



MAYOR
MOUNT VERNON, NY
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DEPARTMENT OF MANAGEMENT SERVICES

BRETT ERASMUS
COMMISSIONER

Memo To: Mayor Richard Thomas

From: Brett Erasmus, Mgt Services Commissioner

November 2nd, 2018

Re: Lack of audited financials for the City of Mount Vernon

The consequences of not having audited financials for the City for 2017 are not good for the Mount Vernon taxpayers. Some of the consequences I can think of are:

- 1) it makes issuing municipal bonds into the public marketplace difficult;
- 2) it also makes issuing bonds more expensive in terms of the effective rate of interest that will be charged;
- 3) it hampers the City's ability to hire good employees;
- 4) it hampers business relationships with vendors that provide essential goods and services to the City;
- 5) it impairs the ability of the County and State executives to monitor financial progress the city is making;
- 6) it doesn't allow for accurate County and State-wide financial reporting; and,
- 7) it brings into question the finances of the City in the eyes of the general public.

In order to avoid all of these potentially negative consequences that will hurt the taxpayers of Mount Vernon, the City desperately needs audited financial statements for the year ended 2017.

The City does have a set of audited financials for the 2015 and 2016 year ends, but not for 2017. At first glance at the ledger in Munis, the books for 2017 seem to me to be complete and ready for audit. What is missing however, is audited results for one of the agencies of the City, the Urban Renewal Agency (URA). If this agency is effectively a subsidiary of the City then I can understand why the auditors of the City's consolidated financial statements would be reluctant to sign off that the overall results are not materially misstated, as they would be relying on the auditors of the URA to send them an audited set of financials for that agency. The City's auditors would rely on the 'subsidiary opinion' for the purposes of gaining the audit assurance they need on the overall financial position and results of the City for the year. They could not proceed without it.

So the cause of not having City financials for 2017 appears to be the lack of audited URA financials. In order to address this and find a way to move forward we need to consider the root cause of (i) why the auditors have

CITY OF MOUNT VERNON, NEW YORK ♦ OFFICE OF THE MAYOR ♦ CITY HALL - ROOSEVELT SQUARE ♦
MOUNT VERNON, NEW YORK 10550 ♦ (914) 665-2300 ♦ WWW.CMVNY.COM

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not completed their work, or (ii) why they may have finished the work but have not issued an opinion. There are many potential reasons for this, and I have reviewed the documentary evidence provided to me and it seems that the root causes of this are as follows:

- 1) There is a letter to the City Council in December 2016 requesting that new auditors for the City of Mount Vernon be hired. It appears that the audit firm engaged at that time, PFK O'Conner Davies, had engaged in filing false audit reports for other entities that they worked with, so this request to change auditors seems very reasonable. Especially when considering that it is standard practice for the industry. What I mean is, auditors get changed relatively frequently in the private sector under normal circumstances, so changing the auditor under unusual circumstances is definitely justified. In fact, the intention of the Sarbanes Oxley rules when they were drawn up and implemented 15 years ago were that auditors would not serve indefinitely but would serve for a pre-defined period e.g. they would serve for a 5 year engagement period and then a new firm would be hired to do the audit work from year 6 onwards. The point of this it to ensure that the auditors do not get complacent in their work and that the long-standing relationships with management do not get to the point where the auditor's judgement may somehow be impaired. The impetus to no longer engage PFK O'Connor Davies and hire a new firm seems perfectly justified and appropriate under the circumstances at the time and I find it curious that it was not simply agreed to in 2017.
- 2) The audits of the URA for the financial years ending 2016 and 2017 were not completed. The reason therefore is that the URA auditors stopped doing work owing to non-payment of their audit fees by the Finance Dept. In March of 2018 Planning Commissioner Okarter attempted to get these payments completed by reaching out to the Comptroller. See attached correspondence. It is clear that the Comptroller not only failed to answer the direct question of why these payments were not made, but also immediately replied with a counteraccusation and an explanation of the negative consequences of not having a completed audit.
- 3) In August of 2018 a URA Board member reached out to the Comptroller seeking to resolve the funding impasse for the outstanding audits of the URA. The Comptroller recommended the old auditor, PFK O'Connor Davies, complete the URA audit work despite the URA's concern of potential conflicts of interest. The Comptroller countered at this time by implying that she was unaware of how this audit fee would be funded out the current budget.



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Time is of the essence here as, if plans are not in place soon, we will miss the opportunity to put a capital plan in place for next year, and the taxpayers of Mount Vernon will ultimately suffer as a result. Article VIII, §96 of the Charter of the City of Mount Vernon requires the Comptroller to “within 90 days after the close of each fiscal year, prepare and publish in book or pamphlet form a full and accurate statement in detail of the financial condition of the City in the form and manner prescribed by the State Comptroller.” Comptroller Reynolds has simply refused to do this, among so many other things. This is deeply concerning because, as I have laid out, this places the fiscal health of the city at risk. We must find a way to impress upon the Comptroller of the seriousness of her obligation and encourage her to move swiftly.

At your direction, I will convene CFO's and CEO's in the region to discuss these matters

Regards,

Brett Erasmus
Mgt Services Commissioner