

1. BET Audit Comm. Meeting Document

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**TOWN OF GREENWICH
BOARD OF ESTIMATE AND TAXATION AUDIT COMMITTEE
THURSDAY, APRIL 13, 2006
GISBORNE ROOM, 8:00 A.M.**

Present: Robert Stone, Chairman; James Himes, Larry Simon, Leslie Tarkington,

Staff: Peter Mynarski; Comptroller; Chris DeMeo, Risk Management Director; Ron Lalli, Internal Auditor

The meeting was called to order at 8:00 A.M.

Presentation of Payroll Audit:

Mr. Lalli summarized the role of the Internal Auditor, what he is expected to do and precluded from doing. An Internal Auditor cannot participate in the final selection or the detailed design of internal controls.

The scope of the audit includes examination of the following:

- General control environment
- Control related policies and procedures
- Communication of policies and good practices
- Monitoring of controls and review of data
- Ongoing assessment of risk

With regard to Summary Opinion, Mr. Lalli also noted that "It is the Internal Audit's opinion that the controls over some aspects of the payroll are not adequate. It is our opinion that there are risks to the town for all of the internal control elements listed under the audit scope."

Mr. Lalli added that whenever there is an opinion that controls are not adequate, it is very important that the Internal Auditor get agreement from various departments.

Due to a lack of internal controls, it is difficult to determine if such things as higher than proper vacation liabilities or non-recorded time off the job are causing financial or operational loss.

The same applies for sick time, although this varies based on departments.

It is Mr., Lalli's opinion that if the recommendations in this report are implemented, the town could significantly reduce the risk of unauthorized payroll transactions.

The most controversial recommendation is required daily/weekly time records for all employees. LIUNA employees are not required to fill out timesheets. According to Mr. Mynarski, state law exempts them from completing timesheets. Some GMEA employees do not fill out timesheets, as is also true for some other bargaining unit employees.

Mr. Stone asked if some clarification could be made with regard to specificity of this exemption in the LIUNA contract. There is a difference between completing a timesheet and keeping a record of absences and vacation time. The latter is kept track of by these employees.

Mr. Stone pointed out that a department would not be in violation if records are kept that are appropriate for those employees, whether it is time spent at work or time spent not at work.

Mr. Stone used the term "alarming" to describe certain findings combined with the fact that no corrective action appears to have been taken during the several months since the shortcomings first surfaced or are planned for the immediate future. He asked for input by other members.

Mr. Simon stated that the Audit Committee needs to take a more active role.

There was agreement that policy needs to be determined, with possible involvement of the Town Administrator and the First Selectman.

Mr. Simons' suggestions included 1) Try to clean up the report in clarity, 2) Certain things are the responsibility of the Finance Department, and there should be discussion with them, and 3) Include the Director Human Resources in any discussion with the Town Administrator and First Selectman, establishing a timetable for action.

Ms. Tarkington suggested that presentation terms can be changed. For example, instead of timesheets, perhaps attendance records are more acceptable or appropriate. The town is evolving toward a more sophisticated approach with regard to policies, procedures and guidelines to manage all town business.

In response to a question from Mr. Himes, Mr. Lalli stated that there is a policy with regard to time recording. It is very important that time or attendance sheets are required and that they are approved by supervisory employees. There was agreement between all present that management employees should lead by example, and therefore be required to complete some type of time record.

Mr. Stone stressed his belief that the committee should encourage the various authorities to take steps to correct existing deficiencies concerning both controls and segregation of duties before the September time frame on which they are focusing.

Mr. Himes stated that the Committee should take the next step, and proposed the following resolution, which was seconded by Ms. Tarkington.

'The Audit Committee accepts and thanks the Internal Auditor for his report on payroll processing and notes that the Internal Auditor expresses the opinion that certain town internal controls, approvals and checks and balances are not adequate;

The Audit Committee urges the First Selectman and relevant internal managers to develop and implement a plan to address such inadequacies on a timely basis,

and to meet with the Audit Committee to discuss and report on such plan as soon as possible.'

There followed discussion.

Mr. Simon stated that he saw the Payroll Audit Report as being vague, and suggested that as an approach to the problem, the Audit Committee work with town departments on items to maintain the fiscal integrity of the town, and ask to see a timetable.

Mr. Simon said that an action plan needs to be made clear; what is going to be done, step by step and when.

