THE METROPOLITAN DISTRICT COMMISSION
555 Main Street
Hartford, Connecticut 06103
Thursday, February 21, 2019

Present: Commissioners John Avedisian, Clifford Avery Buell, Luis Caban, Daniel Camilliere, William A. DiBella, Peter Gardow, James Healy, Allen Hoffman, Gary LeBeau, Byron Lester, Maureen Magnan, Whit Osgood, Domenic M. Pane, Michael Solomonides, Raymond Sweezy and Alvin Taylor (16)

Absent: Commissioners Matthew B. Galligan, Denise Hall, Jean Holloway, David Ionno, Alphonse Marotta, Bhupen Patel, Pasquale J. Salemi, Michael Torres, Richard W. Vicino and New Britain Special Representative Michael Carrier (10)

Also Present: Scott W. Jellison, Chief Executive Officer
R. Bartley Halloran, District Counsel
Christopher Stone, Assistant District Counsel
John S. Mirtle, District Clerk

CALL TO ORDER

The meeting was called to order by Chairman DiBella at 5:33 PM

ROLL CALL AND QUORUM

The District Clerk called the roll and informed Chairman DiBella that a quorum of the Commission was present, and the meeting was declared a legal meeting of the District Board of The Metropolitan District of Hartford County, Connecticut.

PLEDGE OF ALLEGIANCE

Those in attendance stood and recited the Pledge of Allegiance.

APPROVAL OF MINUTES

On motion made by Commissioner Camilliere and duly seconded, the meeting minutes of February 4, 2019 were approved.

PUBLIC COMMENTS RELATIVE TO AGENDA ITEMS

No one from the public appeared to be heard.
REPORT FROM DISTRICT CHAIR

This report was passed.

REPORT FROM CHIEF EXECUTIVE OFFICER

This report was passed.

REPORT FROM DISTRICT COUNSEL

This report was passed.

Commissioner Solomonides entered the meeting at 5:36 PM

PERSONNEL MATTER

Commissioner Taylor made the following motion:

That, upon review of the record and presentations from both special District Counsel and attorneys for John Zinzarella, the District Board of The Metropolitan District hereby terminates the employment of the Chief Financial Officer, John Zinzarella, for legitimate business reasons, effective immediately.

Attorney David Ryan spoke on behalf of The Metropolitan District.

Attorney Josh Goodbaum spoke on behalf of Chief Financial Officer John Zinzarella.

Commissioner Pane made a motion to end the debate. The motion was duly seconded and passed by majority vote of those present. Commissioner Hoffman opposed.

On motion made by Commissioner Taylor and duly seconded, the report was received and resolution adopted, by majority vote of those present. Commissioner Hoffman opposed. Commissioners Caban and Gardow abstained.

ADJOURNMENT

The meeting was adjourned at 6:55 PM

ATTEST:

John S. Mirtle, Esq.  __________________
District Clerk        Date of Approval
To: John Zinzarella, Chief Financial Officer  
From: Scott W. Jellison P.E., Chief Executive Officer  

Subject: Job Evaluation  

Date: 18 May 2018

Over the course of the past several weeks, and particularly since Rob’s departure, with the retention of Cohen Reznick to assist us through the audit process, it has become apparent collectively we have identified certain deficiencies and areas of concern and improvement with the Finance Department. Some of these issues relate to longstanding matters which have yet to be addressed, some which you have been aware of as outlined in the Blum Shapiro Audits over the past few years; others relate to newly discovered lack of proper procedures and policy matters uncovered by Cohen Reznick which appear to be the root cause. Whichever is the case, there are changes within the Finance Department that need to happen in both the short- and long-term, and I expect you as the CFO to spearhead the effort to effect those changes once and for all.

Therefore, the following course of action will be effective immediately:

1. As the CFO, the Director of Finance will report directly to you, and I have outlined your goals and objectives for developing the financial procedures and internal controls which continue affect MDC’s ability to function professionally.

2. You will continue to work with Cohn Resnick over the next few months to complete the FY 2017 Audit, close the financial statements, assess the near and long term staffing needs of the Finance Department, and develop internal auditing procedures.

3. Recognizing that staff development and retention within the Finance Department is more critical than ever, you will continue to work with Jim Grigsby on matters relating to executive and management training. I will expect you to work with him to build a capable team in the Finance department with clear direction, your active involvement to help your team achieve needed results, positive morale, and open and effective communications.

4. **Goals and Objectives:** Your input on the foregoing is welcomed, and note that this list of tasks will likely be supplemented as we move forward. My goal is to not only address the historical deficiencies within the department but to also put those safeguards and protocols necessary in place to avoid similar instances going forward. I trust you will work with me to achieve these goals.

   - Attend weekly/monthly meetings with the finance department, including treasury
   - Review monthly financial reports for all funds, providing input and direction on issues identified
     - Eventually present financial info to BOF
   - Review monthly budget to actual financial reports (both operating and capital)
   - Review and approve all non-standard/complex journal entries for proper posting
   - Review and provide input on weekly cash reporting

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- Assist in adjusting project cash balances to have a good starting point
  - Assist in reconciling current variances in cash accounts
- Review monthly project schedule of expenditures and revenues (the unspent proceeds schedule)
- Assist in enhancing the use of SAP to capture revenues and expenditures by project
- Participate in meetings with Engineering and Finance regarding projects
- Year end audit –
  - Review the fund financials/trial balances prior to providing them to the auditors to ensure activity appears properly recorded
  - Review some of the more complex schedules provided to the auditors for errors
    - Debt
    - Capital Assets
    - Pension/OPEB allocations
    - Pension/OPEB demographic data
    - Investments
    - Significant Transfers/Interfund activity
    - Fund balance classifications
  - Review annual actuarial reports
  - Review draft CAFR & Single audit reports
  - Draft MD&A
  - Draft Transmittal Letter
  - Sign management representation letter
  - Participate in the meeting with the auditors & BOF to present the draft CAFR
  - Address management letter comments and provide solutions to correct where possible
  - Ensure finance dept. has correctly posted all audit entries and review beginning fund balances of the new year to agree to audit

- Bonding process – ultimately responsible for the entire process
  - Review & determine debt authorizations to bring to Board for approval
  - Selection of FA/Bond Holders, etc.
  - Meeting with rating agency
  - Review of all reallocations to bring to Board, if necessary

- Projects
  - Review/participate in capital authorization discussions/capital budget
  - Review project close outs
  - Review grant/loan applications/funding prior to submission

- Payroll
  - Oversee the process to help resolve the current issues with reconciling payroll
  - Review monthly financials specifically to ensure payroll makes sense
- Review monthly bank recs – until Finance Director is hired

*Ultimate goal – build an environment that is collaborative and team-oriented. Lead the finance and treasury departments and transfer knowledge to the group, pushing the individuals to perform to their maximum capabilities. Ensure all team members communicate with each other and be open to questions/concerns from them.*
Scott W. Jellison, P.E.
Chief Executive Officer
The Metropolitan District
555 Main Street
Hartford, CT 06104
Phone (860) 278-7850 ext. 3200
Cell (860) 982-5015
Email: sjellison@themdc.com

From: Melissa Ferrucci [mailto:Melissa.Ferrucci@CohnReznick.com]
Sent: Thursday, May 17, 2018 10:29 AM
To: Jellison, Scott
Cc: Lisa A. Cantone
Subject: CFO Responsibilities

Hi Scott,

To follow up on our discussion, please see attached for our recommendations of the immediate responsibilities John should have, including the overall leadership of the Finance Department. Based on our initial assessment of finance and the work we’ve performed to date, this list encompasses some areas where a level of review is deficient/missing. Some of these areas may be performed by the Finance Director, once hired, but John should have overall responsibility for each area.

Please let me know if you have any questions or would like to discuss further.

Thank you,
Melissa

Melissa Ferrucci, CPA
Senior Manager
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Melissa.Ferrucci@CohnReznick.com

CohnReznick

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CohnReznick LLP
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Chief Financial Officer Responsibilities

Below should be the responsibilities of the CFO over the Finance Department and Treasury

- Attend weekly/monthly meetings with the finance department, including treasury
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- Review and approve all non-standard/complex journal entries for proper posting
- Review and provide input on weekly cash reporting
  - Assist in adjusting project cash balances to have a good starting point
  - Assist in reconciling current variances in cash accounts
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Ultimate goal – build an environment that is collaborative and team-oriented. Lead the finance and treasury departments and transfer knowledge to the group, pushing the individuals to perform to their maximum capabilities. Ensure all team members communicate with each other and be open to questions/concerns from them.
Scott, can we talk about what’s going on with the Finance operation...John, CohnReznick. Caryn Blaise, etc.? I have had a hand put in my face with regard to any coaching that I have tried to do with both John and Caryn, so that has been no help at all to you. I do want to do what I can to help you through all of this, but quite frankly I am at a loss as to what that is at this point. Can we find a time this week for me to go through this with you?

Jim

James A. Grigsby
Leadership Coach
860.232.4954
On September 1, 2017 Robert Constable, MDC’s Director of Finance, (DOF) was removed from reporting to the Chief Financial Officer, (CFO) reporting directly to the CEO.

