

TOWN OF WALLINGFORD, CONNECTICUT

SPECIAL TOWN COUNCIL MEETING

July 15, 2008

MINUTES

The following is a record of the minutes of a Special Wallingford Town Council Workshop meeting held on Tuesday, July 15, 2008, at 5:30 P. M. in the Robert Earley Auditorium of the Wallingford Town Hall. Town Council Chairman Mike Brodinsky Called the Meeting to Order at 5:32 P.M. Responding present to the Roll Call given by Town Council Secretary Sandra Weekes were Councilors Michael Brodinsky, Nick Economopoulos, Gerald E. Farrell, Jr., John LeTourneau, Robert F. Parisi, Rosemary Rascati and Michael Spiteri. Councilor Vincenzo M. DiNatale arrived at the meeting at 5:35 P.M. Vincent F. Testa, Jr. was absent for business reasons. Mayor William W. Dickinson, Jr. and Comptroller James Bowes were also present.

A Moment of Silence began the meeting. The Pledge of Allegiance was said and the Roll Call was taken.

1. Presentation by the Wallingford Comptroller, Jim Bowes, and Blum, Shapiro, and Co. P.C. (our auditors) concerning the terms of engagement for auditing services for FY 08-09, and the terms of a proposed engagement letter to be signed by the Town Council (maybe), and questions and comments concerning auditing services to be provided by the auditors.

- Chairman Mike Brodinsky

James Bowes, Comptroller, introduced Michael J. LeBlanc, CPA, Blum Shapiro Partner in charge of the audit engagement in Wallingford, presented information regarding the changes in SAS 114, a statement of auditing standards. He said that there is a change between the accounting firm and the appointing body, and that according to the Town of Wallingford Charter, the appointing body is the Town Council. Mr. Bowes outlined the "engagement letter" where the town agrees to provide the CPA firm everything necessary to provide an audit and to formulate their opinion. Mr. Bowes said that in his experience that it has always been management who signs the agreement since they are the ones who provide the information needed to conduct the audit. He said that the responsibility for signing the engagement letter is now the appointing body, or the Town Council. He said it could be a joint signature with the Council Chair and Administration, the Mayor.

Chairman Brodinsky asked if the text of the new requirements of SAS 114 were available.

Mr. LeBlanc said that what this is about is to ensure that the auditor opens up the lines of communication with those charged with governance prior to the audit engagement getting into the process. He said that the purpose is to establish open communication at the start of the audit. He said that the idea is that the Town Council has an understanding of what is going to occur as a result of the auditing engagement, and more importantly, to understand that the auditing firm is accessible to the town, and that they can be contacted and that there may be a decision that would be through the Town Council Chairman as far as questions or comments or concerns and to recognize the fact that the Council can and are part of the audit process, part of assessing the risks that may exist for an entity, and the Council's understanding of dealings with management, any issues that may exist within the town. He said that Mr. Bowes and management have obligations to disclose things to the auditing firm and to bring the Blum Shapiro up to speed on the internal controls within the town. He said that those charged with governance play a role in the process as well. He said that historically the governance body would hear from the auditor at the conclusion of the engagement where the results and what occurred would be reported. He said that at that stage of the game any rules of governance would have passed. He said this is the opportunity to open up that line of communication, and part of documenting that line of communication is one through the acceptance of the engagement letter, the signing of it.

Secondly, Mr. LeBlanc said that it is a fact that verbal communication is occurring. He said that they issued the memo, which was distributed, as their interpretation of SAS-114, instead of simply sending SAS-114 because they felt it fell short. He said that they wanted to present it, explain it, discuss in a little more detail and get feedback. He said that the only precedence in having the letter of engagement signed by the Council is to recognize their involvement with the engagement and their understanding of what the audit is going to entail.

Chairman Brodinsky said that the Council is not that involve and asked if SAS-114 require as a rule that the Town Council, who has no role in internal controls, preparation of financial statements, etc., sign the letter? He asked if Mr. LeBlanc had the text of it that they Council could have? Mr. LeBlanc said he would be surprised if it was that specific that it had to be signed by the Chairman. Chairman Brodinsky asked whose idea it was to have the Council sign the letter and referred to the letter of May 2, 2008. Chairman Brodinsky said that the letter that the Council is asked to sign says that the Council is responsible for management decisions and functions. He said that is not true because the Council is not. He said the letter also says that in accordance with government auditing standards the nine Councilors will be required to review and approve financial statements prior to their issuance. He said that the Town Council never has done that, and Chairman Brodinsky said that he couldn't imagine that they ever would do that. He said that the Council has a

responsibility to be in a position to make an informed judgment on those financial statements and added that is impossible and that they will never be in that position.

