



# Town of Wayland Massachusetts

## **Audit Committee**

Randall Moore (Chair)

Chris Ryan

Klaus Shigley

Vika Mints

## **Audit Committee**

### ***Minutes***

**February 26, 2019**

**Selectmen's Meeting Room**

**Wayland Town Building**

**7:00 P.M.**

Minutes approved by vote of the Audit Committee on April 30, 2020, 4-0

Attendees: Chris Ryan, Randall Moore, Klaus Shigley. Absent: Vika Mints. Also, in attendance: Brian O'Herlihy, soon to be appointed to the Audit Committee, not yet sworn in and Louise Miller, Town Administrator,

1. Randall Moore called the meeting to order at 7:00 PM in the Selectmen's Meeting Room. Mr. Moore indicated that the meeting was not recorded.
2. Mr. Shigley volunteered to write the minutes.
3. Public Comments: N/A
4. Nominate and vote a chair: Mr. Ryan made a motion to nominate Mr. Moore to be the next Chair. Mr. Shigley seconded. Motion was approved. Vote was 3-0.
5. Review Minutes: Mr. Moore distributed the Minutes of the Feb. 3, 2020 meeting. Mr. Shigley suggested the minutes be distributed ahead of the meeting to better be able to make comments. Mr. Moore expressed the view that would violate the OML. Mr. Shigley replied that it was common practice to distribute meeting materials ahead of time, as long there was no discussion. Ms. Miller confirmed. The Committee agreed that reading materials for future agendas would be sent to Seath Crandall [scrandall@wayland.ma.us](mailto:scrandall@wayland.ma.us) who would then distribute materials to the rest of the Committee.

Mr. Ryan then suggested some edits to the minutes. Mr. Shigley moved to accept the Minutes as amended. Mr. Ryan seconded. Motion passed. Vote 3-0.

6. Suggested edits to the Draft CAFR: The Committee discussed a list of suggested edits to the Draft CAFR Report, prepared by Mr. Shigley. Mr. Shigley indicated that the list contained suggestions that were both substantive as well as cosmetic in nature. As these suggestion edits were being discussed, Mr. O'Herlihy noted that a final version of the draft had already been prepared. That made any further discussion moot. Mr. Shigley then gave examples of clear errors in the earlier draft. He expressed the hope that the final draft had at least addressed these clear errors. It was noted that none of the Committee had not received copies of the final version of the CAFR Report.
7. The Committee met with Louise Miller, Town Administrator. Ms. Miller added context to a list of audit deficiencies that have been surface by the auditor. The discussion centered around 4 items as described in a handout prepared by Mr. Randall and distributed during the meeting.
  - Cash reconciliation. Ms. Miller, the new TA, was informed in March 2019 that the cash reconciliation was not timely and not correct. Ms. Miller requested the new Treasurer to get the reconciliation done by the end of the year. By July, Maura O'Connor -the new treasurer, determined that the task was too difficult to be done inhouse and requested outside assistance, in part because the reconciliation had to go back an entire year. The Town hired a Temp from the CLA Auditing firm to assist with the reconciliation. Ms. Miller indicated that she has identified workflow/process improvements that would ensure this problem will not recur. That process has been adopted. There is a plan of action, including a procedural Manual as well as necessary training.

Mr. O'Herlihy asked whether the cash reconciliation would work better if that function reported elsewhere.

Mr. Moore asked about the cost. Ms. Miller responded that costs were absorbed through transfers from the salary budget as well as Reserve transfers.

Mr. O'Herlihy asked whether the Auditor's report should have cited this as "significant" deficiency.

Ms. Miller suggested that this is a reason for considering periodic change of auditors.

- The second item concerned the cost for the outside consultant hired to make the reconciliation. This was covered in the discussion of the cash reconciliation.
- Another issue raised by the auditors concerns incorrect deductions for health insurance within the School Department Payroll Function. The issue was discovered because there was a year end deficiency in a budget item that should have zeroed out. In addition, a Union Rep pointed to a pay stub from a Wayland member with an outsized deduction for health insurance vs. similar deductions in other Towns.

Ms. Miller tasked Payroll/HR to determine the extent of the problem. She asked the Benefits Manager to audit every employee going back 10 years. The findings were that the problem was extensive: it affected union, non-union as well as retirees; and the errors were in all directions: too high, too low and too big. The issue affected over 100 employees.

The Town Administrator has apprised the Selectmen as well as the Labor Union. For future paychecks, the problem has been resolved. For prior paychecks, where the deduction was too large, the Town has refunded the over charge. However, under collective bargaining rules the Town can't retroactively dun paychecks already issued for insufficient prior period deductions. Hence this issue has become subject to collective bargaining. The Town's position is that it is owed roughly \$150,000. The Town is currently in the middle of a new collective bargaining process. This issue will be folded into that process.