As a matter of record, upon assuming the duties as the CEO in February 2015, the CEO reassigned the following direct reports from your chain of command in order for you to focus on your financial expertise;

1. Director of HR, May 1, 2015
2. Director of IT, May 1, 2015, position was vacant for 4 years
3. Director of Procurement, September 1, 2017

Mr. Constable notified the CEO on August 28, 2017, he was planning to take another position outside the MDC. As part of the exit interview, he shared the fact the reason why he was seeking other employment was mainly due to the CFO’s lack of support, guidance and leadership as the CFO, was all in an attempt to blame him for deficiencies in the department, making it impossible for staff to be successful. He indicated the CFO’s management approach was reactive and disparaging rather than a providing a proactive environment, which should include teaching, developing, and improving staff’s skillsets as necessary. The lack of leadership fostered no communication which discouraged staff from asking questions and raising concerns. He was asked if he were to report directly to the CEO as the other Directors, would he be willing to stay at the MDC in his current capacity, and he responded positively yes.

Therefore on September 1, 2017 the Director of Finance was reassigned to the CEO, and the CFO’s duties were revised to focus on developing proper internal controls which would be utilized to assess the finance department as part of an internal auditing function, as well as continuing to represent MDC to the Bond Market and managing the annual external audit process.

As this same time due to the presentation of similar issues regarding the CFO on September 1, 2017, Director of Procurement was notified to report directly to the CEO.

On Wednesday, March 21, 2018, Robert Constable, informed the CEO again that he had considered another offer and was planning to leave the MDC. He indicated that while he did not necessarily want to leave the MDC, he felt that even though the reporting structure had changed in September, his ability to succeed in his present position was compromised by the CFO. Specifically, he felt the CFO was micro-managing his department, questioning the workings of the department without offering of any solutions or recommendations, and overall creating an atmosphere that adversely affected his relationships with finance staff.

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Mr. Constable was another valued senior executive that MDC would prefer not to lose, especially in the middle of performing our annual audit, as well as monthly and quarterly closing of our financial statements. The CEO identified the option of relocating the CFO to the first floor, and would this provide opportunity for him to develop a better working environment within the finance department. He responded in the affirmative and a meeting with you was scheduled for the following day, March 22, 2018. In addition, the CEO proposed to include the “Treasurer” duties rather than the “Deputy Treasurer” role. The CFO duties would also change to remove the Treasurer duties and add the Internal Audit duties.

On March 23, 2018, Mr. Constable informed me after long thoughtful deliberation; he was concerned the CFO’s management style would not or could change and was leaning towards accepting the outside offer. He reiterated the CFO was not a good communicator or mentor for his staff, and is perceived by him and the finance staff as tending to “set up people to fail”, rather than developing an environment to train and encourage staff to ask questions and develop knowledge through lessons learned experiences.

As a follow-up to my March 21, 2018 meeting with Mr. Constable, the CEO met with the CFO on March 22, 2018. It was decided that as outlined previously September 2017, again the restructuring plan for the Finance Department at this time was to shift the CFO’s efforts and attributes towards acting as an internal auditor as well as serving as MDC’s liaison with the Bond market and external auditors. Working with the a new Director of Finance to develop internal controls and proper protocols and procedures moving forward which would be reviewed and audited by the CFO for monthly and quarterly financial closing.

It was agreed that:

1. The CFO’s office would relocate to the first floor of HQ.
2. The CFO would continue to serve as the internal auditor within the MDC developing protocols for all departments, not just Finance. Specifically; Review of draft financial statements and CAFR FYE 12/31/17 as well as;
   • Preparation of the transmittal letter
   • Review and preparation of MD&A – Once template provided by Blum
   • Review of Single Audit Reports
   • Review of Blum’s draft management letter once issued
   • Signing of the management representation letter

3. Given the CFO’s concerns with lack of qualified staffing for closing of the financial statements, he recommended at least 1 hire, the CEO recommended two hires; persons with a GAP accounting background will be hired at the administer level within the finance department, and one to serve as part of your internal auditing function. To date senior key vacant staffing positions have been vacant to the detriment of the department, like the Manager of Treasury, Manager of Financial Control with no concerns or recommendations from the CFO.

As a matter of record, this was the 1st instance in which the CFO recommended hiring any addition staff. The following key positions have been vacant with the Finance Department under the CFO’s control;
• Manager of Treasury, vacated February 26, 2016, temporary appointment by CEO on 8/20/17
• Manager of Financial Control, vacated May 3, 2015
• Comptroller, vacant 11/11/17
• Manager of Budgeting and Analysis, vacant May 3, 2015

The previous Acting Director of Finance/Manager of Financial Control, working directly for the CFO resigned from the MDC, for reasons outlined by you as incompetence’s, which Rob Constable replaced but his position of Manager of Budgeting and Analysis was never filled.

The Manager of Treasury, from 9/2/08 to 2/27/16 working under your direction, was in part terminated through a separation agreement for “various uncorrected job performance”, specifically the inability to manage cash flow and subsequently initiating the sale of grant and loan agreements with the State, and solicitation of BAN or Bonds unnecessarily, which is not only an internal control issue but has significant IRS and rating agencies implications. In 2013 on 4 separate occasions, MDC was required to reallocate Drinking Water State Revolving Fund loans and General Bond Obligations associated with over bonding approximately 30 million dollars in Clean Water Funds.

On March 26, 2018, Mr. Constable informed me he felt it was in his best interest to take this outside opportunity. He was asked by the CEO if the MDC had a different CFO if would he be willing to stay, his response was yes. He then resigned.

The CEO also requested that the CFO work with district counsel’s office to secure a third party consultant to assist in fine tuning the MDC quarterly audit closeouts. Do to the lack of the CFO’s efforts to secure a Financial Institution to support your concerns, the CEO requested Mr. Constable to have Cohn Resnick contact him for purposes of supporting efforts to complete the audit, hard close the financial statements as well as working with the Finance department during the remaining 4 weeks of Mr. Constables tenure for continuity purposes and to help transition a new Director of Finance. Cohn Resnick was tasked with reviewing and assessing the Finance Departments internal controls, procedures and policies along with accessing staffing needs both internal skillset and filling of necessary vacancies.

Working with Cohn Resnick since April 2, 2018 has begun to expose critical underlining fundamental flaws within Finance which although may have existed for years, has yet to be corrected or improved under the CFO’s 12 year tenure here at the MDC.

In a letter dated 5/3/18, Cohn Resnick outlined not only the $39,609,028.00 of unspent bond proceeds, but also a loan for $1,695,498.00 that was not allocated to a CIP project. Again the CFO offered neither explanation nor understanding as to what this loan was for, nor why the MDC entered into a PLO for funding in which it did not need.

As outlined above, it is apparent, given the termination of key positions throughout the Finance Department over the CFO’s tenure, and the lack of urgency to replace those same key positions, as the CFO, the same lack of cash management processes which resulted in the Manager of Treasury (this position has been vacant since February 26, 2018), continues to occur a 5 years later. By simply not developing the internal controls, tracking revenues by project rather than business area, makes it impossible for staff to properly track projects which directly affects understanding of cash management principles.
Therefore, after the last few weeks of experiencing your clear lack of financial controls implementation, and basic understanding of our SAP financial system, as the CFO, if you cannot simply perform the duties of managing MDC’s Bonding issuances, developing Internal Auditing procedures and policies properly, I cannot again recommend modifying, your job description to the Board.
The Metropolitan District
Finance Function Business Plan

Background:
Prior to 2015, the Finance Function was organized into three functional areas; the Controller’s Group, the Treasury Group and the Budget and Planning Group. This Financial Structure was based primarily upon the recommendations of the Barrington-Wellesley Group’s report entitled “The Metropolitan District Financial Reorganization Study – Final Report” dated February 2005, which was conducted and prepared upon the request of the Personnel, Pension and Insurance Committee. The report also called for a fourth functional area for Risk Management, but for numerous reasons, this function was folded into the Treasury Group. This organizational structure was put into place by the Chief Financial Officer shortly after his hiring in April 2007. Each of the financial functional areas were led by a Manager who was responsible for maintaining and documenting the business processes within their functional area, as well as, being responsible for the internal controls related to those processes. As of September 2008, all three of the Financial Managers were staffed and continued to be staffed through mid-2015.

The position of Chief Financial Officer from 2007 through the end of 2010 had direct reports consisting of the three Financial Managers, as outlined above and the Manager of Procurement. Due to the demands of the Clean Water Project, the Procurement Function was separated from the Controller’s Group and a Manager of Procurement was hired in 2009. During the period of 2009 to 2010, the MDC retained the consulting firm, IMG to lead the MDC through a restructuring exercise which would establish a new organizational structure of the MDC to manage the core sewer and water operations, the Clean Water Project and plan for the anticipated contract termination with CERRA at the end of 2011. This organizational structure was approved by the MDC District Board in December 2010 and was effective January 1, 2011. From 2011 through mid-year 2015, the Deputy CEO of Business Services, Treasurer and Chief Financial Officer, as defined in the re-organization, in addition to the three Financial Managers, had direct reports consisting of the Director of Procurement, the Director of Human Resources (responsibility for HR moved to CEO in middle of 2015) and the vacant Director of Information Technology (responsibility for IT moved to CEO in middle of 2012).

In the second quarter of 2015, as the Deputy CEO of Business Services, Treasurer and Chief Financial Officer had responsibilities for Finance, Procurement and Human Resources, it was decided, that the position of Director of Finance be posted and filled to alleviate some of the daily oversight that was required of the Deputy CEO of Business Services, Treasurer and Chief Financial Officer for the Finance and Treasury Function. In May 2015, the individual who was
the Manager of Budgeting and Analysis was elevated to the position of Director of Finance with
no back fill of the Manager of Budgeting and Analysis position, as no suitable external candidates
were identified during the interview process.

