

TOWN OF WALLINGFORD, CONNECTICUT

SPECIAL TOWN COUNCIL MEETING

(WORKSHOP)

JANUARY 24, 2008

6:00 P.M. in Room 315

MINUTES

The following is a record of the minutes from the Wallingford Town Council at its special meeting with the Auditor and Comptroller held on Thursday, January 24, 2008, in Room 315 of the Wallingford Town Hall. Town Council Chairman Mike Brodinsky called the meeting to order at 6:09 P.M. Responding present to the Roll Call were Councilors Gerald E. Farrell, Jr., John LeTourneau, Rosemary Rascati, Vincent F. Testa, Jr and Chairman Mike Brodinsky. Councilors Vincenzo DiNatale, Bob Parisi, and Mike Spiteri were absent from the meeting. Mayor William W. Dickinson, Comptroller James Bowes and Michael LeBlanc, Blum Shapiro & Co., PC, were also present.

1. Roll Call
2. Workshop with the Town's Auditor and Comptroller.
– Chairman Mike Brodinsky

Mr. Brodinsky asked Mr. LeBlanc about the significance of the financial impact based on demographics and benefits provisions. Mr. LeBlanc said that they want to make sure that the financial statements allow for all liabilities, such as benefits available to employees upon retirement. Mr. Bowes said that currently, the town pays for these items out of the budget, and healthcare is the main liability for the town in regards to retirees.

Mr. Brodinsky asked about the recommendation that the town develop a systematic accounting and reporting structure, and the preliminary measure of the unfunded liability. Mr. Bowes stated that the number is not available for release. Mr. Brodinsky asked Mr. LeBlanc about opening a line-item that would be slowly grown for two reasons – first, to meet the unfunded liability, and second, to indicate to rating agencies that the town is planning for the liability. Mr. LeBlanc said that towns have to decide on an approach that the town feels is best for addressing the issue based on the provisions of benefits available.

Mr. Farrell asked how far out benefits are quantified. Mr. LeBlanc said that the premise upon which benefits are to be provided will determine this, and this can be driven by union contracts, current population and eligibility and current benefit structure.

Ms. Rascati asked about "pay-as-you-go" provisions and how a dollar amount is budgeted for this expense. Mr. Bowes said that the first step would be an actuarial evaluation. Mr. LeBlanc said this would be similar to a pension calculation to determine the town's required yearly contributions, premised on utilization of the liability. Mr. LeBlanc said that this amount will be included in the next fiscal year's actuarial evaluation based on disclosure requirements of GASB No. 45.

Mr. Testa asked if the accountant simply recommends accounting for the way that the town reports the liability in a different manner, based on the new requirements. Mr. LeBlanc said that the company recommends understanding the implications of the new standard, evaluating this locally to determine which provisions to move forward regarding funding, and preparing to report the required information – annual required contribution, identification of what has been funded, the liability and other associated disclosure. Mr. Testa asked if the required reporting is simply for fiscal year '08. Mr. LeBlanc said that fiscal year '08 will be the first year when the reporting requirements of GASB 45 are in place, but the standards will be in place for each subsequent calendar year. Mr. Testa asked if Mr. LeBlanc recommends establishing a fund. Mr. LeBlanc said this is a decision to be made by the town, but one of the catches of GASB 45 is that if the town wants to be given credit towards funding the liability, the money must be set aside in a separate trust. Otherwise, this money is not viewed as set aside solely for the funding of these benefits. Mr. Testa asked how long the existing liability will last. Mr. LeBlanc said that the actuary will factor in the current employees and retirees in order to determine the liability. Mr. Testa stated that the employees who receive post-employment benefits are public safety officials (police and fire). Mayor Dickinson said that the Board of Education retirees are offered benefits through the state.

Mr. Brodinsky asked about Capital Asset Management and Reporting. Mr. LeBlanc said that if the town moves forward with replacement of finance software, this will likely help develop an automated structure for accounting for assets and depreciation.

Mr. Brodinsky asked about Workers' Compensation fund. Mr. Brodinsky said that the recommendations from the accountant have been carried forward.

Mr. Brodinsky asked about the suggestion that the charter may be inadequate to handle these issues. Mr. LeBlanc said that the Management Letter is an attempt to make sure the town is accounting for things properly. Mr. Brodinsky asked if not having an internal service fund might have an impact on the ability to plan for liabilities. Mr. LeBlanc said that the primary purpose of having such a fund is to account for and report the liabilities in financial statements.

Mr. Bowes said that he spoke with Terence Sullivan, Personnel Manager, and the Risk Manager about scheduling a meeting regarding the operational aspects.

Ms. Rascati asked if the internal service fund would impact budgeting and taxes. Mayor Dickinson said that his understanding of this is that the funds would simply be reported differently. Mr. LeBlanc said that the fund would not cost the

town additional funds, and there is no requirement that additional funds be moved in order to cover the liability.

