

Minutes for Audit Committee Meeting of August 27, 2009  
Held at the Police Station Meeting Room  
Approved September 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: None

The Chair called the meeting to order at 7:01 p.m.

Minutes

Minutes of the July 23, 2009 meeting were approved.

Membership Introduction & Overview

EW introduced a new associate member of the AC – Jim Moran (JM). JM reviewed his professional and educational background, mentioned how long he has lived in Longmeadow and gave his rationale for wanting to participate on the AC. Other committee members welcomed JM to the AC.

AC Work Plan & Priorities

The AC continued the discussion regarding the work plan and priorities from the July 23, 2009 meeting.

RM reviewed in detail the progress of his work on the budget process and format over the past year and shared with the AC a sample budget template designed to provide a better understanding of the Town's budget from a citizen's perspective. The PowerPoint template shared was an example Police Department Budget (at a summary level) and compared the financial and staffing numbers to other benchmarks and metrics. The information in the template was fictitious in nature and primarily used for illustrative purposes. There was extensive discussion and general agreement from committee members that the role of the AC was not to drive or manage the budget process but that the AC should play a part in the design of a format that could be adopted by the Town's committees (Finance and/or Select Board) as well as Town Management. RM discussed that the future plans of the project included working with the new Select Board membership as well as the Finance Committee to further the development of an established and agreed upon process/format.

After RM completed reviewing his work on the budget format and process, EW reminded members of his high concern, expressed in an email he had sent, that funding for the actuarial report required for establishing the OPEB liability as of 6/30/09 (for FY09 financial reporting) was intentionally not included in the FY10 proposed budget although it was known the report would be needed. Finance Director Paul Pasterczyk (PP) had told EW that he (PP) expected to be able to find funds for the OPEB study among other monies. Asked what the actuarial study would cost, EW said the initial OPEB report cost, by his memory, \$20,000 to \$25,000, but he didn't know what a follow-on report would cost. EW added that to him the amount is not a significant factor; but that it was not directly provided for in the budget was important. EW believes a major cause of budget problems is distrust among the major groups involved in the budget process (and by the citizens) that proposed budgets are not forthrightly honest. He said this deliberate action to not put the OPEB funding into the budget is clear evidence of such. No action was proposed or taken.

In discussing his projects, EW reported a new issue regarding the Town's pension plan, which also has implications for the OPEB liability estimate. He stated that the HCRRB (Hampden County Regional Retirement Board) annually had an actuarially report prepared, incorporating, among other updates, the value of the pension plan's investment assets as of the beginning of the latest calendar year, but late last year had made a decision not to have a new actuarial report done as of 1/1/09. Used for establishing required funding ("appropriation") payments by member units (Longmeadow being one), law requires new actuarial reports only every three years. The HCRRB's decision means that the

actuarial report for 1/1/08 will be used for determining FY10 and FY11 funding in addition to FY09 (ended 6/30/09) funding. EW distributed copies of the HCRRB's Appropriation Forecast Schedule and of the 12/8/08 memorandum from PERAC (the Public Employee Retirement Administration Commission of the state) giving its approval. But that memo also states, "please note that we have serious reservations about doing so." One reservation relates to the schedule's effect of reducing the plan's FY10 total appropriation, although the typical annual change is an increase of 4.5 percent, and another is the continued use of an assumed investment return of 8.5 percent. (In a phone call, the PERAC actuary told EW that PERAC does not currently recommend any return higher than 7.9 percent). EW expressed concern that while the HCRRB's action has the favorable effect of reducing current operating budget funding, it also increases future operating budget needs by increasing the long term pension liability of the Town. (EW added that the "too high" investment return assumption also might have the effect of understating the OPEB liability if that rate is used for the OPEB actuarial study). EW would like Town executives to be more proactive in urging the HCRRB take sound actions even if the immediate consequence entails added pressure on current operating budgets. He concluded his discussion related to the OPEB and Pension plan issues by stating that some of the decisions made did not promote effective communication and to some degree lacked transparency to the Town's citizens. EW presented this matter for informational purposes at this time and for discussion at a later meeting.

