

**CITY OF NORWALK  
AD HOC AUDIT COMMITTEE  
FEBRUARY 19, 2025**

**ATTENDANCE:** Council Member Greg Burnett, Lunda Asmani, BOE CFO; Council Member Jim Frayer, Chitsamay Lam, City of Norwalk Comptroller; Council Member Johan Lopez; Sheri McCready-Pritchett, BOE Co-Chair; Jared Schmitt, City of Norwalk CFO; Karen Vitale, Deputy Comptroller; Nate Yordon

**OTHERS:** David Flint, CLA principal; Gabriel Epstein, CLA Director

**CALL TO ORDER**

Ms. Lam greeted everyone and called the meeting to order at 3:00 p.m.

**ROLL CALL**

Ms. Lam asked everyone to introduce themselves.

**RECEIVE AND DISCUSS THE JUNE 30, 2024 AUDIT REPORTS**

[2:43]

Mr. Flint greeted everyone and introduce Mr. Epstein, who directed the City of Norwalk Audit. Mr. Flint then displayed a PowerPoint slide deck presentation and narrated the various topics including the required Disclaimer; Terms of Engagement, an Executive Summary, Financial Highlights, Federal and State Single Audit and the Management Letter for the June 30, 2024.

## Terms of the Engagement:



- Express opinions on whether the basic financial statements are presented in accordance with GAAP
- Express an “in relation” to opinion on the schedule of expenditures of federal awards and schedule of expenditures of state financial assistance
- Express an opinion on compliance related to major federal and state award programs
- Provide a report on internal control over financial reporting and compliance with laws, regulations, contracts and grants
- Provide a report on internal control over compliance related to major federal and state award programs

He then gave the details of the Executive Summary as follows:

# Executive Summary

## ● Financial Statements

- Unmodified opinion on the financial statements
- No findings reported in report on internal control and compliance

## ● Federal Single Audit

- Unmodified opinion on the major federal programs
- Significant deficiency in internal control over financial reporting
- 2 Significant deficiencies in internal control over compliance

## ● State Single Audit

- Unmodified opinion on the major state programs
- Significant deficiency in internal control over financial reporting
- Significant deficiency in internal control over compliance

Mr. Flint explained that the finding of an unmodified opinion was the best finding possible and there were no findings reported from the internal control or in compliance. Norwalk also rated unmodified opinions on major Federal programs and for the major State programs.

Regarding the Federal Single Audit, there were three significant deficiencies identified in the Federal Single Audit and two significant deficiencies in the State Single Audit. Mr. Flint stated that he would give more details regarding these later in the report.

Mr. Flint then displayed a Government Wide Financial Statement and reviewed the details with the Committee on pages 46 and 49 of their printouts.

Mr. Yordon asked for clarification on the operation status, which appeared to indicate the City was underwater. Mr. Flint explained that this report was done from an accrual based accounting method. This method includes the City's long term debt, specifically the pension and OPEB liabilities, which are significant factors. The City's OPEB account is well funded, so most of the liability is with the pensions. However, this is common for many municipalities.

Mr. Flint then reviewed the details for the Financial Highlights – Government Funds spreadsheet with the Committee. With the modified accrual based accounting, there are no capital assets or long term debt included. This report included the Fund Balance and the ARPA funding.

Mr. Flint gave a brief overview of the General Fund including both the assigned funds and the unassigned funds as follows:

# Financial Highlights

- General Fund

- Fund balance: \$97.8M

- ◇ Assigned: \$11.8M

- ◇ \$3.8M – rolled over encumbrances

- ◇ \$8M – 2025 budget

- ◇ Unassigned: \$86M

- ◇ Unassigned represents 20.1% of the general fund budget

Having a 20.1% unassigned fund amount is excellent.

The next spreadsheet slide included the Financial Highlight – Proprietary Funds. These figures included the Water Pollution Control Authority and the Parking Authority revenues along with the Internal Service Fund which functions as an insurance fund.

The Internal Fund had a deficit of \$4.9 million dollars but still had a positive Fund Balance of \$6.5 million dollars at the year's end.

