

Minutes of Longmeadow
Town Audit Committee 12/15/05
Longmeadow Fire Department Conference Room

As approved on 1/12/06

Peter Landon (Chair), Larry Eagan, Paul Adornato, Mike Giampetro, Emanuel Wenig, Ernie Walker (alternate), Ned Steiger (alternate), Paul Pasterczyk – Acting Financing Director

Guests: Joe Occhiuti, Jim Nittoli (School Board), Geoffrey Weigend (School Board), Dean Rogeness

Called to order at 7:05 PM.

The minutes for previous meeting were accepted with the following revisions: Add date of 11/16/05 to minutes and second page change management review findings from 2005 to 2004. Ernie asked that minutes reflect the members of committee, alternates and then guests in that order.

Jim N. discussed the September 29, 2004 Abrahams Group report on the school department finances. The report was published right after he took office. He hopes that the report reveals items which will never occur again – such as transfers of money without School Committee approval. Geoffrey agreed that “Budget” and “Actuals” should be properly aligned so that either mistakes in budgeting or emergencies only will reveal variances. It was asked what percent of the school budget is fixed versus variable. Geoffrey W. said 80% of the school budget is salaries, but for example if someone obtains a PhD mid-year they get an automatic raise. This cost about \$60,000.00 last year. Geoffrey W. said they would like to get some kind of advance notice of salary changes so that they could budget in advance. Jim said that the 20% remaining of budget is still not completely variable – such as utilities.

It was asked if there is a per student cost and a trend. The superintendent has prepared that and Jim N. said he could forward that along, but Jim warned that Special Ed could skew the numbers. He also said this information is available on the State website.

Direct and indirect costs were discussed. It was said that the direct costs – cost per pupil has dropped. The effort on this budget was to preserve direct services to the children. Geoffrey W. said \$7,000.00 per student cost maybe lower relative to other comparable Boston towns which may be around \$10,000.00.

Salaries, utilities and Special Ed are the largest factors causing strains on the budget. Unfunded mandates can send a special needs child out of state and cost \$70,000.00/ year plus. It was asked can we earn income by importing Special Ed students. Jeff said they are trying to analyze this scenario to see if it can be revenue positive. Jim N. said that they want to ensure that the reporting of their financial numbers was accurately attributed to their proper categories. Jim N. said they discovered last year over \$200,000.00 was spent on salaries than was budgeted. Jim N.

helped create a tracking document. They pulled in all revolving funds and put them into the budget.

Old way: \$700,000.00 income on school choice and \$700,000.00 would go out on two categories. School choice expense and school choice salaries.

New way: School choice expenses were allocated to high school teachers' salaries.

Jim N. said that this new reporting is not yet working perfectly but next year it should be very accurate. It has fallen short due to financial staff positions that are unfilled.

Grant budgeting was a weakness. Now they are working on applying grant money accordingly. Jim N. pointed out that personnel changes in the financial consolidation have made the reporting less effective. Currently they are short one full time person in the accounting department. It was asked if a business manager should be hired? Jim said the school committee should have hired a permanent business manager. They hired an interim business manager and it did not work out.

It was asked why the school committee did not pay a \$3,000.00 - \$5,000.00 premium and hire a new business manager. Mike G. said that the risk exposure that the Town has by not having a strong school business manager is great and should be managed. The problem is that the salary of the position is on Town budget now – due to financial consolidation negotiations after the budget override failed last spring.

Peter said that the Town of Reading tried a financial consolidation in the mid 80's that was abandoned and they reverted back to the old system – which is similar to Longmeadow's old system. The Town of Harvard has integrated the financial departments successfully.

It was said that the town manager, selectboard and superintendent could solve this financial consolidation if they all got together with a sense of urgency, and exhibited teamwork as was envisioned in the new Charter.

Geoffrey W. said that the school committee is committed to this integration and the re-engineering of the people and process.

Paul P. said that he believes the town and school committee are not far apart from integration. Itemization of services is still needed.

Jim Nittoli said that the school committee presented a Services Agreement concerning the consolidation of financial departments to the town in the fall and it has not been negotiated by the parties.

