

**EAST LYME BOARD OF FINANCE
SPECIAL MEETING MINUTES
Wednesday, MAY 30th, 2018**

Members In Attendance: William Weber, Chairman
Lisa Picarazzi, Vice-Chairperson
John Birmingham
Jason Pazzaglia
Anne Santoro

Also In Attendance: Mark Nickerson, First Selectman
Anna Johnson, Finance Director
Scott Bassett, Auditor RSM
Lauren Davis, RSM, Audit Project Lead
John McCulloch, Tax Collector

Absent: Camille Alberti

FILED

JUNE 5 2018 AT 10:00 AM/PM

William Weber

EAST LYME TOWN CLERK

A. Call Special Meeting to Order

Chairman Weber called this Special Meeting of the East Lyme Board of Finance to order at 6:30 PM.

B. Pledge of Allegiance

The Pledge was observed.

C. New Business

- o **Presentation of June 30, 2017 Audit – Scott Bassett RSM, Lauren Davis, Audit Project Lead**

Mr. Bassett reported that the Town was given a clean opinion in the audit report. Of note, OPEB (other post employment benefits) is projected at \$8.4M to be paid out in the future under the old standard. He said that the figures have yet to be determined under the new standard. He reviewed the process that they go through during the audit noting that if the Town and Board of Ed were on the same system that it would help somewhat with closing the books.

The fund balance is \$4.8M or 6.9% and the pension plan is funded at 78% whereas the national average for such plans is at 70%. The rate of return in 2017 has a small increase and since the time that they started with mutual funds, the return is decent.

Mr. Bassett noted the following control deficiencies (findings) which do not constitute material weaknesses:

- Accounting Policy & Procedures Manual* - in process
- Funds* - School Lunch – BOE – being addressed
- Purchase Orders & Invoices* - some invoice dates precede PO's
- General Ledger* - BOE – suggested central general ledger system
- LOCIP Reporting – New Requirement

Mr. Birmingham asked how common the noted deficiencies are.

Mr. Bassett said that some are easily fixed and others have a cost benefit associated with them. They are not serious.

Ms. Picarazzi said that some are repeat findings and asked why they are still there and how to address them. Ms. Johnson said that she has set up a call with RSM to work on getting them to go away. The two (2) items that belong to the BOE, Ms. Stevens is working on and they should be taken care of.

Ms. Picarazzi asked about the PO's and Invoice dates and how that happens.

Ms. Johnson said that she had suggested that she would like the department heads involved to come before them and explain it to them.

Ms. Picarazzi asked what could be done – reject the PO?

Mr. Weber suggested that they should reject the PO and then people will understand that before you buy anything you need to get a PO. He surmised that it would not happen often after that.

Mr. Bassett recommended that people need to be re-educated and re-trained that without a PO – NO invoice would be processed.

Ms. Picarazzi expressed concern that it is a repeat finding and asked if there has been any improvement from last year.

Mr. Bassett said that some have come off.

Ms. Santoro asked about the BOE and the general ledger system.

Mr. Bassett said that it adds a layer of oversight and control and allows more opportunity to review which adds efficiency.

Mr. Weber noted that these are non-significant finds and management has replied that they will take action on them – what happens if they don't.

Mr. Bassett said that he likes to see them as observations that overall have a benefit to them once they are addressed.

He noted that the Town & BOE received just short of \$1M in Federal grants last year and around \$10M in State grants for a total of around \$11M.

He said that while the Fund Balance is \$4.8M or 6.9% and they are in range, he thinks that the Board of Finance should have a policy of where they would like to be. While the range is adequate they need to look at where they would like it to be as he typically sees 7% - 10% or 15%.

Their net position of \$104,641,742 shows a decrease from the previous year of \$5.2M – a swing of 5% driven by the pension benefit costs and OPEB benefits. The insurance loss is another item.

Ms. Picarazzi asked if that is typical.

Mr. Bassett said no, but they are self-insured and that is a risk and it goes both ways. They do a 15-month run out and the problem has both surpluses and now for the past few years they have had losses.

The pension program has shown a 10% to 11% return whereas 9% is average, so they have shown good results with this. Net Pension liability of the Town for June 30, 2017 was \$5.8M, with the assumption being considered reasonable and affordable.

