

June 22, 2020

Jeff Slapikas, Chairman  
Prospect Town Council  
36 Center Street  
Prospect, Ct 06712

Dear Chairman Slapikas and Honorable Members of the Prospect Town Council:

This document will deal singularly with what I believe is the overriding need for the Town Council to initiate a very thorough investigation of how the Town of Prospect has conducted its accounting practices over time, including the accurate recording of its financial transactions. As far back as 2016, a Town Council Audit Sub-Committee was appointed to review some emerging concerns but the Town's 'Administration' failed to provide them many of the requested documents. The majority of you will recall that during the summer of 2017 the Town Council, by a slim majority (5 to 4, and mostly along party lines) voted to take a closer look a number of questionable transactions. Despite the clear objections of several elected officials who claimed that everything was being done properly, financial inconsistencies were uncovered. The Mayor ultimately acknowledged that some 'human' errors had been made, and that he would make sure they were 'corrected'.

Rather than discussing the details of the referenced financial inconsistencies in this document, I've included an attachment that discusses that 'scope' of what the Mayor referred to as 'human' errors. Suffice to say that financial documents that were presented to the Town Council, the outside auditors and perhaps most importantly, the Prospect taxpayers were inaccurate. Payroll amounts recorded as the 'Actual' Public Works Employee Salary payments were 'overstated' which indicates there were 'problems' balancing the Town's Payroll reporting long before the more recent situation (unauthorized withdrawals) surfaced.

While the Mayor had indicated that 'he would make sure those human errors would be corrected', I couldn't locate where he ever disclosed / documented the exact nature of the errors, or the individuals who made them. Further, I'm also unaware if anyone on the Town Council actually followed up to make sure 'corrective actions' had actually been taken, or did the Council just take his word he'd resolved them? In any event, the Audit Sub-Committee that had raised the initial concerns was never re-appointed. Given the realities of what started occurring in late 2017, it appears that things have only gotten worse. Yet again, during this year's budget process the Mayor requested \$40,000 to 'fix' a situation where there is still no documentation as to what actually transpired. The first step in fixing a problem is always admitting there is one, and then further defining what it entails.

Members of the public have mentioned that you should consider moving to initiate a very thorough review, but not necessarily a 'Forensic' type of audit (which could be a next step if something nefarious was uncovered) to finally determine exactly what has been going on with the Town's financial recordkeeping for a 'yet to be determined' time frame. As you ponder the scope of this effort I'd ask that you to consider some, most or hopefully all of the following:

1. To the best of my knowledge, the Town of Prospect has never had a detailed set of financial procedures defining specific tasks and activities. On at least three (3) occasions: 1) our long-term auditor provided the Mayor with a model set of procedures used by a similarly sized municipality, 2) I personally provided a model set distributed by our Council of Governments which they used to improve their internal controls, and, 3) in early 2019, Charles Haven & Co. provided yet another set of modifiable financial procedures. All of these viable alternatives were totally ignored by the entrenched Administration. Finally, during late 2019 the Mayor announced that he was finally working with someone to come up with applicable procedures. Given all that's transpired, I'd question why the Mayor looks to have ignored multiple available solutions, refused

to even acknowledge their need, and whether he even has the appropriate background / expertise to author credible financial procedures.

2. The 2017 Town Council investigation uncovered numerous instances where even the high-level directives (not detail procedures) of the Town Charter, such as requiring multiple reviews / approvals of invoices and multiple signatures of elected officials on town checks, had for whatever reason been bypassed. During that investigative process, it was noted that the Town Treasurer had never signed off on those invoices and further that there was no indication that they were ever provided to him for his review.
3. That in an effort to strengthen internal financial controls, the Town Council attempted to implement a Town Ordinance that would have provided the Town Treasurer an opportunity to review certain financial transactions prior to the Mayor submitting them to the Town Council. The Mayor used taxpayer money to obtain a legal opinion that the Town Council did not have the authority to request the Treasurer to even review the circumstances where town funds were being transferred for purposes other than for which they were originally approved for by the voters.
4. During early 2016, a volunteer committee comprised of nine (9) bi-partisan citizens spent considerable time exploring a wide range of applicable topics and ultimately recommending to the residents of Prospect a series of proposed changes to the Town Charter that had not seen a significant update in decades. Among the most important of those were recommendations to improve Prospect's Financial Controls and employ qualified financial staff instead of an elected official to assure things were being properly recorded. The Mayor and his 'inner circle' of elected and appointed officials purchased and placed signs around town stating this level of attention was not needed, and implored everyone to vote against all of the recommended changes. Given what you know today about the state of the town's financial controls, do you believe that was really sound advice?
5. Back in 2016 when members of the Town Council attempted to balance the Public Works W-2's from the payroll system to the amounts the town recorded on a separate financial accounting system, the Council was given only partial information and the names of the employees were redacted. Technically, this is information that should be available to any resident upon their request, so what was it that the 'Administration' was trying to hide? Two Council members individually determined that when comparing the numbers, back to back fiscal years showed differences ranging between \$60,000 and \$90,000.
6. At the direction of the Town Council, the Mayor during the past few years had formal job descriptions prepared for all town employees, (not to be confused with actual operating procedures). Has anyone on the Council actually checked to see which formal job description included the balancing of the monthly bank statement, specifically the Payroll Account? Considering that well in excess of \$2,000,000 flows through that checking account annually, it would be a serious oversight if it was not assigned to anyone.
7. The Mayor recently made some reference to the 'current' situation, where outside thefts are alleged to have taken place, and which went undetected for a year (November, 2017 through December, 2018) were the result of a 'misunderstanding' of work assignments, previously performed by one of our outside auditors. As you are now aware, any auditor strictly adhering to professional standards would not put themselves in a position where they would be responsible for auditing their own work product. As such, I have doubts that our then outside auditor would have consented to be the only one performing specific tasks knowing that he would be responsible for auditing them at a later time.
8. Being involved in all facets of financial accounting systems for over thirty (30) years, I find it presumptive and somewhat misleading to anticipate that an insurance company would be expected to cover financial losses

