

CITY OF MILFORD  
FINANCE & AUDIT COMMITTEE MINUTES  
June 10, 2024

The Finance and Audit Committee of the Milford City Council met on Monday, June 10, 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 and Nirmala Samaroo

STAFF: City Manager Mark Whitfield and City Clerk Terri Hudson

*Public Comment Period Prior to Official Meeting*

Because no one from the public was in attendance to speak, the Chairman proceeded with the Committee Meeting.

*Call to Order*

Chairman James called the Committee Meeting to order at 5:03 p.m., then deferred to Finance Director Lou Vitola.

Councilmember Marabello arrived at 5:45 p.m.

*FY22 Audit Review*

Finance Director Lou Vitola was in attendance.

Zelenkofske Axelrod LLC (ZA) Partner Kimberly Stank and Lead Auditor Kayla Demar were both engaged in the city's last two audits and were also in attendance.

Ms. Stank then reviewed the following letter:

*We have audited the financial statements of the City of Milford (the "City"), as of and for the year ended June 30, 2022, and have issued our report thereon dated May 20, 2024. Professional standards require that we advise you of the following matters relating to our audit.*

***Our Responsibility in Relation to the Financial Statement Audit***

*As communicated in our engagement letter dated December 8, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.*

*Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.*

*We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.*

*We have provided our comments regarding significant control deficiencies, material weaknesses, and other matters noted during our audit in a separate letter to you dated May 20, 2024.*

### ***Planned Scope and Timing of the Audit***

*We conducted our audit consistent with the planned scope and timing we previously communicated to you.*

### ***Compliance with All Ethics Requirements Regarding Independence***

*The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence. In order to eliminate the identified threats to independence associated with our assistance with the preparation of the financial statements and data collection form, we have ensured a member of firm management, independent of the associated activity, performed a review of the financial statements and data collection form.*

### ***Significant Risks Identified***

*We have identified the following significant risks: management override of controls and improper revenue recognition due to error or fraud. Although these significant risks were identified, we designed our audit procedures to mitigate the risks.*

### ***Qualitative Aspects of the Entity's Significant Accounting Practices***

#### ***Significant Accounting Policies***

*Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. The District adopted the provisions of Governmental Accounting Standards Board's Statements No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period", Statement No. 92, "Omnibus 2020", and part of Statement No. 99 "Omnibus 2022". The adoption of these statements had no effect on previously reported amounts. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. The City also adopted the provisions of Governmental Accounting Standards Board Statement No. 87, "Leases", which resulted in the recognition of lease receivables, deferred inflows and additional disclosures.*

### ***Significant Accounting Estimates***

*Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.*

*The most sensitive accounting estimates affecting the financial statements are:*

*Management's estimate of the useful lives of capital assets used to calculate depreciation expense was based on the historical lives of similar assets.*

*Management's use of an actuary to estimate the net pension liability, deferred outflows of resources for pensions, and deferred inflows of resources for pensions.*

*We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the financial statements taken as a whole.*

### ***Financial Statement Disclosures***

*Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to:*

*The disclosure of the Pension Plans in Note 15 to the financial statements is based upon information provided by an actuary.*

***Significant Unusual Transactions***

*For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. We encountered no significant unusual transactions during our audit.*

***Significant Difficulties Encountered during the Audit***

*Although we received cooperation of management and believe that we were given direct and unrestricted access to the City's officials and management, we experienced significant difficulties in the performance of the audit due to extensive delays by management in the overall audit process.*

*These delays, such as delayed trial balances, supporting schedules, financial statements and multiple revised versions of documents, significantly increased the hours required to complete the audit.*

***Uncorrected and Corrected Misstatements***

*For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.*

*In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Attached is a schedule of all adjustments that were recorded.*

***Disagreements with Management***

*For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.*

***Circumstances that Affect the Form and Content of the Auditor's Report***

*For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. No circumstances affect the auditor's report.*