Mr. LeBlanc asked if he was referring to the components under management's responsibility. Chairman Brodinsky said that he was. Mr. LeBlanc said management is deemed to be the Mayor and the Finance Directors. The Town council is not management; the Council is the governing body. Mr. LeBlanc said that in signing the letter, it's an understanding up front of what the scope is of the audit objectives are and in understanding what management's responsibilities are as part of the engagement and understanding what the auditor's responsibilities are. He said that it is the oversight rule of having the governing body. Chairman Brodinsky said, so you don't need to us to sign or co-sign that letter. Mr. LeBlanc said that by signing the letter that at that point the Council is accepting what the audit objectives are and what the responsibilities of management and the auditors are.

Chairman Brodinsky said that we are at a matter of form rather than substance and that is easy to clear up. The letter that was distributed May 2 was not addressed to the Mayor but was addressed and sent to the Town Council, so that in the letter "you" would refers to the Town Council. If it is just a matter of changing the appellation to whom the letter is addressed, the Mayor of Wallingford, that is one thing. Chairman Brodinsky acknowledged that management does not refer to the Town Council and that if something was added to clarify that management is means Mayor, the Administration, the Comptroller and excludes the Town Council, would that meet their needs. Mr. LeBlanc responded that the letter itself is boilerplate and it identifies roles the management, auditor and the audit objectives and if the Town Council does not want to sign the letter that they would be satisfied if it was Town Council acceptance of the letter of engagement, some form of Town Council acceptance.

Chairman Brodinsky asked if they would be satisfied if there was a letter saying that the Council doesn't have these management responsibilities and that the Council does not accept the responsibilities. Mr. LeBlanc asked who the Council sees as management of the Town of Wallingford. Chairman Brodinsky said the administration, the Mayor. Mr. LeBlanc said as long as that understanding is in place, and we are on the same page on that point, and that within this the letter there aren't responsibilities laid out for those charged with governance. SAS-114 is making sure that the appropriate information is brought to the table. Chairman Brodinsky said is guarding the responsibilities of the Council in the signature of the letter. We don't manage the town and they don't intend to sign in that form so that if a letter could be crafted that clearly protects the Council's interest in making sure that is understood, that we don't manage, etc. He would like to see it done so that they get what they need and that the Council's interests are protected. Mr. LeBlanc said that there are different options that could be changed and that one of them could changing to whom the letter is addressed, for instance to the Mayor or the Comptroller at which time it is signed that point he still needs to some form of

acceptance which could be copy of the minutes that represents acceptance the letter by the Council. He said that at that point we will have covered the spirit of the standard that those charged with governance be informed up front of the particular components.

Mr. Spiteri commented that this is a law that is being passed that a Charter governs each town differently. He talked about the role of Wallingford's Town Council. He asked if Wallingford should have their own town auditor and how that would affect Blum Shapiro's role in the amount of work involved, and he asked about the payment that they receive. Mr. Bowes said that the cost is \$108,000, which includes the government, the Board of Education, the grants of the school board, end of year fiscal report of the Board of Education and of the Utilities and all of the federal and state grants. Mr. Spiteri commented on the responsibilities of the Council and the risks. Mr. Bowes said that the town is not losing anything by not having an internal auditor. He said that the ultimate responsibility is to provide the records that the auditor needs. He said that this is not an attempt to assign responsibility in an area where it does not belong. Mr. LeBlanc said that complying with the standards falls with the auditor. He said that this is the first time that they have met with a town at the onset on an audit and stressed opening up and concluding communication with the town and the auditor during the process. He commented on the role of an internal auditor.

