

CITY OF MILFORD  
FINANCE & AUDIT COMMITTEE MINUTES  
March 11, 2024

The Finance and Audit Committee of the Milford City Council met on Monday, March 11, 2024 in the Joseph Ronnie Rogers Council Chambers at Milford City Hall, 201 South Walnut Street, Milford, Delaware.

PRESIDING: Chairman Jason James Sr.

IN ATTENDANCE: Committee Members:  
Councilpersons Daniel Marabello, Nirmala Samaroo, and Andrew Fulton

STAFF: City Manager Mark Whitfield, Chief Cecilia Ashe, and City Clerk Terri Hudson

*Public Comment Period Prior to Official Meeting*

No one was signed up to speak and the floor was closed to public comments.

*Call to Order*

Chairman James called the Committee Meeting to order at 5:01p.m. followed by a review of the agenda items.

*FY22 Audit Draft*

Finance Director Lou Vitola shared the final draft of the fiscal 22 financial and audit presentation are included in the packet and is in the auditor's hands undergoing final review. It is close and he has talked with the auditors today about a handful of other items as they continue their review of the statements.

The production draft is in their possession and any changes will be managed by the auditors and a revised draft will be produced and distributed. They have already begun to think about what can be done and lessons learned in the past two years that will parlay into FY23 and beyond.

One of the risks associated with monthly, quarterly, annual close processes versus monthly cash budget reporting, is that the statements could be widely different from one to the other. In ours, he said we are tenths of a percentage in terms of cash. As reported for the end of FY22 (June) compared to what is shown reconciled in the financial statements. A lot of the same is true for the P&L accounts. There is no balance sheet in the monthly financials but something that is being worked on.

Director Vitola reiterated that what is seen in this financial package is not vastly different than what was reported in June 2022, internally and at the Council level.

The auditors will complete their review of the financials, then produce their components of the report. The independent auditors report and other reports related to internal control, with respect to the single audit of expenditures of financial awards, that includes more than \$750,000 combined in federal grants and/or loans.

The auditor's presentation will be done at the April 8, 2024 Council Meeting. The final draft will be distributed at the end of March.

Councilman Marabello talked about the reduced rating, and asked if completing the audit bring it back to where it was. Director Vitola clarified that there has been no action on the rating, and he believes that S&P Global has just been pinning for it. They received the grants along the way, the supplemental reporting package, and the additional information package, as well as the cash and annual financials, along with three drafts along the way.

The potential for a change would exist if by April 8<sup>th</sup> the final audit has not been shared with them, though he does not expect a rating change and a watch mechanism may be used as a potential warning.

Councilman James confirmed that there has been no move in the rating up to this point.

The Councilman does want to follow up regarding the statement of cash flow (p 23) for the proprietary type of fund.

*Review/RFP 2025-2027 Audit Proposals*

Director Vitola recalled the question at the last committee meeting to see the evaluation criteria which was included in the packet. There was a change from the exercise done starting in January 21 for FY21, 22 and 23 audit award though there was more waiting to reference. As well as consolidating two categories that were both related to similar clients because he found that was an important topic.

It also wasn't ultimate important that the audit firm have specific expertise in any of the same utilities, but it was important to have municipal or governmental client that have at least one or two proprietary funds regardless of what they were.

That is why the rating was changed and there is a scoring committee that includes the newest accountant Kevin Gaboriault with Sandra Peck standing by as a tiebreaker. After the past situation with auditing in FY22, they should be strongly considered in the group. There are two strong respondents and the option to continue with ZA for a one-year renewal, then after FY24, another one-year renewal could be done.

He is trying to eliminate the retraining efforts that would be required with a new auditor. At the same time, coinciding with a new system.

Director Vitola reminded the committee that the city went live with the ERP system on July 3, 2023 or the first day of FY24. FY24 which is the first year of the next audit, is also the first year producing the financial statements out of the new system.

It has been a challenge to get our arms around the new system just in the finance module alone, let alone the sub pieces of finance and other areas that will eventually be integrating such as HR, payroll, taxes, etc. Retraining new auditors at the same time could be the recipe for another disaster. That is why FY23 will be turned around quickly while still reporting from the old system in ZA's third year of three, who is now well trained.

He thinks there is an advantage to stretching the engagement to a full four years, and maybe five years. Then doing another RFP in one or two years. That can be turned around very quickly based on the strong proposals received though one could be a matter of cost.

His plan was to distribute the individual proposals to his committee of two, and the original ZA proposal showing the option to renew, as well as the scores with blind covers.

The selection should be done in two weeks and if not, the scoring can be shared electronically and posted in the council packet and discussed in the chambers. Or if he should just produce the recommendation for the March 25<sup>th</sup> meeting at Council and have members of this committee chime in individually.

Councilmember James feels either way will be put a squeeze on time because not every member is retired. There are a lot of meetings coming up, and while he likes committee meetings and workshops, they eat up a lot of time.

The Director feels that after eight years of the same auditor heading in the FY21, it was important we got the proposals March 1 and turned them around for the March 10<sup>th</sup> meeting of Council and a decision was made at the next meeting. This time around with the FY23 not completed, and with the strong candidates, he does not think there is an issue if we have the next one on April 22<sup>nd</sup> and have that be the meeting where the merits of the proposals are discussed. Then a decision can be made on May 13<sup>th</sup>.

Councilman James said that is his recommendation due to the many commitments coming up.

Director Vitola will get the scores out to the Committee within the next two weeks to allow time for review and scoring.

*Update/Investment Policy*

Director Vitola then announced that on April 22<sup>nd</sup> PFM will present.

