

**SPECIAL MEETING MINUTES    Thursday, May 7, 2009**  
**EAST LYME BOARD OF FINANCE**

**Members in Attendance:**    Steve Larcen, Chairman  
   Jeff Langan, Secretary  
   John Birmingham  
   Jill Carini  
   Bob Jones  
   Allan Taylor

**Also in Attendance:**        Paul Formica, First Selectman  
   Anna Johnson, Finance Director  
   Scott Bassett  
  
   Bruce Brailey  
  
   Robert Gadbois  
  
   John McCulloch  
   Amy Renczkowski

**A. Call Special Meeting to Order**

Chairman Larcen called this Special Meeting to order at 7:05 p.m.

**B. Pledge of Allegiance**

The Pledge was observed.

**C. Review of Draft Audit Report for June 2008**

Mr. Scott Bassett, partner of McGladrey & Pullen Certified Public Accountants, presented the full draft of the Financial Report for June 2008, the Compliance Report and the Management Comments. Mr. Bassett commented that the report may have a different format from previous audits, but that after completion there are no surprises. Mr. Bassett reviewed the following:

Highlights of the Management's Discussion and Analysis (Pg. 3-12)

Statement of Net Assets (Pg. 13)

Statement of Activities (Pg. 14)

Balance Sheet – Governmental Funds (Pg. 15)

Mr. Taylor asked for clarification on the \$124M Net Assets.

Mr. Bassett explained that it was the cost of assets, less depreciation, minus debt.

Mr. Taylor asked if the buildings were depreciated over 20 years.

Mr. Bassett stated that they were depreciated over 40 years.

Mr. Taylor asked how the roofs were depreciated.

Mr. Bassett felt that they were depreciated over 15/20 years.

Mr. Taylor noted that the roofs needed to be replaced sooner than expected due to lack of maintenance.

Mr. Bassett suggested that Anna Johnson research the expenditures of the roofs to see if any depreciation adjustments should be made.

Mr. Langan asked for clarification on the \$610,000 that is encumbered.

Mr. Bassett explained that it is a reserved fund balance for future commitments.

Mr. Taylor asked if we have seen a list of the commitments.

Mr. Larcen felt that it includes encumbrances from the Board of Education.

Mr. Bassett agreed.

Mr. Taylor felt that the Board of Education encumbrances were over \$900,000 and asked for clarification on this discrepancy.

Mr. Bassett noted that the concern regarding the difference in encumbrances is for items that are ordered and delivered in a timely fashion verses general operating expenses.

Mr. Langan remarked that the \$610,000 is \$85,000 more than last year.

Mr. Taylor remarked that in 2008 a payment to the Teachers Retirement Plan was made and another is anticipated to be made by June 30<sup>th</sup> which is not budgeted for. Mr. Taylor asked if this payment is encumbered or how is it handled if it is not budgeted.

Mr. Bassett stated that it would be under the Board of Education operating budget.

Statement of Revenues, Expenditures and Changes in Fund Balances (Pg. 16)

Mr. Langan asked what the \$2,072,987 from Other Financing Sources included.

Mr. Bassett indicated that it is from the sewer assessment.

Statement of Revenues, Expenditures and Changes in Budgetary Fund Balance (Pg. 18)

Statements of Net Assets, Revenues, Expenses, and Cash Flow (Pg. 21)

Mr. Taylor noted that since the Town has a Water and Sewer liability that budget reports should be submitted.

Mr. Larcen asked for comments on the Water and Sewer combined business loosing money.

Mr. Bassett agreed that the trend of what the Town currently charges for services verses expenditures is a concern and should be addressed.

Mr. Larcen asked if the investment of cash by Water and Sewer is managed by the Town.

Ms. Johnson said yes.

Statement of Fiduciary Assets and Liabilities (Pg. 23)

Mr. Bassett noted that it may be time to look at a future policy for pension plans and investments.

Statement of Changes in Fiduciary Net Assets (Pg. 24)

Notes to Financial Statements (Pg. 25-50)

Mr. Larcen expressed concern regarding the general deposits of \$15,712,676 being secure (Pg. 37).

Mr. Bassett agreed that it is something to keep an eye on. Deposits are FDIC insured.

Mr. Birmingham asked if the Town should have policies on deposits, investments, etc.

Mr. Bassett acknowledged that policies would define the general practices that are currently being followed.

Mr. Birmingham inquired what steps the Town is following to keep from making risky investments.

Mr. Bassett stated that a formal policy would prohibit risky investments and currently there are no State Statutes prohibiting it.

Mr. Bassett stated that the AAA Bond rating is secure (Pg. 38).