***Representations Requested from Management***

*We have requested certain written representations from management, which are included in the management representation letter dated May 20, 2024.*

***Management's Consultations with Other Accountants***

*In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.*

***Other Significant Matters, Findings or Issues***

*In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.*

***Restriction on Use***

*This information is intended solely for the use of the City Council, and management of the City of Milford and is not intended to be, and should not be, used by anyone other than these specified parties.*

*Very truly yours,  
Zelenkofski Axelrod LLC  
Harrisburg, Pennsylvania*

Ms. Demar noted that the financial statements are split into two different sections. The first section is the government wide statements. These present the overall financial activity of the city as a whole.

In both the governmental activities and business type activities, there are positive net positions. Even better in the unassigned category, there is a positive balance. Net position is a good indicator of how you can fund future costs.

The fund level statements include the governmental funds. In all the city funds, there are positive net positions. The general fund has a healthy balance in its unassigned category which is a good indication of the city's financial position.

The income statement shows that for the general fund, there was a positive increase to the fund balance. The special revenue fund also had a positive increase. There was a slight decrease in the non-major funds, but not extremely significant.

The final category of the financial statements includes the proprietary fund financial statements. Those are the things that operate based on charges for services, including electric, water, sewer, and solid waste. The internal service funds get consolidated into the governmental activities.

All are maintaining healthy balances.

The income statement shows that across all of funds, the change in net position was positive, another indication of healthy financials.

The opinion on the statements was an unmodified opinion which is the highest level of assurance. That concludes the financial statement audit.

A single audit was also done of the major program which was the ARPA program. There were no findings with that.

There is a financial statement finding over accounting records/financial statement close process. This involves the June 30, 2022 financial statements, and the timing, the close process, and the number of adjustments. They talked to this committee in detail about those issues.

The recommendation is for the city to review procedures in place with responsible employees and revise procedures, as necessary, to ensure accounts are reconciled in a timely manner and financial statements are prepared accurately and timely.

The other document provided shows what the finance team is dealing with on a day-to-day basis. Currently under this structure, there are 43 funds that all roll into eight different funds as shown in the financial statements. In the general fund, thirteen funds roll into one column of the financial statement. The special revenue and non-major funds can remain separated out.

When flipping down to the proprietary funds, it is the same thing. The electric funds have four funds, water has three, sewer has four, solid waste has two, and internal service has five.

That makes a very complex background system. There is a lot of activity going on between those trial balances. They feel it is not as clean as potentially could be.

Also, they noted at the top the number of accounts. There are over 1,500 accounts within those 43 funds. The account structure and the fund structure are very complex. They have a lot of townships and boroughs, and there would be a lot fewer trial balances even for a county with multiple service agencies. Typically, they only have seven to twelve trial bounces.

Chairman James pointed out we are structured in that manner because we are in a very old legacy system that doesn't allow for the segmentation where several spheres can be crossed without having a lot of accounts because it can be pulled from anywhere.

He doesn't think the current system doesn't allow that, but hopes that when the new system is operating, it will allow that.

Ms. Stank explained that a lot of times with the general fund, different systems will create departments. If in a separate trial balance, the money must be transferred over because it not generating from state or federal money. Regardless, the general fund will need to transfer the money over.

She said that will create some efficiencies in the closing process.

Ms. Stank said the same applies to proprietary funds having multiple funds. Transferring funds back and forth within the trial balance and there are multiple funds within the one fund. But trial balances get messy when going back and forth. Having it in one fund would be very helpful.

She added it was talked about previously and she believes Director Vitola is consolidating in the new system, and they are encouraging that.

Other than timeliness, the Chairman asked if getting those funds to their proper account of due to due from activity being segregated and transferring in and out. Ms. Stank said assets were purchased in one fund, so money had to go back and forth; the assets must transfer back and forth. The enterprise funds were treated differently than the government funds. As a result, there was confusion going back and forth between the funds and how to transfer them.

