



Dollars & Sense



News and Resources for the
Massachusetts Public Finance Professional

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OPEB Decision Time, by David Chin and Terry Monteau

Decision makers at all levels of local and state government are struggling to understand the ramifications of GASB 45 and to come up with workable remedies to pay for Other Post Employment Benefits (OPEB). Many look to the current national campaign for some sign of relief because the debate among the presidential aspirants often turns to national health care. As of this writing, however, no viable candidate has promoted a true national health care program with all Americans covered by Medicare, Social Security, or a new department of the federal government. Instead, candidates either do not wish to measurably change the system or they remain on the side of continuing to support an employer-based health care structure. Some do wish to add funding to help more children via state-run programs.

in December 2006. Entities that are below \$100 million but above \$10 million are just now being reviewed by actuaries. Those below \$10 million have until December 15, 2008 to begin. (<http://www.gasb.org/>) One forward looking school district in Wales, Wisconsin completed their OPEB report on October 10, 2006 - way ahead of schedule. The Kettle Moraine School District has on their May 13, 2008 agenda a "Report on the Administrative Objective for OPEB". This procedure makes OPEB decisions an open and transparent process. (<http://district.kmsd.edu/>)

Vesting

Vesting periods, working long enough to qualify for employer paid OPEB, vary in length of service and in rules of eligibility. In Arkansas and Washington State employees are eligible after 5 years of service, but in Pennsylvania some need 25 years. Many OPEB vesting periods are related to the state's retirement system; employees must first qualify for retirement to receive benefits. For example, as reported by the National Association of State Comptrollers, in Georgia "... members are eligible for retiree health-care if they are eligible for a pension benefit." While retired members pay a portion of the OPEB cost in South Dakota they qualify by receiving a benefit from their retirement system "...which means they have three years service, and be at least 55." Delaware and Illinois use a sliding scale to reach full OPEB coverage after 20 years service. Some states grant workers a 5 percent per-year credit toward their OPEB so that at the end of 20 years they are at 100 percent coverage (<http://www.nasact.org/>) This is not to say that all cities, towns and school districts within these states use 20 years as a vesting period. Historically, vesting periods have been much less than 20 years.

(continued on page 3)

Outside the Commonwealth where the towns of Wellesley, Arlington, Franklin and Belmont have formed Group Insurance Liability Funds to pre-fund OPEB, what is being considered to deal with future retiree benefits? What innovative methods may be used to boost performance of such funds and how do some others view GASB 45 obligations? Without national health care what are the country's decision makers to do? What roles are the employers and employees expected to play and what is fair treatment in this situation?

Education

Decision makers who have grappled with OPEB frequently form a committee of labor, management and public representatives to make judgments and educate constituents. Decision making concentrates on four essential elements: jobs, employees, insurance, pre-funding.

Part of the total education process will be to perform the actuarial study laid out within the rules of GASB 45. Those entities that have budgets over \$100 million started this process

We're on the Web

www.mgfoa.org

Special points of interest:

- *If You Missed The Last MGFOA Meeting*
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- *The next MGFOA Meeting*
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- *News From NESGFOA*
- See Page 9

President's Message

By Sanford Pooler

Some people say New England has four seasons, summer, fall, winter, and mud. At the MGFOA we know of a fifth overlapping season, the one we are in now, the budget season.

Just as New England's weather can change in a day, so too can our local fortunes. Over the past couple of months, we have been subject to a downturn in the housing market linked to the sub-prime lending problem, wild fluctuations in the US and overseas stock markets, and the intervention of the Federal Reserve with an unprecedented 75 basis point cut in the short-term interest rates (good for keeping down bonding costs, bad for making interest income projections!).

Closer to home the Governor's budget promises increases in local aid, but those are tied to the Legislature's acceptance of his casino gambling proposal. Who among us is willing to bet our budgets on that proposition?

With all this uncertainty, the MGFOA stands as a rock of stability, or at least as a place you can get some useful information about local finance issues and enjoy the company of your fellow finance professionals as we make our way through this challenging season.



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Membership dues are for the period July 1 to June 30. \$10 of membership fee is sent to the New England States Government Finance Officers Association for membership dues.