He agreed that the investment policy should be reviewed once a year. According to the policy, it was reviewed in 21, with changes made in 22. It was reviewed again by PFM, the new investment advisers, with some additional tweaks in 23.

The only update needed was clarification once they handed the Investment Policy Statement over to their portfolio team to do the investments. There is some ambiguous language where the limits of one asset-backed security have an exclusion to another asset-backed security (mortgage-backed securities). The percentages in the context of the broader policy are clear, but a minor clarification is needed to eliminate any type of confusion.

IT was noted the strikethrough in subsection 8.8. What is intended by that language is exclusivity with 50% of mortgage backs and 10% of asset backs.

The only other item considered was adding a more specific benchmark, though it does not always make sense to have a global ubiquitous benchmark and to manage that with specific reasons, streams of liabilities and goals related to different pockets of the funding. Each of those is being engaged against market driven benchmarks in those areas. The key is to reach our investment goals.

Councilman James questioned this body function as a de facto investment committee, which in essence consists of fiduciaries, and asked if it is insured with liability insurance. Director Vitola said it is not. A discussion followed about the city's fiduciary responsibility and possible exposure.

He will evaluate the risk and determine if any additional liability insurance should be added.

He then talked about the total market value invested in the portfolio plus earnings and accrued interest. The cash portion is mostly held with the custodian though some residual is in the fund at PFM. Director Vitola also talked about effective duration, which is a value expressed in years, but less of a maturity value and more of a sensitivity to interest rate measure.

That means any change in interest and change in value of the total portfolio. The higher the number, the greater the value of the portfolio can vary based on the movement in interest rates. With our returns and the short numbers, it is a very positive signal.

Also discussed yield on cost and yield at market are two measurements of the projected earnings on the investments. The yield at cost is an unamortized value meaning the yield is based on the cost including premiums or net of discounts the city would yield at the time of the investment of the securities. But the value of even fixed income securities changes period to period as the maturity date is approached. As the time to maturity changes and market yields change, an updated yield at market is shown.

Either way the city is above five which is very strong.

He followed with a summary of the credit quality showing the distribution of the credit quality of the underlying investments.

Sector allocation shows those areas in the investment policy permitted to invest and the proportion of the portfolio is investment in which areas.

Also pointed out was the maturity distribution showing the actual maturity buckets of when the underlying fixed income investments mature.

*Old Holiday Bank Accrual*

Chief Ashe then talked about one of the line items in the budget that is referred to as ‘the holiday bank accrual’. She explained this is time that was accrued when the officers worked a holiday, they could receive ‘comp time’ to be added to the books. It could be used as leave or a payout.

Typically, every year, the officers are permitted to cash out up to 80 hours.

The Chief said that measures have been put in place through contract negotiations or other methods to ensure the officers cannot continue to accrue. They now must cash out at the end of each year of about 60 hours they are permitted to accrue. But remaining is the old holiday bank.

For example, the command staff that are not contractual, has approximately 1,000 hours. As an example, an employee that has hours in this old bank, by only allowing the employee to cash out 80 hours per year, it would take 6.5 years to cash that out.

The other issue is there is nothing that requires the employee to cash out the 80 hours in the old bank.

An officer who was a sergeant and earned time is continuing to accrue approximately 3% if they receive their full merit increase each year. That is rolling over to their new hourly salary.

Her recommendation is to allow these officers to cash out more than the 80 hours and get rid of the liability all together. She emphasized the budget nightmare when considering the salary increases annually though they are not working any additional hours. In her opinion, it is like a savings account.

Chief Ashe suggests getting rid of the liability and pay out the full amount to the command staff in the amount of \$57,000.

It was confirmed that this benefit has the benefit of each annual increase and there is no policy that states there is a minimum amount that can be carried forward and can accumulate with a cap.

When asked if this problem exists among the rank and file, Chief Ashe stated yes, though that would have to be negotiated because it is presently in the current collective bargaining agreement.

When asked how to prevent this from occurring again, Chief Ashe said recent policies and practices have been put into place to prevent that.

She is asking Council to authorize that if the officer elects to cash out the old holiday bank in a full amount, it be done to eliminate the liability which over a six-year period would increase 20%.

Chief Ashe also shared that some of the budgetary items are cultural and are considered savings for retirement or similar. She encouraged each officer to sit down with a financial advisor who is going to tell them not to leave the money sitting there and it can grow in other ways. So, it can be beneficial to the officers as well.

When asked where the \$57,000 is shown in the budget, Finance Director Vitola said it is part of the compensated absences liability which is reconciled every year. If this is made a policy change during negotiations, where it is paid out all at once, it will not impact the city’s P&L because the cost is accounted for at the end of each fiscal year. However, a cash basis budget is done, so the funding would have to come out of general fund reserves which hasn’t been tagged yet.

In the O&M budget each year, there is an indication of who and how much that employees anticipate selling back which helps in that one year. But the overall amount is not known or calculated. The absences accrual is based on the following years’ wages on July 1<sup>st</sup>, not knowing what promotions may occur.

The Chief’s plan is to start with the command staff because they are within the city’s control and purview, where the rank and file will need to be negotiated. If this situation is resolved now, it would include any officer in the old bank, adding that the new bank has restrictions and requires an officer to cash it out at 60 hours every year.

Councilmember Marabello asked if this exists with civilian employees other than at the police department, Chairman James said that should be explored down the line as well.

With no further business, Chairman James moved to adjourn the Finance and Audit Committee meeting at 5:57 p.m.

Respectfully submitted,

Terri K. Hudson, MMC  
City Clerk/Recorder