

Minutes of Audit Committee meeting of August 24, 2006

Members present: Paul Adornato, Pete Landon, Ernest Welker, David Kowarsky (Assoc.).
Absent: Larry Eagan, Mike Giampietro. Advisory: Paul Pasterczyk. Other: Town residents Joe Occhiuti and Dean Rogeness.

Meeting was called to order by Acting Chair, Paul Adornato, at 7:12 PM. Chair appointed Ernest Welker to take minutes of meeting.

1. Chair Adornato welcomed David Kowarsky to the AC as an Associate Member, stating that the AC treated Associate members as full Members except without voting rights and expressed the hope that David would fully participate in deliberations, in offering suggestions and proposals, and in a willingness to take on assignments helpful to the AC. David expressed appreciation for the Chair's comments.
2. In Mike Giampietro's absence, minutes of July 13, 2006 meeting were unavailable.
3. In absence of two members, election of officers for the current year were postponed to next meeting.
4. Much of the meeting was devoted to discussion about the AC's relationship with the TM (Town Manager) and SB (Select Board). At the AC's prior meeting, Paul A. was empowered as Chair to meet with the TM to present the AC's draft language for the Request for Proposal to go out for the hiring of the Town's external auditor (EA) for this fiscal year (and possibly others). The AC RFP draft included language giving the AC, along with the TM, a key role in the process of reviewing proposals and making the hiring decision. The AC argued this was consistent with developments in the private sector requiring non-executives and independent directors to have control of the relationship with external auditors. In response to widely reported abuses of power by executives at some major companies, the Sarbanes-Oxley Act was passed, which among other things mandated more independence of director's committees and their direct control of outside auditors so that auditors would not be beholden to the executives over whom they were to serve as watchdogs. These sound practices have come to be recognized by various professional associations as appropriate and necessary for non-profit organizations and for government entities as well.

Paul reported that the TM rejected sharing the hiring decision and oversight of the outside auditor with the AC, although she welcomed the assistance of the AC in reviewing proposals and would take into account any AC recommendation. The TM directed that the RFP be sent out *without* the AC's wording referred to above. Paul A. reported he met with SB Vice-Chair William Scibelli to discuss the EA matter. Mr. Scibelli said the SB would look to the Town Charter for guidance on the matter. He also said that the TM and SB had discussed the role of the AC, with a concern that the AC was inserting itself into matters possibly outside its role and in doing so was making too-high time demands on the Finance Director. Paul A. reported that the SB (in the person of member Kathleen Grady) and TM agreed to meet with the AC on October 2, 2006 to clarify roles

Resident Rogeness concurred in the notion that the trend in both business and government is toward independence in the selection and management of OA. Resident Occhiuti, a member of the Charter Committee, recalled the origin of the AC, which he said was resisted by the then SB.

The AC resolved to work with the SB to clarify responsibilities and powers of the AC and asked Chair Adornato to call an AC meeting (at a place and time to be determined) in order to prepare points to be raised at the October 2 meeting. There was general agreement that if the AC is unsatisfied with the SB's interpretation of its role and responsibilities, the AC would consider introduction of a warrant article for making necessary changes.

5. Ernie reported briefly for the Benefits Sub-Committee. He distributed photocopies of two New York Times articles about public pension problems, one dated August 6, 2006 with the heading "Public Pension Plans Face Billions in Shortages" and the other dated August 9, 2006 headed "San Diego Broke Laws in Pension Crisis, Panel Says." Ernie read a couple of selections from the second: "In a 266-page report, Mr. Levitt [panel chairperson] presented lists of city officials, divided into categories according to which laws they were said to have broken. Some had demonstrated willful intent to deceive the public, he said, while others had merely shown negligence or failed in their fiduciary duties. ... Mr. Levitt said the city needed to strengthen its internal financial controls, and recommended that a permanent audit committee be established to provide continuous independent oversight."

The Sub-Committee is looking into aspects of the Hampden County Regional Retirement System and its pension plan, which Longmeadow employees (other than teachers) are members of. Among others, two are (1) low eligibility thresholds for earnings, creditable service, buybacks, etc., which allow low-earners for many years to get high pensions by late-service at high earnings for as few as 3 years and (2) the composition of the Board and its advisors, their tenures, and potential conflicts of interest.

Ernie also distributed printout copies of the slide presentation from Standard & Poor's Western Mass OPEB Forum, "GASB Statement 45: The Next Great Financial Challenge," which he attended in Pittsfield on August 2. He also distributed his personal notes from the forum. GASB Statement 45 is an accounting requirement that municipalities must report on their financial statements the amounts of their liabilities for **Other Post-employment Employee Benefits**, i.e, benefits other than pensions, whose liabilities have had to be reported for many years. One key point in his notes: while OPEB 45 does not require pre-funding of the liability (as opposed to pay as you go), the presenter expects that such a requirement will be imposed within a year or so of the date the liability is mandated. For Longmeadow, the liability has to be reported no later than in its financial statements for FY 2008. Actuarial services will be required to estimate this type of liability.

Meeting adjourned 9:22 p.m.

Respectfully submitted,
Ernie Welker