Mail membership form and payment to MGFOA, c/o Treasurer, 525 Washington St., Wellesley, MA 02482.

Any questions about MGFOA or NESGFOA should be directed to Marc Waldman at (781) 431-1019 X2260.

ABOUT THE NEWSLETTER

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Please email your ideas, copy, comments or questions to: editor@mgfoa.org.

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Other Post Employment Benefits (continued from page 1)

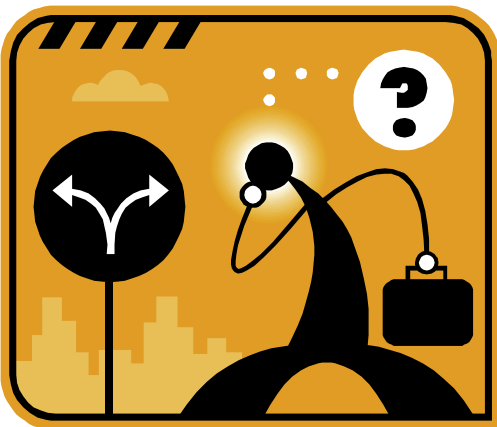
However, entities are negotiating changes in vesting. Some employers, prior to their actuarial study, have lengthened the time required to be on the job to qualify for OPEB. The Town of Bethlehem in Delmar, New York recently negotiated to 20 the number of years of service needed to be eligible for retiring with employer paid insurance. It is probably safe to say that 20 years is slowly becoming the new norm for workers receiving totally paid OPEB's.

New v. Veteran

Some believe that new hires should be made to shoulder a greater burden than veteran personnel. The New York State School Boards Association reports in their July 23, 2007 issue of *On Board* that in a survey of 456 school districts - "...new teachers last year paid 12.3 percent of - premiums for individual coverage - senior teachers paid 10.9 percent" - for the same insurance benefit. Interestingly, they also report "...95 percent of school districts provide health insurance to retirees" and that "...retired teachers paid an average of 30 percent of the premiums for individual coverage and 36.5 percent for family coverage." (<http://www.nyssba.org/>) It should be noted that the last public employee strike in New York was over this very issue. The Transit Workers Union in New York City went on strike in December 2005 to maintain the same benefits for all workers regardless of when they came on the job. (<http://www.twulocal100.org/>)

Eliminating OPEB

Some employers are taking the position of simply eliminating OPEB's. The Provo, Utah School District, among others, does not promise retiree benefits to anyone hired after September 1, 2005. Those employed earlier, if qualified by having 20



years of cumulative District experience prior to September 1, 2007, are able to take advantage of a Modified Career Grandfather Option: "During the eight-year period of insurance coverage, the District will pay \$438.00 per month of medical benefit." Provo employees having 12 but less than 20 years of continuous district experience at retirement may be provided a portion of this funding via a Pro-Rated Retirement Benefit. As new hires replace veteran staff, Provo's OPEB liability will disappear. (<http://www.provo.edu/>)

Sacramento County, California has never vested retirees with a medical benefit. Any "Plan" for such benefits has been, since 1980, based upon annual determinations by the Board of Supervisors. On June 5, 2007 the Board adopted a new policy stating that participants who retired on or before May 31, 2007 would continue to receive a health subsidy. The subsidy would be eliminated for all employees who retire after May 31, 2007. (<http://www.saccounty.net/>)

Funding for OPEB

In contrast, some communities in California have committed to funding future retiree benefits. CalPERS, the state retirement system, formed an IRC 115 trust to accept funding for OPEB accounts. California employers must meet CalPERS guidelines to be part of the program: conduct their own actuarial study, commit to three years of being in the program before withdrawal, purchase group health insurance through CalPERS. The first entity to take advantage of this system was Thousand Oaks. The city established an OPEB account and made a contribution of \$6 million for 2007. In the future, the contribution rate will fall to \$1.1 million per year due to the initial over-funding. CalPERS will invest the ARC payments similar to the retirement funds held in their care. Rules for withdrawal to pay OPEB cost are in the process of being written. (<http://www.calpers.ca.gov/>)

Trends

Obviously employers may utilize more than one strategy to deal with GASB 45. Increasing the length of time before becoming vested, dropping retiree benefits for new hires, increasing employee contributions, creating a sliding scale for employees to build on and pre-funding are all part of the possible solution. However, there are additional ideas for decision makers to consider in dealing with GASB liabilities. They involve monitoring the actual health insurance products and creating a cost recovery system to pre-fund OPEB.