Mr. Birmingham asked about the fee on the investment fund.

Mr. Bassett said that there is an administrative fee which varies.

Ms. Johnson noted that they have a pool of funds and said that she would ask the people about this at their next pension meeting.

Ms. Picarazzi asked Mr. Bassett how many other Towns in Connecticut RSM does audits for.

Mr. Bassett replied about 30.

Ms. Picarazzi asked how our Town would compare with them.

Mr. Bassett said that overall we are okay except for the self-insurance fund which needs to be reduced and watched closely.

Ms. Picarazzi asked what they could do about that.

Mr. Bassett suggested that they look at six (6) months and see what they are projecting out.

Mr. Nickerson asked hypothetically if they have another bad year – what would be his suggestion.

Mr. Bassett said that they should look at the ability to re-pay and how to fund it a little more and what their plan is to reduce it.

Mr. Weber noted that they had two major deficiencies and that the Federal item was filed on time so that has been taken care of.

Mr. Bassett said that he wanted to mention that they had received full cooperation from all departments within the Town and BOE.

The Board thanked Mr. Bassett for his presentation.

Ms. Picarazzi asked about any open items that they want addressed. She said that she would like them to maintain an action item list.

Ms. Johnson asked if it would be just for the audit items or added to the other list that they have.

Ms. Picarazzi said that she does not want to lose sight of anything and that they could all be on the same list.

Mr. Weber said that he is keeping an action list.

Ms. Picarazzi said that she would like the purchase orders and invoices on it.

Mr. Weber said that he would like a response from management first and then they can decide if they accept it or not.

Ms. Johnson said that she is going to meet with Lauren Davis and that she is actively working to get the purchase order issue off of the list.

Mr. Weber said that his suggestion is that if they just say No to paying invoices without PO's that the issue would solve itself fairly quickly.

Ms. Picarazzi said that she wants to see the list of items and what is being done about them as she does not like seeing repeat findings.

- o **Accept June 30, 2017 Audit as presented**

****MOTION (1)**

Ms. Santoro moved to accept the June 30, 2017 audit as presented.

Mr. Birmingham seconded the motion.

Vote: 5 – 0 – 0. Motion passed.

- o **Approve Suspense List in the amount of \$42,461.23**

Mr. McCulloch noted that the amount is a bit lower this year and that the majority of it comes from two parcels that the Town owns which account for around \$22,000 of the \$42,461.23.

Mr. Birmingham asked about the possibility going forward of collecting some of this money.

Mr. McCulloch said that they will collect some of it as some people come back into the State and try to register motor vehicles but owe money.

Mr. Birmingham asked if the DMV here calls other states and/or works with them to collect in those states.

Mr. McCulloch said no.

Ms. Picarazzi asked what could be done about the deceased person estates.

Mr. McCulloch said that because they have nothing, nothing can be done although the lien never goes away.

****MOTION (2)**

Mr. Birmingham moved to accept the Suspense List in the amount of \$42,461.23.

Mr. Pazzaglia seconded the motion.

Vote: 5 - 0 – 0. Motion passed.

- o **Discussion – Status of Health Insurance Fund**

Ms. Johnson explained that she is bringing this concern regarding the Health Insurance Fund before them as they have a lot of high claims and beginning in 2015 the number of large claims increased to 19 and is currently at 20 during the current fiscal year. Prior to that time the cash balance in the fund was almost \$3M and there were few large claims. While the BOE employees for the most part are in the High Deductible plan and it was estimated to save the plan money that was offset by the large number of individual claims that have exceeded \$25,000 in costs each year. She said that they are projecting an over \$800,000 deficit in the fund this year. She said that they have allocation rates for premium shares and she feels that they should do an increase to next years' renewal to be properly funded for the upcoming fiscal year.

Ms. Picarazzi asked if there were any strategies to curb this.

Ms. Johnson said that the thought was that the HD plan would help, especially with the BOE employees on it however the high level of claims that exceed the threshold has negated this.

Mr. Nickerson added that the costs keep rising as they have an aging population. They had projected a 15% increase for the upcoming year and it is coming in at closer to 28%.

