulling out all the stops. He believes Ms. Dolan is correct in that most of these accounts are, essentially partner agencies with us. At some point we have to have a heart to heart talk with them and say you are in the hole six figures and we need to figure that out before we start signing off on these slips. Ms. Dolan said good, we are all on the same page with that. She is hoping it will be found money for this year. Mr. Cappelletti said 528 thousand was not collected within 60 days after year end. Ms. Dolan said this happened at the end of June, so maybe some of that has been collected since then. Mr. Jackson said one of the things he wants to do is go back over the last couple of years and see where it landed. If it is a rolling number, it may not be as much found money because every year at the close of the books, we are half a million dollars down trying to make up those 14 months in a 12 month cycle.

Next, Ms. Dolan asked him about the other number he spoke of, the 2.8 million dollar bond premium. She asked him to explain what is meant by bond premium. Does it mean that what we bonded for ended up earning an extra 2.8 million dollars? Mr. Cappelletti said overall, how bonds work is, you have the rating agencies come in and value it and they put an interest rate towards the bond that they think would sell in the open market. Once it hits the open market, people are either willing to pay more for that bond or less. If they pay less it is called a discount meaning that they pay 98/99 dollars for a hundred dollars of bonds. What is happening with Hamden is when you go to market, market prefers the bonds more than the rating agencies, so they are willing to pay more for your bonds so they are willing to pay more for you interest rate, so 102 for a hundred of bonds. It is basically a long term adjustment to the interest rate, but you are able to take that into the General Fund as a finance source ready to be used to liquidate liabilities. The Town of Hamden has enjoyed decently large premiums for quite a while. Ms. Dolan asked was this 2.8 million dollars use to close this financial year or falling into our current fiscal year? Mr. Cappelletti said a premium is recorded when received. That was received subsequent to the fiscal year. It is the report as a subsequent note. They want to show it in their report, that subsequent to their report there was more debt brought to the Town and there was also this. Ms. Dolan said ok. You also say in your report because of our low fund balance making cash management difficult and costly ..its costly because it hurts our credit rating and makes it difficult to sell bonds and get a financing? Mr. Cappelletti said there is a relationship between your rating and your fund balance the availability of cash in your fund. But more importantly, (think of your own home), are you willing to over borrow money for a project? Any time you borrow money, it

costs money. So if a project in the end, cost 85 thousand and you bonded for 100 thousand, then it was costly for you on that 15 thousand. So normally, when you have a General Fund, you can pre-fund a lot of your projects and when the project is complete, you just bond for the exact cost of the project and you wouldn't be paying interest during the project. Currently you are doing that with bonds, but in talking with Finance Directors over the years, they are worried to start a project and not have enough money to complete it. You are on an annual bond program, two bonds in a year. They always wanted to make sure they had enough money to fulfill their capital projects through the year, so to be conservative, they over bonded. Ms. Dolan asked/said Mr. Cappelletti said in his comments it would be very dangerous for us to lose our ability to issue general obligation bonds. Are we close to that? Mr. Cappelletti said no. Everything in this audit was disclosed and he does not think it is close to that. He was just giving a pre-warning RE: reliance on bonding, if you didn't bond in any one year the General Fund would fall into a deficit. Ms. Dolan asked if we are near our maximum bond levels. Mr. Cappelletti said no. It is not common to be near those levels. He displayed a sheet re: State Mandated schedule of our bonding requirements. The bottom line is the debt limitation. It showed our total bonds can be 9 hundred and 5 million more, and we are not near the maximum at all. She asked about Capital Funds referencing Mr. Cappelletti earlier saying there are three ways we get our money. She said in that fiscal year, they did not perform any Capital sweeps or reimburse the General Fund for direct costs. Does that mean there is a pile of money out there that we can do this in Fiscal Year 2021? Mr. Cappelletti right now he knows re: the direct costs, there was 230 thousand left in appropriations for direct costs on the road construction. There is an IRS limitation of 5% on the total bond to be used for indirect costs. So we need to go through and look at any projects we completed in 2020 and in 2021 bill our direct costs and our indirect costs and take that money into income, and also evaluate if we want to do any sweeps at that time, if there were any old projects that were over-bonded and they can either be swept or used for future capital. Mr. Cappelletti agreed. He said first, funds should be used for the project they were designated for. Once the project is complete, you can put it into a similar project without bonding and save money. Thirdly, if no other projects fit the appropriation, it can go back into the General Fund to pay back the interest/principle of that bond.

Next, Ms. Dolan referenced his discussing the Education Grant Fund and Fringe Benefits. She was not sure what he was explaining about it. He said this is an area where you have revenues (?). You don't really have an indirect rate for benefits for the BOE, so it is difficult to see the reimbursement. The Town is unique in that it pays for all the BOE benefits through a separate line item and it doesn't go through the BOE budget line. But more specifically, when they are going out for grants, they tend to under budget the Fringe Benefit line. One example I gave is the 4.9 million in the Alliance District, so that's how much they put in their budget for that program, for salaries, but they don't have anything in the fringe Benefit Line. So you would think if you wanted an equal allocation for every salary planned to be re-funded by a grant, they should probably have a benefit indirect rate for those. Ms. Dolan said so our finance team can

disseminate this information to our grant- writers and colleagues at the BOE and try to get our grants increased a bit so we cover all of the expenses instead of just the direct salary.