Self Insure

The debate about OPEB's should be concerned with insurance provisions. Each employer/employee group should review their plans to determine if changes are necessary or desirable. Reviewing the policy by adding or reducing the number of days for any particular coverage, such as physical therapy, may generate cost savings or correct for a lack of coverage. Emphasizing a healthy life style by establishing wellness programs and an early detection system requiring yearly check ups will have its long term rewards. Defining the policy is very important because changes made after a pre-funding program is established may require recalculation of the actuarial accrued liability (AAL).

As we wait for more communities in Massachusetts to pass Group Insurance Liability Funds to pre-fund OPEB and for actuarial studies to be completed, everyone should consider self-insuring. Employers who self-insure use a third party administrator to monitor the program and pay claims. South Dakota utilizes self-insuring for more than 13,000 active and retired workers. (<http://www.nasact.org/>) Rensselaer County in eastern New York also self-insures. (continued on page 7)

Indemnification of Municipal Employees, by Gregg Corbo

What is the meaning of “shall” indemnify?



Municipal employment brings with it many rewards, but also many challenges and frustrations. Among the latter is the possibility that a municipal “employee” (whether elected or appointed, paid or unpaid) will be sued for damages arising out of some official action. To encourage citizen participation in local government, either

as a paid employee or volunteer official, the General Court of the Commonwealth has, as part of G. L. c. 258, the “Tort Claims Act,” enacted various limitations on liability and safeguards to shield municipal and other public employees from personal financial loss and expense in connection with claims and suits arising out of their official duties. One of such protections is in the form of a requirement that the municipality provide the employee legal defense and indemnification against possible damage awards, under certain circumstances. But what are the rights of the municipality to control costs and expenses associated with the mandatory indemnification and defense of public officials? In the recent decision in *McCoy v. Town of Kingston*, 68 Mass.App.Ct. 819 (2007), the Appeals Court addressed one aspect of the question of such balancing, namely, the extent to which a municipality may exercise prior approval of retention of counsel for defense of a claim brought against its employee for an action in the course of his or her official duties or employment.

Chapter 258 contains a local acceptance provision at Section 13, which provides in relevant part that the municipality “shall indemnify and save harmless municipal officers, elected or appointed from personal financial loss and expense including reasonable legal fees and costs, if any, in an amount not to exceed one million dollars, arising out of any claim, demand, suit or judgment by reason of any act or omission, except an intentional violation of civil rights of any person, if the official at the time of such act or omission was acting within the scope of his official duties or employment.” [emphasis supplied] This provision has been interpreted by the Massachusetts appellate courts as making it mandatory for a municipality to pay for the costs of legal defense, as long as the statutory conditions are met. In contrast, in those municipalities that have not accepted Section 13, G. L. c. 258, section 9 applies, and provides that the municipality may exercise discretion as to whether or not to indemnify its employees from personal financial loss and expenses such as lawyer’s fees, arising out of claims, demands, suits or judgments.

In 1980, by vote of its Town Meeting, the Town of Kingston accepted Section 13. In addition, the Town has a by-law which provides that, “The Selectmen shall have the power to institute or defend suits and to employ counsel at any time if in their judgment the interests of the Town so require.” In accordance with the authority under this by-law, in 1994 the Selectmen established a policy providing that “no special counsel will be paid unless the Board of Selectmen approves the appointment of that counsel prior to any costs being incurred.” [emphasis in original] The question addressed in the *McCoy* decision is whether the by-law and policy, with its requirement of prior approval, is properly applicable to limit an employee’s entitlement to payment of cost of retaining a lawyer, in light of Section 13’s mandatory indemnification provision. The answer to the question is that such requirements do not conflict with the mandatory indemnification provided by statute.

