

**EAST LYME BOARD OF FINANCE  
SPECIAL MEETING MINUTES  
Wednesday, DECEMBER 22nd, 2010**

Members In Attendance: Robert Kleinhans, Chairman  
Steve Larcen, Secretary  
Steve Harney  
Raymond Hart  
Steve Kelley  
Lisa Picarazzi

Also In Attendance: Scott Bassett, McGladrey & Pullen, LLP  
Paul Formica, First Selectman  
Anna Johnson, Finance Director

Absent: No One

**A. Call Special Meeting to Order**

Chairman Kleinhans called this Special Meeting of the East Lyme Board of Finance to order at 6:00 PM.

**B. Pledge of Allegiance**

The Pledge was observed.

**C. Presentation / Discussion – Audit Review - Draft**

Scott Bassett, partner with McGladrey & Pullen said that while the audit is still in draft form that they did not expect any changes. The condition of the records is much improved from where it was when they started doing the audit for the Town. Management discussion and analysis is the only thing missing at this point and that will be done with the final audit. He said that he would review the highlights of the audit.

He explained that Page 13 of the Draft presents the financial assets of the Town. From last year to this year the water fund was moved to a special revenue type of activity (modified accrual basis of accounting). Page 14 shows the net change in assets of \$14M which has been pretty consistent. Page 15 is the balance sheet showing how they budget. There are four (4) major funds this year instead of the two (2) that they had last year. Page 15 shows that they had surplus that they did not use from fund balance that was budgeted. Page 58 shows that they had a very good year and that they were able to hold expenditures in a tight year. Page 19 shows the changes in fund net assets for proprietary funds (Sewer Department and Internal Service Fund). Page 23 shows the pension funds.

He noted that for the 2010-2011 budget that they have not planned to use any fund balance. They also took advantage of some refunding on bonds at lower interest rates.

Mr. Harney asked if the savings of \$400,000 would be over the 20 year period.

Mr. Bassett said that it would be pretty even.

Mr. Larcen asked about the appreciation in pension assets.

Mr. Bassett said that it is a fixed rate of return.

Mr. Formica noted that the Pension Committee has taken a lot of the investment out of the Hartford general fund and invested for better return and fund integrity.

Mr. Bassett noted that pages 47 and 49 show the schedule for funding progress on the pension fund. He suggested that the 7% funding ratio is probably not adequate although it is being funded at the actuarial rate. He added that the actuarial contributions are however on the uptick.

He continued that on Page 54, Note 14 cites the school lunch fund deficit of \$30,474. He said that they are not sure how long the contract criteria of making 'whole' will last as they adjusted for \$90,000 last year.

Mr. Larcen asked if an adjustment was made for the \$90,000 if the actual loss was \$120,000.  
Mr. Bassett said yes.

Mr. Larcen noted that in prior years that fraud was involved and asked if they are comfortable that is not what is involved here.

Mr. Bassett said that they are comfortable that is not the case as a number of operating controls had to be instituted and followed to make sure that it would not happen again.

Mr. Larcen asked if perhaps the lunch prices are too low and not enough dollars are collected to keep the system going.

Mr. Bassett said that the revenues are not meeting the expenses.

Mr. Formica said that he meets regularly with the Superintendent, Mr. Lombardo and will work with him on the program and try to come up with something.

Mr. Bassett said that on Page 54, that Note 15 states that GASB will have changes again next year – these will involve how the fund balances are delineated. They are not sure as of this time of what impact they will have.

Mr. Kleinhans asked is the Board had any questions for Mr. Bassett.

Mr. Larcen said that he has an issue with the Board of Ed breakout on page 61 and asked if it was fair to say that they spent \$13,000 more than budgeted.

Mr. Bassett said that they had returned \$54,000.

Mr. Larcen asked if on page 20 regarding cash flow of the Sewer Department where they are a negative \$63,187 if they should be concerned that it is not 'cash flowing'.

Mr. Bassett said that it would be common to see some of this and that they would want to take a look at it.

Mr. Hart noted page 48, in Note 11 on the pension fund – if he had said that our 7% return was not adequate enough.

Mr. Bassett said no – it is an adequate number based on what is being seen in the market now and the actuarial reports.

Mr. Formica added that they were at 7.5% but reduced it to be in line with reality. They are hoping that by investing funds that they will be more in line and it will offset itself.

Mr. Bassett then noted the letter to Mr. Formica and the Board of Finance identifying control deficiencies, material weaknesses and significant deficiencies of which there were a total of eight (8):

- **Accounting Policy and Procedures Manual** – He said that there was a big learning curve and as the system is working now that they would like to see it documented to keep it working.
- **Census Data** – during the testing it was noted that several dates of birth and dates of hire were incorrect and they recommend that it is checked by a supervisor before submission.
- **Vendor Testing** – It was noted that the Town has many old and outdated vendors in their vendor listing and it is suggested that those that the Town is no longer doing business with be removed from the listing and that it be reviewed periodically for further updating.
- **Outstanding Checks** – It was noted that there were numerous checks outstanding beyond one year in the Board of Ed Special Fund and it was recommended that they be reviewed and either reissued or voided.

Mr. Larcen asked what procedures are in place to make sure that they are not making duplicate payments.

Mr. Bassett said that is a good point and a policy should be set up to go with outstanding checks.

Mr. Hart said that it states that there are numerous checks outstanding and asked how many?

Mr. Bassett said that he would have to get that information from Ms. Johnson tomorrow and get back to them with it.

- **Funds** – M & P noted that the Town does not have the Agency funds in the Town's general ledger system and it was recommended that all funds be maintained in the Town's general ledger system in order to be accurate.

- **Cash Cut-off** – It was noted that cash cut-off at the Town and Board of Ed was improper and it was recommended that it be closely monitored so that items would be properly recorded in the fiscal year. Mr. Larcen asked about items being recorded on a timely basis. Mr. Bassett said that there were some issues where for instance a \$69,000 check was not recorded on a timely basis.

- **Student Activities** – It was noted that copies of cancelled checks are not being kept by the High School or Middle School and recommended that all records be maintained.
- **School Lunch Fund** – This fund has a deficit, which was spoken about earlier. It was recommended that this program be reviewed for the fees that it charges and perhaps perform some revenue studies.

Mr. Bassett said that the process for the audit is that the report is due to the State by January 3, 2011 and that this should be filed on time.

Mr. Kleinhans asked if there were any further questions from the Board or if they were ready to accept the draft audit.

**\*\*MOTION (1)**

Mr. Larcen moved that they accept the draft audit financial statements for June 30, 2010 as presented.

Mr. Hart seconded the motion.

Vote: 6 – 0 – 0. Motion passed.

**D. Public Discussion**

Mr. Kleinhans called for Public Discussion.

There was no Public Discussion.

**E. Board Comments**

Mr. Kleinhans called for comments from the Board.

There were none.

**F. Adjournment**

**\*\*MOTION (2)**

Mr. Hart moved to adjourn this Special Meeting of the East Lyme Board of Finance at 6:52 PM.

Mr. Harney seconded the motion.

Vote: 6 – 0 – 0. Motion passed.

Respectfully submitted,

Karen Zmitruk,  
Recording Secretary