resulting directly from the town's negligence in failing to assign anyone the task of actually balancing monthly bank statements for over a year. Over and above that, and given the reported amount of the unauthorized withdrawals (in excess of \$200,000?) wouldn't someone have had to make corresponding deposits (over and above what was needed for payroll) to keep legitimate paychecks from bouncing? I'd asked this question almost two (2) months ago and I'm still waiting for a response.

9. As to the Town Charter requiring a Monthly Treasurer's Report; you'll remember that in early 2019 I questioned who was actually preparing it as I would be surprised given his strong financial background if our Town Treasurer would actually be providing a format with numbers that could not actually be balanced month-to-month. Given recent comments by the Mayor, I'd also wonder that as the Treasurer didn't have the responsibility to review / balance the monthly bank payroll statement, where the numbers contained in this report originated. Also when I asked the Council why this required monthly report suddenly became unavailable on the Town's website; I never received a response from anyone in the Administration.
10. Lastly, and based on my acquired knowledge of electronic banking systems, even if it took the Town twelve (12) months to figure out someone was making unauthorized withdrawals, there is no possible scenario that I could envision where Webster Bank and a quality law-enforcement investigative team would require more than an additional year to figure out where the money was going. Apparently from the 'initial discovery' in December, 2018, no town official except the Mayor had any knowledge of what was going on until after the November, 2019 local elections – just a coincidence? Clearly a possibility - but given the available technology and the investigative team assigned, it's really hard to comprehend why it took so long.

Each of these aforementioned 'topics' viewed individually could give rise to concerns about the Town's financial processes, but collectively it should be impossible to conclude that everything is being done accurately. Given that, the nature of the current problems and what each of you should acknowledge is a lack of transparency, one could expect that as elected members of the Town Council, sworn to protect the best interest of the Prospect, you'd vote 9-0 to get to the bottom of what's been going on. Given the realities of this Administration, and understanding 'Partisan Politics', that I'll acknowledge that I was a part of for years, even a 5-4 vote to approve might be a real long-shot. I am however hopeful that at least two (2) members of the Town Council, (one to make a motion to initiate an investigation and another to second it) will at least cause something to be placed 'on the record' so the electorate will clearly understand exactly who stands for transparency and accountability and who will choose to continue to keep under wraps what for all too long has passed for good government in Prospect.

Before the Mayor tries to convince you that the cost of such an exercise would be prohibitive, remember that with just 8-10 hours of unfettered access to the 'real data' back in 2016, I was able to provide the Town Council with absolute proof that things were not as they appeared, and at a cost to the Town of zero. Knowing where to look, I'd be more than happy to do the legwork again and let a professional take it wherever it may lead from there. To be clear, I'm recommending that the Council opts for a minimum five (5) year look-back window, using the 2015-2016 Fiscal Year as a starting point. Thank you for your attention to this important topic.

Best Regards, and Stay Healthy,

*Thomas J. Galvin*

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## Attachment to the Letter Submitted to the Prospect Town Council Dated June 22, 2020

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During the Town Council Investigation occurring the Summer of 2017, the Mayor acknowledged that some 'Human Errors' had occurred relative to the processing of certain financial transaction, and that those 'errors' would be corrected. As I never remembered seeing any documentation, or hearing any discussion as to what those 'Human Errors' involved, I'd like to provide what my read on what that situation entailed. As always, I am open to modifying / adjusting my opinions should any actual / related documentation ever be made available.

