

Saugus Board of Selectmen  
April 25, 2012

\*\*\*\*\* MEETING MINUTES \*\*\*\*\*

Joint Meeting  
Saugus Board of Selectmen and Saugus Finance Committee  
April 25, 2012 at 7:00 PM  
Town Hall Auditorium  
298 Central Street

1.) Audit Report

Saugus Board of Selectmen  
April 25, 2012

The Saugus Board of Selectmen met at a joint meeting with the Finance Committee on April 25, 2012 at 7:00 PM in the Town Hall Auditorium. Present: Selectmen Stephen Castinetti, Stephen Horlick, Julie Mitchell, Debra Panetta and the Chairman Michael Serino. Also present were Finance Committee Members: Ken DePatto, Theresa Katsos, Ron Jepson, Carl Mirabello, Lou Rossi, and the Chairman Bob Palleschi.

1.) Audit Report

The Town Manager Scott Crabtree and Jim Powers of Powers & Sullivan auditing firm were present. Mr. Powers explained they were engaged about 2 months ago to review and issued a preliminary report and the Town decided to do a more extensive investigation and gave summary of how it transpired: that before he was engaged, employees went to the temporary town manager and told him of transactions that were known to be questionable, but still processed and said a lot of people are responsible and there's no debate that people knew and said there were intentional miss postings to mislead anyone looking at it. Mr. Palleschi asked if control systems are in place. Mr. Powers said there are and said when asked he was told by employees they were told to do it and noted he found invoices without supporting documentation and a warrant signed, but shouldn't have been paid without it and said everyone had a role and stated the DPW Director was aware and said he talked to the previous town manager and said not everything was wrong, but too many were in the wrong place and should be changed. Mr. Castinetti asked why this hasn't come to light before. Mr. Powers said by Charter the Town Manager appoints people and it's obvious they knew it was wrong and they could have stopped it at any time and said he did talk to the rate consultant and she told him of arguments at meetings about who works for water & sewer, but she relies on information given. Mr. Castinetti said he is troubled the auditing firm didn't pick up on it and asked if they should have. Mr. Powers said they could have and explained a forensic audit looks at every expenditure. Ms. Panetta commented that even with test samplings it would have been caught. Mr. Powers said if they did a lot of sampling, yes. Ms. Panetta asked how many communities have Powers & Sullivan. Mr. Powers said 60. Ms. Panetta asked if he has seen anything like this before. Mr. Powers said yes and said he has seen far worse and said he has found there was personal gain, or stolen money, or just cooking the books, said it happens more often than he wants to admit. Mr. Horlick said the Board was meeting monthly on the I/I reviewing bills and updates and said nothing here was on those reports and said the former town accountant used to make comments at Finance Committee meetings, then he was gone and said he feels there was bullying by the former town manager. The Manager said some procurements and other activities are still being audited and watched by the Inspector General's Office. Mr. Horlick said the Town Manager had to sign off on the audit report. Mr. Powers said the manager signs a representation letter. Mr. Horlick said in the newspaper the manager said he didn't have a chance to address this and said the auditors did interview him. Mr. Powers said he did discuss the issues and said some things he admitted to any others he did not. Mr. DePatto asked about methodology for calculating water & sewer rates. Mr. Powers said the consultant relied on information given her and said the methodology was right and said she indicated at a meeting a request for time sheets for water & sewer workers but it was rejected in the field. Mr. Palleschi said the Finance Committee requested that and said he hopes controls have been put into place and asked what the next step is. Mr. Powers said the Town must get the 2012 ledgers correct; and the Town has to accept and meet the DOR requirements before a tax rate may be set. Mr. Palleschi asked who is going to approve ledger entries. Mr. Powers said once the Selectmen accept the audit report they will determine. Mr. Palleschi asked if the (questionable transactions) are still going on. Mr. Powers said they needed to get this part of the audit done and then the town will have that discussion about shifting employees to other departments and said the DOR requires the manager contact them first to allow the town to overspend with the permission of the Selectmen, but all deficits will need to be raised. The Manager said it would require a vote of the Finance Committee and Selectmen. Mr. Palleschi said the Finance Committee is under the gun to have a report to Town Meeting on May 1<sup>st</sup>. The Manager said they are close to getting an accurate number and then they will identify where reductions will be made. Mr. Palleschi said they are running out of time. The Manager said they are close. Mr. Palleschi asked if there will be a revised budget or will they be working off original. The