In April 1998, a dispute arose between the Town’s then Tax Collector and a taxpayer. In the course of attempting to resolve this dispute, counsel for the taxpayer wrote a letter to the Collector, threatening to seek damages for the Collector’s allegedly constitutional violations and tortious conduct. In response to these allegations, and without seeking or obtaining the prior approval of the Selectmen, the Collector retained a private attorney to negotiate with the taxpayer. The dispute eventually settled, following which the attorney retained by the Collector billed him over \$12,000 for services in connection with that dispute. Two years later, after being sued by the attorney for recovery of unpaid fees, the former Collector presented a claim to the Board of Selectmen for indemnification of the costs of defense by the lawyer he had retained without advance approval by the Selectmen. The Selectmen rejected the claim for payment, citing the former Collector’s failure to have complied with the 1994 policy requiring the Selectmen’s approval of counsel “prior to any costs being incurred.”

The former Collector then sued the Town, claiming that, because indemnification under Section 13 is mandatory, as a public employee, he had the unilateral right to retain counsel of his own choosing, and then to seek indemnification for those expenses, notwithstanding the bylaw’s pre-approval requirement. Both the Superior Court and the Appeals Court disagreed with this claim, finding that, “This interpretation would erode, if not effectively eliminate any screening role or gate keeping function that enables the [municipality] to retain a degree of control over indemnification expenses, or to minimize its own liability.” The Appeals Court held that there was no conflict between the Town’s policy and the mandatory indemnification provisions in Section 13, because the policy implemented by means of the bylaw was merely a “supplemental screening mechanism” to facilitate the orderly processing of requests for indemnification, so that the Town can better manage its financial affairs.

“One of such protections is in the form of a requirement that the municipality provide the employee legal defense and indemnification against possible damage.”

The *McCoy* decision balances the interests of the individual and the municipality. It preserves the employee’s right to indemnification while recognizing a municipality’s legitimate interest in managing the cost of legal defense of its indemnified employees. For that reason, municipal employees should be aware of any such advance approval policy of their employer. Should there be such a policy, the decision in *McCoy* illustrates the need to be mindful that their employer’s reasonable policies concerning defense of claims against them should be followed prior to engaging a defense attorney, even where Section 13 applies to impose an obligation of “mandatory” defense upon the municipal employer.

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What is Internal Control and COSO? By Scott McIntire

With nearly a dozen new audit standards issued recently, internal control, or an organization's internal control structure is more important than ever. But what constitutes internal control? Internal control can mean different things to different people, thereby causing confusion.

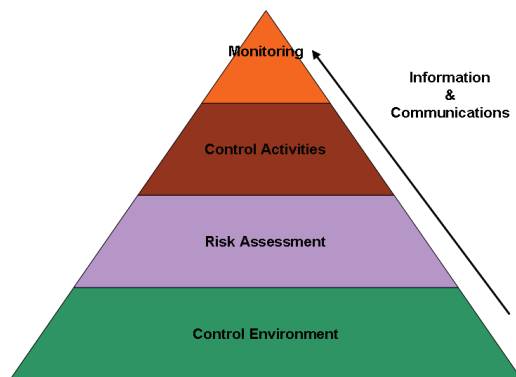
The new audit standards (applicable for June 30, 2008 audits) require auditors to increase their focus and study of the auditee's internal control structure. As a result, it is expected that more internal control deficiencies may be identified.

Governments looking to establish, improve or document their control structure must review the comprehensive internal control model developed many years ago by the President's Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO model is widely recognized as the standard against which organizations measure the effectiveness of their internal control systems. The COSO model defines internal control as a "process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance of the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

For local governments, responsibility for internal control is most often a collective process by the legislative and executive bodies, as well as Finance Directors, Accountants, Treasurers and Collectors. Together these bodies and personnel are charged with the governance of the organization, meaning "the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity." (1)

For an effective internal control system, a local government needs more than just a cash reconciliation procedure. Local governments need the five interrelated components of internal control as defined and illustrated by COSO:



- *Control environment* sets the tone of the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

- *Risk assessment* is the organization's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
- *Control activities* are the policies and procedures that help ensure that management directives are carried out.
- *Information and communication* systems support the identification, capture and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- *Monitoring* is a process that assesses the quality of internal control performance over time.

