

Minutes for Audit Committee Meeting of April 16, 2008
Police Station Community Room
Adopted May 22, 2008

Members Present: Ernest Welker (Chair), Ray McCarthy, Glenn Rosenberg, Paul Smith

Absent: Larry Egan

Others: Finance Dir. Paul Pasterczyk, resident Joe Occuiti

Chair called the meeting to order at 7:03 p.m.

Minutes of the February 28, 2008 meeting were unanimously approved.

Annual Town Meeting Warrant

Committee discussed the Finance Committee's (FC) decision to make its recommendation on the Select Board/Town Manager's (SB/TM) proposed operating budget article at Town Meeting. Having attended FC meetings regarding the budget, Ernie and Ray reported that the FC was considering recommending a cut of \$90,000 or so from the town-side expenditure total in order to make more funds available for the FY10 budget when (A) new contracts were due for ALL bargaining-units, school department and other town departments, and (B) major funding needs were expected in order to amortize pending large borrowings (for schools, other town building renovations, replacement of the DPW yard, and sewer, water and storm drain infrastructure projects). Because the SB/TM FY09 budget would take \$90,000 from the Operating Stabilization Fund and because the School side FY09 total spending was adjusted to "absorb" an expected \$160,000 revenue shortfall, some FC members believe the town-side spending must be reduced so that it lives up to representations made to citizens at last year's Town Meeting. Those representations to use any FY08 and 09 free cash to build up the Stabilization Fund for use in FY10 were behind its support of the FY08 budget and prop 2.5 operating override proposal. At its last meeting, the FC discussed the need to develop its statement for Town Meeting and delivery to local news media. FC Chair Carla Gunn and member Jim Nittoli were to draft the statement. Depending on what the FC would say, the AC would consider if it would make a statement. The Chair said he would get a copy of the FC statement as soon as he could and its content and the timing of its availability would determine if the AC would make a statement. The Chair reminded members that each could speak as a citizen regardless if the AC does or does not as a committee.

There was discussion about limited information provided to the public regarding the amounts of future debt financings, including debt anticipated in the proposed FY09 budget. Concerned about this, the AC Chair mentioned its concern to some FC members and expressed a hope that the FC would speak to the debt matter at Town Meeting. Ernie mentioned that he attended a meeting organized by a small group of town residents exploring if there is sufficient support to form a citizen's committee for improving the flow of information to the public and educating the public on various town issues. One of the organizers asked for a show of hands of those present who understand the three types of prop 2.5 overrides (operating, debt, and capital). Of the 25 or so present, only two or three hands went up, indicating a lack of knowledge on such basic financial matters. Regarding the debt anticipated in the FY09 budget (and expected to be incorporated in a prop 2.5 debt override article at a special fall Town Meeting), Paul Pasterczyk said funds would be borrowed for the Article 17 sewer jet outlay of \$255,000 plus current debt service of \$300,000 for the Wheel Meadow sewer project and \$125,000 total for water mains (both incorporated in their respective user charges). Whether the amortization cost of sewer debt will go into the sewer rate or into the real estate tax rate will not be decided by the Select Board until later. (Ernie said that SB member Bill Scibelli expressed a strong preference for infrastructure costs to go into the real estate tax because it is income-tax deductible, whereas sewer and water costs are not.) Paul P. also mentioned the need to borrow perhaps \$650,000 for a construction plan for the renovated or new high school, which the state will share maybe 50 to 60 percent of the cost. Paul P. discussed estimates of how much \$300,000 of sewer debt would add to the real estate tax rate and average tax bill, which illustrated that there were many variables to consider (duration of debt, interest rates at the time being two key ones) and would not be know until the financing decision is made.

Ernie reported that he was earlier told by Paul P. that the FC had created a sub-committee on long-range planning, an FC responsibility that the AC earlier expressed concern about to the FC. The AC welcomes this FC effort.