Ms. Johnson said that going forward that each quarter the Town and BOE will meet with consultants to see what the status of the fund is and they will look at keeping it better funded.

Mr. Weber asked about the \$125,000 stop-loss threshold and if there was an advantage to lowering that or would the cost to do that be prohibitive.

Ms. Johnson said that once a claim reaches 50% of the \$125,000 that they are put in that class and currently they have 20 of those, and 8 of those are over the amount as of the end of April. (She noted that INBR = Incurred but not reported claims. Still to be determined for 6/30/2018)

Ms. Picarazzi asked why the administrative fees are higher than they were in 2014 (+\$200,000).

Ms. Johnson said that she would check on that figure (\$880,908) although she thinks that it is correct.

Mr. Nickerson suggested that at some point they could have Brown & Brown come in and discuss all of this with them.

Mr. Birmingham asked if the large claims that they have are the same issues that keep rolling from one year to the next.

Ms. Johnson and Mr. Nickerson said not necessarily as each plan year starts with new payments up to the \$125,000.

o **Set the Mil Rate for the FY 2018/19 Budget**

Mr. Weber noted that the budget had gone to referendum and had passed.

Ms. Johnson noted that she had provided them with a sheet showing how the mil rate is calculated.

Mr. Weber asked about the collection rate for this year.

Mr. McCulloch said that it was about 99%.

Ms. Johnson noted that the sheet shows the actual and then the projected State grants and revenues. She added that they had also just discussed increasing the health fund – they will need \$700,329 for that. They will also have the Town and BOE employee portions increased.

Ms. Picarazzi asked if that would fill the gap.

Ms. Johnson said that they are looking to use the \$645,163 that they are getting from the State plus the Town & BOE employee portions.

Ms. Picarazzi asked if all Towns are in this same position.

Mr. Nickerson replied that it varies; he said that Waterford was high when we were low on claims and now it is reversed.

Ms. Johnson said that it is based on what you have -

Mr. Nickerson said that all parties will be paying their share so if it goes up – then the premium share will go up.

Ms. Johnson said that they are also seeing an increase in the number of employees retiring so they would be hiring younger people and they should see a shift.

Mr. Nickerson said that they are looking into other things also. A 1.19 mil increase would bring the mil rate to 27.35.

Ms. Picarazzi asked what the plan would be to pay for the Health fund if they did not get the extra \$645,163 in revenue from the State.

Ms. Johnson said that they would most likely have had to go to fund balance for the money.

Ms. Picarazzi asked if they are getting interest on the Health Fund dollars.

Ms. Johnson said that sadly it goes out almost as soon as it comes in.

Ms. Picarazzi said for the record that this is very sad as she was really hoping to give some back to the taxpayers.

Mr. Weber said that if they do the 1.19 mil increase that they would be doing what was presented.

Mr. Pazzaglia said that he is afraid of pushing more people out of Town and that they had also discussed cutting some services. He said that he is of the opinion that if they were to cut some of the services instead that people would not leave Town due to that – but to keep raising taxes – you lose people.

Ms. Picarazzi said that different people value different things so they have to think about all of it.

Mr. Weber said that he thinks that they should do what they said they would do. He asked if they were ready to make a motion.

****MOTION (3)**

Mr. Birmingham moved to set a mil rate of 27.35 for FY 2018/2019 (a 1.19 mil increase).
Ms. Santoro seconded the motion.

Ms. Picarazzi asked if they need to insure that the \$645,163 will go to the Health Insurance Fund.
Ms. Johnson said that they will come back at a later time for a Special Appropriation on it.

Ms. Picarazzi reiterated that she is disappointed that none of it is going back to the taxpayers.

Vote: 5 – 0 – 0. Motion passed.

D. Board Comments

Mr. Weber thanked everyone for all of their hard work during this process.

E. Adjournment

****MOTION (4)**

Mr. Birmingham moved to adjourn this Special Meeting of the East Lyme Board of Finance at 9:06 PM.
Ms. Picarazzi seconded the motion.

Vote: 5 – 0 – 0. Motion passed.

Respectfully submitted,

Karen Zmitruk,
Recording Secretary