



Town of Concord
Financial Audit Advisory Committee
22 Monument Square
P.O. Box 535
Concord, Massachusetts 01742-0535

AGENDA

Financial Audit Advisory Committee

Tuesday, November 10, 2020

8:30 AM
Via Zoom

Join Zoom Meeting:

<https://us02web.zoom.us/j/88313675004?pwd=d2NYTy9lN0pvcVJseXYyOVREbjRYZz09>

Meeting ID: 883 1367 5004

Passcode: 879615

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1. **Approval of minutes, meeting of October 6, 2020**
2. **FY19 CCRSD – Letter to CCRSD Committee**
3. **CY19 CMLP- Letter to Municipal Light Board**
 - **Follow up on loan agreement between Broadband & Light**
4. **Other Business- next meeting tentatively set for 12/8/20**
5. **Citizen comments**
6. **Adjourn**

Supporting materials for agenda items are available online at www.concordma.gov/faacmtgdocs .
Materials are generally uploaded on the Friday prior to the meeting date.

**Financial Audit Advisory Committee
Draft Minutes of Meeting on October 6, 2020**

The Financial Audit Advisory Committee (FAAC) met at 8:30AM by ZOOM (Meeting ID 854 7344 5406). Notice of the meeting was duly filed with the Town Clerk, Town of Concord, Massachusetts and was recorded.

Members present: Linda Escobedo, Select Board designee; Arthur Fulman, citizen representative; Thomas Piper, citizen representative; Wendy Rovelli, Light Board designee; and Carol Wilson, citizen representative.

Members absent: Court Booth, School Committee designee.

Others present: Scott McIntyre, Partner, Melanson Heath & Company; Zachery Fentross, Audit Manager, Melanson Heath & Company; Kerry Lafleur, Chief Financial Officer; Mary Barrett, Town Accountant; Jared Stanton, Business Manager CPS/CCRSD; Ian Rhames, Assistant Business Manager, CPS/CCRSD; Matt Cummings, CMLP, Malyssa Simard, Finance Assistant; and Karlen Reed, LWVCC's Light Board observer.

Chairman Escobedo called the meeting to order at 8:35 AM with Kerry Lafleur taking the roll call.

Item 1: Approval of minutes, meeting of January 30, 2020

Upon a motion by Carol Wilson and seconded by Wendy Rovelli, the minutes of January 30, 2020 were approved by rollcall vote. Ms. Escobedo abstained, as she had not been present at that meeting.

Item 2: FY19 CCRDS—Final Audit and Management Letter

Scott McIntyre began by explaining that, but for COVID, this review would most likely have taken place in April or May. Mr. McIntyre indicated that the audit had gone well. Books and records were found to be in good order and their opinion was actually issued in March. He added that if had he felt there was something the Committee needed to know about at that time, he would have worked with Kerry Lafleur to arrange a meeting in the Spring, noting that such delays have been common among the various towns the firm works with.

Mr. McIntyre then explained that a governmental set of financial statement covers both a long-term perspective (taking into account long-term assets and liabilities) and a short-term perspective (looking at how we are doing today). There is a dip in the long-term unrestricted net position of the District, driven by an increase in the net OPEB and net pension liabilities. Mr. McIntyre referred the Committee's attention to sections of the document that detail those changes and explained that the District's position relative to these two liabilities would be considered favorably compared to most school districts in the State. On the fund level, there was an increase of approximately \$450,000 in the unassigned General Fund Balance and the District's overall position has remained relatively stable. Results were

favorable on both revenue and expense relative to budget and only about \$350,000 from E&D was applied to the FY20 budget cycle. The basic finding of the audit is that the District's Financial Statements are consistent with generally accepted accounting principles in all respects.

Mr. McIntyre then moved the District's response to recommendations, the first being to improve accounting for notes payable liability. The District has used spreadsheets and other sources to track these liabilities and agrees that establishing a special fund within the General Ledger is a better approach. The District's response to the second recommendation pointed in part to turnover in key personnel and indicated that it will work to record year-end accounts payable as accurately as possible. In reference to two general recommendations, Mr. McIntyre indicated that, while GASB has since postponed implementation of its Statements 84 and 87, the District agrees to work with the auditors and other applicable parties to ensure compliance.