Specific examples of internal control in the five components include:

- **Control Environment** – Management's actions to remove or reduce incentives and temptations that might prompt personnel to engage in dishonest, illegal, or unethical acts including the communication of values and behavioral standards to personnel through policy statements, codes of conduct and by example.
- **Risk Assessment** – Management's assessment of what could go wrong and how risks should be managed. Management may take action to address specific risks, or may decide to accept the risk because of cost/benefit considerations. Special consideration should be placed on risk associated with the change in personnel.
- **Control Activities** - Documented policies and procedures including the segregation of duties, and performing cash, receivables and other key reconciliations.
- **Information and Communication** – Management presentations on laws, regulations, security, ethics and fraud; and establishing a system to disseminate timely and accurate information to allow the organization to meet its objectives.
- **Monitoring** – Management performing regular internal audits and assessing the quality of control activities over time and reporting any deficiencies that may exist.

Many local governments have certain elements of the COSO internal control framework, but generally lack the required documentation of these controls. Specific software (in the \$1,000 to \$2,000 range) can be purchased to assist governments in documenting controls in the COSO framework.

COSO is a voluntary private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal control and corporate governance. More information on the COSO framework can be reviewed at www.coso.org

(1) Statement on Auditing Standards No. 114 *The Auditor's Communication with Those Charged with Governance*

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SJC Clarifies Health Insurance Eligibility of Unenrolled Retirees, by Thomas F. Gibson

In *Cioch v. Treasurer of Ludlow, et al.*, 449 Mass. 690 (2007), a decision largely denounced by employees and retirees, but embraced by financially strapped municipalities, the Supreme Judicial Court determined that municipalities are empowered under G.L. c. 32B to implement a policy which precludes participation in a municipality's health insurance plan by former employees who have retired, and who were not enrolled in the health plan prior to, or at the time of their retirement.

Factual Summary

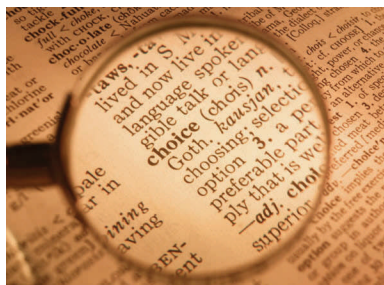
Joanne Cioch had been employed as a teacher in the Ludlow School System for 22 years when she retired in 1994. During her employment she did not participate in the Town of Ludlow's employee health insurance plans, opting instead to obtain coverage through her spouse's health insurance plan. Upon her spouse's retirement in 1997, his health insurance plan was no longer available to the Ciochs, and together they purchased health insurance coverage from private sources. Subsequently, Mrs. Cioch petitioned the Town of Ludlow to allow her to participate in the town's health insurance plan as a retiree. The town refused her request, citing its policy that retiree health insurance coverage was available only to retirees who were enrolled in the plan while employed by the town. Mrs. Cioch then sued town officials, claiming that she as a retiree she had a right to enroll, and was improperly denied that right.

What the Court Found

Citing the "broad authority" afforded municipalities under Chapter 32B to regulate health care plans offered to their employees and retirees, and the "sparse framework" contained in the statute, the Court determined that the town's action to deny enrollment to Mrs. Cioch was not improper. The Court found that "there is nothing unreasonable about the town's defining eligibility for that insurance, or conditioning eligibility on preretirement or at retirement participation." The Court went to state that Chapter 32B neither requires nor prevents a municipality from adopting a policy "to permit enrollment by a retiree who has not enrolled in a municipal health insurance plan while employed, to enroll in a municipal health plan after she has retired." As long as the policy is otherwise consistent with state law, the Court determined that the power to define and tailor health care plan eligibility for employees and retirees lies within the discretion of individual municipalities.

What the Court Did Not Say

The Court left open the question of how such policies would be applied to "deferred" retirees, those employees who are eligible for a present or potential retirement allowance under G.L. c. 32, but who have ceased active employment, voluntarily or involuntarily, and have opted to defer receipt of their pension until a later time. Under policies similar to the Town of Ludlow's existing policy, it would appear that a deferred retiree who was enrolled in the town's health insurance plan as an employee at the time of terminating service, could, upon activating the deferred retirement allowance, become eligible for reinstatement in the town's health care plan.