Next, Ms. Dolan asked about the underfunded programs mentioned: the insurance risk, the Ice Rink. Can he walk us through and quantify the risk at the ice rink? Mr. Cappelletti said, a lot of times the Council looks at the General Fund. When we are looking to fund the deficit with the General Fund, we/you have to look at the government as a whole. Some of the areas that did well this year were: your pension was being funded appropriately, your worker's comp has brought itself back pretty well, and your health insurance is doing well. But two areas he found that do not have a plan for funding in the future, the Tornado Risk Fund...In 2018 with the tornado, you were allowed to get funding for two things: Federal Funds from Fema which you received and 75 % of that was supposed to be a local match. To cover expenses that are not funded by FEMA, the State allows you General Statutes §7-379, an emergency bonding. There are certain restrictions to those bands have to be bonded within a two year period. That period lapsed August 23, 2020. That left a deficit in this account that needs a plan of funding from the General Fund unless they can find another way of funding this. That deficit was in the area of 8 hundred thousand. It is called Risk Management on Schedule 3 and 4, the – the Public Emergency Account has two things in it. One is your normal Risk management which covers insurance claims. The rest of the deficit is about 8 hundred thousand in the Tornado fund that would have to be funded in the future.

Ms. Dolan asked if Public Works has a deficit of 283 thousand dollars. Mr. Cappelletti said note 12 lists the deficits and how we expect to fund them. PW has outstanding grants he believes it to be the LoCIP Grant. They noticed that these weren't being reimbursed very timely, but it can sometimes take 3-4 months to get reimbursement on them. Ms. Dolan referenced the Ice Rink 790 thousand dollar deficit. Mr. Cappelletti said they noticed this and reviewed the contract with the Ice Rink Manager and they noticed that some of the terms and conditions weren't being followed. The contract was written as if it was a team effort to operate and manage the Ice Rink, the Town and the Management Company would be primary and receive statements directly from the bank and also have monthly reports on the performance, and the town would be secondary. None of that is happening right now, so now it would be difficult to evaluate why the losses are happening or even have a month to month analysis. It can't be analyzed until we get monthly statements. He has spoken with Finance about this and they are working on it. He is stopping by finance tomorrow regarding this. Mr. Jackson said the bank will not allow for a co-signer on this account, so we must get the statements and will be pursuing that diligently. He said there are questions and community questions we need to discuss about the subsidies we provide for the rink, for the high school, for youth hockey. This is where there is some leakage in terms of the total ability of the Management team to actually get to zero. We need to fix this 790 and move forward in a contractual place where expenses actually meet revenue. Ms. Schomaker asked what the length is of the contract term on Rink Management. Mr. Cappelletti said believes it goes to 2023. Ms. Schomaker said perhaps we should re-negotiate that.

Ms. Rowe-Lewis asked Mr. Jackson re: the Police private duty 700 thousand dollars not paid yet, Who are these companies that have not paid yet? Are we still doing business with them and if so, Why? Since they haven't paid. She also said in reference to the Ice Rink that she is deeply concerned about their management for several reasons. She suggests we look at the contract and consider bringing it back in house. She indicated that she believes if we are not being responded to by Ice Rink Management, we should not be in contract with them. She asked Mr. Cappelletti if there are any other concerns within this audit that are of great concern that he can point out. Mr. Cappelletti said we can go over the two significant ones which he put into the single audit report and also suggested referring to the Management letter which can be a help as a road map. He said get questions to him about anything and he will respond.

Mr. Jackson added in referring back to Police Extra Duty, we have to speak with the Town's Partnering Agencies who are utilizing this and get it taken care of. Regarding the Ice rink, he pointed out that the subsidies we are providing are material in the deficits in that account. We must really talk about it and decide where we want to land. It has to be discussed in public. Ms. Rowe-Lewis expressed her strong belief that the Ice Rink situation is really not good, it involves our PW costs and overtime and we really need to do something. Mr. Jackson said he agrees with her 100% and added that there are also utility cost issues. He said they have begun discussion with the Operators.

Mr. McGarry asked regarding the town's being unique in the funding of BOE benefit costs...how unique is that? Is Hamden the only town he knows of who does this? Is there a best practice we should be employing? Mr. Cappelletti said he does not know of another town doing this. He recommends that everyone understand that for every dollar spent on salaries, how much is the Town spending on benefits. Mr. Jackson added in some historical perspective on how this type of funding occurred agreeing it is very unusual. Mr. Cappelletti reiterated he knows of no other town doing this. Next, Mr. McGarry referenced the Ice Rink. He said/asked, we know it is costing us money under this current model, but do we know how much money it was costing us before? Do we have a year by year history? There was a brief discussion of how this might be looked for/at. Mr. Jackson was asked if he had any historical info. He said there were some operational issues which they thought could be addressed by getting out of the business of running an ice rink. He said they can look back for documents but it is not apples to apples.

