

Minutes of Longmeadow Town Audit Committee
2/16/06
Longmeadow Fire Department Conference Room

February 16, 2006 meeting called to order at 7:09 PM.

Members in attendance: Pete Landon (Chair), Larry Eagan, Manuel Wenig, Mike Giampietro, Ned Steiger (alternate), Ernie Welker (alternate).

Absent: Paul Adornato

Others: Paul Pasterczyk (Finance Director), Tom Scanlon (Town outside auditor), Mark Gold (Capital Planning Chair), Reporter from Springfield Newspapers

A. Mark Gold said unappropriated money is from various sources. \$511,000 is balance of capital stabilization from the original \$800,000+. \$512,000 was also allocated from water stabilization, sewer stabilization, and ambulance stabilization. Interest earned on 3+ million has not been allocated.

B. Tom Scanlon was invited to present and discuss with the AC his examination of the Town's financial statements for the year ended June 30, 2005. The full financial statements were not completed, but his Management Letter (ML) was. His cover letter to the ML, addressed to the Board of Selectmen, explains that as part of the examination of the financial statements, his firm "reviewed the Town's accounting procedures and internal control structure," which "disclosed certain areas in which we believe more effective control or increased efficiency may be achieved." The ML "summarizes our overall conclusions and recommendations resulting from our review ..."

Copies of the ML were distributed, and Mr. Scanlon reviewed the contents, item by item. Because the ML is available to the public, Tom's comments to the AC are not reported in these minutes except for those on which there was substantive discussion.

The ML begins with a section, Status of Prior Year Findings and Recommendations (with subsections on "findings" that have been rectified and "findings" that have not been rectified). This section was of particular interest to the AC because in an earlier introductory meeting of the AC with Tom about his function, it was noted that prior-year(s) recommendations often were not acted on. The AC is concerned about such inaction, believes it important to get more timely action on the Auditor's findings, and will monitor developments to that end.

Tom Scanlon stated that depreciation is on the balance sheet for finance operations but not for budgetary reasons or setting tax rates.

Tom presented the management letter.

- 1) Student Activity Funds - \$100,000 – 150,000 balance. It has been turned over to the Town Treasurer, except School kept a sum of \$10,000. When it gets down to \$2,000, Town will transfer enough to the school account to restore the balance to \$10,000. School will transfer sums in excess of \$10,000 to the Treasurer.
- 2) Full Purchase Order System and Requisition System – In prior audits, the ML recommended that such a system be implemented in order to assure effective budgetary control. In the “Town’s Response”, it was reported that Town management adopted an “Administrative Policy for Procurement of Goods and Services”. While the policy keeps a \$500 threshold for non-school purchase orders, it does not require the Town Manager/Chief Procurement Officer to sign purchase orders.” – Paul P. is maintaining this system. There was discussion as to whether this was sufficient, centered on the tradeoff of accepting a higher risk in order to avoid the additional inconvenience and operational cost of implementing a full encumbrance method. While holding to his recommendation, Tom allowed that these kinds of tradeoff decisions are often necessary. No AC Member objected to the Administrative Policy, and no action was taken by the AC.
- 3) Collector’s Office – Reconciliation of taxes and outstanding tax lists. Many very small balances remain to be reconciled. Paul P reported that a new software system, “Munis,” is being purchased, will be installed for July 1, 2006 and will be helpful for achieving the recommended reconciliations.

It was asked if there is system for being sure that all real estate parcels and assessed valuations are being included in real estate tax billings, collections and amounts owed. Paul P. did not know, but said that under the new charter the Assessor now reports to him and he will look into this.

