

Financial Audit Advisory Committee
Draft Minutes of Meeting on November 13, 2018

The Financial Audit Advisory Committee (FAAC) met at 8:00AM in the Town House Select Board 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; Wally Johnston, School Committee designee; Arthur Fulman, citizen representative; Thomas Piper, citizen representative; Wendy Rovelli, Light Board designee; and Carol Wilson, citizen representative.

Others present: Scott McIntire, Partner, Melanson Heath & Company; Jen Reddington, Audit Manager; Kerry Lafleur, Finance Director; Ian Rhames, Accounting Officer, CPS/CCRSD; Mary Barrett, Town Accountant; Matt Cummings, Finance Manager, CMLP; Malysa Simard, Finance Assistant; and Karlen Reed, LWVCC's Light Board observer.

Chairman Lawson called the meeting to order at 8:00 AM. He reported that he and Wally Johnston have been formally reappointed to this Committee at the Select Board meeting on November 5th and that Wendy Rovelli will be reappointed later in November.

Item 1: Approval of minutes, meeting of September 18, 2018

Upon a motion by Michael Lawson and seconded by Wendy Rovelli, the minutes of September 18, 2018 were approved.

Item 2: Review of 2017 Financials for CMLP

Scott McIntire began the discussion, saying that despite taking some time to complete, the audit had ended well. He explained the delay as being primarily due to the time needed to implement prior recommendations with respect to reconciling cash between CMLP and the Town, as well as bringing capital asset records up to date. Both of these were impacted by turnover in certain critical CMLP staff positions over the last couple of years, and although there is still work to do, significant progress has been made. He is confident that current staff understands what further steps need to be taken and is up to the task.

Jen Reddington continued their presentation, pointing to significant sections of the Financial Statement. Overall, it was a "clean" audit. While the year over year comparison shows good consistency, the increase in net position (\$453,309), is smaller than in recent years. She characterized this as resulting mainly from an increased cost of purchased power.

Moving on to the Management Letter, Mr. McIntire discussed the first recommendation, which refers to continued work needed to improve capital asset tracking. While significant progress has been made to

date, CMLP is in the process of implementing new accounting software. This includes a module dedicated to capital assets and will be capable of maintaining much more complete and detailed records than is now possible using Excel spreadsheets. As the effort will follow a careful and complex process, this module is not anticipated for full implementation until early FY2020.

Ms. Reddington presented the second recommendation, which relates to needed improvement in timely reconciliation of cash receivables with the Town Accountant. At this point, Mary Barrett introduced Matt Cummings who is CMLP's recently appointed Finance Manager. Mr. Cummings reported that his goal is to be caught up by year-end (12/31) so that reconciliations can routinely be accomplished within 30 days of each month's end.

The third and final comment relates to the need to implement more formal and timely closing procedures. CMLP's response again refers to having operated for approximately 18 months without a Finance Manager. Some progress was made with the assistance of consultants and is continuing now, with Mr. Cummings' addition to permanent staff. Ms. Reddington anticipates a smoother course for the next audit. She indicated that the ideal process would begin with inventory work in November, continue with transactional testing in March/April, and the audit would be completed within 6 months of year end.

Mr. Fulman commented on how this situation points to the importance of having back-up capabilities on staff so that we are not caught like this again. He understands what happened and appreciates the work that has been done, recognizing that Mr. Cummings has a very big job ahead of him.

Mr. Lawson thanked Mr. McIntire and Ms. Reddington for their report and for their own efforts in completing the audit.

Item 3: Status Update: FY18 Town Audit; FY18 CCRSD Audit

Mr. McIntire reported that their team began field work for the Town audit a few weeks ago and are currently in the process of drafting a report. An open issue remains, however, in that they are still waiting for an update from the actuary and cannot complete the audit without the OPEB piece. While the numbers are large, it will not require much additional effort on the auditors' part to incorporate them and add appropriate footnotes once they become available.

Mr. Lawson pointed out that this has been an issue in the past. Mr. Fulman asked why this continues to be a problem and what can be done about it?

