

**TOWN COUNCIL MINUTES
BUDGET/MANAGEMENT COMMITTEE
Town Hall Council Chambers
November 5, 2008**

Present: Kenneth DiFazio, Chairperson
Arthur Mathews
Michael Molisse
Patrick O'Connor

Absent: Kevin Whitaker

Also Present: Thomas Lacey-Councilor
Robert M. Conlon,-Councilor
Ed Harrington,-Councilor
Maureen Duffy, Town Auditor
James Wilson,-Chief Financial Officer
Michael Gallagher-Director of Administrative Services

Recording Secretary: Diane T. Hachey

Chairperson DiFazio called the Budget/Management Committee meeting to order at 6:48 pm.

TRANSITIONAL AUDIT STATUS REPORT

Chairman DiFazio noted that this issue was referred to the Budget/Management Committee on 10/20/08 and is meeting for the first time this evening. This issue was initiated by Councilor Lacey for a request for information. Chairman DiFazio requested Maureen Duffy, Town Auditor, to update the Committee on her Transitional Audit status report. She stated that at Council's request, a status report of the Transitional Audits for 2008 was conducted. This was performed in order to review the services provided by the Independent Auditors contracted to perform this function.

In December of 2007, Town Council approved a reserve fund transfer of \$7,500 for the purpose of funding a transitional audit of cash, due to the resignation of the Treasurer/Collector, as of December 31, 2007. During 2008 two different Certified Public Accountants were contracted to conduct transitional audits. The findings and recommendations are as follows:

In January of 2008, the Abraham's Group was contracted to conduct the audit. Services provided according to the validated contract were to reconcile cash through December of 2007; reconcile accounts receivable through December 2007, and implement the cash reconciliation functions of the Munis Treasury Module. Total expenditures paid to the Abraham's Group were \$12, 469--of which only \$7,500 was approved by the Town Council. To date, there has been no report issued by the Abrahams Group.

In September of 2008, a contract was executed between the Town of Weymouth and Eric Kinsharf, C.P.A for consulting and advisory services-to be in effect for fiscal year 2009. Services provided according to the validated contract were to reconcile the fiscal year 2008 Treasurer's cash to the Accountant's cash; train the treasury's staff in municipal treasury

functions, including monthly recons (beginning in July of 2008), state reporting, documentation of electronic transfers, Munis cash and debt schedules and review financial documents. According to the contract, total costs for services provided by Mr. Kinsherf are not to exceed \$8,500 for fiscal year 2009. This amount was encumbered and charged to the Lennar Consultant Fund/Other Professional Services Account. One invoice for \$625 was paid in October, since this report was released on 10/9/08 a second invoice in the amount of \$3,875 has been paid. Total expenditures to date, to Mr. Kinsherf are \$4,500.

Ms. Duffy concluded by stating that it is standard practice for a report to be issued whenever an audit is performed, therefore it is recommended that a report always be generated at the completion of an audit. The report should include a summary of the scope of the audit, along with the findings and recommendations.

Chairman DiFazio proceeded to ask Councilor Lacey to speak next, in addition to verifying if Ms. Duffy's report sufficiently answered Councilor Lacey's concerns. Councilor Lacey explained via way of background the reason for his request. He was concerned that the annual audit was going to be delayed because cash was not reconciled. Given that the Council had previously approved the expenditure of funds for a Transitional Audit, Councilor Lacey requested an update. He outlined these concerns in memo to President Smart and posed questions to our Internal Auditor, Maureen Duffy. Councilor Lacey requests the support of Council to refer this issue to Budget/Management in order to receive an explanation from administration.

Mr. Wilson then approached the Budget/Management Committee and noted that cash was in fact reconciled. There are numerous issues involved—cash, accounts receivable, and debt services. These were reconciled and forwarded to the Department of Revenue by the deadline. These were also sent to the external auditors (O'Connor and Drew) for verification. Mr. Wilson took full responsibility for a delay in the closing of the books because of his level of satisfaction that every dollar is accounted for. In July of 2007 he met with his staff due to the change in administration, and he experienced a 1/3rd turnover of his staff with 3 managers leaving in a 60 day timeframe. He further noted that he had to ensure and it is his responsibility to safeguard the assets of the town. He takes full responsibility in ensuring that his staff is properly trained. Mr. Wilson stated that it is misleading to state that the contracts with the CPA's are solely related to the Transitional Audits. The Abrahams Group and Mr. Kinsherf were not contracted to solely train the staff. During this time, Mr. Wilson assumed the responsibilities of Treasurer and Collector, in addition to his Chief Financial Officer responsibilities. He further noted that his explanation is three tiered in nature.