Mr. LeTourneau asked for further clarification. Mr. LeBlanc said that it is primarily reporting. Currently, claim costs are paid directly from the general fund to the extent that payments have to be made. A possibility under the new system is that the expense accounts in the general fund would be charged for the contribution to the internal service fund and the claims being paid out would be paid from the internal service fund. This would allow the town to have clear reporting of the funding provided for the liability. Mr. LeBlanc said this would give a central place to identify total claim costs paid over a year.

Mr. Testa asked if the money that currently exists for the liabilities are a part of the reserve. Mr. Bowes said that reserve is currently shown on the balance sheet for the utility fund. Mr. Testa asked if any of the money is carried over as the reserve that the town identifies for bonding purposes and credit rating. Mr. LeBlanc said no.

Mr. Brodinsky asked about a third-party administrator who recommends that the liability be determined by an independent actuarial analysis. Mr. Bowes said that this was discussed with Mr. Sullivan and will likely be a part of the upcoming meeting. Mr. Brodinsky said that this analysis has been a recommendation since 2003.

Mr. Brodinsky asked about the Board of Education Educational Grants Fund and the usage of the financial management system to maintain general ledger control over this fund. Mr. LeBlanc said that the comments are driven at the fund becoming accounted for fully within the general ledger, as compared to an expenditure-driven concept. The mechanisms would likely provide an improvement to report and analyze activity. Mr. LeBlanc said that it is understand that the structural changes will likely occur by the end of the year.

Mr. Brodinsky inquired about the Board of Education Systems Review. Mr. LeBlanc said that the Board of Education operates on its own financial system, and Mr. LeBlanc wants to ensure that system controls and security are documented and well-defined. Mr. Brodinsky asked about the phrase "financial information systems." Mr. LeBlanc said that the controls would be access to the system, such as password control, securing of hardware and the information systems components and disaster recovery.

Mr. Farrell asked if the new system would help alleviate any disagreements about reporting, as occurred with the previous Superintendent of Schools. Mr. Bowes said that he believes this disagreement pertained to projections in spending.

Mr. Brodinsky questioned Mr. LeBlanc about the recommendation that the Board of Education restrict encumbrances and payable reserves, and asked Mr. LeBlanc for a practical example. Mr. LeBlanc said that this deals with budgeting and gap accounting, and encumbrances are considered an expended amount at the end of each year, whereas for gap purposes, encumbrances are not considered expenditures until the payment occurs. This pertains to the reservation of

amounts against budgetary obligations at the end of each year. When actual liquidation is reviewed, the reserved amount is higher than the amount actually liquidated. Under-liquidation has decreased over the years, and Mr. LeBlanc would like the processes examined to further reduce under-liquidation. Mr. LeBlanc said no improprieties are occurring, but Mr. LeBlanc is simply asking the Board of Education to examine encumbrance reservations. Mr. LeBlanc stated that there will always be some under-liquidation.

Mr. Testa asked if the reduction of under-liquidation is due to pre-purchase. Mr. Bowes said that the difference between the amounts ordered versus the amount budgeted has narrowed over the past several years and this is likely because of a sharpening of estimates. Mr. LeBlanc said that the difference examined is the difference between the actual liquidation and the reserved amount.

Ms. Rascati asked for clarification regarding pre-purchasing. Mr. LeBlanc said the difference is when the school district budgets for one product, but then that product is no longer available; this is when under-liquidation often occurs.

Mr. Brodinsky asked about the Board of Education Student Activities Account. Mr. LeBlanc said that the Board of Education administers agency accounts of money raised by students to be used for student functions. As serving in this capacity, the Board of Education is responsible for the accounting of these programs. Mr. LeBlanc would like to ensure that proper procedures are in place for each account. Mr. Brodinsky asked about the contract between the Board of Education and an outside source to develop a policies and procedures manual. Mr. LeBlanc said that the development of the manual is a piece of the solution, but there should be an end-target in sight.

Mr. Farrell asked who would be the person in charge of each account at the school. Mr. Testa said it is usually a teacher in the school.

Mr. Brodinsky inquired about the financial management system and whether the purchase of new software would alleviate the problems with Financial Management Systems. Mr. Testa reiterated that although these systems may be desirable, costs will determine whether or not the town purchases the systems.

Mr. Brodinsky questioned Mr. LeBlanc about the Tax Department's ability to expand system performance of the tax system. Mr. LeBlanc said that this refers to the reporting capabilities of the system, such as the ability to generate a tax collector's report. Mr. LeBlanc said there are reporting deficiencies in the current system. Mr. Brodinsky asked which reports are unable to be generated using the current system. Mr. LeBlanc said that standard reports, such as the ability to generate an outstanding taxes summary report, could take a very long time using the current system. Mr. LeBlanc said that the primary example would be the full data file of receivable balances, and this speaks to the department's ability to create, summarize and analyze reports.