Ramifications

Could the SJC's decision in *Cioch* have the practical effect of increasing municipalities' health insurance costs? Employees opting for health insurance coverage through a spouse's employer are now expected to carefully weigh the risks and costs associated with obtaining future health care coverage from outside sources, against the cost and guaranteed availability of comparable coverage through the municipality, coverage now promised to extend into the employee's retirement. As a result, cities and towns may see an increase in health plan enrollments from employees who have previously been covered elsewhere, with a corresponding increase in employer contributions.

In addition, collective bargaining associations will undoubtedly view the *Cioch* decision as presenting significant issues to bring to the table during contract negotiations. Employees who have been compensated for opting out of the employer's health plan may seek increased compensation, arguing that the municipality is now saving additional and substantial health insurance costs upon the employee's retirement.



Conversely, municipalities may now seek to further regulate and to restrict health plan eligibility, including the implementation of a policy which would also prohibit deferred retirees from participation in the town's health care plans. (N.B. An informal poll recently conducted by a retirement board revealed that a surprising number of municipalities had no written policies in place regarding post-retirement health care enrollment.)

Lastly, and as referenced in *Cioch*, it should be noted that Chapter 67 of the Acts of 2007, "An Act to Reduce the Reliance on Property Taxes Through Municipal Health Care," allows opting municipalities to join the state's Group Insurance Commission (GIC). As the Court noted, "GIC has promulgated more inclusive eligibility regulations that the town has adopted ... permitting retirees to apply for enrollment postretirement, but not automatically extending coverage. ..." Under Chapter 67, municipalities which act to provide health insurance to employees and retirees through GIC thereby become subject to GIC's regulations. Accordingly, such municipalities would be precluded from adopting or implementing a more restrictive policy.

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OPEB (continued from page 3)

Obviously to be a candidate for self-funding health insurance some criteria must be reviewed:

- Is the group large enough to do so?
- Is the employer willing to assume some risk?
- Will new ideas be accepted to contain cost and maintain plan stability?

While self-insuring has the risk of loss due to catastrophic claims, this can be offset by using excess loss insurance and controlling premiums. When was the last time your insurance carrier returned or reduced premiums without altering the policy? National Health Administrators, Inc. has successfully negotiated such programs. As executive third party administrators they adjudicate claims after a 5 percent reduction of premium (based on a community rate). Furthermore, in many cases they return a quarterly dividend where reserves have accumulated due to their proactive processing of claims. A third party administrator must be able to maintain policy provisions, work with a reduced premium and be willing to return excess funding. When there are savings as a result of self-insuring health benefits, the monies may be used to stabilize GASB 45 funding. (<http://www.nhai.net/>)

Additionally, up front reductions in the cost of insurance for retirees translates into a reduced AAL. Any reduction in total AAL results in smaller annual required contribution (ARC) payments: a win-win situation. Maintain the same program, reduce cost by as much as 5 percent, benefit from quarterly dividends, and reduce the over all AAL/ARC obligations makes self-insuring an option worth investigating.

Creating Cost Recovery

The pay-as-you-go approach of providing retiree benefits is under challenge. Traditionally, OPEB and pensions have been treated differently. Pensions have been pre-funded while OPEB are part of the yearly budget process, pay-as-you-go. Now retiree benefits will be treated more like a pension with employers needing to account and pay for them in the years that they are earned. Thus, employers are being asked to pay for health insurance for both active workers and current retirees, plus set aside money to invest for future retirees.

Making a compilation of promised future retiree benefits and then deciding to pre-fund them is a serious undertaking. Whether entities form an IRC 115 trust, as in California, or organize an IRC Sec. 501(c) (9) Voluntary Employee Benefit Association (VEBA), the method of funding is basically the same and what is needed to leverage these investments is a cost recovery system. A cost recovery system is simply a method by which a portion or all of the cost of a retiree's health insurance is returned to the trust to be used again for later retirees. Accordingly, that involves the use of group life insurance.