Over the course of the next three years, the following significant events involving the Finance
leadership occurred:

- **April 2015** - Controller who joined the organization in April 2009 resigned to
  pursue another job opportunity. The position was posted and filled in June 2015
- **May 2015** - Manager of Budgeting and Analysis position was not filled and
  ultimately unfunded in Fiscal 2017 Adopted Budget
- **February 2016** - Manager of Treasury was terminated. Position was not posted
  and filled. Subsequently, the position was funded for only one quarter of the
  year in the Fiscal 2017 Adopted Budget
- **August 2017** - Finance function was reorganized, removing all of the day to
day control from the Deputy CEO of Business Services, Treasurer and Chief Financial
Officer and those day to day responsibilities were assigned directly to the
Director of Finance. The Deputy CEO of Business Services, Treasurer and Chief
Financial Officer was assigned to perform the duties of Internal Audit of the
MDC.
- **November 2017** - Controller who was hired in June 2015, entered into a
  separation agreement with the MDC and the position was unfunded in Fiscal
  2018 Adopted Budget and replaced with an entry level accountant position
- **December 2017** – An interim Manager of Treasury appointed
- **April 2018** - The Director of Finance resigned to pursue another job opportunity.
- **May 2018** - The Deputy CEO of Business Services, Treasurer and Chief Financial
  Officer was placed back into the position of being responsible for the day to
day operation of the Finance function.

The Current State:

Based upon the series of events outlined above, the below is an assessment of the current state
of the Finance Function.

**People** - As noted above, the three financial managers (Controller, Manager of
Budgeting and Analysis and the Manager of Treasury) as well as the Director of Finance position
are all vacant. The remaining staff, who are in leadership positions, are at the administrator
and supervisory level.

- Payroll Administrator (Controller’s Group) – has been with the MDC since March
  2015 and was hired into this position.
- General Accounting Administrator (Controller’s Group) – has been with the MDC
  since February 2018 and was hired into this position.
- Supervisor of Account Payable (Controller’s Group CBU position) – has been with the MDC since February 2012 as was hired into this position.

The three individuals who are in leadership positions in the Controller’s Group do not have the technical skill set, academic or professional credentials or practical breadth of experience to be elevated into any of the vacant financial manager positions.

- Interim Manager of Treasury (Treasury Group - Receivables Administrator) – has been with the MDC since June 2012 and was hired for the position of Receivables Administrator. The individual in the interim leadership position in the Treasury Group is more than competent in his current area of receivables management and has stepped into the risk management function for claims administration and property casualty insurance, however, the individual does not have practical experience in either debt management or cash management, which are critical functions for the Manager of Treasury due to the demand of the Clean Water Project and the MDC’s capital programs.

- Interim Accounting Administrator (Budgeting and Analysis Group) – has been with the MDC since January 1991 and was a budget analyst prior to the interim assignment. The individual in the interim leadership position in the Budget and Planning Group does not have the technical skill set to be elevated into any of the vacant financial manager’s positions.

For the remaining exempt and excluded employees in the Controllers, Budgeting and Analysis and Treasury groups, overall, they are dedicated employees who continue to learn and become more technically proficient and more analytical. For this transformation to continue, they need direct managerial leadership, as provided through the three financial manager positions. Technical competency in accounting and analytics is currently lacking in the Finance and Treasury Group and this needs to be significantly improved. This will be addressed through the hiring of technically competent managers who have the requisite leadership abilities to develop their subordinates.

When each of the Financial Manager positions was filled, each of the managers was given my expectations as to how they were to manage their individual functional areas. Once each of the new Financial Managers are filled, each will be provided with the below expectations:

- Plan the workload for yourself and your staff to ensure that assignments are delivered when requested in a competent and professional manner.
- All processes for which you are responsible are to documented and clearly communicated to process users. The processes need to be challenged
periodically and revised accordingly, if the processes no longer allow the organization to function at an efficient level.

- Performance metrics are to be established, maintained, analyzed and acted upon to ensure peak performance of your organization.
- Manage by example and conduct yourself in a professional and business-like manner at all times.
- Be an agent of change. Identify issues, properly scope out issues, propose solutions, implement solutions, and perform a post audit to determine if the solutions are properly functioning.
- Take ownership of all processes/functions and be responsible for the action or inaction of subordinates. Appropriate level of review should exist for all work product prepared by subordinates.
- Develop professional working relationships with peer managers in other functions to facilitate a cohesive as opposed to a divisive organization.
- Be the domain expert of your functional area. Maintain a current technical skill set with respect to the use of information systems, industry knowledge and certifications.
- Establish appropriate staffing levels for functions assigned and develop clear objectives for all subordinates.

Without the presence of the full complement of the three Financial Managers, these expectations were not being achieved and accordingly, the accounting policies and procedures and to some extent the internal controls system have gone backwards and have been weakened.

Without the appropriate level of managerial oversight, review and coaching, the Accounting and Finance staff have, in certain situations, decided to stop performing certain portions of their job functions which are critical to the corporate end to end processes, either due to their own time constraints, or for the reason that no manager was asking for the information or checking that it was performed. Examples of this include not performing comprehensive analytical review procedures and KPIs (Controllers Group, Budgeting and Analysis Group & Treasury Group) and reviewing them in a collaborative team environment, ineffective communication with their downstream users (within Finance as well as other key stakeholders – all three Groups), failing to report issues/concerns upward through the management chain for recognition and resolution (all three Groups) and inability to interpret technical accounting issues and perform the appropriate technical recording of those transactions according to Generally Accepted Accounting Procedures (GAAP) (Controllers Group).

**Processes** – Internal Control Process narratives, closing checklists and key process documentation exists and this existence has been confirmed by Cohn Reznick. Due to the current void of the financial managers, the professional (EE12 and below) and clerical staff have
deviated from performing certain documented finance controls and procedures that are outlined in the documentation noted above. The finance managers were the individuals who were tasked with maintaining, updating, implementing, and monitoring adherence to approved process, policies and controls.

As noted in the Management Letter issued by Blum Shapiro, these documents need to be reviewed and updated and synchronized with the current organization structure (i.e. assign process tasks to specific adopted/funded/filled positions).

**Technology** - The general ledger and sub ledgers are SAP. SAP was implemented as the Y2K solution and the implementation was not a success. The ERP system was not fully integrated between various functional areas (within Finance as well as with the other functional areas of Engineering, Operations, Facilities and Customer Service) and the functional areas configured processes within their own functional boundaries that did not take into consideration the needs of the entire end to end process (Total MDC viewpoint). In essence, the manual and AS400 processes were incorporated into SAP via massive configuration customization, which was less then successful, and then each individual functional area made either additional configuration changes or implemented independent work arounds to ensure their individual functional area could work. Not much consideration was given to the global MDC business processes.

As a result, the following symptoms complicate the management of the finance function;

- Financial Statements are not configured in SAP. Trial Balance data has to be extracted into Excel and Fund Financial Statements have to be prepared manually in Excel. This makes the monthly closing process manually intensive and time consuming. In addition, the human intervention of data manipulation increases likelihood of error introduction into the financial statements.
- Reconciliations are done outside of SAP. This increases the complexity and time required to perform the reconciliation functions.
- Data integrity and data existence within SAP is a major concern. As the implementation was functional focused, the data structure and content is neither uniform nor optimal for proper analytical procedures to be performed in a timely and efficient manner. Use of off line programs, due to SAP lack of integrated configuration, makes analysis cumbersome, unreliable or unachievable in some circumstances. This includes monthly actual versus budget analysis, forecasting, and cash management.
- Differing levels of comfort and acumen with SAP. This exists within Finance and throughout the other functions.
To address the deficiencies from the Y2K SAP implementation, the MDC developed the Business Transformation Process to evaluate its corporate end to end business processes. Due to the void in Financial Manager positions, the participation from the Finance function has been filled with personnel who are not in leadership positions, therefore some of their design recommendations, may not include the appropriate focus on the needs of the MDC versus the needs solely of the Finance function.

**Action Plan:**

**People** - Re-implement the financial management structure as outlined in the Barrington-Wellesley Group’s report entitled “The Metropolitan District Financial Reorganization Study – Final Report” dated February 2005. The order of priority for filling positions is as follows and is based upon the timing of the major tasks that each of the vacant positions are responsible for:

- **Controller** – Of the three positions, this is the key technical person in the Finance and Accounting function. This person is the right hand person of the CFO to ensure that accounting policies/procedures and the internal control structure are in place and functioning. This position will also ensure that the monthly financial closing process is completed in a competent, technically correct and timely manner so that analysis of the business can be performed. This position should be filled by the end of the third quarter of 2018 to ensure that the new Controller can be on boarded properly and that the new Controller can study and learn the business and accounting policies/processes prior to year-end. This timing is essential, as this individual is expected to take the lead role in the year end closing process and be the primary interface for the external auditors as the conduct the Fiscal 2018 financial audit.

- **Manager of Budgeting and Analysis** – This person is a shadow of the Controller and they are to provide analytical support to the financial statements of the MDC. This analytical review of variances or trends, positive or negative, must be performed to identify, communicate and act upon issues or opportunities, so that the budgetary and strategic goals of the organization can be met. This person is also essential in the internal control framework with respect to separation of duties, reconciliations and performing compensating controls (data analytics and forecasting) as well as analytical support to both Treasury and Customer Service functions. This position should be filled by the middle of the fourth quarter of 2018, so that the individual will take the lead in setting up the Fiscal 2019 budget within SAP and provide analytical support for the 2018 year end closing and commence the 2019 actual versus budget and KPI analysis.