In response to a question from Carol Wilson with respect to reported expense for programs labeled as "out of district", Jared Stanton and Ian Rhames explained an allowed carry-over of circuit breaker monies received to assist with such tuition costs. There is, however a requirement that such funds be spent within the subsequent fiscal year. Mr. Stanton also reported that tuitions for out-of-district SPED programs have been decreasing as more in-house programs have been developed in recent years. Wendy Rovelli then asked about an increase in deferred inflows and outflows shown in the Net Position summary. Mr. McIntyre replied that this most likely results from shifts in health care trend rates averaged over 5 years.

Item 3: CY19 CMLP—Draft Audit and Management Letter

Before turning the review over to Zach Fentross, Mr. McIntyre explained that while the draft financials were included in the meeting materials, the Statements have since been finalized. The Final versions differ in that they include a higher amount for accounts payable and a related downward shift in unrestricted net position. Mr. Fentross pointed out that CMLP's CY18 financial statements were not presented on a comparative basis due to the then recent implementation of GASB 75 that impacted the way OPEB liability is presented. With that in place for a second year, FY19 reports returned to a comparative basis. Before beginning a more detailed review, Mr. Fentross commented that the Audit resulted in "clean opinion", the best possible ranking, and unchanged from prior years. He also explained that unlike the CCRSD statements, this one encompasses all assets and liabilities and does not include a short-term perspective view.

Mr. Fentross next drew attention to the Consolidated Statement of Net Position in which the CMLP and Broadband Services are combined. Although about \$3 million in new assets was added, this was largely offset by depreciation, resulting in a modest increase in total assets. Shifts on the liability side include higher accounts payable at year-end (after the correction noted above) and net pension liability, which actually reflects under-budget investment performance in CY2018. Total Net Position ended down about \$354,000 from the prior year. Mr. Fentross also noted that 100% of bonded debt would be paid off within 9 years, a very favorable position compared to a standard of 75% within 10 years. In addition,

although the pension and OPEB liabilities appear large, Concord and thus CMLP are in a good position with respect to funding for the majority of towns and municipal light plants in the Commonwealth.

Mr. Fentross then reviewed annual operating, highlighting Electric sales vs. Purchase power. Here he noted that a reduction in the cost of power was passed on to CMLP customers. Renewable energy certificate surcharges that were initiated part way through CY18 are now reported for a full year of operation. He next explained that Broadband services were not yet generating sufficient revenue to cover capital and financing costs in addition to regular operating expenses of the service. This had required the use of CMLP funds to cover the delta.

Mr. Fentross moved on to recommendations included in the Management Letter, both of which were identified in the prior year audit, yet remained unresolved at the end of CY2019. One of these recommendations is to formalize the “loan” arrangement to include repayment terms and a limit on funds to be borrowed. Matt Cummings explained that this is a priority for the Light Plant and that a draft exists, but presentation to the Select Board has been held up by COVID and other matters.

The second recommendation has been classified as a “significant deficiency”, and relates to regular cash reconciliations between the Light Plant and the Town. The auditors have recommended that these be performed within 30 days of each month end. Not only was a year-end reconciliation between the two General Ledgers not made available to the audit team until September, it was apparently the first such reconciliation done since CY2018. The Town Treasurer maintains custody over the CMLP’s cash and is working with Mr. Cummings to bring reconciliations into line.

In response to a question from Tom Piper, Mr. Fentross stated that the CMLP was well within DPU’s maximum allowed 8% rate of return on gross plant assets. He doubted that any action would be taken if unusual circumstances brought about a higher rate of return in a single year.

Next Ms. Rovelli asked about progress on the cash reconciliation process. Mr. Cummings discussed the recent implementation of new software, one that has typically been more utilized by private entities, and said that he is working with the developer to address apparent bugs in reconciliation to bank statements. He expects continued problems on reconciling with the Town’s GL until that is worked out, however, following on with a question by Ms. Wilson, Mr. Cummings stated that he believes the software’s potential capabilities are well worth his effort.

Item 5: Other Business—annual work plan

Ms. Lafleur and Ms. Escobedo will work on letters to the Select Board and School Committees regarding the FY19 audit results for the Town and CCRSD as well as CY19 for CMLP. A meeting of the FAAC was set for 8:30 am Tuesday, November 10th, 2020 for the purpose of finalizing those letters.