When questioned, Ms. Stank talked about the management discussion analysis that was prepared by city management because they are experts on the city.

Finance Director Vitola explained that it would look different if he had the freedom to prepare a narrative about the city's finances. But there are requirements and certain headings that must be covered and in a certain way. Within the constraints of what is included, and as close to the audit completion as possible, they run some comparative tables and talk about the city's financial performance from a government-wide basis and from the fund financials basis. That is compared to the prior year. The actual financial statements are not comparative financial statements. The FY22 financials only include that year, though somewhat of an analysis is attempted at a high level.

Ms. Stank then spoke about the issue of timing. There were delays in getting the information to the auditors. Last year's FY21 financial statements were issued in December 2022. They had been waiting and trying to schedule the timing for this year's close process would occur. They were supposed to begin in November and that was delayed. They were then supposed to receive everything the first of December.

Their firm has a lot of staff that take most of their vacation during the holiday season and was not ready in December. They then agreed to start in January. There were multiple requests for information that took a long time to get things reconciled and get information back. They were coming here the last week in January/first week in February. Even the day before they were scheduled to come, they were told to cancel it because they felt that the audit was going well, and they weren't needed on site. They were hoping to be on site to help push things along a little bit. It just took a long time, for example, they would have a question and it would take several weeks to get the information. Unfortunately, when they would get information, and they would say they will have Friday available, but whatever it was would not be received until Monday morning.

Ms. Stank explained it is very difficult to schedule something when you can't schedule it and then it begins to bud against their other clients. On the auditing side, it delayed them, because they don't have the information.

That then delays the audit because they cannot get the information to this council as fast.

Chairman James shared with the Finance and Audit Committee that this is the preview and arena where these things are discussed. The committee has the responsibility of signing off on these financials and making a recommendation to full council. They also must know for planning purposes how the team did.

He understands there were several internal issues whose gaps are being closed on.

Chairman James confirmed that some of the delay was due to personnel, whether part time, full time, or outside contracted help, and the push to migrate into a new system.

Finance Director Vitola said in terms of effort, they put forth the best efforts to get materials in a timely fashion. Between staffing and the demands of staff, with respect to the implementation of the system, it wasn't always easy to do what was needed to keep the process moving.

The toughest challenge he faced was what happened in 2022 with the FY21 audit. That had lingering ramifications that hurt worse than he anticipated. In terms of staff, they are overcoming it and now have a new full-time position in finance and were able to attract a licensed CPA, though not actively practicing but with auditing experience and someone who knows the technical needs of external financial reporting, methods and tests better than Director Vitola can. He is not a CPA and even with some of the issues were finding and correcting his own mistakes, especially with fixed assets.

In terms of quality personnel, they are now on board. In terms of number of staff, they hope for now that with the addition of that one is enough. In terms of staff augmentation, there are sufficient dollars in the budget to get the outside help needed to assist the full-time staff.

The biggest remaining challenge is the number of years until the new ERP is fully implemented. Though Finance went live July 2023, at the start of FY24, everything else must be merged and linked into finance. The other CPA has been tied up with the implementation of the ERP and as a result, his staff continues to be stretched.

Some of the recommendations are already in place and some they agree with are being worked on.

He is doing everything he can do to publish the financial statements before they even step on site.

Director Vitola agreed the problem is a really the result of staffing and system integration, but believe they have what is needed to overcome that.

Chairman James explained that he is used to the independent auditor requesting a trial balance after all the proposed adjustments are made, prior to releasing the audit report. He asked if that is a requirement of ZA.

Ms. Stank explained that the way these financials are officially made, is they are dumped from the system into Excel and then massaged into financial statements. They made all of them to this Excel document and had to massage it and re massage it, to create this document(s). The adjustments all have been posted to the trial balances from the auditor's perspective with the legacy system. They do not know if they have been made to the system. However, when they receive the next trial balance, they will be able to see a fund balance rolled. And when they did test fund balance this year, it did not roll. So multiple entries were made directly, and, in this case, adjustments had been posted to the prior year. The problem was not posting the adjustments but instead adjustments that were made during the year that hit the fund balance.