Mr. Taylor asked if the solar panels on the high school roof are included in Capital Leases (Pg. 47-48).

Mr. Bassett said he would check.

Mr. Taylor stated that he has previously requested this information twice.

Mr. Bassett noted that if the solar panels were started during the summer of 08/09 it wouldn't show in this June 2008 audit.

Mr. Larcen asked for clarification of the last sentence on page 51: *The plan does not issue standalone financial reports.*

Mr. Bassett stated that municipalities are not mandated to do so.

Mr. Larcen expressed concern about the Funded Ratio (Pg. 53).

Mr. Bassett stated that the Fund Deficit (School Lunch) should be monitored (Pg. 56).

Town Compliance Report Fiscal Year ended June 30, 2008

Compliance #1: Financial Statements (Pg. 8)

Mr. Bassett stated that the Town will present statements in accordance with GAAP and transactions will be accurately recorded.

Mr. Larcen noted that the Town needs knowledge of the transactions before they can be recorded.

Compliance #2: Reconciliation of Bank Accounts Pg. 8-9)

Mr. Bassett stated that bank accounts need to be reconciled in a timely and accurate

inner.

Ms. Carini asked how long reconciliation of accounts has been a problem.

Ms. Johnson stated that prior to switching banks in 2007 all reconciliations were current. At this time most reconciliations are completed through March and is competent that reconciliations will be current soon.

Ms. Carini asked if we are closing accounts that the Town is no longer using since switching banks.

Ms. Johnson stated that accounts with smaller balances are being closed.

Mr. Taylor asked if entries have been made.

Ms. Johnson stated that not all have been made, but entries have been started.

Mr. Jones asked which reconciliations have not been made through March.

Ms. Johnson stated Capitol Project and CNI Funds.

Mr. Jones expressed concern that the problem with reconciling accounts have been going on for two years.

Compliance #3: Trial Balance Accounts (Pg. 8-10)

Mr. Bassett stated that trial balances should be reviewed and updated consistently and that this has not been done due to part time staff and staff turn-over. Need to gain efficiency by having closing target dates.

Ms. Johnson stated that this has been corrected and that recording is happening on an on-going basis and she will facilitate keeping recording current.

Mr. Taylor asked when Ms. Johnson started working for the Town and how many people were in the Finance Department at that time.

Ms. Johnson said she started in June 2007 and that there were three people in the Finance Department plus an accountant.

Mr. Larcen acknowledged that accounts were not reconciled prior to her being employed with the Town and that having duplicate bank accounts to reconcile was a factor.

Mr. Taylor indicated that enough progress should be made now so that a year from now we are not in the same situation. Mr. Taylor also expressed concern that the explanations for the trial balance compliance have not been audited.

Compliance #4: Accounting Software (Pg. 10-11).

Mr. Bassett believes that all funds should be centralized. Some smaller funds are not centralized at this time. These smaller funds should follow the same policy and procedures as larger funds.

Ms. Johnson stated that she will review funds not being maintained on the computerized accounting system and, if feasible, include them. She is also working with the Board of Education to set up a process to accomplish this.

Mr. Larcen asked what accounts would not be feasible.

Ms. Johnson stated that she needs to meet with the Board of Education to see what accounts they have on their system.

Compliance #5: Capital Asset (Pg. 11)

Mr. Bassett stated that capital assets need to be captured, recorded and depreciated in a timely fashion.

Mr. Larcen asked if this was a software problem.

Mr. Bassett indicated that some computerized accounting systems are just catching up.

Mr. Birmingham asked how often the Town's accounting software is updated.

Ms. Johnson said that the asset management program for fixed assets is done annually. These need to be recorded monthly or quarterly, and the Board of Educations needs to get the information to her in a timely manner.

Mr. Taylor asked if any testing of fixed assets was done. The Town previously paid a great deal to capture assets to be in compliant with the State.

Mr. Bassett said that testing was done on the majority of the fixed assets and authorizations.

Compliance #6: Segregation of Duties (Pg. 11-12)

Mr. Bassett stated that there has to be segregation of duties for the Town Water and Sewer Departments.

Ms. Johnson reported that she has interviewed staff members to come up with a way of having more segregation.

Mr. Jones agreed that this is an important matter and should be handled as soon as possible. Compliance #7: Reconciliation of Books. (Pg. 12-13)

Mr. Bassett stressed that a standard closing procedure should be completed on a monthly basis.

Mr. Langan asked what the difference was between Compliance #2 and Compliance #7.

Mr. Bassett stated that Compliance #2 pertains to internal controls over the process and Compliance #7 pertains to procedures on closing the books.