Mr. McIntyre has already talked with Town staff to find out where they are relative to the 2020 close and believes that things are in relatively good shape. On OPEB, which is a frequent stumbling block, a single-year roll-forward procedure is recommended this time around instead of a full actuarial review. Audit of the Town’s retirement fund has already been completed. The Committee also tentatively set a

meeting for Tuesday December 8th, 2020 at 8:30 am, to review the Town Audit Draft, the finalization of which is targeted to be by December 31st.

Item 6: Citizen Comments

There were no citizen comments.

Item 7: Adjourn

After thanking all those in attendance, Ms. Escobedo adjourned the meeting at 9:45 am on a motion by Wendy Rovelli and seconded by Carol Wilson, followed by rollcall vote.

Documents distributed or referred to during this meeting:

- Draft minutes of January 30, 2020
- Concord-Carlisle Regional School District, Management Letter for the Year Ended June 30, 2019
- Concord-Carlisle Regional School District, Annual Financial Statements for the Year Ended June 30, 2019
- Concord Municipal Light Plant, Draft Management Letter for the Year Ended December 31, 2019
- Concord Municipal Light Plant, Draft Annual Financial Statements for the Year Ended December 31, 2019
- Annual Financial Advisory Committee: Audit Activity Schedule

ITEM 2

Financial Audit Advisory Committee Report to the Regional School Committee CCRSD November 2020

The Financial Audit Advisory Committee (FAAC) has completed its work for the current auditing cycle and as required in its charge, is reporting to the Select Board. We met numerous times 2019 and in 2020 to review auditing reports for the Municipal Light Plant, the Concord Carlisle Regional School District and the Town. This letter is our report regarding the audit of the **Concord-Carlisle Regional School District**.

Reporting Structure

The Municipal Light Plant, a department of the Town, is separately audited on a December 31 fiscal year basis for the purpose of its required reporting to the Massachusetts Department of Public Utilities. The Town is audited on a June 30 fiscal year reporting basis, in accordance with state law. The audited financial statements of the Municipal Light Plant are incorporated into the Town's annual financial statements. The Concord Public School Department is also a part of the Town's annual audit and financial statements. There are no other component units of the Town.

The Concord-Carlisle Regional School District (CCRSD) is a separate governmental jurisdiction and is responsible for its own annual audit examination and issuance of audited financial statements on a June 30 fiscal year basis. The CCRSD agreed to be included in the responsibilities of the FAAC and we reviewed the audit of the District and in this letter report our findings to the Regional School Committee.

External Auditor

The firm of Melanson Heath and Company currently is engaged to perform the annual audit examination of the Municipal Light Plant, CCRSD and the Town of Concord.

Duties of the Town of Concord FAAC

As a reminder, the duties of the FAAC are:

- Review the arrangements for the scope and progress of the annual audit;
- Review the draft audited financial statements and consider the management letter recommendations and management's response;
- Review internal accounting and control procedures as necessary;
- Participate in presentation of the annual audited financial statements by the external auditor at a public meeting of the Select Board and the Concord Carlisle Regional School Committee.
- Prepare such reports and recommendations to the Select Board and the Concord Carlisle Regional School Committee from time to time, within its assigned scope, as it may deem to be in the best interest of the Town.
- Recommend to the Town Manager the selection of the independent external auditor.

We believe that with the submission of this report and the future attendance at a Select Board meeting, and with a submission to the Regional School Committee at a date to be determined, the committee will have discharged its duties for the FY19/ CY19 Audit cycle.

Report on the activities of the FAAC

Our report has two components: 1) comments on the audit process and management letter for CCRSD and 2) additional items associated with the District.

I. Audit Process and Management Letter for the CCRSD

The Independent Auditor's report for the CCRSD (page 2) indicates:

"In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Concord-Carlisle Regional School District, as of June 30, 2019, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America."

The auditor's Management Letter for the CCRSD contained two current year recommendations and two informational recommendations.