- **Manager of Treasury** – This person is responsible for the overall management of the MDC’s cash management, debt management, and risk management processes. This individual is not less important than the two above managers, but they are in the third hiring position due to the order of significant tasks that
the MDC will face. As the MDC has just concluded its 2018 GO Debt sale in August of 2018, there is more emphasis required for the 2019 Adopted Budget process and 2018 year end closing and financial audit process. During this time period, the CFO in conjunction with Cohn Reznick and the Interim Manager of Treasury will manage the key Treasury functions. This person is also essential in the internal control framework with respect to separation of duties, reconciliations and performing compensating controls (KPI metrics, data analysis and forecasting). This position should be filled by the beginning of the second quarter of 2019 so that this individual will take the lead in the cash and debt management processes in advance of the forecasted third quarter 2019 GO new money issue.

- **Internal Audit / Business Process Improvement Group** – the Barrington-Wellesley Group’s report entitled “The Metropolitan District Reorganization Study – Final Report” dated February 2005 identified a need for an Internal Audit function. To address this portion of the report, the concept of a Business Process Improvement Group was incorporated into the Adopted 2015 Budget being led by the Assistant to the Deputy CEO of Business Services (EE-16 position) with a Financial Security Compliance Administrator (EE-14). These positions were placed on hold in 2015 with the incorporation of the Director of Finance position and then the concept was removed during the 2016 budget process. This concept should be reincorporated into the MDC’s 2020 budget process once the three financial managers have been hired and on boarded. The primary mission of these individuals needs to be further established, but its main focus is the continuous development/documenting/testing of policies and procedures and the various internal controls throughout the MDC.

The three core financial manager positions have been placed into the 2019 Proposed Budget for consideration by the Board of Finance and ultimately the District Board. In addition, for transitional purposes, Cohn Reznick is being considered for Finance Management and Internal Audit support through the end of 2019, as these financial manager positions are being recruited, filled and on boarded. The costs associated with this support will also be included in the 2019 Proposed Budget.

As each of the Financial Managers are hired, my expectations (identified in the Current State section) will be reviewed and discussed with them. In addition to my expectations, once the three positions are filled, collectively as a group, the MDC Finance and Treasury leadership group will review and if appropriate, modify and re-adopted its Mission Statement in support of the MDC’s Mission Statement and reintroduce to the MDC Finance and Accounting staff. Currently, the Mission Statement which was developed and is as follows:
The mission of the Finance & Treasury function of the District is to accurately report upon the financial status and condition of the District, while: proactively procuring materials, services and adequate funding sources for the District’s operations; maintaining a strong internal control framework which mitigates risk, ensures accurate accounting records, timely payment of vendors and safeguards the assets of the District.

and in addition, through this process, Finance and Treasury leadership identified the Core Values of the Finance & Treasury Function:

The MDC Finance & Treasury Function is driven by our core values:

- **Integrity** – We commit to conform to the highest level of ethical standards while being compliant with all pertinent laws, regulations and policies.

- **Accountability** – We understand what is expected of ourselves and the department and are committed to meet those expectations.

- **Teamwork** – We commit to work together to achieve individual and common goals. We commit to share knowledge, encourage and support each other and respect individual differences.

- **Leadership** – We commit to lead by example, while encouraging growth and advancement in the organization.

- **Transparency** - We commit to openly share information with others, through routine dissemination of accurate financial information and key performance indicators.

- **Customer Service** - We commit to serve our customers (internal and external) by performing our tasks in a timely, consistent and accurate manner. Our interactions with customers will be polite, professional and friendly.

**Training** – Based upon the specifics of each candidate selected for each of the Manager positons, a customized training program will be developed.

- **Controller** – As this position was filled and the new Controller is starting on September 4, 2018, the following on-boarding and training program is being planned, in addition to the normal orientation provided by the MDC:
  - On-boarding coaching with Jim Grigsby
  - GFOA Seminar in Intermediate Governmental Accounting which is offered in late September 2018, mid October 2018 and mid December 2018. As the new Controller has their practical experience on the FASB side of the industry, this seminar would refresh the GASB codifications which were a part of the undergraduate accounting curriculum. For planning purposes, it would be logical for the new Controller to attend either the October or December 2018 session.
- GFOA Seminar in Advanced Financial Reporting which is offered in mid-October 2018, mid December 2018 and mid-January 2019. For planning purposes, this seminar is to be attended after completing the Intermediate Governmental Accounting seminar. This seminar focuses on preparing a Comprehensive Annual Financial Report (CAFR). As the new Controller has their practical experience in the SEC and private sectors, this course would provide a detailed overview of the CAFR preparation and the requirements under GAAP and GFOA. For planning purposes, it would be logical for the new Controller to attend the either the December 2018 or January 2019 seminar
- Transitional support provided by Cohn Reznick and the CFO.

- Manager of Budgeting and Analysis –
  - Onboarding coaching with Jim Grigsby
  - Transitional support provided by Cohn Reznick and the CFO.
  - Specific training requirements will be developed based upon the practical and technical experience of the selected candidate.

- Manager of Treasury
  - Onboarding coaching with Jim Grigsby
  - Transitional support provided by Cohn Reznick and the CFO.
  - Specific training requirements will be developed based upon the practical and technical experience of the selected candidate.

Additional training requirements for the subordinates of the managers will be determined in conjunction with the new managers, Cohn Reznick and the CFO.

**Transition Plan** - In the transition period (current to filling each of the three Financial Managers, the Deputy CEO of Business Services, Treasurer and Chief Financial Officer will assume the roles of the three vacant managers and once a candidate has been hired, the Deputy CEO of Business Services, Treasurer and Chief Financial Officer will transition the new Manager into their role with the assistance of Cohn Reznick.

The following activities are being performed by the Deputy CEO of Business Services, Treasurer and Chief Financial Officer:

- Hold weekly meetings with professional Finance staff to plan work load and provide both strategic direction along with Cohn Reznick. In these meetings, analytical analysis is proposed and reviewed along with KPIs.
- Hold monthly meeting to review monthly closing which includes detailed review of the MDC fund financial statements and supporting analytical review analysis including budget to actual reports for key expense components (payroll, debt service, etc.) and cash management forecasting. During this meeting, technical accounting issues are addressed (management discretionary accruals and GAAP)
- Manage and oversee the 2017 Financial Audit completion and preparation of the 2017 Comprehensive Annual Financial Report (CAFR) and Federal Single Audit so that the appropriate filing and distribution deadlines are met (June 30, 2018).
- Manage the General Obligation Bond issuance process to take out maturing $120M in General Obligation Bond Anticipation Notes (BANs) by August 1, 2018.
- Manage the MDC 2019 Budget Adoption Process commencing on July 1, 2018 with anticipated Budget Adoption anticipated to occur on December 10, 2018.
- Hold Debt and Project Forecasting meetings with members of MDC Finance, Procurement and Engineering along with Cohn Reznick review, improve and document Capital Projects end to end business process and to ensure, IRS spending compliance on open market debt issuance, cash flow planning, and capital appropriation compliance.
- Manage the development of Monthly Financial Report to the Board of Finance. Target date is October 2018 Board of Finance Meeting.

This structure of meetings will continue and will expand as the three Financial Managers are filled. As the Financial Manager positions are filled, the following areas of responsibility will be assigned to each of the managers with oversight from the Deputy CEO of Business Services, Treasurer and Chief Financial Officer.

**Controller –**

- Preparation of monthly financial reports for all funds and hold review meeting with Deputy CEO of Business Services, Treasurer and Chief Financial Officer.
- Review and approve all non-standard journal entries booked during the monthly closing processes.
- Maintenance of Accounting Policies and Procedures and documentation of Internal Control System.
- Manage payroll process (end to end business process).
- Review bank reconciliation process.
- Year end audit and all statutory reporting obligations.
- Maintenance and documentation of policies and procedures within area of the Controllers group.
- Business Transformation Lead for Finance, with support of the Deputy CEO of Business Services, Treasurer and Chief Financial Officer and Cohn Reznick.

**Manager of Budgeting and Analysis –**

- Annual Budget Preparation process including rate structure support.
- Adopted Budget versus Actual expense analysis supporting the Controller in the closing process.
- Funds Management – Capital Project Accounting cash flow forecasting
- Maintence of KPIs – Enterprise wide
- Maintenance and documentation of policies and procedures within area of Budgets and Planning
- Business Transformation Subject Matter Expert for Finance

Manager of Treasury –

- Cash Management Processes inclusive of forecasting and collections
- Debt Management Processes inclusive of debt issuance, compliance and reporting
- Risk Management Processes
- Maintenance and documentation of policies and procedures within area of Treasury
- Business Transformation Subject Matter Expert for Finance

Business Transformation:

In addition to the duties outlined in each of the approved job descriptions for the three core finance managers, each of these financial managers should be a key leadership resource for the Business Transformation Project which is scheduled to go live at the end of 2019. Given the prospective timeline for hiring, only the Controller and potentially, the Manager of Budgets and Planning will have an ability to influence and impact the Business Transformation Process.

As the Business Transformation Project is scheduled for a new realization kick off date of October 1, 2018, it would be most logical to assign the Finance Team Lead position in Business Transformation to the newly hired Controller with support from both Cohn Reznick and the CFO.

The Business Transformation Project is probably the most important strategic capital investment that the MDC is currently undertaking. This project gives the MDC the opportunity to objectively look and evaluate and modify its end to end processes with respect to industry best practices, process standardization, process robustness, enhancing/strengthening internal controls, and improving customer service/satisfaction. Incorporating these design aspects into the SAP configuration, will inevitably lead to more reliable and accessible data to base business decisions upon and will ultimately lead to organizational excellence and efficiency.