EW also reviewed the current status of the Town's Investment policy and commented on Town investment practices. He mentioned that at the August 26, 2009 Finance Committee (FC) meeting, Peter Landon (PL), as Chair of the Investment Policy Task Force (IPTF) committed to provide the FC with the IPTF's recommended investment policy by October 15, 2009. EW reported that PL also told the FC he would provide the completed draft policy to the Town's independent auditor Scanlon & Associates (SA) to be sure that their interpretation of it is consistent with the IPTF's intent. PL told the FC that the recommended policy probably will be slightly different from that the FC prefers regarding using the MMDT (Mass Municipal Depository Trust) for short-term investments and that he will provide the FC with data on the MMDT justifying the IPTF's recommendation. EW stated the development and acceptance of a new investment policy is considered critical as it will eliminate vagueness and interpretation issues in the current investment policy and, if accepted by the Select Board (SB) with the content of the draft form he saw, will ultimately make the SB responsible for the Town's investments. As a result of the work being done related to this policy the AC will request that SA review compliance of Town investments with the new draft policy during their annual examination of the Town's financial statements for the year ended June 30, 2009.

EW reported he attended a meeting at which the Town's investment advisor (Bartholomew & Associates) reviewed with PP and Treasurer Mary Pequignot first quarter 2009 investments and the firm's views about economic, market, and interest rate developments. EW said he asked Bartholomew representatives if they could provide good evidence that their active investment advice to clients generated returns in excess of some suitable benchmarks. They said they couldn't because every client's portfolio was unique and their clients' portfolios did not reflect only their advice. EW offered his opinion that the quarterly review was of little value and questioned if the Town benefits enough to justify the fee (55 basis points) that Bartholomew charges the Town to provide investment guidance, review the portfolio performance and provide quarterly reports. Acting on his concern EW had asked FC Chair Mark Barowsky to consider appointing an FC member with investment expertise to monitor Town investments and Bartholomew's recommendations and reviews. At the FC's August 26, 2009 meeting, FC member Ned Steiger agreed to serve as the FC's representative regarding Town investments.

While not now on the work plan, EW called attention to the fact that, according to the Charter Transition Team's list, the AC "reviews the Town's indebtedness and makes recommendations for maintaining desired bond rating." He said that the long-range planning sub-committee of the FC is giving attention to, and calling attention to, the Town's many building and infrastructure needs and the related Town debt servicing needs, but the FC is not responsible for overseeing Town bonding and its bond rating. He commented that up until now, PP, with the advice of Clark Rowell of Unibank Fiscal Advisory

Services, monitors the Town debt rating and makes debt recommendations. EW said he believes this bond duty should be on the AC's work plan. JO mentioned that with the School Building project on the horizon this will be a critical issue that needs to be on the AC's "to do" list. JO stated that he is going to be following up and working with PP as the process moves forward.

Other projects that JO has been working on included obtaining Town policies. He obtained and distributed hard copies of the Town's Procurement Policies and the Town Manager/Select Board Policies; however, he mentioned that there is a general lack of written policies and procedures which could lead to weak internal controls and processes. JO stated that he will continue to obtain and review the existing policies however felt it was an important area of focus for the AC in our work plan and was willing to take the lead on this initiative.

GR discussed some of the planning currently ongoing with SA related to the upcoming audit of the June 30, 2009 financial statements. He stated that SA has started their pre-planning process and he has requested that this year the AC become more of an integral part of their process/engagement. GR has requested that SA come to an upcoming meeting (prior to the start of the audit engagement) as part of an "entrance interview". GR stated at that pre-planning meeting the AC will be requesting identification of SA's areas of focus and concern for the upcoming audit and also identifying areas of particular interest to the AC. He mentioned that SA should be prepared to review new auditing requirements or aspects of the engagement. GR concluded by stating that during the audit, SA should be prepared to attend AC meetings to provide regular updates on their progress. SA welcomed GR's proposed changes and recommendations.

#### Other Business

EW received from PP and distributed hard copies of a 11/16/87 letter from Town Counsel and a copy of the applicable section from the Town's professional liability coverage as a follow-up to an issue raised by SK regarding the personal liability exposure of AC members and our role within the Town charter. The letter and insurance policy section indicate that AC members are protected.

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

Meeting adjourned 9:30 p.m.

Respectfully submitted,  
Ray McCarthy, Clerk