

Minutes of Longmeadow Town Audit Committee
1/12/06
Longmeadow Fire Dept. Conference Room

AS APPROVED on 2/16/06

January 12, 2006 meeting called to order at 7:08 PM.

Pete Landon (Chair), Larry Eagan, Paul Adornato, Emanuel Wenig, Ernie Walker (Alternate), Ned Steiger (Alternate), Paul Pasterczyk (Acting Finance Director)

Guests: Jim Nittoli (School Board), John Moriarty, Geoffrey Weigand (School Board)

Absent: Mike Giampetro

John gave us his background with KPMG accounting firm. He personally covers many non profits in New England. John gave us examples of audit committee practices from non profits and said that many towns in the Commonwealth do not have strong audit committee standards and practices for us to copy. The Sarbannes-Oxley Act of 2002 pertains only to publicly traded companies and will not likely spread beyond that. However, California is mandating some small non profits to comply. New York has a similar bill which has slowed down in the political process.

The Attorney General in Massachusetts has a bill that may only pertain to non profits (not towns, etc.), however the bill can be modified so it is uncertain whether cities and towns will be affected. John recommended that we cherry pick some best practices from industry to get ahead of the curve.

Handouts:

- (1) KPMG Audit Committee Institute – highlights some trends in industry.
- (2) NACUBO handout – page 6 – begins list. Everything is relatively straightforward except Section 302 where CEO and CFO have to sign off that everything in every aspect of corporation is fairly stated in their annual reports, etc. Very difficult to sign for a large entity. Section 404 – asks that internal controls are so strong that procedures will be effective for future transactions. Very ominous.
- (3) Massachusetts proposed bill. John said 3 things in the bill would be applicable for the town, (Note this bill is only for non profits – not cities and towns.) but could be a good template for us to work from. John suggested we start with the Mass. bill to work on versus the Sarbannes-Oxley.
 - A) Whistleblower policy and protection of whistleblower policy is recommended. We do not have one currently. John said 3rd party vendors have set up phone and websites to let people call in with potential problems. Cost of program is usually based upon number of employees.
 - B) Requires an audit committee of at least 3 members and be independent and needs

to do 5 things.

- 1) Select, retain, and terminate independent auditor. (John said at a minimum we should be a recommending body as we are not.)
 - 2) Approve compensation of auditor (have auditor loyalty to committee rather than the “bookkeepers”).
 - 3) Measure and ensure that controls are documented by management. See how well management tests controls and how comfortable the audit committee is with its sampling process. (It was stated that if for example select board did not listen to audit committee, then audit committee could go to “the microphone” at town meeting and let the shareholders i.e. townspeople know their objection.)
 - 4) Remediate the recommendations made by the management letter.
 - 5) Ensure that auditor does not provide non-audit services to the town. If there are multiple services provided by the auditor to the town they should be widely known. John noted that all these ideas should be checked with state statute.
- Related Parties: Are there relationships between town employees and vendors for example that can have a conflict of interest? Perhaps annual “Conflict of Interest” could be requested to be signed by key employees especially with purchasing responsibilities.

John recommended that the audit committee review with the auditor before they begin and talk about scope of work and where to emphasize their duties. John suggested laying out a 3 year plan for different department or controls to be researched. Then meet with auditor at draft stage to review results directly between the audit committee with no one else present. A discussion followed about open meeting law and Paul said he would check to see if audit committee could go into executive session for certain reasons.

A133 is a compliance audit. Any entity receiving federal money of \$500,000.00 or more. Due March 31st every year by Longmeadow. Depending on the risk involved – audits will be required. Examples of UConn getting fined for grants and PVTA currently being reviewed. This work is covered by Scanlon (Town Auditor) currently in our audit.

Compliance – John said that we should look at the IRS filings making sure W2’s and payroll tax returns are being made in a timely manner.

Also funding of pension plans.

Some companies issue a rolling agenda which is a documented list of areas to review.

John said either 2008 or 2009 the Town of Longmeadow must comply with GASB45 and publish and actuarial present value of all future benefit plans (except pension). This may not be the audit committee’s responsibility but we should notify the town.

Most common financial scams that have been seen by John in his experience that we should be aware of:

- 1) Fictitious employees – typically add a “fictitious lifeguard” for example. (low pay employee)

- 2) High turnover/low paid people keeping someone on payroll for 2 or 3 months and manager keeps checks. If someone calls with W2 that is wrong – should raise red flag.
- 3) A purchasing agent setting up a fictitious vendor and pays himself through phantom company.

Paul P. talked about financing of Blueberry Hill and Wolf Swamp which is being paid out by new state school program.

Peter L. recapped the status of our bond situation with Blueberry Hill and Wolf Swamp schools as follows:

The MSBA prepayment of its 64% of principal and accrued interest for BH/WS to the Town was made in the fall of 2005 resulting in increased cash of 3.5 million to the Town. We issued \$21,630,000.00 in debt and authorized expenditures on the Blueberry Hill/Wolf Swamp Schools of \$21,633,180 in 1999 and 2001. When the MSBA advanced it's 64% we paid off our short term debt and had \$3.5 million remaining. The 20 year bonded indebtedness of (10,630,000 in 2003) could not be redeemed until 2014 at the earliest. The \$3.5 million is currently being invested short term.

An oral agreement has been reached on the service agreement for a term of June, 2006, but has not been finalized yet. It is believed that July 1, 2006 the consolidation should be completed.

Ned gave out a sample policy and procedures from a Boston law firm which could be used as a template for us. Ned also gave us a proposal from the firm of Melanson Heath & Company for audit services. Ned also gave us a best practices for audit committees from PricewaterhouseCoopers, and another handout on audit committee effectiveness.

Peter talked about risk identification. We should set a list of priorities for internal and external audit items.

Adjourned at 9:30 PM.

Submitted,
Larry Eagan
Clerk, Secretary