

I. INTRODUCTION

As part of the Finance's Department continuing effort to properly record and report the Town's financial condition, we have been evaluating Non-recurring Capital account balances to close out completed projects and transfer funds as appropriate.

In this regard, on August 5, 2014, we presented to the Board of Finance (BOF) for approval, a Reallocation Authorization to authorize that surplus appropriations generated by closed non-recurring projects for years 2003, 2004, 2005, 2006, and 2007, be reallocated to offset and to eliminate the expenditure deficit allocated to non-recurring projects fiscal year 2009 and close out non-recurring projects for fiscal year 2010.

In particular, one non-recurring item, the Asphalt Paving project #00903, authorized by the April 28, 2008 bond resolution, had expenditures exceed appropriations by \$709,067.

Prior to the BOF meeting, various discussions were held with the Department of Public Works and the Finance Department. No documented reason for this overage was secured. The reallocation authorization was passed 5-0 by the BOF, however, the BOF was interested in the operational reasons for the overage and requested further analysis to explain the overage and provide those reasons to the BOF.

II. ACTIONS TAKEN

As a result of a Board of Finance request, the Finance Department researched the variance by taking the following steps.

1. Reviewed original bond resolution approved by the RTM on April 28, 2008 authorizing the Issuance of Bonds to finance \$4,989,712 for Costs of Certain Capital Projects.”
2. Reviewed minutes and audio tape of March 8, 2008 Board of Finance budget meeting at which FY 2008-09 Non-recurring Capital including Asphalt Paving project #00903 were discussed.
3. Reviewed all Purchase Orders (POs), invoices and payments related to FY 2008-09 Non-recurring Asphalt Paving project #00903.
4. Gathered specific service detail from vendor related to Asphalt Paving project #00903.
5. Reviewed Phoenix Financials related to FY 2008-09 Non-recurring Capital.
6. Discussion with current and former Finance Department employees.
7. Discussion with current and former Public Works employees.
8. Discussion with Robert Tait, former Controller, Town of Fairfield.
9. Discussion with Ken Flatto, former First Selectman, Town of Fairfield.
10. Performed testing of MUNIS Purchase Order Requisition Entry and Approval workflows.

11. Discussion with MUNIS helpdesk associates.

III. OPERATIONAL FINDINGS

On April 28, 2008, the RTM passed “A Resolution Appropriating \$4,989,710 for the Costs of Certain Capital Projects and Authorizing the Issuance of Bonds to Finance such Appropriation.” Specifically, \$1,850k was authorized for Asphalt Paving project #00903. As of October 2, 2008, \$1,831K of the appropriation for Asphalt Paving project #00903 had been expended.

Streets paved with the \$1,831k expenditure include:

- Napps Park Road
- Old Post Road
- Shoreham Village Road
- Osborne Hill Road
- Stoneybrook Road
- Birchwood Road
- Merwins Lane
- Redding Road
- Dunham Road
- Mill Hill Terrace
- Open Gate Lane
- High Meadow Road
- Redding Road

The next significant activity related to Asphalt Paving project #00903 began 10 months later. Following is a schedule detailing the \$728k expended.

| <u>Date of Service</u> | <u>Date of PO</u> | <u>Amt of PO</u> | <u>Date Paid</u> | <u>Amt Paid</u> |
|-------------------------|-------------------|------------------|------------------|------------------|
| 6/3/2009 – 6/22/2009 | 7/30/2009 | \$596,395 | 8/14/2009 | \$596,395 |
| 8/20/2009 – 9/2/2009 | 11/9/2009 | 63,472 | 11/13/2009 | 63,472 |
| 10/20/2009 – 10/23/2009 | 11/16/2009 | 19,600 | 11/20/2009 | 9,400 |
| 10/26/2009 – 11/18/2009 | 1/12/2010 | <u>58,660</u> | 1/22/2010 | <u>58,660</u> |
| TOTAL | | \$738,127 | | \$727,927 |

Streets paved with the \$728k expenditure include:

- Osborne Hill Road
- Flintlock Road
- Range Road
- Daybreak Road
- Deerfield Street
- Marne Avenue
- Philomen Street
- Sedan Terrace
- Roseville Street

Arising Street
Castle Avenue
Greenfield Street
Tunxis Hill Road
Old Stratfield Road
Deerfield Street
Exchange Place
Jennings Road
Longfellow Avenue

From our discussions with current DPW staff who were with the department during the period of activity, we note that prior to FY 2008-09 Non-recurring Capital there were few paving projects and they were limited to very specific work such as bus loops at schools and sidewalk improvement projects. Current DPW staff at that time was focused on monitoring the operations budget rather than the Non-recurring Capital budget. DPW staff recalls discussions in FY 2008-09 regarding paving efforts and the decision to pave certain streets that were in disrepair.

Specifically, from discussions with former Public Works Director Richard White, we learned that it is extremely difficult, if not impossible, to be exacting in Purchase Order and bid amounts because of the wide range of underlying road conditions and because the laying of pavement at 1.5 inches depth is a benchmark and road conditions may require greater depth. Asphalt paving overages have been managed through offsets by surpluses in other line items. Mr. White indicated that he knew that the asphalt paving FY 2008-09 Non-recurring Capital budget was exceeded, but was surprised when informed of the magnitude of the overage. Mr. White further stated there were many diverse paving projects scheduled in FY 2008-09 and DPW attempted to adhere to the annual road paving schedule. Mr. White discussed the overage with Finance and he felt that he should have been more careful and diligent in monitoring the paving budget.

In our conversation with former CFO Mr. Hiller, Mr. Hiller indicated that at the time the asphalt paving overage was brought to his attention, the asphalt paving work had been completed so there existed an obligation to pay. Mr. Hiller stated he informed First Selectman Flatto of the overage.

Mr. Flatto stated he didn't recall the overage or if Mr. Hiller had apprised him of the overage.

IV. FINANCIAL FINDINGS

In FY 2009-10 the Town converted its financial system from Phoenix to MUNIS. As part of the conversion, the FY 2008-09 Non-recurring Capital account was loaded into MUNIS by project and with budget roll-up codes. The use of budget roll-up codes allowed POs to be issued and expenditures to be charged against specific FY 2008-09

Non-recurring Capital projects which had already been fully expended as long as the aggregate available budget for Non-recurring Capital was not exceeded. In FY 2010-11 the Finance Department discontinued using Budget roll-up codes for Non-recurring Capital authorizations. Thus POs and invoices may currently only be issued and paid, up to the available amount for each specific project.

We also noted that the Town of Fairfield, as in many other municipalities, approve purchase requisitions and issue purchase orders only after the work has been completed.

V. INTERNAL CONTROL EVALUATION STEPS TO BE TAKEN

Review policies and procedures for submittal, approval, timing, and issuance of purchase requisition and purchase orders. Make changes to improve internal controls as appropriate. Policies will address the following:

1. Creation of purchase requisitions.
2. Use, restriction, and documentation of overrides.
3. Document roles and responsibilities for approvers at all approval levels.
4. Document circumstances in which requisitions causing an account to go over budget may be approved.