The first thing they will do when they get the new trial balances is checked to see if the fund balance rolls.

Director Vitola said that it has reconciled with most in and the new CPA Kevin Gaboriault is making sure the fixed asset tie year to year. He then explained the problem experienced because of some postings that had to be reversed and corrected late in the process.

When asked where this is now, Director Vitola talked about the 201 series accounts are the payables. The GL for the control account in payables tied to the subledger in payables. He agrees there are many other accounts that the group or map to AP. If not billed through the payable system, don't hit the payables control account. They don't want to touch those control accounts so there are other payable accounts.

The auditors don't care about the groupings, and they want to see backup and support for everything that is being pushed to an AP account. When running a subledger for AP out of the system, that interfaces with the control account only and they see half of the payable balance in the subledger and double that amount in the GL.

They have reconciliation slices for the other parts and want a global AR reconciliation. That was solved in the 22 audit and are on the right path for FY23.

He agrees with that advice.

Director Vitola also confirmed that in the new ERP system, he went from 43 funds to 18. And only 16 of those are active. That includes five internal service funds and five internal service funds in the new system. One account was going to handle all the internal service funds, though they hesitated on that.

There is another fund reserved in the event a stormwater fund is needed in the future.

Other than those two inactive accounts, they have moved from 43 to really 16. The four special revenue funds needed, which includes police grants, municipal street aid, real estate transfer tax, and all other revenues.

All three of the non-major funds in the governmental funds migrated to the general fund. Eleven of the 13 in the general fund collapsed into one fund. There is one fund for electric, one for water, one for sewer, and one for solid waste.

In the FY20 audit that was done internally, all the audit entries that weren't one sided were posted. That is where some of the imbalances started. He thinks ZA in 21, helped them understand who we are and what we do with our fund structure. Then in 22 remedying those fund structures. Some of those accounts didn't map to the financials because they are offsetting. They were pulling them out and suggesting they be mapped to see what happens.

Ms. Stank then confirmed they are not fraud auditors. If that is something the city wants, that would require a separate forensic audit or an agreed upon procedure. If they note fraud, then their responsibility is to talk to council about it. In this case, there are a lot of journal entries, and their responsibility is to talk to council.

Nothing explicitly came to their attention that would lead them to believe there was fraud.

It was stated that the most sensitive disclosure was the pension plan. Ms. Demar referenced the footnote regarding pension activity related to police and non-uniform. It is listed as a sensitive item because those numbers are based on the information provided by a management specialist. In this case, an actuary is calculating those numbers. They are projecting out what they think the liabilities and deferred inflows and deferred outflows are going to be. There might be some actual variances with how it performs those plans. But at this point they're based on the best estimate of an actuary.

Director Vitola confirmed that we are a member of the State of Delaware's pension plans. One is police and one is for non-police, and it is the State of Delaware's responsibility to audit the plan and issue an annual comprehensive financial report related to each plan, as well as to conduct actuarial studies on the plans that produce statistics.

The City of Milford's part in that is based on Milford's activity as a function of all the cities and counties that are participants in the plan. Milford's proportional slice is the \$5 million that is reported.

In summary, Chairman James shared the report does not require any modifications. It is materially free of any mistakes or omissions based on the audit which results in a clean report.

A discussion about the timeline for the completion of the FY23 and FY24 followed, though Director Vitola was uncomfortable providing an exact timeline.

Chairman James stated the next step is for the Committee to present the audit to City Council for a vote to accept.

There being no further business, Chairman James adjourned the Committee Meeting at 5:52 p.m.

Respectfully submitted,

Terri K. Hudson, MMC  
City Clerk/Recorder