1. Improve Accounting for Notes Payable Liability and Activity: The Auditor notes that the District does not utilize its general ledger software to track outstanding long and short-term debt. As a result, when a series of bond anticipation notes are re-issued, the remaining liability and the pay-down of the note are not reported in the general ledger. The Auditor recommends that the District establish a fund in the ledger to account for all debt issued, the annual payments, and the resulting year-end liability. Implementation of this recommendation will ensure the completeness of the accounting records as all transactions will be reflected in the general ledger.

In response, the District states that it currently uses spreadsheets, source documents, and other necessary documents to track debt activity. The District agrees that establishing a special fund within its general ledger software is an improvement over the current practice and will move forward with implementing this recommendation.

2. Improve Accounting for Accounts Payable at Year-End: The Auditor notes that during its review of year-end transactions, the District recorded year-end accounts payable based on estimated open purchase orders rather than actual incurred costs. As a result, accounts payable were overstated and year-end encumbrances were correspondingly understated. The Auditor recommends that the District establish and implement procedures to properly report year-end accounts payable. The implementation of this recommendation will aid in establishing the proper treatment of accounts payable balances and related expenditures/ expenses presented at year-end in accordance with Generally Accepted Accounting Principles.

In response, the District states that it was conservative in estimating year-end transaction liabilities in fiscal year 2019, primarily due to key personnel turnover at the end of the fiscal year. Going forward, the District will work to record year-end transaction liabilities as accurately as possible.

3. Prepare for GASB Statement No. 84: The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, Fiduciary Activities, that will apply to the District in future years. Statement 84 changes the way certain Agency Funds are to be accounted for. Currently Agency Funds have no measurement focus and are simply assets offset by corresponding liabilities. The changes establish a measurement focus on these activities and may require change in how the District accounts and reports these activities. Specifically, revenue and expenditure accounts may

need to be added to the District's general ledger in order to maintain the newly required measurement focus. We recommend that the District prepare to implement Statement 84. An Implementation Guide has been published to provide guidance for implementation of this Statement including possible revisions to the District's chart of accounts.

In response, the District states that it will work with the Auditors and other necessary parties to ensure compliance with GASB Statement No. 84.

4. Prepare for GASB Statement No. 87: The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, Leases, that will apply to the District in future years. Statement 87 changes the way certain leases are to be accounted for. The changes establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under Statement 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset to enhance the relevance and consistency of information about the District's leasing activities. The Auditor recommends that the District prepare to implement Statement 87. An Implementation Guide has been published to provide guidance for implementation of this Statement.

In response, the District states that it will work with the Auditors and other necessary parties to ensure compliance with GASB Statement No. 87.

II. Additional Items Associated with the CCRSD

No additional items of any significance were identified by Committee members for further review and/ or action.

The FAAC would like to thank Scott McIntire, Partner, and the Audit Engagement Manager of Melanson Heath & Company for the presentations to the committee. The FAAC would also like to thank the Town's Chief Financial Officer, Kerry Lafleur, and the entire finance team, and Jared Stanton and Ian Rhames, CPS/ CCRSD Finance Department, for their attention to the committee's requests and in assisting us in understanding both the audit process and the financial statements.

The Committee:

Linda Escobedo, Chair
Court Booth
Arthur Fulman
Thomas Piper
Wendy Rovelli
Carol Wilson

ITEM 3

Financial Audit Advisory Committee Report to the Select Board Municipal Light Plant November 2020

The Financial Audit Advisory Committee (FAAC) has completed its work for the current auditing cycle and as required in its charge, is reporting to the Select Board. We met numerous times 2019 and in 2020 to review auditing reports for the Municipal Light Plant, the Concord Carlisle Regional School District and the Town. This letter is our report regarding the audit of the **Municipal Light Plant**.

Reporting Structure

The Municipal Light Plant, a department of the Town, is separately audited on a December 31 fiscal year basis for the purpose of its required reporting to the Massachusetts Department of Public Utilities. The Town is audited on a June 30 fiscal year reporting basis, in accordance with state law. The audited financial statements of the Municipal Light Plant are incorporated into the Town's annual financial statements. The Concord Public School Department is also a part of the Town's annual audit and financial statements. There are no other component units of the Town.