Based upon items identified in the Cohn Reznick report delivered to the MDC leadership, the Deputy CEO of Business Services, Treasurer and Chief Financial Officer will increase his presence in the Business Transformation process to serve as the technical lead for Finance with the assistance of Cohn Reznick.
The Metropolitan District

To: File
From: Scott W. Jellison P.E., Chief Executive Officer
Subject: Follow up Job Evaluation

On October 12, 2018, at approximately 10:30 am, I met with JZ to discuss the status of progress and response to the action plan outlined in my May 18, 2018 job evaluation. Also attending the meeting was Assistant District Counsel Chris Stone.

Prior to this meeting, JZ provided to me a written narrative that attempted to outline the historical background and dysfunction of the finance department, the present status of the department, and general steps moving forward. As I indicated, I was not focused on his position as to how we got to this point within the department, as he is aware he has been the CFO for 11 plus years, but rather what specific short and long term plan, as the Chief Financial Officer was he planning to prospectively implement, which would include procedures, and controls necessary to ensure that, regardless of personnel at any given time, we would not repeat the events, Audit management comments and circumstances that compelled me to prepare the job evaluation in the first instance.

JZ presented to me an 11 page document, undated, entitled “The Metropolitan District Finance Business Plan” which was part of your responsibility outlined in your job evaluation. As I indicated to you, your letter does not address my request. The letter spends at least 8 pages explain you perception of the history in finance and ultimately in your opinion is not your fault as the CFO that any of the issues outlined in my evaluations, Blum Shapio Audits or CR reports. Again I clearly explained JZ has not met my expectations and goals and in order to do so I expect to simply take my letter and address each and every item one by one with a specific response. I requested JZ to resubmit this document to me at his earliest convenience.

After JZ’s lengthy explanation as to why these issues were not his fault, I was able to direct him into focusing on his expectations of moving forward into the future. He offered two examples of how you were working with staff to avoid similar past failures. These examples were not included in the written narrative, but did provide at least the beginning of the types of necessary and needed internal communication with his staff. JZ’s challenge and my questions of his leadership ability execution of the follow through, building, training and maintaining a team staff structure in order to implement new procedures and policies. My expectations and ultimate measurement of his success in compliance with my May 18, 2018 job evaluation will be what his role is, as the CFO, in the development and implementation of the corrective actions for the Finance Department. My concern of his ability obtain, train and retain staff to implement internal controls and new procedures and policies based on your past 12 years of management of the Finance Department is of major concern to me.

Specifically, I once again reiterated and tasked JZ with developing specific policies and procedures that will accomplish the following:
1. Enable his managers, and ultimately him, to identify problems and/or deficiencies at the early stages to avoid crisis management over time, notifying the CEO immediately of any issues;
2. Define the role of each of his managers, and develop an analysis and reporting system that emphasizes collaboration rather than confrontation; and
3. Establish a specific action plan that timely addresses and corrects any deficiency as it is discovered. Work with Jim Grisgby to develop your interpersonal and leadership skills.
4. Work with CR utilizing them as an extension of his staff to develop and implement an organizational structure which will facilitate prioritization of vacant staffing position to be filled as well as to

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recruit key positions. In addition assess existing staff’s skillsets to determine necessary training and efficiencies which could be achieved.

5. Again I reiterate, I am interested in JZ’s role as the CFO in how the finance department is rebuilt, and whether you can properly monitor and oversee day to day functionality.

6. I indicated that I am at his disposal to meeting in the event he needs any clarification of his goals and objectives and many expectations of his department. I emphasized that this exercise was designed to facilitate his success and the success of his department, and in part a response to concerns expressed by some board Commissioners.

To date I have not received a revised response. I expected a revised narrative form John detailing more specifics on those policies and procedures he feels are necessary to better our finance department in both the long and short term.

Scott Jellison, P.E.
Chief Executive Officer
Carrie please have Karyn issued MDC cell phone Monday.

John had no understanding of the issue at hand before he asked Karyn to review the process. He simply asked Karyn to review the process before Lindsey left.

Karyn found the problem and John, as the CFO, never came directly to me, as the CEO with this issue. Unacceptable!

I was told by Carrie B.

Sent from my Verizon, Samsung Galaxy smartphone

-------- Original message --------
From: "Blaise, Karyn" <kblaise@themdc.com>
Date: 12/14/18 6:37 PM (GMT-05:00)
To: "Jellison, Scott" <SJellison@themdc.com>
Subject: Re: We need to get you MDC phone!

Hi Scott,

John asked me to review it with Lindsay a few weeks before she even gave her notice. She reviewed with me how things were done in the prior 2 years.

After she left I got together with Carol and Mike and we reviewed the rules together. The control employee section of the commuter rule is very confusing and I think Lindsay, Rob, and Carol Fitzgerald misinterpreted it. Therefore, I spoke with Melissa and John and we reached out to a tax director at Cohn to have a conversation and figure out the proper procedure so that the MDC and its employees are not in violation of IRS regulations.

My company cell phone is 860-278-7850.

Hope this helps.

Have a great weekend,
Karyn

Sent from my iPhone

On Dec 14, 2018, at 5:56 PM, Jellison, Scott <SJellison@themdc.com> wrote:

Who identified the car tax benefit issue?
Put in file

Sent from my Verizon, Samsung Galaxy smartphone

------- Original message -------
From: "Jellison, Scott" <SJellison@themdc.com>
Date: 12/16/18 8:57 AM (GMT-05:00)
To: Chris Stone <CStone@themdc.com>
Cc: "Hallowan, Bart" <BHallowan@themdc.com>
Subject:

I plan to include in my review of johns performance the fact he did not come to me
directly, immediately, when he found the fringe issue, nor did he explain who and
how it was found, but only offered to me Thursday 12/13 that an option could be
we could pay gross wages to the effected individuals to compensate them for the
mistake.

No offer when this issue was found by who and why it happened. Again a cfo
unaware of major decisions his staff is making with or without his knowledge. Only
to create more instability for the mdc.

I immediately said no we will make corrections for 2018 and follow process to revise
w2s for 2016 2017. This offer was disturbing for a cfo to make since serious
penalties could occur for improper reporting.

Sent from my Verizon, Samsung Galaxy smartphone
Attorney: *BENNETT & MCYUSH PC (102992)

John M Zingarelli
Self-Rep: 103 Foxcroft Road
West Hartford, CT 06119
File Date: 08/14/2016

Marianne ZinZarelli
Self-Rep: 103 Foxcroft RD
West Hartford, CT 06119
File Date: 06/27/2016

Viewing Documents on Civil, Housing and Small Claims Cases:

If there is an ‘e’ in front of the docket number at the top of this page, then the file is electronic (paperless).

- Documents, court orders and judicial notices in electronic (paperless) civil, housing and small claims cases with a return date on or after January 1, 2014 are available publicly over the Internet. For more information on how you can view in all cases, view the Electronic Access to Court Documents Quick Card.

- For civil cases filed prior to 2014, court orders and judicial notices that are electronic are available publicly over the internet. Orders can be viewed by selecting the link to the order from the list below. Notices can be viewed by clicking the Notices tab above and selecting the link.

- Documents, court orders and judicial notices in an electronic (paperless) file can be
viewed at any judicial district courthouse during normal business hours.

- Pleadings or other documents that are not electronic (paperless) can be viewed only during normal business hours at the Clerk’s Office in the Judicial District where the case is located.

- An Affidavit of Debt is not available publicly over the internet on small claims cases filed before October 16, 2017.

*Any documents protected by law or by court order that are not open to the public cannot be viewed by the public online. And can only be viewed in person at the clerk’s office where the file is located by those authorized by law or court order to see them.

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Judicial ADR events may be heard in a court that is different from the court where the case is filed. To check location information about an ADR event, select the Notices tab on the top of the case detail page.

Matters that appear on the Short Calendar and Family Support Magistrate Calendar are shown as scheduled court events on this page. The date displayed on this page is the date of the calendar.

All matters on a family support magistrate calendar are presumed ready to go forward.

The status of a Short Calendar matter is not displayed because it is determined by markings made by the parties as required by the calendar notices and the civil or family standing orders. Markings made electronically can be viewed by those who have electronic access through the Markings History link on the Civil/Family Menu in E-Services. Markings made by telephone can only be obtained through the clerk’s office. If more than one motion is on a single short calendar, the calendar will be listed once on this page. You can see more information on matters appearing on Short Calendars and Family Support Magistrate Calendars by going to the Civil/Family Case Look-Up page and Short Calendars By Juris Number® or By Court Location®.
Periodic changes to terminology that do not affect the status of the case may be made.

This list does not constitute or replace official notice of scheduled court events.

Disclaimer: For civil and family cases statewide, case information can be seen on this website for a period of time, from one year to a maximum period of ten years, after the disposition date. If the Connecticut Practice Book Sections 7-10 and 7-11 give a shorter period of time, the case information will be displayed for the shorter period. Under the Federal Violence Against Women Act of 2005, cases for relief from physical abuse, foreign protective orders, and motions that would be likely to publicly reveal the identity or location of a protected party may not be displayed and may be available only at the courts.
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Material Weakness (MW)

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Significant Deficiency (SD)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Other Control Deficiency (OCD)

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Best Practice (BP)

Procedures that are accepted or prescribed as being correct or most effective.
To the Board of Finance  
The Metropolitan District  
Hartford, Connecticut

In planning and performing our audit of the financial statements of The Metropolitan District as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered The Metropolitan District’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Metropolitan District’s internal control. Accordingly, we do not express an opinion on the effectiveness of The Metropolitan District’s internal control.