The past year was a very good year for Pension and OPEB Trust Funds. Mr. Flint displayed the spreadsheet for these two items on screen and reviewed the details with the Committee members.

Mr. Flint went on to review the overall Financial Highlights as follows:

## Financial Highlights

- Property Tax Collections – 99.8% compared to 98.4% in the prior year
- Net Pension Liability (RSI-3)
  - Employees' Plan: \$58.9M – 79.5% funded - increased
  - Fire Plan: \$39.2M – 76.3% funded - increased
  - Police Plan: \$53.9M – 73.9% funded - increased
  - Food Service: \$1.6M – 71.5% funded – increased
- RSI-4 – the City made 100% of required pension contributions
- RSI-5 – Average gain on investment of approx. 11.4%



All of the funding ratios have improved over last year's figures and the gain on investments is excellent.

## Financial Highlights

- Net OPEB Liability (RSI-7)
  - City Plan: \$23.5M asset– 120% funded
- RSI-8 – the City 100% of the actuarially determined contribution
- RSI-9 – 14.2% gain on OPEB investments

Mr. Flint noted that many Connecticut municipalities abandoned the Trust Funds and adopted a pay as you go strategy. Having a fully funded OPEB fund is excellent. This was the fund that had a 14.2% return rate.

Mr. Yordon had a question regarding the change in the discount rate which may have affected the OPEB surplus. Mr. Flint said that the OPEB discount rate had not been increased. Mr. Schmitt said that he believed that last year was the last time the City had the 6.5% rate. Discussion followed about the changes in the discount rate.

### **FEDERAL SINGLE AUDIT**

[16:56]

Mr. Epstein introduced himself to the Committee and explained that he was a CLA Director who works exclusively with governmental clients from the West Hartford office.

## Federal Single Audit

- Total federal awards expended: \$39.7M
- Major programs
  - Coronavirus State and Local Fiscal Recovery Funds
  - Child Nutrition Cluster
- Significant Deficiency in Internal Control over Financial Reporting
  - Journal Entries – Segregation of Duties
- Significant Deficiency in Internal Control over Compliance
  - 2 findings identified:
    - City's procurement policies were not in compliance with Uniform Guidance
    - The City failed to solicit quotations related to a contract paid under a grant

There was a major reduction in the number of Federal funds awarded to the City. Last year the City received a total of \$52.2 million and this year, the City received \$39.7 million. The primary

reason for the reduction was the Education Stabilization Fund also known as ESSER grants. Mr. Epstein explained that the second and third tranches for that grant had been previously spent down. Last year, the City spent down \$18 million of ESSER funds versus this year's \$4 million expenditures. This trend will most likely continue as the COVID grants funds are expended along with potential changes in the Federal funding situation.

CLA audited two major programs which were selected due to their dollar value that had not been tested in the previous two years. The Coronavirus State and Local Fiscal Recovery Fund is more commonly known as the American Rescue Plan. CLA did test the ARPA grant in the past two years, but the Federal government considers this a high risk grant and CLA was required to test it again.

The Child Nutrition Cluster was tested which was last tested audited in 2021. This program includes the school lunch program, the breakfast program and free and reduced meals. The City was designated as a "low risk" audit, which means that the reports were issued in a timely manner and there were no material weaknesses.

While there were no material weaknesses, three significant deficiencies were noted. These are less severe than a material weakness, but important enough to merit the attention of the government.

The first area focused on journal entries and separation of duties. Mr. Epstein went on to speak about how MUNIS is set up to allow journal entries to be prepared and posted by the same person. There should be one individual preparing the entry and a different individual reviewing and posting the entry. This would prevent fraudulent entries from management without an approval process. Sample entries were tested for proper support, recorded correctly and assigned to the proper accounts. There was no indication of fraud.

Council Member Burnett asked what the recommendation would be to resolve this and if there was a specific timeline for the City to put that action plan in place. Mr. Flint suggested that they simply revisit the journal entry process and insure that two people are involved in the process. He added that the management letter would have a recommendation that IT modify MUNIS to prevent the same individual from preparing and posting an item. The preferred timeline would be to have this completed before June 30th of this fiscal year.