Someone may incorrectly construe that a 'Human Error' could be as simple as an instance where an individual accidentally transposes two digits and as a result an incorrect account number gets associated with a transaction. I'll assure you that based on my review of the topic that is not the case here, as each 'error' was likely the result of multiple errors / mistakes and possibly involving multiple individuals.

As a 'for instance' let's focus on a equipment repair vendor's invoice containing several chargeable components where a Department Head (only in this case the Mayor) would indicate next to each individual vendor billable amount the Town's internal G/L Account that should be charged. That Invoice upon approval by the Department Head would be forwarded to the Mayor for a final sign-off (but as the Mayor was also the Department Head, another elected official should provide a second review. Finally, someone would have entered the information into the Accounts Payable system, which would have generated a check, which based on a strict reading of the Town Charter, would require the signature / review by two elected officials (the Mayor and one of the following: the Town Treasurer or if unavailable, the Chair of the Town Council). Finally, the General Ledger would be updated to reflect the account that the invoice should be charged against for inclusion onto the town's Budget Reporting.

Ideally, a software solution would be employed that would require only a single set of 'data entry' and a pre-established pattern would automatically generate a series actions where the appropriate checks would be created, the appropriate sub-systems (payroll, accounts payable, etc) would be accessed and the correct G/L accounts / Budget information would be updated. For whatever reason, Prospect relies on a 'collage' of stand-alone software products which require the multiple manual re-entry of such data which is both cost ineffective and prone to transcription errors, and which should require additional checks and balance steps to keep the various systems in sync.

From what seems to have happened with the aforementioned 'for instance' situation, the invoice reflected that instead of having the correct G/L account number (probably something like Vendor Provided Vehicle Parts) manually written on the invoice, the Mayor acknowledged that the numbers written were instead the G/L account for Town of Prospect Public Works Salary Account (so let's call that **Error #1**).....based on a 'hand stamped routing template' the next step should have been with the Town Treasurer, but there is no indication it made it to that step, rather it apparently moved ahead without the 2<sup>nd</sup> sign off (**Error #2**)....despite being directed to process it as payroll, it was instead entered into the Towns Account's Payable process (**Error #3**) which generated a check (which the investigation asked for but never received) so I'm guessing that in addition to the Mayor's signature, a

facsimile signature of the Treasurer was likely applied by someone other than the Treasurer (while that could be Error 4, let's skip that as we did not see the actual check). Now despite processing the invoice / check as an Accounts Payable transaction, the Town G/L / Budget Reporting System was updated to instead record the amount paid as Town of Prospect Public Works Employee Payroll (let's give that the distinction of being **Error #4**).

Every calendar quarter the town is required to submit to the I.R.S. the employer's portion (7.65%) of what has been recorded as town employee salary along with the same amount (7.65%) withheld from each employees pay for the prior quarter. That specific requirement involves the creation of a quarterly 941-A Form. It should be procedural to balance the total paid on the 941-A to the amount booked as paid on the Town's G/L system, but those amounts could not possibly have reflected the same total because the check was for Account Payable. While booked as payroll it was never entered into the payroll system, and as such no amounts were withheld for the I.R.S. As this would have been another opportunity to catch the 'imbalance' condition (let's call it an Error of Omission – and **Error #5**).

Finally, the full calendar year-end payroll totals should balance to the Federally required W-2's and for the same reason (the Actual Payroll Budget included check amounts paid to vendors) that the quarterly 941-A's could not have balanced to the amounts booked as salary paid on the Town's G/L system, the W-2's also could not have been in balance. Let's refer to that as **Error #6**.

I sincerely apologize for the complex (OK, rambling) presentation of this 'example' but it should also point out the inherent complexity associated with the myriad of internal processes that in my opinion the Administration has opted to utilize for far too long. A few years ago a former external auditor recommended that Prospect utilize one of its existing software packages to also provide all the 'Budget Reporting' instead of a stand-alone worksheet product. That would eliminate much of this complexity, save money and likely reduce the incidence of manual errors, but no one in this administration ever advocates that level of change, but perhaps they have other reasons to keep it in play?

In any event, and while I hope someone could provide any additional details, the aforementioned explanation of how things actually move through Prospect's Financial 'maze' is to the best of my knowledge 100% accurate. However, absent any documented financial procedures or access to job descriptions, it is impossible to precisely determine exactly who might be responsible for doing what – hence my use of ambiguous terminology. Again, I wouldn't want anyone to think that 'Human Error' indicates someone may just have entered a 1 and a 2 instead of a 2 and a 1 – as there's a lot more going on than a casual observer might appreciate. Multiply that by however many transactions could be 'suspect' and the need for a structured review, and quite possibly a recommendation to consider a more comprehensive accounting solution, is all the more critical.

**Respectfully Submitted On 6/22/20 For Your Review By:**

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