

**Financial Audit Advisory Committee
Minutes of Meeting on January 30, 2020**

The Financial Audit Advisory Committee (FAAC) met at 8:30AM in the Town House Select Board Hearing Room, Concord, Massachusetts. Notice of the meeting was duly filed with the Town Clerk, Town of Concord, Massachusetts.

Members present: Michael Lawson, Select Board designee; Arthur Fulman, citizen representative; Thomas Piper, citizen representative; Wendy Rovelli, Light Board designee; Court Booth, School Committee designee; and Carol Wilson, citizen representative.

Members absent: None

Others present: Scott McIntyre, Partner, Melanson Heath & Company; Ed Boyd, Auditor, Melanson Heath & Company; Sara Corduck, Melanson and Heath Audit Engagement Manager; Kerry Lafleur, Finance Director; Mary Barrett, Town Accountant; Ian Rhames, Assistant Business Manager, CPS/CCRSD; Nikki Scott, District Accountant, CPS/CCRSD; Malysa Simard, Finance Assistant; and Karlen Reed, LWVCC's Light Board observer.

Chairman Lawson called the meeting to order at 8:34 AM.

Item 1: Approval of minutes, meeting of September 17, 2019

Upon a motion by Arthur Fulman and seconded by Carol Wilson, the minutes of September 17, 2019 were approved.

Court Booth, who has taken over the role of School Committee Designee from former member Wally Johnston, abstained from the vote as he was not in attendance.

Item 2: Review of FY19 Town Audit Management Letter

Scott McIntyre began by introducing other members of the Audit team. Before turning the discussion over to Ed Boyd, Mr. McIntyre indicated that the audit had gone well, despite a delay in the Town's receipt of the OPEB report that resulted in an extension of time for finalizing the Comprehensive Annual Financial Report (CAFR). He believes that following today's review, it will be ready for submission to the Government Financial Officers Association (GOFA).

Mr. Boyd started by thanking Town staff for their cooperation and support throughout the process that resulted in an unmodified, clean opinion, the best a town can receive on its audit. All key accounts were reconciled, there were no disagreements, and no significant deficiencies or material weakness were identified. Therefore, the Management Letter could be looked at as mainly housekeeping—setting out objectives for the coming year.

He next drew attention to the Financial Analysis of the Town's Funds (pages 19-20), which he characterized as "telling the story", particularly the unassigned fund balance. At the end of the Fiscal Year, this stood at \$13.8 million, up about \$780,000 from the prior year. He noted that the unassigned fund balance represents 12 ½% of general fund expenditures compared to the ongoing policy of 5-10%. Mr. Boyd credited the Town's history of conservative budgeting and good controls, while setting funds aside in stabilization accounts for future capital, insurance, and pension requirements. As examples, he pointed to the Town's aggressive debt management policy and that its position on future pension liability places it within the 7 top funded communities in the state. He also suggested that the Town deserves "to pat itself on the back" for its approach to funding future OPEB liabilities. These are all things that bond rating agencies review which put Concord in a favorable position.

In responding to a request by Carol Wilson for additional comment on OPEB, Mr. Boyd said that some communities are not funding at all, if for instance they face a choice of paying teachers or funding OPEB. He suggested that a typical funding level might be 3 to 15%. He is aware of one community at 65%, but acknowledged special circumstances apply there and that it is an isolated exception. At approximately 35% funded, he would place Concord in the top 5 or 10% and said that many of our peers are generally located along the Rt. 128 belt.

Mr. Boyd then walked the group through some of the more detailed sections of the report explaining where and how these impacted the Town's Total Net position, which is down, while the Unassigned Fund Balance increased. While actual expenditures exceeded revenues during this one year, the Town has planned for use of other resources that allows for regeneration of "free cash". In doing so, he reiterated, Concord is looked at favorably by rating agencies.

Art Fulman asked what auditors see on the horizon that we should be concerned about? Mr. Boyd replied that, while there will be continuing issues with GASB, cyber security is moving quickly to the forefront. Mr. McIntyre agreed, saying that further revisions from GASB can change the way the numbers look, but that cyber security presents more serious and real risks. He then offered to share resources he is aware of for educating local government.

Moving to the draft Management Letter, Mr. Boyd characterized Concord as always having a focus on "what can be done better" and the letter includes five recommendations in that respect:

- 1) When the audit team was on site, it came to their attention that some employees were not aware of the receipt policy. While this was not a widespread finding, the recommendation is to make sure that the review of this and other policies is consistent within departments, particularly when new staff members are being trained.
- 2) In relation to the policies for carryover of funds from year to year, these should be for a specific purpose. The auditors are aware that Kerry Lafluer is working toward minimizing carryovers, but at year end, there were several of them and many were generic. Where carryovers are appropriate, they should be specific in nature. Michael Lawson wondered why the FAAC is just seeing this now. After some clarifying discussion, he asked that the finished letter acknowledge the steps that have already been taken in a way that reinforces that initiative.

- 3) Mr. Boyd said that that he could “take the blame on this one” and it is not an uncommon occurrence, however when reviewing the Statement of Indebtedness that is filed annually with the State, he noticed that there was an interim loan that was not included. The fix, he said is easy and Mrs. Lafleur has indicated that she was working on this when contacted by Ed. Mr. Lawson asked again here that the final draft include such.
- 4) The purpose of this comment is to stress how pressing it is that the Town stay on top of reconciliation between funds, particularly with respect to utility receivables. This is a repeat recommendation, however at the time of the Town audit, there were still some unreconciled variances with CMLP, whose fiscal year ends December 31st. It was noted that the current year “looked fine”. Discussion focused on the new vendor software that had recently been implemented and that staff feels it may be an easier fit for private utilities than for municipal operations. The final draft will make reference to these points.
- 5) The fifth and final recommendation refers to annualizing holding accounts and, while progress has been made, it is also a repeat from the prior year. The auditors understand and support Mrs. Lafleur’s draft response and believe the issue can come off the list next time around.

Once the draft has been updated, Mr. Lawson will prepare a cover memo and submit the Management Letter to the Select Board.

Item 3: Status Update: FY19 CCRSD Audit; CY19 CMLP Audit

Mr. Boyd reported that the CCRSD audit has been moving well. Once again, however, the last critical piece is the OPEB component, where they await the actuary’s report. Mr. McIntyre reported that the appropriate documents selected for review have been arriving, but that a date for actual field work has not yet been set. He reminded the group how much faster the 2018 audit went than the one for 2017 and he expects 2019 audit to be completed even more efficiently.

Item 4: Other Business – annual work plan

Potential meeting dates in mid to late March were considered, however the actual meeting date will depend upon receipt of the OPEB report that is already later than hoped.

Item 5: Citizen comments

Karlin Reed asked whether the PEG budget would be included in next year’s audit? Mary Barrett indicated that it is a special revenue account, not an enterprise fund.

Mr. Boyd responded to her further question about the Minute Man Network that it will be reported as a special revenue fund. Mary Barrett added that it would take a vote of Town Meeting to convert it to an Enterprise Fund.

Item 6: Adjourn

After thanking all those in attendance, Mr. Lawson adjourned the meeting at 9:52 am on a motion by Carol Wilson and second by Wendy Rovelli.

Documents distributed or referred to during this meeting:

- Draft Minutes of September 17, 2019
- Town of Concord, Comprehensive Annual Financial Report for the Year Ended June 30, 2019
- Town of Concord, Management Letter For the Year Ended June 30, 2019