

Minutes March 27, 2013
Town of Wayland
Audit Committee

Date: March 27, 2013

Time of Meeting : 5:00 PM

Place of Meeting: Wayland Town Building, Selectmen's Meeting Room

Members Present – Tony Boschetto, Gordon Cliff, Chris Riley, Ben Downs and Chris Cullen

Also Present – Scott McIntyre, Melanson, Heath, & Company (MHC); Danny Rhodes, Segal Actuaries (via telephone)

Call to order

The meeting was called to order at 5:00 PM by Chairperson, Chris Riley

- Assign Minute Taker - Chris Cullen
- Public Comment
 1. Donna Bouchard presented questions related to the following topics
 - Change in employee withholding balances from 2011 to 2012
 - School journal entries to fringe and 32 B insurance accounts for fee based employees including retirement funds
 - Proper recording of OPEB expense and payment
 - FY 13 spike in health insurance cost
- Questions/discussion relating to OPEB and health insurance costs (Paraphrased – Not a transcript)

INTRODUCTION

--Chris Riley

On February 19, Tony Boschetto brought up questions about Town OPEB and health insurance accounts in an email whose distribution included Chris Riley. On February 20, Chris asked Tony to list his questions so that Chris could forward the questions to Fred Turkington and Scott McIntyre. Chris forwarded the list of questions, but never received a response.

On March 13, the Audit Committee had a meeting, and when the question of future agenda items was discussed, the OPEB and health insurance questions which are the topic of tonight's meeting were not mentioned. Had those questions

been raised at that time, then they could have been addressed well in advance of Town Meeting. Instead, on March 20 Chris received another email restating that these questions still needed to be addressed.

As a result these questions are being addressed in close proximity to Town Meeting, and it would have been better to clear such questions earlier to give the public time to assess the information.

QUESTION 1

--Tony Boschetto

What is the annual cost to the Town for health insurance costs related to retirees?

Financial statements state \$2.29M, whereas the warrant states \$1.49M In prior conversations about the portion of health insurance costs paid by the Town and presented in the financial statements, there was a question about how to separate the amounts paid for current employees vs retirees. Recently, while evaluating certain budget items in planning, the question came up again. Some parties have doubts about the numbers presented for this issue in the 2012 financial statements. In an effort to put this to rest, I am putting the question forward again here: What was the amount paid for health insurance benefits for retirees in 2012?

RESPONSE

--Danny Rhodes, Segal Actuaries

Made reference to GASB 45 – requires measurement of OPEB benefits considering “true cost” of the benefits. The issue is complicated because benefits provided for retirees who are less than 65 years of age are the same as the benefits provided for current active employees.

Generally speaking, the true cost of care provided for people age 55 to 65 is higher than the cost for those who are younger, say 25 years old. Since the same premium is charged for each person, regardless of where they fall in the age spectrum, the premiums paid by the younger population subsidize the costs to the older beneficiaries.

Actuarial models provide estimates of these costs, and break them out by age and gender. Those estimates are the tools used for financial accounting and reporting, and the FY 2012 financial statements are based on the 2010 actuarial report.

Since the premium rates are based on a comingled population which includes pre-65 year old retirees as well as younger active employees, it is not practical, and may be impossible, to define the “true cost” of those benefits for retired portion of that population, for the purpose of answering this question as stated.

RESPONSE

--John S (did not get his name)

Among other changes, in 2011 all participants were moved to "Rate saver" plans which create differences between actuarial cost estimates and actual expenses

--Fred Turkington generally agreed with the responses above and made the point that no cash is withdrawn from the trust fund

There was general conversation among the Audit Committee members on the topic. Ben Downs and Gordon Cliff referred to a 2012 conversation between the audit committee and Scott McIntyre about this topic.

-- Gordon Cliff

Referencing his belief that this issue was satisfactorily explored in a December conversation with Scott McIntyre, made a motion to accept the actuarial estimates and the health insurance expenses presented in the financial statements as numbers that are derived from different accounting concepts, and which are both valid. The motion was passed 4-1, Tony Boschetto opposed.

QUESTION 2

--Chris Riley

Why is there a \$600,000 difference between the financial statements and MUNIS relative to health insurance?

RESPONSE

--Scott McIntyre

In a prior period, FY 2010 or earlier, the Town recorded a \$600,000 liability and expense. This was not done in accordance with Generally Accepted Accounting Principles, so in FY 2011 MHC proposed a current period adjustment to correct prior periods. The proposed adjustment reduced the liability on the balance sheet, and increased the fund balance:

Dr. Liability
Cr. Fund Balance

In early FY 2012, rather than recording the entry as proposed, the Town recorded an entry that reduced the liability on the balance sheet, and reduced the expense recorded for the year:

Dr. Liability
Cr. Expense

The numbers were trued-up for the purposes of the audit and financial statement preparation, but the Town had not recorded the necessary correction before the end of 2012. Therefore, the numbers presented in the financial statements as of 6/30/12 are correct. Additionally, because income statement accounts (revenue

and expense) are closed to the balance sheet at year end, the Town's balance sheet was also correct in MUNIS as of 6/30/12, after closing the books.

RESPONSE

--Fred Turkington

In prior years, the general practice of the Town was to pay the health insurance bill at the time it was invoiced. Withholding was credited to the expense as collected each month, reducing the expense to the appropriate level.

In June 2012 the Town moved to the direct pay method, meaning that both the employee withholding accounts and the Town expense accounts reflect the appropriate expense allocation as it is incurred monthly.

DISCUSSION

Ben Downs commented that the Finance Committee had knowledge of the \$600,000 adjustment as of February 25, so better communication between other committees and the Audit Committee might improve performance overall in the future. The Audit Committee generally agreed.

Motion to adjourn – 6:00 approved. Vote 5-0.