Mr. Simon proposed that the Audit Committee meet with the First Selectman, the Town Administrator and the Director of Human resources to discuss the existing deficiencies, solutions and dates to be completed.

There was some discussion with regard to segregation of functions, and the adding or deleting by employees of information specific to payroll. Mr. Mynarski stated that the Payroll Department should not be adding or deleting anyone from payroll records.

Mr. Simon was not so concerned with the action in Human Resources, but whether an individual in the Payroll Department adding someone to the payroll without anyone knowing about it and that person receiving a paycheck, and unless someone checks, no one would ever know.

Mr. Simon asked if this could exist, and Mr. Lalli stated that it could, More than one person in Payroll has this authority.

Ms. Tarkington noted that the existing list of town employees includes people that do not necessarily receive a paycheck. There are active, inactive and terminated employees. Seasonal employees are kept on the list year round in anticipation that they will return, and it is easier to keep them in the system than to keep deleting and adding their information. Mr. Lalli agreed that the system required some review.

The Committee voted unanimously to approve Mr. Himes' resolution.

Mr. Mynarski will follow up with the personnel records issue and report back to the Committee at the next meeting.

Mr. Himes inquired if outsourcing payroll was a consideration. The town handles the payroll duties for itself, including everything with the exception of pensions.

Ms. Tarkington suggested getting the operations and policies under control, and then re-visiting this issue.

Presentation of 401(k)/Managerial Confidential Contribution Audit

Mr. Lalli explained that that he received a request from the Pension Administrator and the Comptroller to review the fourth quarter match only for the calendar year 2005. In his review, he found some items that could be improved.

There are no written policies in place. If there is no policy in place, the Auditor must make assumptions or use prior practices as a means for making comments or observations on a particular issue. Mr. Lalli saw three issues:

- 1) When an employee enters the Managerial Confidential (MC) plan from another bargaining unit, there should be a policy as to whether or not that benefit should be prorated or granted at the MC rate for the entire year;
- 2) There is a need for written policy if a new employee enters the MC plan, if it is a use of estimated annual salaries or actual salaries earned;
- 3) The use of estimated salaries calculations which leads to front end loading.

Mr. Lalli began with front end loading. He stated that there were a few employees that left town employment during the calendar year 2005 that had their MC benefit calculated on a cap that involved an estimated annual salary vs. actual salary earned. This meant they received a match based on a 6% cap of the estimated annual salary. Mr. Lalli said there is no policy in place that allows this.

Mr. Simon pointed out that in 1997, the BET approved 6% of salary. He said that this is an abuse of imprecise wording. He further stated that the word salary with regard to 401(k) is never interpreted to be other than salary earned.

The committee discussed the next appropriate action.

Ms. Tarkington agreed that this was a manipulation of the BET's words.

Mr. Simon suggested bringing this to the BET as an Audit Committee Report. That this issue, as well as who should approve the general wage increase for the MC employees, and who should manage their benefits.

Mr. Himes asked if simply making the language more specific would solve the problem.

Mr. Simon proposed the following resolution, seconded by Ms. Tarkington:

'The Audit Committee strongly disagrees with the interpretation of how the 401(k) match is being implemented for Managerial Confidential employees, and that it should be based on earned salary only, with regard to both the contribution and the cap.'

There followed discussion.

Mr. Simon noted that there is no one currently looking at MC benefit language.

Mr. Stone suggested that Al Cava and Maureen Kast be asked to provide input.

Mr. Stone said that a process needs to be engaged to move toward having a deliberation formally involving the BET.

The Committee unanimously approved the resolution.

Mr. Stone asked if there was any action that the Committee felt was appropriate with regard to the two abuses that had been highlighted in the report.

Mr. Simon made the point that there is a principal here, regardless of the dollar amount involved.

Upon a motion by Mr. Himes, seconded by Ms. Tarkington, the Committee voted unanimously to accept the Internal Auditors Report on 401(k) MC Contribution match.

Presentation of Audit of Selected Financial Information concerning the Old Greenwich Yacht Club

Mr. Lalli said that the report contained no material findings.

This was a request from the Audit Committee to look at financial data limited to selective financial information of the Old Greenwich Yacht Club. Two leases are in place, one is a ten year lease for the dock services building. The second is an annual renewable lease for a five month period over the summer for the use of the Chimes Building.

This is a volunteer organization with minimal direct cost to the town.
No major insurance issues were found.