Kerry Lafleur responded that the Retirement Board has the same concern as the FAAC in this respect. She really likes the work that Larry Stone (the actuary) does, but acknowledges that the lack of timeliness is a real issue. While she is confident that the Town could get these reports faster from another source, it would likely not contain the level of detail that she values and the Town has become accustomed to. After further discussion, it was agreed that Mr. Lawson would draft a letter expressing

the Committee's serious concern. While the letter will be addressed to Ms. Lafleur, it can then be shared with relevant parties.

Mr. McIntire then reported that some early work began on the CCRSD audit during the summer, before the books were officially closed. He expects field work to be completed this week.

Item 4: OPEB Trust Fund

Mr. Piper began the discussion by asking whether Mr. McIntire and Ms. Reddington might offer their input. Mr. McIntire explained the background, much of which had been covered in a memo from Ms. Lafleur to the Town Manager and which was provided to the Committee with other meeting materials.

The State Department of Revenue has suggested that municipalities adopt MGL 32B sec. 20 that would clarify that an OPEB Trust Fund established under that section would be a separate legal entity and that its assets could be used solely to fund Other Post Employment Benefits. Ms. Lafleur had recommended that Town Counsel review the current special legislation and determine whether the question should be brought before Town Meeting. At a minimum, she recommends adoption of a formal investment policy for the Trust Fund as it currently sits. If action were taken under 32B sec 20, there are certain requirements for appointment of a Trustee or trustees to oversee the fund.

Given that such a warrant article is likely, the Committee discussed the various options for oversight. While the law permits the current Retirement Board or a newly formed committee to fill this role, there was little enthusiasm for these. The law also allows that there could be a single Trustee, who would be the Town Treasurer. Ms. Lafleur also shared a document from the Town of Littleton, which has established such a fund with a single Trustee, but indicated she would not recommend this approach without some form of public process and review.

Mr. Lawson pointed out that the fund now has significant resources at approximately \$18 million and that transparency becomes a more important factor. On the other hand, this is not a transaction account, with only a single appropriation each year as well as earnings on invested funds. Mr. Fulman added that, if the Town did not reestablish the fund under the new law, Ms. Lafleur would be filling the role of Trustee in any case, but transparency would remain as an issue.

Discussion moved back to Ms. Lafleur's recommendation that a formal investment policy be established, acknowledging that this aligns closely with the expertise already in place with the Trustees of Town Donations. With agreement from the rest of the Committee, Mr. Lawson will draft a letter recommending that the Town Treasurer fill the role of a single Trustee, while amending the charge to the Trustees of Town Donations to provide advice on management of the fund. They would also review and approve periodic reports from the Trustee on fund status, thus providing the oversight and transparency all agreed was essential.

Item 5: Other Business – annual work plan

Ms. Rovelli presented a draft plan that she had previously agreed to work on. She will take various comments offered by Mr. McIntire and Committee members into consideration and bring an updated plan to the next meeting.

Item 6: Citizen Comments

Karlen Reed, LWVCC Light Board observer, stated that she was glad to hear the Committee stressing the word transparency in their discussion of the OPEB Trust Fund. However, she then pointed out that only a single set of minutes from the Board of Trustees appears on the Town website over the past two years and says that is not good transparency.

Ms. Lafleur responded that she does have the approved minutes from the meetings in question. (NOTE these were posted later in the day.)

The Committee's next meeting was then confirmed December 10, 2018 at 8:00 am in the 141 Keyes Rd. conference room.*

*This meeting was later rescheduled to be held on December 19, 2018 at 8:00 am in the Select Board Hearing Room.

Item 7: Adjourn

Upon a motion by Michael Lawson and seconded by Carol Wilson, the meeting was adjourned at 9:17 am.

Documents distributed or referred to during this meeting:

- Draft Minutes of September 18, 2018
- CMLP Management Letter For the Year Ended December 31, 2017
- CMLP Annual Financial Statements For the Year Ended December 31, 2017
- Annual Financial Advisory Committee: Audit Activity Schedule