We noted the following matters involving the internal control over financial reporting and its operation that we offer as constructive suggestions for your consideration as part of the ongoing process of improving accounting controls and administrative practices.

**Strengthening Internal Controls**

The District has made improvements to their financial controls since the 2014 audit; however, during the current year audit a number of client-prepared entries were initiated after the formal year end close process. This occurred partly due to the fact that the accounting controller was not in place the entire year. In addition, changes had to be made to some of these entries upon audit. The review process should be strengthened so that entries that are material in nature are signed off as part of the closing and review process.

**Recommendation** - We recommend strengthening the current annual general ledger close process by instituting formal milestones of review and approval and ensuring that all journal entries are approved in a hierarchical manner while considering certain materiality thresholds.

**Whistleblower Policy/Fraud Tip Line**

There is no formal whistleblower policy or tip line to report fraud. According to the 2014 Report to the Nations on Occupational Fraud and Abuse by the Association of Certified Fraud Examiners, 42% of corruption cases are detected by tip. In contrast, management review, the second most common detection method for corruption cases, uncovered 16% of these schemes.

External audits and reports from law enforcement accounted for far fewer discoveries of corruptions, just 3% and 2%, respectively, of these schemes. Additionally, of the whistleblower tips that led to the investigation of the cases, 49% of those tips came from an employee and another 15% came from an anonymous source.

**Recommendation** - We recommend that The Metropolitan District consider instituting a formal whistleblower policy that includes a tip line for employees to report suspected fraud or inconsistencies.
The Metropolitan District
Page Two

Fraud Risk Assessment 2015-03

The Metropolitan District has not performed a fraud risk assessment. Current economic and business conditions have created an environment in which the risk of fraud has increased dramatically. Although fraud may take many forms, asset misappropriation is the most common. Internally, fraudulent disbursements and inventory theft account for most asset misappropriation frauds. This type of fraud often goes undetected for several years.

Entities are also exposed to various external fraud threats. One of the most prevalent and costly external threats is referred to as "corporate account takeover." Criminal organizations are using technology to gain access to computer systems in schools and governmental agencies. Through the placement of malicious software, they are obtaining banking information and utilizing that information to transfer funds out of the target company's bank accounts through the Automated Clearing House System (ACH).

Recommendation - The best way to deal with fraud is to prevent it. We recommend that The Metropolitan District have a Fraud Risk Assessment performed. A Fraud Risk Assessment is designed to proactively identify fraud risk, pinpoint opportunities to attack and reduce the cost of fraud, determine if adequate fraud prevention exists and help to create cost-effective fraud prevention and detection policies and procedures.

Financial Management System Security 2015-04

A financial management system is a key component of the overall internal control structure of The Metropolitan District to provide reasonable assurance that the accounting records are complete and include all transactions. Therefore, it is essential that adequate procedures are established to safeguard these systems. During our 2013 audit, the consulting department of BlumShapiro reviewed the security over the financial systems. The full report was issued to management. The following is a summary of the recommendation that remains open:

- Laptop computers need to be secured

Our review of the status of the item listed above indicated that some progress has been made on this item, but the District is behind schedule as there were issues with hard drives crashing. The plan is to be 95% complete by mid-July 2016.

Recommendation - We recommend that The Metropolitan District continue to make progress toward addressing issues surrounding the financial management system security.

This letter should be read in conjunction with our report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards dated June 28, 2016.

This communication is intended solely for the information and use of management, Members of the Board of Finance, others within the organization, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
June 28, 2016
To the Board of Finance
The Metropolitan District
Hartford, Connecticut

In planning and performing our audit of the financial statements of The Metropolitan District (the District) as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered The Metropolitan District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

We noted the following matters involving the internal control over financial reporting and its operation that we offer as constructive suggestions for your consideration as part of the ongoing process of improving accounting controls and administrative practices.

**Strengthening Internal Controls**

One of the many responsibilities of management is to establish and maintain effective internal controls in order to ensure that the financial statements are fairly presented in accordance with generally accepted accounting principles. Developing strong controls and procedures with regard to information posted within the financial management system ensures the District that the information is being accurately presented, allowing the governing body to make sound financial decisions on a timely basis. We offer the following recommendations to strengthen those current controls and procedures:

- All year end journal entries should be completed during the formal year-end close procedure. Formal milestones of review and approval should be implemented to ensure that all journal entries are approved in a hierarchical manner while considering certain materiality thresholds. Some client-prepared entries were initiated after the formal year end close process, including adjustments to prior year amounts. The District has continued to make significant improvements to their financial controls since the 2015 audit.

- A formal inventory of the District's capital assets should be performed as one has not been completed in recent years. In addition, although the District has reviewed fixed assets for impairment prior to the 2016 audit, they should reinstate this process going forward.

- The District should implement additional review procedures over their compensated absence calculation. During our review of the calculation, it was noted that the spreadsheet contained a formula error. The error was $167,302 for government-wide activities and $202,215 for business-type activities and was subsequently corrected.
• An accounting procedures manual should be developed and documented. A comprehensive accounting procedures manual would include, but is not limited to, the documentation of formalized control policies and procedures relating to daily, weekly, monthly and year-end procedures. It would also address year-end closing processes and financial statement presentation. This manual may be used to provide guidance to employees regarding their delegated responsibilities and allow for smoother transitions if turnover occurs.

Recommendation - We recommend the District implement the above improvements to their internal control process.

Whistleblower Policy/Fraud Tip Line 2016-02

There is no formal whistleblower policy or tip line to report fraud. According to the 2016 Report to the Nations on Occupational Fraud and Abuse by the Association of Certified Fraud Examiners, 39% of corruption cases are detected by tip. Organizations that had reporting hotlines were much more likely to detect fraud through tips than organizations without hotlines - 47.3% compared to 28.2%. In contrast, management review, the second most common detection method for corruption cases, uncovered 16% of these schemes.

External audits and reports from law enforcement accounted for far fewer discoveries of corruptions, just 3% and 2%, respectively, of these schemes. Additionally, of the whistleblower tips that led to the investigation of the cases, 49% of those tips came from an employee and another 15% came from an anonymous source.

The District is currently in the process of reviewing a whistleblower policy and will be implementing it once their business transformation is complete.

Recommendation - We recommend that the District implement a whistleblower policy that includes a tip line for employees to report suspected fraud or inconsistencies.

Pension Census 2016-03

During the audit, testing of the pension census file was performed to ensure accuracy in calculating the pension liability. It was noted during this testing that there were multiple files sent to the actuary as a result incorrectly including the long-term and short-term disability imputed amounts that are not pensionable.

Recommendation - We recommend that the District implement controls to review the pension census calculation for accuracy prior to it being sent to the actuary.
This letter should be read in conjunction with our report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards dated June 28, 2017.

This communication is intended solely for the information and use of management, Members of the Board of Finance, others within the organization and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
June 28, 2017
To the Board of Finance
The Metropolitan District
Hartford, Connecticut

In planning and performing our audit of the financial statements of The Metropolitan District (the District) as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

We noted the following matters involving the internal control over financial reporting and its operation that we offer as constructive suggestions for your consideration as part of the ongoing process of improving accounting controls and administrative practices.

**Strengthening Internal Controls**

One of the many responsibilities of management is to establish and maintain effective internal controls in order to ensure that the financial statements are fairly presented in accordance with generally accepted accounting principles. Developing strong controls and procedures with regard to information posted within the financial management system ensures the District that the information is being accurately presented, allowing the governing body to make sound financial decisions on a timely basis. We offer the following recommendations to strengthen those current controls and procedures:

- During the current year audit procedures, it was noted that client-prepared entries were initiated after the formal year-end close process, including capital outlay allocations in the water utility fund, split of the combined fund between water utility and sewer funds, and land valuations in the pension trust fund. All year end journal entries should be completed during the formal year-end close procedure. Budget files should also be reviewed to ensure that they balance during the year-end close process.

- During our review of the compensated absences calculation, it was noted that the spreadsheet contained a formula error, where various unions had incorrect hour caps for employees. The error was $23,568 and immaterial to the financial statements and was not corrected. The District should implement additional review procedures over the calculation of the compensated absences liability.

- An accounting procedures manual should be developed and documented. A comprehensive accounting procedures manual would include, but is not limited to, the documentation of formalized control policies and procedures relating to daily, weekly, monthly and year-end procedures. It would also address year-end closing processes and financial statement presentation. This manual may be used to provide guidance to employees regarding their delegated responsibilities and allow for smoother transitions if turnover occurs.


**Recommendation** - We recommend the District implement the above improvements to their internal control process.

**Whistleblower Policy/Fraud Tip Line**

There is no formal whistleblower policy or tip line to report fraud. According to the 2016 Report to the Nations on Occupational Fraud and Abuse by the Association of Certified Fraud Examiners, 39% of corruption cases are detected by tip. Organizations that had reporting hotlines were much more likely to detect fraud through tips than organizations without hotlines - 47.3% compared to 28.2%. In contrast, management review, the second most common detection method for corruption cases, uncovered 16% of these schemes.

External audits and reports from law enforcement accounted for far fewer discoveries of corruptions, just 3% and 2%, respectively, of these schemes. Additionally, of the whistleblower tips that led to the investigation of the cases, 49% of those tips came from an employee and another 15% came from an anonymous source.