Mr. Stone asked if there are any open items with regard to the sailing operation in terms of insurance. Mr. DeMeo responded that the town has a general liability insurance policy that would cover any incidents. The All Risk Property policy is in full compliance with the lease, and would cover any and all risks to the property.

Mr. Stone asked if Mr. DeMeo was comfortable with the reliance on the All Risk policy that the town has, not excluded, and whether or not the town is covered for a situation similar to an instance that took place several years ago which involved a student sailor suffering personal injury that could have been fatal. Mr. DeMeo said that this would be covered under the current general liability insurance policy.

Ms. Tarkington asked if there is a provision in the ten year lease that allows for increasing property insurance coverage as the town requires it or is it strictly at the time of the lease, in terms of the value of the building.

Mr. DeMeo responded that any improvements made, by OGYC or by the town, and any risks incurred with regard to property damage, that OGYC would be responsible for it.

Ms. Tarkington stated that the BET has no responsibility for these leases, and does not approve any of them. The RTM approves them, and she feels this is a major risk.

Mr. Simon pointed out that the Audit Committee can impose an insurance requirement upon the person making the lease, but they do not have the authority to negotiate the terms of the lease.

Ms. Tarkington is concerned with the risks of the lease. Control of the properties is lost over time, but the town still owns the land, and risk still exists.

Mr. Simon proposed the following, seconded by Ms. Tarkington:

'That the insurance requirement for all leases on town buildings be specified annually by the Risk Manager and be in compliance with all town insurance requirements current at that time.'

The Committee voted unanimously to approve the motion.

Mr. Stone asked who was involved with the improvements made at the Chimes Building. Mr. Lalli responded that OGYC paid for the improvements.

Mr. Simon pointed out on page 12 of the report, in parenthesis on the last line; the number should be 5%, not .05%. Mr. Lalli will clarify this point before he changes it in the report.

Ms. Tarkington wanted to know if there is a sewer line at this location, and Mr. Himes stated there is none. Ms. Tarkington wanted to know who follows up, and Mr. Mynarski will look into it. There is concern that taxes involved will be put on the sewer district, as it is a utility.

Mr. Stone asked Mr. Lalli to include the observations from the Town Administrator and the First Selectman.

Upon a motion by Mr. Simon, seconded by Mr. Himes, the Committee voted unanimously to accept the Audit of Selected Financial Information concerning the Old Greenwich Yacht Club.

Review of status of project concerning record keeping and auditing various aspects of Town's health insurance programs.

Mr. Lalli said that he has started the preliminary data gathering process for the medical benefits audit. He has received files from Human Resources, as well as Anthem and HealthNet.

The next step is put the data together and begin auditing employee files. The point of the audit is reconciliation between the vendor file and the town files.

Added to the list are waiver forms.

Mr. Stone reminded everyone that it was resolved last month that the Committee encourages retention of a consultant. Mr. Mynarski said he spoke with Ed Gomeau, and Ovation Benefits may work with the town at no charge. Mr. Mynarski is unsure that full

BET approval will be needed. He is exploring what the cost might be. If over \$5,000, and would require an RFP, a resolution may be necessary
This item will be put on the Audit Committee's May agenda for possible eventual consideration by the full BET.

Approval of the minutes from March 9, 2006

Upon a motion by Mr. Simon, seconded by Ms. Tarkington, the Committee voted unanimously to approve the minutes of March 9, 2006.

Approval of the minutes from March 15, 2006

Upon a motion by Mr. Simon, seconded by Ms. Tarkington, the Committee voted unanimously to approve the minutes of March 15, 2006.

Approval of the minutes from March 21, 2006

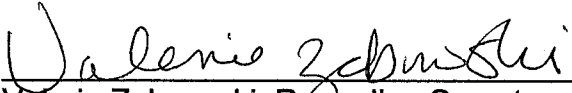
Upon a motion by Ms. Tarkington, seconded by Mr. Simon, the Committee voted unanimously to approve the minutes of March 21, 2006, with Peter Mynarski as the Recording Secretary.

Consideration of changes to Internal Audit Plan

There were no suggested changes.

There being no further business, upon a motion by Mr. Simon, seconded by Mr. Himes, the Committee voted 4-0-0 to adjourn at 10:15 A.M.

Respectfully Submitted,


Valerie Zebrowski, Recording Secretary


Robert Stone, Chairman