- all cash and account receivables were reconciled and accepted by DOR

- the staff overseeing the financial functions would train staff accordingly and proper internal controls were enforced (noted that Assistant Treasurer, Treasurer, Collector, Procurement Officer, Assistant Procurement Officer all left within the span of 30 days,. He noted that he was dealing with budget and health insurance simultaneously, and he chose what was important. Mr. Wilson prioritized which functions adhere to statutes , generally accepted accounting principles, and GAAP standards for closing books. They did not close the books until every single entry was reviewed--he went back to 2005 to

ensure that every entry was properly recorded, every variance, deposit, withdrawal was verified.

-5 people were out on medical leave including him, in addition to an employee at Abraham's Group who was out for 12 weeks. Although they didn't effectively close the books on August 15, they did adhere to all DOR mandated deadlines, and the current staff is being trained under the direction of Mr. Kinsharf. He further noted that the Management Letter in the past has been one page, this year the Council can expect greater than a 40 page document for fiscal year 2008 which will discuss what he is explaining. As Treasurer he is personally able to reconcile the books. Many factors contribute to this, his staff in 2004 totaled 34, and today he has a staff of 21, with 6 new accounting standards to adhere to. He is proud of his staff and the record keeping they utilized. Mr. Wilson stated that one year ago, free cash totaled \$181,000, despite a health insurance deficit and snow removal deficit. Free cash was recently certified at 1 million. Additionally he noted that the bond ratings speak to the soundness of the town. The town has its highest rating on bonds and second highest ratings on bonds. In January we will further improve our bond ratings. He admits that he should have come to Council and apprised them of ongoing challenges he faced. During a review of bonding he further released a general request for information to all the banks in which the town deals and those interested in potentially doing business with the town. An analysis by his staff led to changes in 27 of the 31 banks we do business with. He reviewed the trust funds and is performing a reanalysis of this as well as all 3,700 funds. Any variances, charges had to be explained to him and he was unwilling to release any bonds until he was satisfied with the results.

Chairman DiFazio asked for further clarification on Mr. Wilson's staff attrition. Mr. Wilson detailed that the following positions experienced turnover: procurement officer, treasurer/collector, assistant treasurer/ collector, assistant procurement officer, 3 collection clerks, an office manager and a financial analyst. These individuals left due to their certifications qualifying them to find alternate jobs. Additionally, the fact that his clerks are the least paid members of the staff, so if other positions were available in town they transferred.

Councilor Lacey was recognized and thanked Mr. Wilson for his time and overview. He is glad that Mr. Wilson is proactively explaining this to the committee and he acknowledged the apparent challenges which Mr. Wilson had been faced-from a staffing and work load standpoint. Councilor Lacey noted that it would have been beneficial to hear some of these challenges around the transitional audit- as the Council grants approval for funding. Once the funding exceeded our approval-Councilor Lacey's hopes were that Mr. Wilson had informed the Council. Councilor Lacey requested of Mr. Wilson, that in the future there is more open communication with the Council.

Mr. Wilson agrees with Councilor Lacey and he thought everyone was tired of listening to him and he was making value judgements for the Council. He reiterated that he halted the closing of the books because he was not satisfied. He spoke with our independent auditors who would have contacted Council if they were concerned with this delay. He revised the DOR forms and as a result they are more detailed and have been accepted by DOR.

Councilor Lacey asked about the transitional audit exceeding the approval amount by the Town Council. Mr. Wilson denied that the transitional audit exceeded the approved amount-the detail of the invoices indicate training and review of records. Mr. Wilson stated that training is considered a component of the transitional audit. His staff discovered an issue with Munis, which warranted additional staff training- he reconfigured an accounting module on Munis.(GASB 34 standard). Mr. Wilson also cited the fact that since he is spending substantial time at Southfield, that funds could be charged to the Lennar Consultant Account in order to train staff here, in his absence. He confirmed that he received approval from LNR to charge to this account.

Chairman DiFazio asked Mr. Wilson if a transitional audit report had been generated and when we received it. To which Mr. Wilson's response was that there are three pieces which are not mentioned in the contract:

- 1-debt services
- 2-cash
- 3-receivables

Councilor Lacey asked if Abraham's Group provided an audit report. Mr. Wilson confirmed that he has all of the applicable worksheets which have been signed off.

Chairman DiFazio requested clarification from Mr. Wilson on the 3 invoices from Abraham's Group which total \$10,054. Mr. Wilson stated that these represent other functions over and above work performed for the transitional audit.

Mr. Wilson additionally noted that "reasonably related functions" is what the excess of \$7,500 was expended on.

GASB 34 allows Mr. Wilson full reign to transfer funds amongst financial accounts. He obtained the approval of both the Mayor and Lennar prior to utilizing these funds for training his staff while he consults at the base.

The balance in the Lennar Consultant Fund is approximately \$8,800

Councilor Lacey asked if this balance was from previous administration and if funding had been added. Mr. Wilson noted that in 2005, upon reviewing the master plan for the base, the town hired consultants to investigate the financial piece, and this is the fund he is speaking of.