Ernie also reported that learned at one of the SC meetings of an effort by school committees in the region to get the state to increase funding for local schools. Cooperating school committees were asked to adopt a Statement of State Funding for Local Schools and Special Education. The Longmeadow SC adopted a modified version of the Statement made by another cooperating school committee. Rapidly rising school costs and especially for state-mandated Special Education services have been a major reason for budget crises in many nearby communities and for the looming crisis for our town. The regional effort urges more contact and work with state reps and senators to get legislative support for the requested changes.

Budget Presentation Format

Ernie commented that having attended (or watched on tv) a number of the SB, School Committee (SC) and FC meetings dealing with the FY09 budget, it became clear to at least some members of each of those groups that the budget process is "broken" and needs fixing. Discussion at those meetings touched on, in part, lack of openness among the three groups, differences in perceptions of some members of the three groups of what the Budget Strategies Committee agreed to present at last year's Town Meeting and what that meant for actions by those groups on the FY09 budget, distrust of the TM by at least some SC members, and confusion due to lack of an effective mechanism for highlighting revisions and their reasons as the budget went through numerous iterations. Referring to the difficulty of the full AC to dig into budget formats and to Ray's expertise in budgets and Paul Smith's research efforts to date, the Chair asked Ray and Paul to serve as a sub-committee to develop proto-type formats for consideration. Ray replied that it would take a great deal of work to do this and before he would be willing to undertake it, he would want to know that the parties who would receive such a product would welcome it and give it due consideration. He offered to work with Paul S. to first develop a PowerPoint presentation on process (strategic) thinking regarding budget formats for delivery to the Town Manager and interested members of the SB (and members of other committees as well) to gauge if there is interest at that level for what the AC might later develop and recommend. The Committee supported Ray's proposal

Other Matters

Regarding pensions, Ernie reported he heard that the HCRRB will be voting at its next meeting to move the System's investment funds to PRIT, the state's pension investment pool, as was recommended by the Town's Pension Review Task Force to the Town's SB and some other nearby towns that are members of the System and then requested by them to the HCRRB.

Regarding the calculation of the Town's GASB 45 liability for post-employment other-than-pensions benefits, Paul P. said he expected it would be available within a couple of months. Ernie expressed disappointment that the figure wouldn't be available for the upcoming Town Meeting, as it is another debt-like financial obligation of the Town to add to the other prospective additions of debt.

Regarding the state's GIC option, Ernie called attention to the recent newspaper report of dissatisfaction with the administrative aspects of GIC by Springfield officials. Paul P. reported on the status of considering GIC as an option for health benefits of Town employees, saying that for members of bargaining units, it would have to be a part of contract negotiations and thus not possible until contracts expire next year.

Regarding internal controls and procedures, Ernie reminded members of the previously circulated File Memo [appended hereto] of his and Glenn's March 13th meeting with Tom Mazza, School Business Manager.

Also regarding internal controls and procedures, Ernie referred to his previously circulated email about the apparent overloading of a team bus and his brief exchange with School Supt. Jahn Hart at the TM's Public Forum on the Budget, in which he reminded her of that coming up at an FC meeting and she said at the time that she would look into it. In reply she said the Athletic Director told her it might occur rarely when the number of expected riders is very close to the passenger limit and an extra bus is not ordered. During discussion on this topic Paul P. commented that overloading should never happen because, as he understands, state law prohibits a driver from beginning a trip with more passengers than the limit. It also may have implications for insurance coverage the Town has for transportation accidents. As a result of discussion, the Chair was directed to send a communication to the Superintendent asking her there are written policies and control procedures covering overloading of busses generally, not just for athletic teams.

Also regarding internal controls and procedures, Ernie reported that Paul P. had informed him by email of plans to have three cash drawers in the Collector's office to reduce the risk of cash shortages either from mistakes or theft. Paul P. affirmed that and added that the drawers are not in fact yet in but would be as soon as DPW workers could get to it.

Also regarding internal controls and procedures, in noting that the TM's budget proposal included funds for a part-time person to work on documenting procedures in the Finance office but those were deleted from the SB's budget, Ernie commented that once again sound-practice documentation and procedures get sacrificed for other things. Paul P. said that every town department has been asked to report by June 30th their policies now in place and others that need to be developed.