- The fourth issue surfaced by the audit concerned a random test of 25 school department employees which found several problems including overpayments.

The Committee raised a number of issues: the need for better checks and balances, the need to split the invoicing and the payroll processing functions, whether the payroll function should be consolidated into one department, adequate staffing, quality control, why has the problem persisted over so many years without the auditors catching it sooner. And, does this make the case for periodically shopping for a new auditor.

- Mr. Shigley raised an issue not previously discussed. The Town has a procedure for voiding uncashed checks that has never been formally adopted. The alternative is to escheat the uncashed check to the State. The risk in the Town's current procedure is that when someone appears with a large uncashed check, the Town must make good. That creates a potential for a hidden liability. The issue will be resolved at the next Town Meeting via an article.

8. Audit Management Letter. The Auditor is scheduled to report to the Selectmen on March 9, 2020. Question was raised, should we publish a separate Report by the Audit Committee. The answer to that depends on the contents of the Auditors report. Timing is an issue. It was suggested that we ask Ms. Miller to hold off the Auditor's presentation to the Selectmen until the Committee has a chance to review it. If that doesn't work, Mr. Shigley suggested that a subcommittee of 2 (perhaps Mr. Moore and Mr. Ryan, as senior members of the Committee) can collaborate on the draft of a Report by the Audit Committee, which the Committee would vote prior to the March 9 Selectmen's meeting.
9. Topics not reasonable anticipated: N/A

10. Mr. Shigley made a motion to adjourn. Mr. Ryan seconded. Motion passed. Vote 3-0.  
Meeting was adjourned at 8:55PM.

Respectfully submitted,

Klaus Shigley

Attachments:

Appendix A – Agenda for 2/26/20 Audit Committee Meeting

Appendix B - Draft edits to CAFR by Klaus Shigley

Appendix C - Outline of audit deficiencies prepared by Mr. Moore

## Appendix A – Agenda for 2/26/20 Audit Committee Meeting

### Audit Committee

Wednesday, February 26, 2020

7:00 pm

Wayland Town Building

41 Cochituate Road, Wayland, MA

Note: Items may not be discussed in the order listed or at the specific time estimated. Times are approximate. The meeting may be broadcast and videotaped for later broadcast by WayCAM.

### Agenda

1. Call to order; review agenda for the public
2. Assign minute taker
3. Public comment
4. Nominate and vote a chair
5. Minutes: Review draft minutes from 2/3, vote approval
6. Draft CAFR (Comprehensive Annual Financial Report): Review Klaus' input / suggestions to Finance Director Brian Keveny
7. Meet with Louise Miller, Town Administrator, to hear additional context and background relating to findings in the Management Letter.
8. Audit Management Letter (draft): Discussion of letter; Discuss and draft a formal written response to the Board of Selectmen
9. Topics not reasonably anticipated by the Chair 48 hours in advance of the meeting, if any
10. Adjourn

## Appendix B - Draft edits to CAFR by Klaus Shigley

The following are suggestions.

I'm happy to offer more specific language if you would like me to.

I'm heading out of town for a couple of days.

Meantime in the interest of speed, here are my thoughts.

P 4: Suggest we add Lincoln to the list of Towns bordering Wayland. That way you you've got N, S, E, and W covered.

P 5: We state that there are 15.8 **sq. miles** of total land in Wayland and 2709 **acres** of protected land Suggest we say: "approximately 2,709 acres, **nearly 27% of total lands**, that are protected...". That adds perspective. (2709 acres is 4.23 sq. miles.) Hence 27%.

Are we still members of Minuteman Regional?

Suggest we rephrase the sentence with: "The Wayland HS has completed..." That was almost 10 years ago. Suggest we modify that language and include mention of the HS Athletic Complex.

P 6: Negative outlook is gone. At the bottom of p 6, Odyssey does a valuation every two years, not every year.

P 7: AT the bottom, I never understood what "municipal parcel" is. Maybe it needs to be defined?

P 8: Rail Trail and River's Edge need to be updated to reflect recent history.

P 27: I think Government funds needs to be defined. The \$3,234,967 number doesn't show up until p 37. And it's not obvious what Gov funds are (GF, CP, NMGF).

P 28: First sentence last Paragraph: "(CPA) fund property". Should that be "fund's" with an apostrophe?

P 30: First paragraph, Capital assets. "...easements, building and system, improvements...".

What does "building and system" mean in that sentence?

Same page. Would it add useful perspective if we stated that the total debt (\$74 million) was X% of total GF budget?