Mr. Parisi asked if the position of internal auditor had been eliminated. Mr. Bowes said that the town did. Mr. Parisi said that he is curious about the letter and asked why are we doing this since we have never done this before, and he is not comfortable with having anyone sign for him or being asked sign a financial report. He said that is what the auditor gets paid for and they get paid to advise and that we expect to get a letter and a final report, and we are capable of reading that and seeing if management is not responding to the auditor and the option always remains that if they don't respond to what you are asking for, the we get a follow-up letter. Mr. Parisi said that he would have thought that would be sufficient and that it was good enough for many years. Mr. LeBlanc said that if those in governance did not feel that they had access to the auditor for involvement in the process. Mr. Parisi said that quite frankly if they are working for us, and he expects to be able to reach them by phone. Mr. LeBlanc gave an example of an issue and said that he would be able to reach them by phone. Mr. Parisi said that he exercises his office, and if he needs information he gets it, while at the same time it is the auditor or account who are responsible and that is what they get paid for. He said that is what he senses is going on here and that he is not interested in taking any responsibility for what the auditor is doing. Mr. LeBlanc said what this is about is do you feel connected during the process and that there are responsibilities for management and the auditor and that you are paying us to prepare to perform an audit of the town's financial statements and to render opinions. He said when this is concluded this comes down to looping in more people, in the case those charged with governance, because of the Council's knowledge of the entity, the day-to-day activity, according to SAS-114 which is auditors communication with those charged with governance. It lays out a series of items that Blum Shapiro are required to communicate to those charged with

governance part of the process is the letter on engagement and the memo that we have been working through. Mr. Parisi asked why wouldn't it be directed to the Finance Department with a copy to the Council as has been done in the past.

Chairman Brodinsky said that the Council is not going to be signing a representation that things are complete, accurate, controls are adequate, so if this was not intended, then it is just a matter of re-casting this letter and re-drafting it to say the Council knows that the Mayor and the Finance Department are responsible for that and we know that the Council is not, and that the Council agrees that those are the roles but not to be in a position of being a co-signer as to the accuracy of the statements or the adequacy of the internal controls and other things. Chairman Brodinsky asked if that can be addressed. Mr. LeBlanc said the answer is re-addressing the engagement letter to the Mayor and some type of evidence that it has been turned over to the Town Council.

Mr. Economopoulos confirmed that this is the cost for 2008-09. Mr. Bowes said that the last fiscal year was also \$108,000 and then 2010 will have 1.9% increase and in 2011 the increase will be 2.6%.

Mr. LeTourneau asked what would happen if the letter was never signed. Mr. LeBlanc said that the audit would not go forward since for it to go forward a letter needs to be signed.

Chairman Brodinsky, referring to the July 15, 2008 memo, read from the paragraph entitled "Our Responsibility" and asked if the town would not be provided with an opinion of the effectiveness of the town's internal controls. Mr. LeBlanc said that was correct. Chairman Brodinsky posed the question that they be aware that the town has lousy internal controls but that the Council wouldn't know.

Mr. LeBlanc responded that if they became aware of it they would modify their auditing procedures to further reduce the risk of material mis-statement in the financial statements. He said that means that they have to do more testing of the account balances and more analysis on the activity, so that when they do render the opinion that the financial statements that they are materially correct. Mr. LeBlanc said that, secondly, would be the identification and formal reporting to significant deficiencies that have been identified as a result of the audit. He continued saying that the significant deficiencies would speak to those items that they identify. Chairman Brodinsky asked why don't they report lousy internal controls. Mr. LeBlanc said at the end of the day, it is not going to be an opinion on the effectiveness of the internal controls. The requirement is that they report to the town the items that they identify.

Mr. Parisi said that in the past the Council would receive a report that states there were problems. Mr. LeBlanc said that their letter would report on

significant deficiencies or material weaknesses. He said that if they find something they are required to report it.

Chairman Brodinsky asked about engagement timing and who is the client. Mr. LeBlanc said Mr. Bowes is the client and said the audit firm issues financial statements to Mr. Bowes. Chairman Brodinsky said that those statements are not issued to the Council. Mr. LeBlanc reminded the Council of many types of statements. Chairman Brodinsky said that he needs to be specific. He said that when they issue financial statements in November that the Council does not receive it and that they, Blum Shapiro, don't issue them to the Council. Chairman Brodinsky asked if that was right. Mr. LeBlanc said that they issue them to the town, and in this case they print and bind the copies. Chairman Brodinsky suggested that the Council add footnotes to the letter that says that on November 28th, the Council also receives a copy. Mr. Bowes said that they get separate packages from Blum Shapiro, one for the Town Clerk as that is the official public record copy and by state law the Town Clerk has to put a publication in the newspaper saying that she has received it. He said another package goes to the Town Council Office, and then that day or the next day copies for all Town Council members are delivered to the Town Council Office.