Saugus Board of Selectmen  
April 25, 2012

Manager said the goal is to revise the budget. Mr. Castinetti said the Selectmen pulled back the budget, so they don't have a Selectmen budget. Mr. Mirabello asked if the DOR has requested forensic audits in the past. Mr. Powers said he's not aware, but normally they would not. Mr. Rossi asked who coded the vouchers. Mr. Powers said a lot were sent to the town accountant that do not indicate who coded and said he didn't see any crossed out or recoded and said the manager signed most or initialed. Mr. Rossi asked if he is implying bills were uncoded and asked if so, who put the code on the voucher. Mr. Powers said the DPW Director knew of charges, but doesn't think he coded them. Mr. Rossi said if they came uncoded, asked who put codes. Mr. Powers said they should be coded and said he cannot tell who coded them, but did see approval of vouchers and they were coded. Mr. Rossi asked if employees understand responsibilities and ramifications. Mr. Powers said yes. Mr. Rossi said all must have ethics training. Mr. Powers said it is a state requirement, however, it is useless. Mr. Rossi said he pointed out employees understand their responsibilities and he mentioned FinCom as part of internal controls and said he never viewed FinCom as part of internal controls. Mr. Powers said maybe he wasn't clear earlier, that FinCom didn't get information, but the Charter says you will have access and said he only meant there were avenues to look at further. Mr. Rossi said FinCom was the committee that grilled the rate consultant. Mr. Powers said he understands they were not given information needed. Mr. Palleschi said they never got what they asked for. Mr. DePatto said there are a multitude of issues and noticed stipends mentioned in report and said FinCom worked hard to eliminate stipends. Mr. Powers said that will be addressed in next report. Mr. Jepson asked if there are any formal guidelines for enterprise accounts. Mr. Powers said the DOR has. Mr. Rossi asked if the journal entries were designed to not be picked up. Mr. Powers explained process. Mr. Palleschi said he would like to finish some FinCom business to pass minutes and adjourn. The Manager said one of the positives came out of this and said the DOR were able to agree to set of things to do listed in letter and allow us FY12 changes only. Mr. Serino said this report is part 1 of 3 and need part 2 as fast as they can. Ms. Panetta asked if they will be going any further back. The Manager said the DOR is not requiring that. Mr. Powers said the accounting system must be replaced. Mr. Serino said they did discuss that. Mr. Palleschi said he and Mr. Rossi volunteer to serve on audit committee.

The Finance Committee approved minutes and adjourned.

Mr. Horlick moved the Board vote to accept the audit report and adopt the report and make it part of the goals and objectives of the manager. Chair seconds. Vote: 5-0.

Mr. Horlick moved to accept the audit findings of the water and sewer enterprise accounts. Chair seconds. Vote: 5-0.

Mr. Horlick moved to form an audit committee as outlined in DOR letter. Chair seconds. Vote: 5-0.

Mr. Horlick said he would love to have the former town manager explain the audit report.

Mr. Horlick moved a letter requesting the former town manager come explain the audit report. Chair seconds. Vote: 5-0.

The Chair said the Board has some other business to discuss and asked if the auditor would take questions from the public.

Any questions?

Bob Cox, asked if by overinflating enterprise accounts, if that violates proposition 2 ½ mandate. Mr. Powers said the analysis was right and the Town is at its levy limit and said it would have required a reduction in appropriations as there was no other way to budget them.

Al DiNardo TMMP4, said FinCom mentioned previous audit firm the manager hired the audit firm and read section on page 2 and said the Town Manager has a lot of authority and can be intimidating and asked if he found that true. Mr. Powers said the Selectmen have oversight and said the tone from employees was they felt intimidated and succumbed to pressure. Mr. Castinetti said when he spoke with employees it was obvious they felt they didn't know who to trust.

Peter Manoogian, TMMP10, said earlier it was said many communities in similar situations and asked what is it about the communities / characteristics that make them successful. Mr. Powers said transparency and information and said he noticed with a strong manager form of government,

Saugus Board of Selectmen  
April 25, 2012

everyone reports to the manager and feels an audit committee and the Selectmen should select an auditor and feel there should be segregation of duties. Mr. Manoogian said there's a Town Meeting Article to create an audit committee.

Ms. Mitchell asked how long it will take to get back where they should be. Mr. Powers said 2-3 years. Ms. Panetta asked if there were internal audits in the past. The Manager said he hasn't seen that. Mr. Powers said that's not usually done. Ms. Panetta asked if the previous auditors should have seen these things. Mr. Powers said it's possible it could have been detected and it's also possible it wouldn't be detected, he can't say. Mr. Horlick said if the former town manager got a 3 year extension to his contract it wouldn't have been found. Mr. Powers said there's a high probability.

Bill Kramich, said he interviewed people at Town Hall and asked what his feeling was. Mr. Powers said they were coming clean with what they knew was wrong doing and that they felt pressured. Mr. Kramich told the Board after what he has heard, he hopes they don't think about asking for an override.

Mr. DiNardo said there has been some sort of fraud and asked if it is criminal. Mr. Powers said he can't say the former town manager has committed fraud, but he did deliberately post things wrong and said the DA would make that determination if it is criminal fraud and said what you usually would see, most times it's not pursued unless there was personal gain.

The Chair said they need an executive session.

Mr. Horlick moved the Board vote to go into executive session to discuss litigation strategy and to reconvene in open session. Those to be present: Selectmen Castinetti, Horlick, Mitchell, Panetta and Serino; and Town Manager Scott Crabtree. Chair seconds.

Roll call vote: Mr. Castinetti, yes; Mr. Horlick, yes; Ms. Mitchell, yes; Ms. Panetta, yes. Mr. Serino, yes.

The Board entered into executive session at 9:05PM.

The Board reconvened in open session at 9:30PM.

Mr. Serino said the Board will continue the library issue.

Ms. Panetta moved to continue the library issue. Chair seconds. Vote: 5-0.

Mr. Castinetti moved to adjourn. Chair seconds. Vote: 5-0.

Meeting adjourned at 9:31PM.

Respectfully submitted,

Wendy Reed, Clerk