The District is currently in the process of reviewing a whistleblower policy and will be implementing it once their business transformation is complete.

**Recommendation** - We recommend that the District implement a whistleblower policy that includes a tip line for employees to report suspected fraud or inconsistencies.

**Other Post Employment Benefit (OPEB) Census**

While performing our audit procedures over the Net OPEB Obligation, we noted that one years’ worth of new hires was excluded from census of the biennial valuation. This resulted in additional information being given to the actuary after testing was performed and necessitated a new calculation of the Net OPEB Obligation. The testing also showed multiple date of birth and date of hire discrepancies, which were deemed immaterial in the sample selected.

**Recommendation** - We recommend that the District implement controls to review the OPEB census calculation for accuracy prior to it being sent to the actuary.

This letter should be read in conjunction with our report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards dated June 21, 2018.

This communication is intended solely for the information and use of management, Members of the Board of Finance, others within the organization and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

*Blum, Stipins & Company, P.C.*

West Hartford, Connecticut
June 21, 2018
September 26, 2018

Mr. Bart Halloran
District Council of the MDC
555 Main Street
Hartford, CT 06142

Dear Bart:

The content of this communication is to provide a summary of the work CohnReznick LLP ("CR") performed related to the reallocation of unspent bond proceeds associated with CIP projects ("CIP") and the Clean Water Project ("CWP") bond/BAN allocations by project. In addition, this communication will provide information on the risks identified and our recommendations to address those risks.

CR was initially hired by the Metropolitan District Commission (the "MDC" or "the District") in March 2018 to provide support to the finance department as the Director of Finance, Robert Constable was resigning from the MDC. His last day at the MDC was April 20, 2018. Our roles and responsibilities under our Statement of Work #1 ("SOW #1") dated March 30, 2018 included working with the existing Director of Finance (through his termination date), providing supervision and support to existing accounting/finance staff, working with the external auditors to complete the year-end audit and additional accounting/finance related support identified by the current Director of Finance and Chief Executive Officer ("CEO"). A few days prior to the Director of Finance's last day, he requested that CR review the Clean Water Project and CIP Projects bond/BAN and grant and loan allocation spreadsheets as the current spreadsheets reflected unspent bond proceeds.

Based on the Director of Finance's request and as a result of ongoing weekly meetings with the CEO, CR was instructed by the CEO to review the existing spreadsheets. The CEO requested CR validate the data maintained within the existing spreadsheets in order to ensure the amount of unspent bond proceeds reported to the Board for purposes of reallocation was correct. The $120 million of BAN's issued in August 2017 was due and payable in August 2018 and the District was beginning the process to permanently refinance the $120 million of BAN's to long term general obligation bonds ("GO bonds"). As part of the process of rolling the BAN's to GO bonds, the District reviews the existing projects to determine whether unspent bond/BAN's exist. If there are unspent bond/BAN proceeds, the District must reallocate the unspent proceeds to other bondable projects. Any reallocation must be approved by the Board of Finance and the Board of Commissioners.

Additionally, the auditors as part of the December 31, 2017 year-end audit requested information related to the amount of unspent bond proceeds to properly report and disclose this information within the December 31, 2017 audited financial statements. As stated in Statement No. 63 of the Governmental Accounting Standards Board ("GASB") "If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent
amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.” Therefore, the auditors needed this information to determine what, if any, adjustment needed to be made to the 2017 audited financial statements for the unspent bond proceeds.

CR began the unspent bond proceeds assignment the week of April 23rd with no indication from the former Director of Finance that he expected CR to identify significant issues associated with obtaining the necessary information to provide to the CEO. It became apparent to CR after reviewing the existing spreadsheets utilized to track the unspent bond proceeds and meeting with the CEO that this project was going to require a significant amount of time. As soon as the CEO became aware that the information currently maintained within the existing spreadsheets was not accurate numerous meetings were held on a weekly basis throughout May and June with the management team of the MDC (including the CEO, CFO, Director of Engineering and various members of the Finance Department) and CR. The CEO stressed throughout the process the need to properly verify the information utilized to determine the unspent bond proceeds prior to securing the new bonding. The process of gathering and verifying the information necessary to support the unspent bond proceeds figure was extremely time consuming due to several factors including:

- Lack of readily available information.
- Information is maintained offline (within excel schedules).
- Data utilized within the existing spreadsheets had not been tied back to SAP (general ledger/source documents).
- Lack of written policies and procedures related to project accounting. Additionally, laws and regulations associated with tax exempt bond financing and BAN issuances and allocations were not properly documented. As a result, the laws and regulations associated with tax exempt bond financing and BAN issuances and allocations were not properly understood by the MDC staff responsible for preparing the schedules which tracked the unspent bond proceeds.
- Journal entries did not always reference the specific project and supporting documentation was not maintained with the journal entries.
- In some instances, the project naming convention was not the same.

CR along with the CEO and various members of the Finance and Engineering Departments spent approximately six weeks gathering the appropriate information necessary to determine the amount of unspent bond proceeds and the amount of unspent bond proceeds to be reallocated.

The below report identifies the specific procedures that CR performed related to:

1. Reallocation of unspent bond proceeds related to CIP projects
2. Clean Water Project Bond/BAN allocation by project

Additionally, CR has also reported our Findings and Recommendations associated with this project.
Reallocation of unspent bond proceeds related to CIP projects

The following procedures were performed by CR to determine the amount of unspent bond proceeds related to CIP projects. CR examined cumulative project expenditures and funding sources by project.

- CR obtained an excel Schedule of CIP Projects (the "CIP Schedule") which included 843 project lines. We focused our procedures on the CIP projects existing as of April 2018 that had bond or BAN funding.

- CR verified and agreed cumulative expenditures within the CIP Schedule for the period from inception to April 25, 2018 to the SAP GL system for all 843 projects included within the CIP Schedule. CR did not perform any detailed testing of invoices or expenditures during this process.

- CR obtained all bond/BAN official statements from February 2013 through the August 2017 issuances and verified that the allocation of bond proceeds and bond premium were correctly applied to the appropriate projects.

- CR reviewed grant and loan funding sources included in the CIP Schedule that were allocated to these projects and traced and agreed these revenue sources to SAP. Conversely, we also obtained the grant and loan revenue accounts from SAP to determine revenue in SAP was included in the CIP Schedule.

- CR noted for two of the original debt issuances ($95M issued 3/1/2017 and $25M of new money issued 8/1/2017), that the expenditures on these two issuances must be spent by March 1, 2019 and August 1, 2019, respectively.

- CohnReznick analyzed the CIP Schedule, noting the following:
  - There was $39,609,026 of unspent bond proceeds related to the projects analyzed as of April 25, 2018.
  - Some of the grants and loans do not reconcile to SAP by project for the Clean Water Projects. If data was entered into SAP to an incorrect project, this could affect the CIP project data.
  - There may be additional unspent bond proceeds related to older CIP projects (i.e. prior to February 2013), however this was outside the original scope of this project.
  - Of the total unspent bond proceeds, $31,656,000 needed to be reallocated to other projects and was brought to the Board of Finance and Board of Commissioners and formally approved on June 4, 2018.
  - The remaining $7+ million of unspent bond proceeds did not need reallocation to other projects as these projects will move forward, and the spend will happen prior to March 2019.
  - Majority of unspent bond proceeds relates to the August 2017 $120M BAN issuance, however bonds/BANS from 2015 through 2017 were included in the reallocation.
Reallocation of unspent bond proceeds related to CIP projects (continued)

- The following are various reasons why there were unspent bond proceeds:
  - Projects were put on hold, including Business Transformation
  - Projects where spending was delayed as a result of managing cash flow
  - Projects were reprioritized based on current needs of the MDC

- The amount reported as unspent bond proceeds as of December 31, 2017 was $40,553,901. This amount adjusted the net investment in capital asset balance in the December 31, 2017 Comprehensive Annual Financial Report (the “audit”). No footnote disclosure was required within the 2017 audited financial statements as the unspent balance was reallocated and is expected to be spent by the appropriate dates March 2019 and August 2019.

Clean Water Project Bond/BAN allocation by project

Similar to the process as noted above related to the CIP projects, CR examined cumulative project expenditures and funding sources by project for the Clean Water Project (“CWP”). The process for allocating bond and BAN funding to these projects is different than allocating to CIP projects. Within the bond/BAN Official Statement, the CWP funding allocation is one line allocating the bond/BAN to the CWP project. Therefore, it is the District’s responsibility to allocate the bond/BAN funding to various individual CWP projects. Given that the District must determine the bond/BAN funding allocation of CWP projects, additional steps to reconciling these projects must be completed.

The following procedures were performed by CR to determine the amount of unspent bond proceeds related to the CWP.

- CR obtained a Schedule of Clean Water Projects (the “CWP Schedule”) which included approximately 125 subproject numbers set up in SAP for the CWP.
- CR verified cumulative expenditures to date within the CWP Schedule to the SAP GL system for the period from inception to April 23, 2018 for all projects in the CWP Schedule. CR did not perform any detailed testing of invoices or expenditures during this process.
- CR obtained all bond/BAN official statements from inception of the CWP fiscal year 2007 through April 2018 and verified that the allocation of bond proceeds was applied to the CWP projects.
- CR reviewed grant and loan funding sources included in the CWP Schedule that were allocated to these projects and traced and agreed these revenue sources to SAP.
- CR noted significant grants and loans were received on projects after the bond issuances.
- There were various BANs converted to revenue bonds in 2013/2014 ($85M & $140M, respectively).
Clean Water Project Bond/BAN allocation by project (continued)

- CR utilized the following assumptions when reviewing/adjusting the CWP Schedule:

  Assumptions:
  1) We can consider 5300 & 5400 as ONE project for purposes of allocating bonds/BAN funding
  2) We are allocating on the BAN dates
  3) Expenses can be allocated to bonds/BANs 18 months back and 3 years forward
  4) Bond premiums do not have a time restriction as long as they are used for project costs
  5) PMC expenses are 100% allocable
  6) PMU expenses consist of costs that are 100% allocable and administrative costs which are only 5% allocable to projects.
  7) The "Allocated PMU" revenue source does not need to be applied to project costs.