Chairman Brodinsky said that it is his perception that the financial statements are delivered at the end of November, and the Mayor has a press conference. He said the financial statements are released to the Council after the press conference, and he is wondering in regard to this new era of communication whether or not, as the firm that the town engages, would agree as part of their engagement letter, that the Council is entitled to that, the same as the administration. Mr. LeBlanc said that he doesn't think that can be put into an engagement letter, as the process that you are looking at is the layout of the pattern of how things are going to occur between management and the governing body at that point. Chairman Brodinsky said that the Council does not receive the December 15 management letter at the same time as the administration. Mr. LeBlanc said that the letter is addressed to the Town Council and that it will be issued at the same time as the management letter. Chairman Brodinsky asked if the letter comes to the Town Council Office because if it isn't then the Council doesn't see it until much later.

Mr. Bowes said that there is about a one week delay in the letter reaching him and that currently his office is attempting to move dates to late November, early December. He said that in his experience with the town that they have been getting audit drafts around December 10th, and they need several days to a week to review. Mr. Bowes contacts Blum Shapiro for any changes, and then it goes to hard print, and then they get them to us somewhere around –then Mr. Bowes referred to the time around Christmas Eve. He said they have gotten them out right then and there. He said that if the management letter is complete when that happens, then it gets included with the package that is sent to the clerk and to the Town Council Office and to the nine Councilors. He said that if the management letter is not ready, the report is not held up waiting for it, but that the management letter is sent later when it is ready.

Chairman Brodinsky referred to the July 15th letter again under "Other Communication" entitled *Material weaknesses, significant deficiencies and control deficiencies*, and asked for an example of control deficiencies. Mr.

LeBlanc said, for instance, bank reconciliations not being completed in a timely way. Chairman Brodinsky referred to a situation in the past regarding a management letter that was issued saying that expenses have been historically been over-estimated and revenues under-estimated and makes it difficult in planning and under pressure for the administration. He said that was eliminated in the final draft. He asked about that. Mr. LeBlanc said that under the reporting components that we are dealing with here management advisory comments are different from reportable control deficiencies, and perhaps that would be the type of item that would be management advisory comments. He said that under the standards that there isn't a requirement that management advisory comments be written; they can be verbal; they can be communicated with management and left at that. He said that he thinks that part of it is the structuring of those items that clearly have to be reported, and if a controlled deficiency is identified and particularly if it is a material weakness or a significant deficiencies, it is required that it be in writing.

Chairman Brodinsky asked what is the next step. Mr. LeBlanc said that they would re-issue the engagement letter, have it signed, and that they have scheduled preliminary work associated with the audit to kickoff on August 11 and at that time they will be looking at the controls, performing tests of control activity and for financial statement activity. He listed other preliminary work. He said that there is nothing more that he needs from the Town Council, and they might not have communication until the conclusion of the audit. He reviewed responsibilities. He spoke about SAS 104 to 111. Mr. Bowes in reviewing the next steps said that after re-issue of the letter, that he and the Mayor would sign it and forward a copy to the Town Council through the Town Council Office. He said that he would also forward minutes to Blum Shapiro.

Chairman Brodinsky said that for the record there was a full and frank discussion and that the Council understands the message from the auditor very clearly and that we are satisfied with the engagement and look forward to another year of open communications.

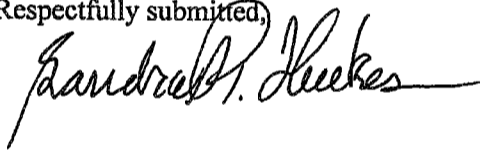
2. Presentation and introduction of applicants to the Wallingford Energy Conservation Committee - Chairman Mike Brodinsky

The following people introduced themselves:

John Bradley
Craig Cassella
Rita Kovacs
Dan LeGrand
John Lynch
Ben Martin
Sharon L. Mooney
Bill Pursell
Colin Ryan
Lisa-Anne Soucy-Mowerson
Mike Vitali
Mary Williams

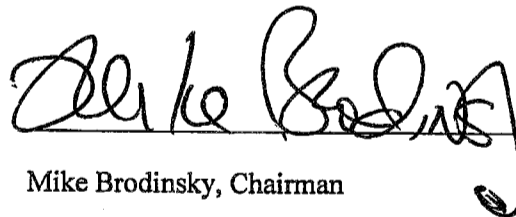
Mr. Brodinsky made a motion, seconded by Mr. Farrell, to adjourn the Special Meeting. All present voted Aye and the meeting adjourned at 6:36 P.M.

Respectfully submitted,



Sandra R. Weekes
Town Council Secretary

Meeting recorded by Sandy Weekes

 8/25/08

Mike Brodinsky, Chairman Date

 8/25/08

Barbara Kapi, Town Clerk Date