

SPESIA & TAYLOR

MEMO

To: Mayor Soliman and City Council
From: Spesia & Taylor (Mike Stiff)
Date: April 27, 2026
Re: Forensic Audit of Events Committee

Following the Council's direction at the given at the April 13, 2026, work session for the engagement of Ketchum Advisory Solutions, the City Administrator inquired of SWARM as to whether the audit would be covered by SWARM and/or the City's insurer. SWARM has indicated that the forensic audit will not continue to be covered by SWARM. However, the City does have a policy of insurance called a Crime Policy which, according to SWARM, would provide coverage, but only after and upon proof of a loss due to crime or theft. That policy carries a One Million Dollar coverage limit, but it also carries a \$10,000.00 deductible. Blaine reached out to Mike Alesia for more information about the Crime Policy. Below is from Mike Alesia:

I just spoke with our crime underwriter. Please note the following:

- Insurance Carrier: Hanover Insurance Company
- Limit: \$1,000,000 with a \$10,000 deductible
- The policy is discovery based – a claim will cede to the policy year the crime was discovered.
- The ownness is on the insured to provide proof of a loss. Hearsay does not constitute a claim or 200 pages of documents without proof.
- Claim expense does not reduce the deductible.

If the City is to retain a forensic accountant and the fee was \$10,000 to \$15,000, they City would need to pay that up front. The policy has an endorsement for Costs, Fees or Other Expenses in the amount of \$10,000. It is only applicable if there is a loss. It will not pay if there is no crime or the crime amount is below the \$10,000 deductible.

Example #1 (Claim above the deductible)

1. City hires forensic account firm for \$15,000. The City must fund the \$15,000.
2. Forensic accounting firm finds evidence of theft of monies in the amount of \$25,000. Claim is submitted and the carrier would pay as follows:
 - a. Claim: \$25,000 loss - \$10,000 deductible = \$15,000 paid in loss
 - i. Forensic Expenses: \$15,000. The available limit is \$10,000 limit = Paid expense is \$10,000

Summary

Claim Paid \$15,000

Expense Paid \$10,000

Total Paid \$25,000

The City's out of pocket is: \$10,000 deductible + \$5,000 forensic accounting expense not paid = \$15,000

Example #2 (Claim below the deductible)

3. City hires forensic account firm for \$15,000. The City must fund the \$15,000.

4. Forensic accounting firm finds evidence of theft of monies in the amount of \$9,000. Claim is submitted and the carrier would pay as follows:

a. Claim: \$9,000 – it will not be considered a claim as it is under the deductible.

i. Forensic Expenses: \$15,000. The available limit is \$10,000 limit = Paid expense is Zero as there is no claim

Summary

Claim Paid \$0

Expense Paid \$0

Total Paid \$0

The City's out of pocket is: \$9,000 loss + \$15,000 forensic accounting expense = \$24,000

Example #3 (No claim)

5. City hires forensic account firm for \$15,000. The City must fund the \$15,000.

6. Forensic accounting firm does not find evidence of theft of monies. There is no claim.

b. Claim: Zero – no claim

i. Forensic Expenses: \$15,000. The available limit is \$10,000 limit = Since there is no claim, no expense will be paid.

Summary

Claim Paid \$0

Expense Paid \$0

Total Paid \$0

The City's out of pocket is: \$15,000 forensic accounting expense

Based on this information, it appears that the City will be responsible for payment of the costs of the forensic audit and depending on the result, may then have a “claim:” that can be submitted to the insurance carrier.

Based on Council’s 4/20/26 direction to engage Ketchum Advisory, an engagement letter was obtained from Ketchum and I have prepared a Resolution approving the engagement letter (included in the Council packet) which can be placed on the May 4, 2026 meeting agenda if the Council wishes to proceed.

If Ketchum is engaged directly, the Council will also need to consider options for oversight and liaison between Ketchum and the Council. As previously discussed, neither me nor Spesia & Taylor should be involved in the forensic audit or liaison with Ketchum. Council members have made similar observations with respect to the City Administrator.

SWARM is nearing a decision to close Mike Bersani’s current assignment to handle the threatened litigation due to the dissemination of personal information at the March 2, 2026, meeting. The Ketchum Engagement Letter as currently drafted includes language that Ketchum is being engaged on behalf of the City by its counsel, Mike Bersani. Attorney Bersani is no longer representing the City, the City can choose to have Ketchum report directly to the City Council or it can retain Mr. Bersani’s office or another law firm to assist Ketchum and act as liaison between the City and Ketchum. Depending on the Council’s direction on the liaison issue, the Engagement Letter may need to be revised before May 4.