

Minutes for Audit Committee Meeting of October 22, 2009
Held at the Fire Department Meeting Room
Approved December 17, 2009

Members Present: Ernest Welker (EW), Chair; Glenn Rosenberg (GR), Vice Chair; Stephen Kuhn (SK), Ray McCarthy (RM), Jim Moran (JM), Joe Occhuiti (JO), Jim Shriver (JS)

Members Absent: None

Others: Scanlon & Associates (SA) (Tom Scanlon Jr., Greg Winters), Finance Director Paul Pasterczyk (PP)

The Chair called the meeting to order at 7:00 p.m.

Minutes

Minutes of the September 17, 2009 meeting were approved.

Annual Audit

GR welcomed SA to the meeting. GR stated that the annual audit examination was scheduled to begin late November / early December. He added that the timing was later than normal due to issues encountered with the Munis accounting system which were recently resolved. SA mentioned that they had scheduled other audit engagements and with the delay caused by Munis it forced them to change the original timing. SA stated that this delay would not have a significant impact on completing the audit by the end of the calendar year or issuing the draft management letter and financial statements.

GR asked SA to describe the areas of focus for upcoming year audit and highlight any newly adopted accounting/auditing standards. SA stated that for this year's audit they would be focusing on the following areas –

- Health Insurance accounts and the controls surrounding adding employees to the Town's benefit plans (new in FY 2009)
- Receivables, Cash & Investments (consistent with prior years)
- Budget approval, warrants and articles approved at Town Meetings (consistent with prior years)
- Analytical review and analysis of all account categories (consistent with prior years)
- Encumbrances (additional focus given issues from FY 2008)

GR asked SA to describe the OMB 133 Single Audit requirement for programs where Towns received federal funds in excess of \$500,000. SA stated that for the Town of Longmeadow this requirement applied to several areas within the School Department, specifically the School Lunch, Title 1 and SPED grant programs. For these programs SA is required to cover and examine 50% of the expenditures and determine that the funds were properly expended in accordance with each program's federal guidelines and requirements. SA added that new this year (if the Town received any stimulus money) is a requirement to audit funds received related to the American Recovery and Reinvestment Act of 2009 (ARRA). These funds would need to be audited in a similar fashion as the 133 Audits however the federal government was still developing guidelines and standards due to ARRA being a relatively new program. SA did not think that the Town had directly or indirectly received ARRA stimulus funds.

GR asked SA to discuss what they have seen at other Towns related to formal Compliance, Fraud or Whistle-Blower programs or policies. SA stated that they have not seen extensive programs/policies however mentioned that the Town of Spencer had recently adopted a formal by-law however had not reviewed the by law in any great detail. SK stated that the implementation of a program for a town would be a relatively inexpensive venture and added that having an audit committee in place fosters that kind of environment and thinking. SK asked SA what procedures are performed to investigate or discover fraud. SA stated that they do not conduct audits with the purpose of looking or detecting fraud

as it is ultimately the responsibility of Town's management and controls that they have implemented to prevent fraud from occurring. SK requested that if SA saw any weaknesses in the Town's policies and procedures that they should highlight any items for the audit committee. This item should be a follow-up item at the next meeting with SA scheduled for December 17, 2009.

PP mentioned that there was a draft Investment policy currently being developed by a Town Manager-appointed Investment Policy Task Force chaired by Pete Landon and to be reviewed by the Finance Committee. SA mentioned that they would review the Town's investments in conjunction with draft policy to ensure compliance and adherence to any revised language contained in the policy and would alert the audit committee of any issues. This item should be a follow-up item at the next meeting with SA scheduled for December 17, 2009.

JO asked SA if the Town was in violation of any by laws by stating they had a balanced budget knowing that negotiations with the Town's collective bargaining units were still unresolved. SA stated that the Town was not violating any by laws as long as those negotiations were still on going and not resolved. They mentioned that this particular issue is fairly common with most towns.

EW highlighted comments made by Jim Law (JL) Finance Committee member at the last Audit Committee meeting on October 22, 2009. JL requested the issue related to the prior year settlement (approx \$348,000) in the enterprise fund from the City of Springfield be reviewed to make sure the accounting of that transaction was properly handled. He also requested that the town assets used to establish the enterprise fund (and those used today by the fund) were properly accounted or transferred. SA stated that they remember reviewing these issues last year and also when the Water and Sewer fund was established and saw no irregularities or violations however would confirm their understanding of these issues at the meeting in December. This item should be a follow-up item at the next meeting with SA scheduled for December 17, 2009.

EW mentioned the last OPEB valuation report prepared and requested that SA follow-up on specific issues in the report. Specifically, SA stated that they would review the entry age valuation methodology and possibility changing the footnote to mention that the Town had taken the first step in the process in establishing a trust. SA mentioned that the unfunded liability will be disclosed in the notes to the Audited Financial Statements. SA highlighted the fact that there may be an issue as to when Town's can actually start charging retiree costs to the trust. EW also mentioned that some towns are borrowing against the liability. This item should be a follow-up item at the next meeting with SA scheduled for December 17, 2009.

EW stated that given the audit committee's role as defined in the charter and by-laws, SA needed to communicate directly with the committee on any and all issues that they discover during their audit and examination. He requested that SA comply with this requirement. SA acknowledged that they would communicate with the Audit Committee.

GR thanked SA for taking the time to explain the process and answer questions. SA was excused from the meeting.

GR discussed the issue of lack of follow-up (and urgency) on issues identified in the management letter comments from year to year. He concluded by stating that the limited resources on the part of the Town was a primary reason. JS distributed a proposal to develop formal corrective action plans that would track the progress and status of management letter issues and could be utilized for reporting on a quarterly basis. This "status" report could then get issued or published to a broader audience to highlight the lack of urgency and follow-up on specific items. All members of the committee agreed that JS and GR should move forward with this proposal.

Town Debt & Debt Rating

Pursuant to a white paper adopted by the Select Board (SB) in 2005, one of the duties of the AC is to review the Town's bonded indebtedness and to make recommendations for maintaining desired bond ratings. SK provided an update of a Finance Committee (FC) meeting he attended to apprise the FC of the AC's determination to be more active with respect to Town debt than in the recent past and to discuss coordination of FC and AC activities. The FC was interested in having the AC develop recommendations on maintaining favorable debt ratings and saw its role as being more involved in capital needs planning and debt forecasting.

Other Business

None

Date of next meeting scheduled to be December 17, 2009, 7:00 p.m., Fire Department Meeting Room.

Meeting adjourned 9:30 p.m.

Respectfully submitted,
Ray McCarthy, Clerk