- 4) Collector’s Office – Timely depositing of checks. Question asked if Collector deposits are “swept” overnight to get interest on fund balances as quickly as possible. Paul P. will check.
- 5) Infrastructure - Tom made some comments about methods of estimating original costs, depreciation, and depreciated values for old infrastructure needing to be included in the Town’s financials statements. He said \$192 per foot is commonly used replacement cost of a road, including pipes, sidewalk, etc. Roads and sidewalks have 20 year depreciation, because of the difficulty in making good estimates and in order to avoid having to do so in the future, Tom recommend that the town not give any subdivision final approvals without proof of cost for infrastructure by type.
- 6) GASB 45 – Accounting requirement to show the town’s liability for promised postretirement benefits other than pension benefits. Such liability is mainly

related to estimated costs (done annually) of providing employees with post-employment health care benefits. This will give the town a quantification of the unfunded liability of active and retired employees for non-pension benefit. Tom believes it will cost in the \$20,000 range to have this estimate calculated the first time. The implementation date for this is no later than June 30, 2008. According to Paul P, the town has about 700 current employees and 400 retirees. A discussion ensued about changes in the private sector toward replacement of defined-benefit retirement plans with defined contribution plans and toward raising the portion of health care benefit costs borne by employees/retirees. The AC will look into these matters, beginning with gaining an understanding of the benefit programs now in place (for actives and for retirees) and their costs to the town and to employees/retirees.

The current year's ML has one item – Fraud risk assessment
Tom said Longmeadow's exposure to fraud risk is typical of that of municipalities and in that sense not particularly worrisome, but he believes we should review especially the risk of fraud with large-ticket items. Tom suggested that we review how much money is sitting in a national bank – since only \$100,000 is insured. He noted that accounts in Mass. savings banks are fully insured, to the extent that insurance company is a viable entity.

Tom discussed the following items in addition to his management letter:

Net School Spending – A figure given out by State, included is appropriation plus indirect cost such as tax collection cost, health, dental costs. This should be updated annually. No report.

As part of his work, Tom audits compliance of the Town with requirements applicable to each major Federal grants program and internal control over compliance in accordance with OMB Circular A-133. Tom's opinion is that the Town complied in all material respects with Federal grant requirements and there were no findings of material weaknesses in internal control per OMB Circular A-133 – i.e. corrective measures were recommended. This is good.

When the financials are available Tom would be willing to come back to discuss. Steps to pass on the Final Audited Report will be reviewed with Robin – joint meeting?

The Chair raised the general question of what the town might do to improve its credit rating. Tom said the best way is to have disciplined budgeted savings and if any budgeted funds are not needed that they go into a stabilization fund rather than transferred to other budget items. He said municipal credit rating firms like to see stabilization fund discipline, that is, that the stabilization fund not be raided with frequency to cover what should be budgeted expenditures.

Tom Scanlon finished his report and retired from the meeting.

C. Paul P. gave a status report on the agreement between Town and School for maintenance services Town would provide to School and related budget amount to be transferred from School to Town. He said he gave a draft proposal to School administration which included dollar amounts and how those amounts were calculated, and was waiting for a response.

The AC is concerned about the failure to date to implement this Charter mandate for the consolidation of maintenance services. It was agreed that AC recommend to the School Committee to meet shortly with Paul to discuss the proposed service agreement and calculated indirect costs.

D. The new financial software was discussed. In May the Audit Committee will check with Paul P. on how the implementation is going.

E. Insurance coverages were discussed. Paul handed out a summary of insurance coverages/premiums. It was asked if a \$1,000.00 deductible is too low. Paul P. reported that the coverages reflect recommendations made a few years ago by a small group of casualty/property insurance agents who are town residents. Paul P. was asked by the AC to inquire if this informal advisory committee would be willing to perform another analysis with recommendations.

F. Energy Costs – Paul P reported the electricity rate is locked for next 5 years. Town locked in October '05. School in December '05. Total annual cost for electricity is \$600,000 - \$700,000. Heating boilers in newer schools can use either oil or gas. Oil and gas rates are locked for this winter. Oil is locked around \$2.11 / gal. Procedure has been that Lower Pioneer Valley Educational Collaborative makes recommendations and the Building Managers act. Paul P said that his impression is that this has worked quite well. Chair asked for more data for next meeting.

Meeting adjourned 9:06 PM.

Next meeting is March 29th.

Submitted,
Larry Eagan
Clerk, Secretary