Councilor Lacey asked if there is a correlation with Mr. Wilson's work at Southfield and Town Hall in his decision to use this fund. Mr. Wilson answered in the affirmative because while he is at Southfield he isn't able to simultaneously train the staff at Town Hall.

Councilor Lacey appreciates his colleagues indulgence in supporting the referral and their subsequent addressing of these matters, as he is not a member of the Budget/Management Committee.

Councilor Lacey asked if Mr. Wilson would agree that the books weren't closed monthly as was done typically and if this effected the ability of our independent auditors to move forward with their work. Mr. Wilson did not agree with this, therefore Councilor Lacey rephrased his question. Were there instances where multiple months were not reconciled. Mr. Wilson confirmed that he does reconcile each month but this is subject to a 3 month lag due to awaiting bank statements. He ensured that books are always closed each month but admits that he did hold them for year end.

Councilor Lacey asked if the books can be closed without cash being reconciled. Mr. Wilson stated that you can close the books without cash being reconciled.

Councilor Lacey asked how far back cash was not reconciled for example on Labor Day this year.

Mr. Wilson noted that as of September 11- the entire year was reconciled, both cash and receivables, and he held every single month until all variances could be properly explained.

Councilor Lacey left at 7:35 PM.

Chairman DiFazio asked if there was there any period of time in which cash was reconciled later than normal. Mr. Wilson admitted that this had occurred as he held every month until he was satisfied.

Councilor Mathews asked who defines what is to be included in the transitional audit—if it is DOR or the Charter.

Mr. Wilson stated that the DOR stipulates that cash, receivables and debt services are completed by September 30 of each year.

Councilor Mathews further suggested that the Council should investigate a possible ordinance which talks to the transitional audit and the deadlines/timeframes associated with it. He feels strongly that a lack of communication occurred between the Council and Administration and he suggests that a mechanism is put into place going forward, which would alleviate problems encountered tonight and the perception that issues are being hidden.

Mr. Wilson explained the definition of a transitional audit and feels it is not only administrative but should be conducted whenever a key individual leaves. He cautioned the committee as to what events would trigger an audit and the depth of said audit. Councilor Mathews noted that he does not have a problem allocating taxpayers money to ensure that when someone vacates their position that we are in compliance with DOR. Mr. Wilson apologized to the Committee and explained that he should have informed them of all of these challenges in which he has been dealing.

Councilor DiFazio asked if the 40-page letter had been distributed as of yet. Mr. Wilson answered in the negative-that the auditors will call for it. Councilor DiFazio requested that he deliver the letter to Maureen Duffy when completed. Mr. Wilson noted that Council will receive the report upon its completion.

Councilor O'Connor reiterated Councilor Mathew's and Lacey's thoughts and requested that in the future updates are delivered to the Council on a more timely basis, when pertinent. He additionally asked if the Lennar Consultant account is listed in the budget books. Mr. Wilson confirmed that this account is not subject to appropriation and is therefore not included in the budget books-it is actually a separate account in the 5000 series.

Councilor O'Connor asked if there are other things to look forward to in the 500 series in terms of extra funds, Mr. Wilson explained that restricted funds cannot be comingled and have very specific terms and conditions. He further reviewed the series of accounts in detail, including balances and the accounting formats of each for the benefit of the Committee.

Councilor O'Connor requested that in the future the Council is informed of any activities in these accounts as the Council was unaware of their existence (he cited that he was unaware of Lennar Account). Mr. Wilson noted agreed that it is important to disclose all information-- the more you have the better.

Mr. Wilson further noted that due to his managing all accounts and reallocating funds that within a 6 month period, he added sufficiently to the free cash balance of the town---from \$ 180,000 in free cash to in excess of 1 million-- and managed the health insurance and snow removal pieces. He stated that this doesn't happen without very careful attention to managing the funds. He assured the committee that his staff is being trained effectively and welcomes requests from the public requesting information.

Chairman DiFazio agrees with his Committee members in that there is a need for the Council to understand these accounts and also be aware of their activity. He cited that the Schools submitted a list of revolving accounts with an explanation of each— Chairman DiFazio asked of Diane Hachey to please note that when the FY 10 budget is submitted that administration includes an explanation and summary of the important funds. Mr. Wilson confirmed that the detail of these funds can be found in the annual report.

Councilor DiFazio stated that he will report out at Council level on this issue once he has had an opportunity to review the draft minutes.

At 8:10 PM pm, there being no further business, A MOTION was made by Councilor O'Connor to ADJOURN and was seconded by Councilor Mathews and UNANIMOUSLY VOTED.

Respectfully Submitted: Diane T. Hachey-Recording Secretary

Approved by: _____
Kenneth J. DiFazio, Chairperson