The Concord-Carlisle Regional School District (CCRSD) is a separate governmental jurisdiction and is responsible for its own annual audit examination and issuance of audited financial statements on a June 30 fiscal year basis. The CCRSD agreed to be included in the responsibilities of the FAAC and we reviewed the audit of the District and will in a separate letter report our findings to the Regional School Committee.

External Auditor

The firm of Melanson Heath and Company currently is engaged to perform the annual audit examination of the Municipal Light Plant, CCRSD and the Town of Concord.

Duties of the Town of Concord FAAC

As a reminder, the duties of the FAAC are:

- Review the arrangements for the scope and progress of the annual audit;
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- Review internal accounting and control procedures as necessary;
- Participate in presentation of the annual audited financial statements by the external auditor at a public meeting of the Select Board and the Concord Carlisle Regional School Committee.
- Prepare such reports and recommendations to the Select Board and the Concord Carlisle Regional School Committee from time to time, within its assigned scope, as it may deem to be in the best interest of the Town.
- Recommend to the Town Manager the selection of the independent external auditor.

We believe that with the submission of this report and the future attendance at a Select Board meeting, and with a submission to the Regional School Committee at a date to be determined, the committee will have discharged its duties for the FY19/ CY19 Audit Cycle.

Report on the activities of the FAAC

Our report has two components: 1) comments on the audit process and management letter for the Municipal Light Plant; and 2) additional items associated with the Municipal Light Plant.

I. Audit Process and Management Letter for the Municipal Light Plant

The Independent Auditor's report for the Municipal Light Plant (page 2) indicates:

"In our opinion, the consolidated financial statement referred to above present fairly, in all material respects, the respective financial position of the Town of Concord Municipal Light Plant as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America."

The auditor's Management Letter for the Municipal Light Plant contains no new items, but does highlight two prior year recommendations.

1. Document Cash Reconciliations with the Town of Concord (Significant Deficiency): In the prior year, the Auditor recommended the Plant maintain and retain documentation of monthly cash reconciliations that are signed by responsible parties at the Plant and Town. The Auditor also recommended the reconciliations be completed monthly and within 30 days of each month end. This issue remains unresolved in CY2019. Further, the Auditor noted that the December 31, 2019 cash reconciliation was not available for the audit until September 2020. The Auditor continues to recommend the Plant and Town perform monthly cash reconciliations, and that the reconciliations be provided to the Finance Director within 30 days of each month end.

In response, Management noted the Plant implemented a new accounting and billing system in 2019. This implementation, as well as the pandemic, caused a slowdown in timeliness of recording certain transactions. The recording of transactions has become much more current as of late which will help with the timeliness of cash reconciliations. The Plant also plans to reach out to the software company for help in preparing reconciliations inside the accounting system. Lastly, the Plant is working on implementing a process change where one accounting system is the system of record and the other reports on a summary level.

Note: A Significant Deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

2. Formalize Loan Agreement between Broadband and Light Fund: In the prior year, the Auditor recommended the Plant establish a formal agreement, including repayment terms and a limit on funds borrowed regarding the loan between Broadband and the Light Fund. This will provide clarity and an audit trail for the funds provided to the Broadband Fund. This issue remained unresolved in CY2019.

In response, Management noted that it will be presenting to the Municipal Light Board at an upcoming meeting an agreement between the Light Fund and the Broadband Fund. The Plant will recommend that the Municipal Light Board formally adopts this Agreement.

II. Additional Items Associated with the Municipal Light Plant

Two additional items arose when discussing the Light Plant's audit, both of which were also raised during review of the CY2018 Audit: 1) the Plant's Rate of Return, 2) the Plant's level of Unrestricted Cash.

With respect to the rate of return, the Auditor confirmed that the Plant's Rate of Return was under the maximum level allowed by the Massachusetts Department of Public Utilities.

With respect to the increasing level of cash in Unrestricted Fund Balance, the Plant has drafted a policy on the level of Unrestricted Fund Balance which is currently under review by the Municipal Light Board.

The FAAC would like to thank Scott McIntire, Partner, and the Audit Engagement Manager of Melanson Heath & Company for the presentations to the committee. The FAAC would also like to thank the Town's Chief Financial Officer, Kerry Lafleur, and the entire finance team for their attention to the committee's requests and in assisting us in understanding both the audit process and the financial statements.

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