Mr. Schmitt said that the Finance Department had already changed the process so that the same person could not prepare and post a journal entry. Mr. Flint said that it was his understanding that the moment CLA had informed Mr. Schmitt of this, the practice was immediately discontinued.

Mr. Flint said that one of the other significant deficiencies was in relation to the procurement policy. The policy needs to be updated with the necessary language and procedures as required by the Federal government. The City has implemented a new procurement policy which complies with all Federal guidance but it was not instituted until last in the FY2024. The finding will remain on the audit but the issue has been remediated, so it will not be a finding for the FY 2025 audit.

The second deficiency that was noted was in relation to the Child Nutrition cluster grant. One audit test was done on a contract totally about \$40,000. The Federal government requires the City to solicit quotes for contracts over \$10,000, and bids for contracts over \$250,000. In this situation, the City should have solicited quotes for the contract. Mr. Flint said that this vendor had worked with the City for some time and over the period of time, the scope of services contract amount had increased. This is immaterial non-compliance. He suggested that they analyze the procurement process and review the procurements.

### **STATE SINGLE AUDIT**

[26:38]

Regarding the State Audit, Mr. Flint said that the audit was similar to the Federal audit.

## State Single Audit

- Total state awards expended: \$73.7M
- Major programs:
  - ◇ Alliance District
  - ◇ Priority School District
  - ◇ Community Conservation and Development
  - ◇ Urban Act
  - ◇ Tiered PILOT program
- Significant Deficiency in Internal Control over Financial Reporting
  - Journal Entries – Segregation of Duties
- Significant Deficiency in Internal Control over Compliance
  - The City did not submit required reports on a timely basis

He reviewed the details for the auditing tests for the Committee. The State awards increased from \$27.5 million to \$32.5 million. These funds are spread over a number of different grants awards, including LOCIP.

The State has basically the same criteria for the major programs. The Community Conservation and Development Grant was the Norwalk Sustainability and Beautification grant, which focused on 10 parks in the City. There were two projects that were covered by the Urban Act Grant: the DECD Waypoint II grant for public infrastructure improvements around the West Avenue area and the funding for the Cranbury Park construction project.

Mr. Flint explained that the same finding involving the journal entries that had been identified on the Federal audit was also noted on the State audit. The second finding involved the fact that the Community Conservation and Development Grant reports were not filed with DEEP in a timely manner.

Council Member Burnett asked if there were any negative repercussions from the late filing Mr. Flint replied that CLA had seen late DEEP reports from other municipalities and never had heard of any repercussions.

Council Member Frayer wished to know how many reports the City was expected to submit for this grant. Mr. Flint said that the City was expected to file two reports. These reports were completed by the Parks and Recreation Department but not sent to the DEEP promptly. They were significantly overdue and not filed with the State until after CLA checked into it in August of 2024. Mr. Epstein noted that although there were significant findings, the overall result remained in the unmodified report classification.

### **MANAGEMENT LETTER**

[32:20]

The next topic discussed was the key points of the Management Letter.

## Management Letter

- Timely Reporting of Financial Information by Departments to Comptroller's Office
- Information Technology Controls
- Year End Cut Off
- Accounting Policies Manual
- Fraud Tip Line
- Fraud Risk Assessment
- Student Activity Funds Bank Reconciliations

This would include some items that were not significant findings but items that should be considered, such as with some postings that were to a Miscellaneous Account, which appear to be used as a holding account. This happens when the departments do not submit the information to the Comptroller's Office on a timely basis in order to record the revenue in the proper accounts. The Comptroller's Office is doing all that they should be doing and it is up to the various department to provide the Comptroller's Office with the information in a timely manner.

The second recommendation involved having ITS modify MUNIS to prevent the same person from being able to create a journal entry and post it. This was discussed earlier and has been addressed. It is just a best practice recommendation, not a requirement and the segregation of duties has already been addressed by the department.