Mr. Brodinsky asked about the lack of integration between the Assessor's Department and the Tax Department. Mr. LeBlanc said that if an assessment changes, it does not automatically change on the tax roles.

Mr. Farrell asked what precautions are in place to ensure that some tax or lien liabilities are caught before they expire. Mr. Bowes said that liens are applied every year, and it is possible to run a report for a one-year period, although this report generation is a slow process using the current system. Mr. Farrell asked whether the Town Council, as the policy-maker, can request a report with every past due property. Mr. Bowes said it is possible, but very time-consuming, and a report like this is run every month. Mr. LeBlanc said that under the current system reports are run based on one-year periods, whereas with new software, all years could be run at once.

Ms. Rascati questioned Mr. LeBlanc about the statute pertaining to tax liens. Mr. Bowes said that the older liens are filed in a separate file in the Assessor's office. Mayor Dickinson said that the older liens are turned over to the Town Attorney prior to expiration.

Mr. LeTourneau asked about the RFP for the Gemini Tax Collection System. Mr. Bowes said that it is hoped that many of the current problems would be alleviated through the use of a new operating system.

Mr. Testa questioned Mr. LeBlanc whether the tax information system would be separate from the financial management system. Mr. Bowes said he could envision having separate providers; the challenge is finding one company that performs all of the functions very well. Mayor Dickinson said that there were problems in the past regarding interface between vendors and their products, but this problem likely doesn't exist today. Mr. Testa asked whether all of the systems should be replaced. Mr. Bowes responded yes.

Mr. Brodinsky asked about the magnitude of the variances between posted transactions and deposited transactions. Mr. LeBlanc said that the variances are minor; if Blum Shapiro felt this was a problem, it would have been singled out. There are a series of tests performed, and in conjunction with the other issues identified in the department, this serves as a vehicle to identify other potential problems. Mr. Brodinsky asked at what level the variances would become a serious issue. Mr. LeBlanc said that the amounts are insignificant, and this is a problem from a processing standpoint. Mr. Brodinsky asked about the high degree of frequency. Mr. LeBlanc responded that the high frequency could be something like 4 out of 10 batches. Mr. Bowes said he is unaware of any discrepancy greater than \$100, and would constitute a \$50 variance as a serious problem.

Mr. LeTourneau asked about the lack of formalized procedures for tax-warrant process. Mr. LeBlanc said that the most important thing when dealing with the tax-warrant process is to have a control of not only what goes out, but also what the turnaround might be, in regards to serving tax warrants. Mr. Brodinsky clarified that a tax-warrant is a collection device. Mr. LeBlanc said that a warrant is a vehicle to attempt to collect the taxes. Mr. LeTourneau asked what can be done to fix this problem. Mr. LeBlanc said that the tax collector should look at the process and determine any changes necessary.

Mr. Brodinsky asked about differences between the federal audit and the state audit. Mr. LeBlanc stated that the Report on Internal Control and Compliance is included in both the state and federal audits based on standard reporting practices.

Mr. Brodinsky stated that current assets total \$34,000,000; this means that in various governmental funds, there is \$20,000,000 in cash, and \$14,000,000 in other assets. There was an increase in net assets of \$8,700,000 million. Mr. Brodinsky asked if this reflected an increase in cash. Mr. LeBlanc said no, this pertains to full accrual-based accounting, which recognizes long-term assets and long-term liabilities. Mr. Brodinsky asked about the negative balance of \$8,800,000 pertaining to school renovations. Mr. LeBlanc said that the school renovations fund accounts for a \$72,000,000 program; at this point in time, the town has not permanently financed bonding to fund these projects.

Mr. Brodinsky asked about the total fund balances; the general fund is listed as \$21,600,000, and in addition to this, the capital non-recurring is an additional \$3,500,000.

Mr. Brodinsky asked if there was a change in the market value of the pension funds over a five-year period. Mr. LeBlanc stated that pension trend is indicated on page 48 of the report, but this amount is not solely market-driven.

Mr. LeBlanc said that uncollected taxes are \$2,400,000 at the end of the year.

Ms. Rascati asked if any of the liabilities impact the town's credit rating. Mr. Bowes said that this wasn't likely.

Mr. Brodinsky adjourned the meeting at 7:44 P.M.

Respectfully submitted,



Erin R. Occhiogrosso
Temporary Town Council Secretary

Meeting recorded by Chairman Mike Brodinsky

Mike Brodinsky
Mike Brodinsky, Chairman

2-6-08

Date

Barbara Kapi
Barbara Kapi, Town Clerk

2/6/08

Date