Mr. Taylor agreed that separating the two compliances are necessary.

Compliance #8: Capital Lease Agreements (Pg. 13-14)

Mr. Bassett stressed that the Town cannot commit money for capital lease agreements if appropriations have not been made.

McGladrey & Pullen Letter to the Town of East Lyme

Mr. Bassett stated that the letter to the Town was more observational in manner and included the following: need uniformed accounting procedures throughout the Town, the location of a pension benefits file, cash should be locked in a vault at all times, properly using purchase orders, school lunch fund deficit, school lunch receivables and budget transfers.

Mr. Bassett stated that the Town should set short term goals and should ask for quarterly updates. He noted that putting in place the proper controls and procedures will help take care of some of these issues.

Mr. Langan requested that a written response regarding the above mentioned causes including a time table for corrective actions would be worth having by the June 2009 Board of Finance Meeting.

Mr. Taylor recognized that this June 2008 audit report is quite substantial and asked if it is common for other towns to receive this type of report.

Mr. Bassett stated that it is not uncommon and that our audit report is average. The major concerns addressed in the report deal with timeliness, reconciliation and reporting.

Mr. Taylor stated that he was impressed and pleased with the report and was very happy that the Town changed auditing firms.

Mr. Jones stated also that the audit was well written, readable and understandable.

#### **MOTION (1)**

A motion was made to accept the Audit Report for Fiscal Year 2008 as presented.

The motion was amended to include the management letter and recommendations.

The motion was seconded.

Vote: 6:0:0 Motion Passed.

#### **D. Review and discussion of Progress Bill #6 and Progress Bill in connection with out of scope services**

Ms. Johnson stated that she was billed for the full \$6,000.00.

Mr. Taylor asked if the \$6,000.00 was completed bill.

Selectman Formica stated that it was the final bill.

#### **E. Discussion of the Capital Improvement Plan**

First Selectman Formica distributed and reviewed the Town of East Lyme Long Range Capital Plan Departmental Requests dated May 7, 2009 and the Analysis of Existing and Proposed Debt Service. First Selectman Formica stated that a Vision Committee and a Master Plan Consultant is necessary to focus on implementation of projects. The Capital Improvement Plan maintains a steady level of bond. Selectman Formica suggested that the Town take advantage of the current economic opportunities and attempt to complete as much as we can within the next two years. Immediate priorities include road renovations, public parking spaces and replacement of high school boilers.

Mr. Larcen asked what our interest rate is on new debt.

Ms. Johnson stated that the interest rate is 5%.

Ms. Carini asked where the consolidation of elementary schools fit in the Master Plan Consultant timeline and if the fee for a consultant would be \$30,000 for the first year and \$35,000 for the second year.

First Selectman Formica stated that it would be one fee, but spread over a two year period.

First Selectman Formica reviewed a proposal to change the driveway entrances for the Board of Education, Flanders Elementary School and East Lyme High School for safety concerns and to switch to an artificial turf on the football field which would require less maintenance and enable us to rent the field out to generate income.

Ms. Carini asked if the revenue generated from renting the football field would go to the general fund or to the Board of Education.

First Selectman Formica thought it would go into the general fund.

Mr. Larcen asked what the projected cost is to replace the football field with artificial turf.

First Selectman Formica stated that it would probably cost between \$700,000 to \$800,000.

Ms. Carini asked if a cost analysis had been done on this project.

First Selectman Formica stated that the preliminary figure to approve the concept of the plan would be \$1.5 million. If the plan is approved, he would come back to the Board of Finance with specific costs. First Selectman Formica expressed concern that if we wait two or three years to do the project, inflation will prohibit it.

Mr. Larcen commended the First Selectman's work on the plan, that overall it is a good plan, but that he is not sure that the football field portion of the plan is something we need now.

#### **F. Public Comment**

Karen Rak, 27 Black Point Rd.: Asked if the Master Plan Consultant would be made available to the public before the next Town meeting on Monday, May 11<sup>th</sup>.

First Selectman Formica stated that it is already available on the Town website.

Robert Gadbois, 358 Black Point Rd.: Stated that the Town has discussed installing artificial turf in the past and that those towns who have installed them remove them due to injuries to players and maintenance expense.

Mr. Larcen commended Carmen Ames and Anna Johnson for their work on the budget information located on the website.

#### **G. Adjournment**

##### **MOTION (2)**

A motion was made to adjourn the Special Meeting of the East Lyme Board of Finance at 10:00 p.m.

The motion was seconded.

Vote: 6:0:0 Motion Passed.

Respectfully Submitted,

Leigh Reinhart,  
Recording Secretary, Pro-tem