Regarding an appearance before the SB by Scanlon & Associates and AC representatives to comment on the Independent Auditor's report on the Town's financials for FY 2007 and its accompanying Management Letter, the Chair was directed to send an email to the Town Manager asking if such an appearance was planned for this audit.

Ernie reported that the Investment Policy Task Force still had not held its first meeting, because IPTF member Jim Nittoli, who was to organize the first meeting, was too busy working on the budget as a member of the FC.

Ray asked Paul P. for clarification about the use of "capital" for accounting purposes and for eligibility for funding from the Capital Stabilization Fund. Paul P. responded that there is a dollar threshold for "capital" to be depreciated, adding that capital inventory for accounting hasn't been updated in a couple of years. He said he would "have to look into it."

Date of the next meeting is May 22, 2008, place to be determined by the Chair.

Meeting adjourned 9:24 p.m.

Respectfully submitted,
Ernie Welker

APPENDIX

File Memo, School Dept.

Meeting with Tom Mazza, School Business Manager
March 13, 2008, 4:30 p.m., Mazza's office
AC attendees: Glenn Rosenberg and Ernie Welker

The meeting was requested by the AC members for the chief purpose of going over Scanlon's ML Findings pertaining to the School Dept.(SD) and getting more specific information than was presented in the Town's Responses, written by Mazza.

Before getting to those matters, Glenn asked Tom for a little background on the operational workings of the SD and the Town Fin. Dept. (FD).

Tom explained that the financial operations of the Town are administered through the Finance Department, which functions as the central processing unit. In general, the School department substantiates both vendor invoices and payroll hours and related data, and submits these materials to the Finance Department for issuance of checks and entry of expenses into the General Ledger. Cash receipts are summarized and coded to revenue accounts by the School Department. The Finance Department makes bank deposits and enters the revenue activity into the General Ledger.

Regarding implementation of MUNIS, Tom said Sandy gave in November a overview-type 2 hour training session on modules pertinent to SD. A 1.5 hour follow-up (more hands-on) training session is planned for secretaries later this month and another training session is planned for April.

Tom said he and Carol (his assistant) meet with Paul and Sandy every 4-6 weeks or so, and it has helped to create a cooperative working relationship. There is no working at cross-purposes. Tom praised Sandy for her knowledge and help with MUNIS.

Finding 2007-1 Accounting/Financial Policies and Procedures Manual

While this Finding is directed at the Town side, Glenn asked if the SD has a procedures manual. No was the reply. Glenn said he sees Scanlon's Finding being rectified with a Town-wide manual with the SD a component and asked Tom if he could put development of a manual for the SD on his agenda. Tom answered that he expected to be able to get in off the ground by documenting procedures related to dealing with the Finance Dept.

Finding 2007-2 Functional Lines Items of School Budget

Tom's response was consistent with Paul P.'s version of the SD's opposition to the recommendation – namely, that it would be a lot of work for little to no benefit. He said that the School Committee now sees ALL transfers among line items, not only after total transfers have exceeded \$7,000. Ernie mentioned Scanlon's comment that if the SC puts in writing that this is the way the SC wants it, he would be satisfied.

Finding 2007-3 Athletic Revolving

Glenn asked if the Town Response of corrective action is in fact being followed. Tom said he believes so, but will meet with the Athletic Director to sure things are in place before the AD retires at the end of this school year.

Finding 2007-5 School Revolving Account – Fees

Tom said the SC has voted to establish a Transportation Fund, which would include both bus and parking fees and satisfy law. This was seen as a more operationally effective way to comply with the law than establishing two accounts.

Cost allocations Town and Schools (lone remaining item from Abrahams' Report)

Tom reported that the SC's finance sub-committee has agreed with the procedures he and Paul P. had worked out and that all remained to be done is to put the agreement into writing and have it signed. He said this definitely would be done by June 30th.

Ernie asked Tom to inform the AC when actions he said would be taken have been completed. Tom said he would do so.

Ernie (joined by Glenn) thanked Tom for acting promptly on Scanlon's concerns and said the AC is pleased about the good cooperation developed between SBD and Town FD.