Mr. Alston asked/said to Mr. Cappelletti regarding delinquent receivables, there were several types of these based off different regulation, and he asked Mr. Jackson if he knew the number of (poles?) that we have of these? Mr. Jackson is still looking into that and since it is 6 figures, we must really get to it. Mr. Alston inquired of Mr. Cappelletti regarding the different "pools"(?), (how many different time frames ??) for allowing receivables into the current year. There was a brief discussion in which Mr. Cappelletti pointed out the State Statutes are well written on Property Taxes, less so on receivables. Regarding Police private duty, it is affected by Union Contract, Ordinance and the Private person/hiring the private duty. Corporate Counsel should be involved because of the three things. Mr. Cappelletti re-stated that you only have 16 years to

collect Property Taxes. After that you cannot collect it and you cannot write it off. Mr. Cappelletti briefly mentioned some previous years and said Hamden is in the 98% collection rate which is normal in Connecticut. There was a very brief discussion in which Mr. Jackson mentioned how to proceed, whether town wants to be involved in tax foreclosures or not, and Mr. Cappelletti said there are many reasons why some residents just cannot pay taxes and there is never a one hundred percent collection rate. He said tax liens actually help collections. Mr. Cappelletti said we are collecting comparable to a municipality of our size, collecting most of it, and at 18%, so it is not bad. Mr. Alston asked Mr. Cappelletti about "IC's" (internal controls) he had mentioned. Did we cover anything that was in those IC's already? Mr. Cappelletti said first, one issue is dealing with the General Fund deficit and a negative fund balance is against State Statutes. A plan must be put in place to address that. Another thing was the change-over in the Finance Office has not been helpful to the Town and not funding the Tornado Fund probably was associated with that turnover. Also, the reduction of Finance personnel. For two years there was a part time Risk Manager. This year you brought in a full time person and he, the Risk Manager, has saved you a tremendous amount of money especially in the area of hypertension. Also the Ice Rink situation, probably, the Finance position overseeing that, was vacant. He said Mr. Jackson might consider a re-organization of the Finance Office. Mr. Cappelletti said he feels that as Finance staff was reduced, no one was put in place to report on the Ice Rink and the Private duties. Mr. Cappelletti said second was the Pension Audit. He believes all aware, the COLA calculation was not calculated correctly for a number of years. Also, in cases where there was a deceased Pensioner and payments were still being made to the Spouse which does happen, but Mr. Cappelletti said when he questioned what procedures we have in place overseeing when someone retires, there are limited procedures in that situation. They recommend adding procedures for overseeing this. Also, obviously, they need to have someone oversee the COLA. They are asking that procedures be changed so that these things can be reasonably checked at a reasonable time.

Mr. Alston asked Mr. Cappelletti regarding individual fund deficits, Is there anything more descriptive about the resolutions they have in or about the issues themselves? Mr. Cappelletti said, as previously mentioned, there are two areas. When they see deficits, they look to see if there is an ability to fund that deficit. Obviously, the General Fund is to increase taxes. The two areas he did not find there was a plan/way the Tornado Risk Fund and Ice Rink. Mr. Cappelletti added the Wintergreen Magnet School is waiting for a State Audit. It is an extremely old item upwards of 20 years. Until that audit is complete, it will not be funded.

Ms. Schomaker pointed out that it is important to note that the Ice Rink building Utility/electricity is very expensive to operate and very inefficient. We know from our EPA audit that is one of our top inefficient buildings. This needs to be kept in mind when looking at that situation. It is very costly keeping ice frozen all year round, even during heat waves. There are good standards for that and we need to review them. Mr. Jackson said they are have certain contractual obligations as it pertains to utilities, so they are wrapping it into a total cost of operations revue of the facility.

Ms. Rowe-Lewis asked about the Golf course in reference to things which we are always losing money on and need to pay closer attention to. Mr. Jackson said that it has entwined us for a generation now. He said he actually has a meeting on it tomorrow. He does not have good answers on this tonight, but it needs to be figured out. He will have more information in about 24 hours. Mr. Cappelletti pointed out that the difference between the Golf Course and the Ice Rink is, the Golf Course is recorded in the General Fund and the Ice Rink is recorded outside the General Fund. Ms. Dolan said she does not recall seeing anything, any revenues flowing through the budget book re: the Golf Course. Can Mr. Jackson please let her know where this is recorded? He will look and get back to them.

Ms. Dolan said to Mr. Cappelletti, on page 33 it shows the debt as 21 million dollars, on page 31 it says 15 million. Can Mr. Cappelletti reconcile those two numbers? He said it had to do with the restructuring and he will get back to her.

The Meeting adjourned at 8:31.

This meeting had no clerk. Meeting starting/ending times and attendance were submitted by the Chair, Ms. Dolan.

Discussion summary typed while viewing the video and submitted by Rose Lion, Secretary to the Legislative Council

Ms. Renta, Legislative Council Administrator/Clerk reviewed the minutes and added the video link before filing.