- CohnReznick analyzed the CWP Schedule, noting the following:
  - The original CWP Schedule provided to CR reported approximately $90 million of unspent bond proceeds as of April 2018.
  - Changes made to the original CWP Schedule included:
    - The original timing was incorrect. The original CWP Schedule allocated bond/BAN funding to project expenditures incurred 2 years prior to the issuance date and 3 years after the issuance date. The final agreed upon time table was 18 months prior to the original issuance date & 3 years after the original issuance date. This oversight resulted in the MDC and CR spending several days to redo the CWP Schedule.
    - BAN's/bond proceeds were not allocated to PMC expenses on the original CWP schedule.
    - PMU expenses were not allocated on the CWP Schedule. Based upon CR's review there were $76 million of eligible PMU expenses.
    - Initial dates used within the CWP Schedule for purposes of allocating the project expenditures back and forward were based on the 2013/2014 revenue bond dates. The dates utilized on the CWP Schedule should have been based on the dates that the original BANS were issued which ranged from 2011 to 2013. This oversight resulted in the MDC and CR spending several days to redo the CWP Schedule.
    - As a result of CR's analysis the revised CWP Schedule reflected no unspent bond proceeds related to the CWP projects as of December 31, 2017 and 2016.
  - CR noted the following additional observations related to the CWP Schedule:
    - Some of the grants and loans do not reconcile to SAP by project for the Clean Water Projects. If data was entered into SAP to an incorrect project, this could affect both the CWP & CIP project data. The District is in the process of reconciling these in fiscal year 2018.
    - The CWP Schedule included cumulative administrative/working capital charges of $14,811,500 as of April 2018. The administrative/working capital charges as of April 2018 were based on 5% of the total of all bond/BAN funding of the CWP of $296,230,000 (excluding premium).
Findings and Recommendations

Finding 1 – Accounting Policies and Procedures – Project Management

CR noted that there does not appear to be any specific accounting policies and procedures related to project management. The process of identifying the amount of the unspent bond proceeds became a very time consuming project because of many factors, including the lack of formal policies and procedures related to project management, limited management oversight and poor communication both within and between departments.

Finding 1 - Recommendation

We recommend that the MDC develop and document the accounting policies and procedures related to project management. Additional recommendations related to management oversight and communication are noted below.

Finding 2 - Project Accounting

a. The bond and BAN proceeds are not entered into SAP by project upon issuance. These proceeds are not allocated to a specific project within SAP, and the tracking mechanism for the proceeds is currently maintained within excel spreadsheets.

b. The District is currently not utilizing SAP to track and monitor project revenues and expenses. Therefore, it is difficult to monitor the status of existing projects.

c. Policies and procedures related to overall project accounting, monitoring and review are not adequately documented and performed.

d. During our review of the CWP and CIP projects, CR noted the cash balances in SAP associated with each project should be reviewed and adjusted to properly reflect the correct allocation of the cash balance by projects. Project revenues less project expenditures should agree to the project cash balance at a point in time.

e. Various journal entries were posted to project accounts without support and/or approval.

Finding 2 - Recommendation

a. We recommend project funding sources, including bond and BAN funding as well as grant and loan funding, be input into SAP by project. SAP should include budgeted revenues and expenditures in addition to actual revenues and expenditures by project.

b. It is our understanding based on various discussions with the Finance department members that SAP can be utilized to track and monitor project expenses and revenues by project. We recommend that the District determine the functionality of SAP and other systems, if necessary, to track and monitor project revenues and expenditures by project. In addition, policies and procedures need to be put in place to identify on a timely basis projects with excess funding sources.

c. The District needs to document and implement formal policies and procedures related to project accounting and management. This should include clear, concise and understandable definitions of what defines a project along with the laws and regulations related to project revenues and expenditures.

d. The District needs to review and adjust the cash balances by project within SAP. These cash balances need to be adjusted as activity occurs and should be reviewed monthly.
Finding 2 - Recommendation (continued)

e. All non-standard journal entries should be reviewed and approved prior to posting to the general ledger. Approval of non-standard journal entries needs to be formally documented. Journal entries should include a reference to the specific project and the approval should be formally documented. In addition, all supporting documentation related to the journal entry should be retained with the journal entry.

Finding 3 - Project Monitoring/Review

a. The CIP & CWP excel schedules utilized for tracking the individual projects in some instances had incorrect data and information. In addition, a timely review of each projects revenue and expenditures was not performed.

b. There was no formal review of the individual projects financial position including bond/BAN revenue sources prior to the approval/acceptance of new grants/loans.

c. There was no formal review of project cash balances in SAP.

d. There are no documented processes and procedures for overall project accounting and management, including the debt authorization process and the reallocation process for bond/BAN funding.

Finding 3 - Recommendation

a. We recommend the revenue and expenditures for each project be entered into SAP (see finding 2 recommendations) on a timely basis. In addition, this information needs to be reviewed monthly.

b. We recommend prior to approval or acceptance of a new grant or loan, a formal review of the applicable project(s) be performed to identify if these projects already have allocated bonds and/or BAN funding sources or other funding sources. In the event, they do have other funding sources, and the application of this new grant or loan would cause the project to be overfunded, the CFO must review and approve the future course of action and notify the CEO.

b. A formal review of project cash balances recorded in SAP should be performed, reviewed and documented monthly.

c. The District should document and implement formal processes and procedures for overall project accounting and management, including the debt authorization process, reallocation process for bond/BAN funding, grant and loan funding process along with relevant policies and procedures.

Finding 4 - Document understanding of laws and regulations

The laws and regulations associated with tax exempt bond financing and BAN issuances and allocations are not adequately documented by the MDC. In addition, all MDC employees involved in the debt process need to have a clear understanding of these laws and regulations. There were several instances where the bond/BAN allocation methodology had changed throughout the years. Additionally, during CR’s review we noted there was confusion as to the laws/regulations related to the bond/BAN allocation methodology.
Finding 4 - Recommendation
We recommend the District work together with the MDC's bond counsel to understand, develop and retain the written allocation methodology and the general rules related to debt issuances, project expenditures, along with the allocation and reallocation of proceeds. These written explanations of the laws and regulations should also accompany the authoritative law and/or guidance. The District may want to consider utilizing bond counsel to provide training (to certain Finance Department staff) on the current laws and regulations related to the debt issuances, project expenditures and reallocation of proceeds.

Finding 5 - Communication
a. There was a lack of ongoing communication between the Engineering Department and Finance Department related to project management. Finance was not aware of the individual project status in some instances, and engineering was not aware of the overall financial position of some of the projects.
b. There was a lack of communication within the Finance Department between the parties handling the debt associated with the projects and the parties handling the grants and loans for the projects.

Finding 5 - Recommendation
a. The Engineering Department and Finance Department need to meet monthly but no less than on a quarterly basis to review the status of current projects. A process needs to be developed to enable the Engineering Department to notify the Finance Department of any significant changes to projects on a timely basis. Both departments need to work together throughout the project life cycle.
b. All personnel involved in the project life cycle need to be aware of each projects overall financial position. We recommend the CFO prior to approval or acceptance of any grant or loan review the project to determine the funding capacity. In addition, the grant and loan personnel should be aware of bond authorizations and funding sources as necessary. Policies and procedures related to the communication between departments and personnel should be formally documented.

Finding 6 - Project Documentation
a. CR noted during our review of the unspent bond proceeds that the project documentation is retained in multiple places at the MDC. There is not a central repository for project information.
b. In addition, in some instances, the project naming convention for one project may be different within the budget, general ledger, official statement documentation and grant and loan documents.

Finding 6 - Recommendation
a. We recommend project documentation for the entire project's life cycle be maintained in one place. Documentation should be maintained in an electronic format if possible.
b. We recommend project naming conventions be consistent in all documents and the general ledger system.
Finding 7 - Comptroller Position

As part of our original SOW, CR assisted in interviewing the potential candidates for the Director of Finance position. The MDC did not hire any of the potential candidates for the position. Based on our review and the immediate needs of the Finance department, CR noted several vacant positions, including the Comptroller.

Finding 7 - Recommendation

CR recommended that the MDC move forward with hiring an individual to fill the Comptroller position as soon as possible. The MDC hired a Comptroller who officially started in this position on September 4, 2018.

Next Steps/Future Considerations

- CR is currently working with finance and engineering to create processes and procedures as it relates to overall project accounting and management.
- CR is currently assisting in the reconciling of grants and loans by project to SAP.
- CR is currently reviewing payroll and retro pays for the MDC.
- CR expects to develop an accounting policies and procedures documentation and assist finance as needed in the Business Transformation process.
- CR expects to provide additional recommendations for finance including “Best Practices” as part of our ongoing support and involvement in the Business Transformation process.

We look forward to working with the MDC to implement these recommendations.

Sincerely,

Lisa A. Cantone, CPA
Partner