It was said that the integration seems to be hinging on the service agreement and getting the correct people in proper places.

The board will craft a recommendation to the selectboard saying “We recommend execution and implementation of a service agreement for the complete integration of the financial operations of

the town and school due to a major concern of financial and legal risks.” The board voted to have Peter Landon and the committee refine the draft and approve a recommendation to the Select Board.

Paul P. provided the following handout concerning status of auditor’s Management Letter fulfilling the committees ongoing request for a schedule to correct the external accountants management reports deficiencies for 2003 and 2004. The 2005 report has not yet been received. The committee requested a schedule showing the completion dates and responsible parties for corrective actions.

Status of Management Letter (06-30-04) findings:

Student Activity Funds – status remains the same.

I will engage discussion between the Town Treasurer, School representatives and myself after the holidays with the goal of resolving the issue before 03-31-06.

Financial Reporting Full Purchase Order System and Requisition System – The Town’s current software allows for a full encumbrance system. Policies are in place allowing for an encumbrance system however not to the level recommended by the auditor. A full encumbrance system is administratively heavy and is not my recommendation. Current replacement software allows for more users and a better flow of the purchasing process. The encumbrance process will improve at that point (FY07 implementation) but again probably not to the fullest extent sought by the auditor.

Collectors Office – Reconciliation of Taxes and Outstanding Tax Lists – The current software system is failing and crashing during report production. Replacement software will be in place for FY07. This coupled with a new Collector, a complete audit of A/R and the reorganization of the Treasurer/Collectors office (addition .67 FTE) should eliminate this issue upon implementation of the new software.

Collectors Office – Timely depositing of checks – while improvements have been made, timely deposits are still not where they need be yet. The reorganization will improve matters further. The final tool will be the implementation of the software coupled with changes in the collection process (lockbox, electronic payments etc...). This issue will be completely rectified no later than 12-31-06.

Inspection Fees – The Building Inspectors have made changes to the overall inspection fee collection and disbursement process. The Department is up to date on additional billing.

Infrastructure and GASB 45 – at this point little time has been devoted to either. Once charter reorganization and complete implementation take place I and others involved will be able to better address both of these matters.

Investment Policy - The current policy is in need of an update. After the holidays I will request a draft update be submitted to me by March 1, 2006. Revised policy to approved no later than April 30, 2006

PJP 12-15-05

Management Letter 6-30-04

Paul said that the full encumbrance system as requested by the management letter above is too difficult to monitor. Paul asked that purchases less than \$500.00 do not have to be subject to the encumbrance system. It was agreed that Paul P. will come back with a recommended qualifier program to attach to a new policy at next meeting. Mike G. offered to help.

Capital Planning Schedule – Paul P. said that some money has been borrowed to finance this need, but when the bonds for the town safety complex are paid in a couple of years money will be available to repay the current “borrowings”. We reviewed the schedule provided by Mark Gold.

It is obvious the Town has substantial capital needs and deferred maintenance. The 2% of income guideline is the current allocation method.

Center School bond was refinanced on 12/5 on 4.37% discount rate.

Wolf Swamp and Blueberry Hill – The Commonwealth’s 64% advance reimbursement of the 21 million original financing resulted in a recent payment \$4.5 million that will give the Town 3.5 million to invest after paying off a 1 million bond anticipation note.

The Town’s portion of the Wolf Swamp and Blueberry Hill bonds are not re-callable for at least 10 years.

Investments of the advance funding of the Commonwealth’s portion will be made with the \$3.5 million targeting an approximate 4% return. Paul stated there was no discount on the advance funding of the State’s 64% portion. The surplus funds became available to the Town because of financings in excess of construction costs.

Pete asked if people would like to volunteer to get on an internal audit subcommittee and track down other corporations or non profits for their policies. Mike G, Paul and Ned volunteered to gather information from outside interests to use as templates.

Pete asked if members of the town could be approached about getting advice on best practices. Mike G. will ask John Moriarty. Ned and Manny volunteered to contact some sources too.

Meeting adjourned at 9:20 PM.