P 33: Why are pension liabilities "unrestricted"? Maybe just add a new line for pensions?

P 46: First paragraph "Government wide Fin Statements": We use the term "Non fiduciary activities". I think that needs a parenthetical description, to indicate that it refers to retirement plans.

P 48: "The *Community Preservation Fund* was adopted...". I find that sentence difficult to understand. Funds are usually created or set up, not adopted. The *Community Preservation Act*, on the other hand was adopted.

P 49: Bottom of page. "Non fiduciary fund investments **can** be made...". Should that say "**can only** be made?"

P 50: Capital asset is anything bigger than \$15,000? Seems like a small number. Is that still true?

P 57: Table has no date.

P 59: Are we still committed to funding OPEB by 2038? The funding pattern published by Odyssey was PAYGO for benefits plus a \$500,000 annual contribution to the fund. By pure luck, Parker's funding exhibit does land on 2038.

P 68: Last sentence. I think that sentence needs to be reworked. Should that say: "Costs relate to, either the GF or the water fund"?

P 73: First paragraph: should that say: "Left **Town employment** on or after that date"? It says "left employment **on or after Town** on that date".

P 74: Last Paragraph: "No contribs were made between Jan 1 2018 and June 30 2019". Top of page states that Town contributed \$4,648,984 in July 2018. One of those statements is wrong.

P 75: First Table. Line item "Change in proportion". It would help if that were better described/defined.

P 76: I think if you do the math for the target allocation the expected return is 7.37? All those target return numbers should be reduced by the stated inflation number (3.25%) or the table needs to be relabeled "long term expected **nominal** returns". (Not **real** returns)

P 79: Contribution Table. This is a much better presentation than the same information on P. 72. Suggest we use the same format for both.

P 80: If you do the math, you don't reproduce the 7.35% investment return from the target asset allocation and the "expected real rate of return". The assumption page is missing an inflation assumption. Also, is the 7.35% net of fund expenses? Should that be explicitly stated. Paragraph F: Discount Rate. That paragraph is totally unintelligible. Especially the last sentence of that paragraph.

P 81: Just curious, how is the proportionate share calculated? Do they calculate liab's for each town?

P 82: Funding Policy: The word "Implicit subsidy" is inside baseball. It means nothing to the lay reader. It should be rephrased.

P 83: Just curious. OPEB uses PRIT. Are Town employees' funds invested in PRIT also? If so, why are target allocations not the same?

P 84: Discount Rate. Parker does a better job than whoever wrote Page 80. But the second sentence "Based on those assumptions..." is also a little convoluted. "Was projected to be available..." What does that mean? Suggest we ask Parker to edit the entire pension discussion and make it read like it was written by the same person.

Table at the bottom of page should have dates.

P 91: Still needs some numbers.

P 93: Second line in Table: "Interest on unfunded" is mislabeled. The \$3,110,776 is the interest on the gross OPEB liability.

P 94: Actuarially determined contribution \$3,066,376. That was the actual contribution. I think the actuarial expense in the valuation report is different.

Hope that helps,  
Klaus

## Appendix C ) Outline of audit deficiencies prepared by Mr. Moore

- 1) Cash Reconciliations -At the last meeting, for the first time, it was brought to our attention that the town didn't do cash reconciliations for a significant amount of time {I think it was about Nov 2018 - Aug 2019) when reconciliations would typically be done monthly. There was turnover with treasurers, but it seems that when the audit was supposed to start in August 2019 it became apparent that reconciliations were not done so the auditors couldn't start their work. An outside consultant was hired and paid about \$25,000 to get the reconciliations caught up and done.
- 2) Outside Consultant Cash Reconciliations - Regarding the item above, the town resident at the meeting public expressed concern that the town paid \$25,000 to have something done that should have been done by a town employee which would likely be the reaction of most residents. Also, the outside consultant started the reconciliations with Fiscal Year 2019 operating under the assumption that fiscal year 2018 is ok even though there's a window of time in fiscal year 2018 that was never reconciled. The auditor mentioned that they believe the unreconciled time period is not material.
- 3) School Department Health Insurance - It appears that the School department was not taking the Employee portion of medical insurance out of the paychecks for some school employees for about 10 years which has resulted in \$150,000 of medical insurance payments that were never deducted from the employee's compensation. The school employees are not responsible for this amount so there's a \$150,000 amount due to the medical insurance company that will eventually be a problem and we don't know if there's a solution.
- 4) The auditors tested the payroll with a sample of 25 people and found a number of issues with school employee payroll including an employee who was overpaid for a significant amount of time due to a data entry error in the system. We were told at the meeting that the school department has hired a consultant to help them fix these issues.