The year-end cut off pertains to one entry in the BOE grant fund payments when a repayment to the Sate was initially recorded in FY2025 but should have been recorded in FY2024. An entry was made in the audit to properly accrue that item.

The Accounting Policies Manual should be created so that in the event that the Comptroller is absent for a period of time or leaves the position, the incoming person will know what the Comptroller does on a daily basis, weekly basis, monthly basis and yearly basis. This prevents someone having to reverse engineer what was done in the past. This is a best practices recommendation.

Another recommendation is the establishment of a Fraud Tip Line or creating a formal Whistleblower policy. There should be a formal process for an employee to report suspected fraud so it can be addressed in the proper manner. Having an anonymous tip line helps the employees to report complains or concerns.

Fraud Risk Assessment is another general recommendation, which can be a formal or informal process. This is brain storming what fraud could occur and how it will be addressed if it does in fact occur.

The next topic of concern was the Student Activity Funds Bank Reconciliations. These accounts are related to funds for field trips or functions that the students may put on. While this is not general part of the financials, it is an area that CLA sees as particularly susceptible to fraud because it is cash at decentralized locations. The City has put a number of procedures in place and is in the process of improving the reconciliation process. The recommendation is that they perform the reconciliations on a monthly basis and insure that the responsibility for that process is formally designated to individuals in the Finance Office.

Ms. McCready-Pritchett asked Mr. Asmani what changes he had implemented in handling the Student Activity Funds since he had assumed the role of the BOE CFO. Mr. Asmani said that when he became CFO three years ago, there was eight separate bank accounts for the individual schools. He consolidated the accounts with M&T Bank. Ms. Lam and her team have access to those accounts. The BOE Finance Department has started monthly reconciliations.

Council Member Burnett said that while he understood that the Fraud Tip Line and Fraud Risk Assessment were common, he noted that the City had been discussing having a Cyber Security Officer on staff. This position needs to become a priority and have the position filled to prevent any issues.

Council Member Frayer asked Mr. Schmitt about having a consultant to brainstorm about Fraud Prevention. He asked if the City had discussed having a Fraud Risk Assessment. Mr. Schmitt said that they had discussed this and would like a unbiased, third party to come in. Right now, the administration is working on filling vacancies in the Comptroller's Office and having someone come in for Fraud Risk would require time from the staff, also.

Council Member Frayer asked if there was any need for an internal auditor. Mr. Flint noted that Norwalk was the sixth largest municipality in the State. The City of Waterbury has a full time internal auditory, but most municipalities do not. Most will hire a CPA firm to act as auditors

and assign them special projects such as reviewing Public Facilities. Mr. Flint said that he felt that there was the need for some internal auditing work.

Mr. Epstein said the significant deficiencies should not overshadow the fact that the City had received unmodified opinions the Financial Statements along with the Federal and State Single Audits from CLA.

Mr. Flint said that while they talk during the audit process, they are available to discuss concerns or questions during the year.

Council Member Burnett said the audit reports typically point out where there are concerns or weaknesses, so he wished to commend the Finance Department for their excellent work. There are other municipalities that are in poor shape, so Norwalk is fortunate to have a strong finance team. There are no major concerns and action plans have already been put in place to address concerns.

Ms. McCready-Pritchett said that she knew how hard Mr. Asmani and his team work to prepare the budget and insure that items are entered into the spreadsheets correctly. The BOE appreciates that work.

Mr. Flint agree that both the City and the BOE have excellent finance teams. Mr. Schmitt said that he would make sure the credit is given where it is due. He thanked Ms. Lam and Ms. Vitale along with everyone else in the Comptroller's Office.

Ms. Lam thanked everyone for attending the meeting and encouraged everyone to contact her of CLA if they had further questions. Mr. Schmitt thanked Mr. Flint and Mr. Epstein for their work.

### **ADJOURNMENT**

Ms. Lam adjourned the meeting at 3:50 p.m.

Respectfully submitted,

S. L. Soltes  
Telesco Secretarial Services