Utilizing a portion of the ARC, a trust would purchase a group life insurance policy on all current employees to be carried with them into retirement. When an employee dies the trust would be the beneficiary of the group policy. This is a quid pro quo. Employees are assured that they will have retiree health insurance throughout their lifetime. At the same time, employers would know that the premium cost for each retiree's health insurance will be returned to the trust via the death benefit from the group life insurance. The return of the death benefits to the trust creates cost recovery to fund future health insurance premiums. (continued on page 9)

MGFOA Meeting, November 8, 2007 by Sanford Pooler

The MGFOA membership heard from two experts in the field of fraud detection and prevention. Jim Powers, a partner in the accounting firm of Powers & Sullivan and Michael Cusack from the Massachusetts Interlocal Insurance Association (MIIA) spoke to the group about the financial impacts of fraud. Jim organized his remarks around four themes: Identifying Risk Factors; Evaluating Internal Controls; Implementing Preventive Measures; and Fostering an Anti-Fraud Culture in the Workplace.

Fraud can take many forms. Using a definition of fraud as, "When a person intentionally causes economic harm to another party," Jim reeled off several sinister examples of embezzlement, payroll frauds, and misappropriations of assets. Both speakers showed us a triangle of fraud with three elements: Need, Opportunity, and Rationalization. They pointed out that the people who commit fraud may seem no different from most of us. They tend to be older, male, have above average education, and appear to be in stable family situations. They also tend to work in positions of trust and have a detailed knowledge of financial systems and their weaknesses.

Fraud develops when there is a perceived need, when, for example, a person has high debt, is living beyond his means, or is suffering from a gambling or drug addiction. A person may also feel the need to commit fraud, if she wants to get even with her boss, feels a lack of recognition at work, or feels the pressure of anticipated layoffs.

Jim stressed that a person is more likely to commit fraud when certain opportunities arise such as when an organization has weak or non-existent internal controls, operates in a constant "crisis mode," fails to segregate the duties of key personnel who oversee and monitor cash or check disbursements. A person who commits fraud will often rationalize the act. There are many examples of people who will thought they would borrow funds and "pay it back soon." Others rationalized that they deserved the money because they worked harder than their bosses, were passed over for promotions, or had a good purpose for the money, such as caring for a sick relative.

We are all aware of recent example of spectacular frauds in the private sector, from Enron, to WorldCom, to Tyco. The public sector has its own sets of pressures such as the political pressure to keep taxes and utilities rates low, the inadequacy of budgets, and the looming threat of layoffs. These pressures may lead to such fraudulent activity as moving expenses between periods to meet the budget or use remaining budgeted funds, moving operating expenses to capital projects, or moving general expense to grants.

What can be done prevent fraud? Jim and Michael suggested that cities and towns conduct periodic fraud risk assessments, publish fraud prevention policies, evaluate internal controls, and educate our employees about the risk factors for fraud. Jim pointed out that 60 percent of fraud is detected by employees' tips, so talking with your employees about fraud, about your potential weaknesses against fraud, and ways to prevent it can greatly bolster your defenses. Michael gave many harrowing examples of actual fraud incidents in Massachusetts cities and towns that have led to claims being filed with MIIA. He also explained the role of insurance in transferring risk and walked the meeting through the claims filing process, giving particular emphasis to the investigatory and prosecutorial phases of a fraud case. Sanford Pooler is President of the MGFOA.

Coming Events

SAVE THESE DATES

Mark your calendar now for these upcoming GFOA Annual Conferences

The GFOA 103rd Annual Conference
Seattle, Washington * June 28 - July 1, 2009

The GFOA 104th Annual Conference
Atlanta, Georgia * June 6 - 9, 2010

The GFOA 105th Annual Conference
San Antonio, Texas * May 22 - 25, 2011

The GFOA 106th Annual Conference
Chicago, Illinois * June 3 - 6, 2012

The GFOA 107th Annual Conference
San Francisco, California * June 2 - 5, 2013

Coming Events

Coming Events

Coming Events

Coming Events

Coming Events

- ◆ **MMAAA Annual Education Program**
UMASS, Amherst
March 16 - 19, 2008
Register at www.mmaaa.com
- ◆ **NESGFOA Spring Seminar**
Marlborough, MA
March 27 - 28, 2008
Register at www.nesgfoa.org/events
- ◆ **The GFOA 102rd Annual Conference**
Fort Lauderdale, Florida
June 15 - June 18, 2008
Register at www.gfoa.org



MASSACHUSETTS
GOVERNMENT
FINANCE
OFFICERS
ASSOCIATION

Winter MGFOA Meeting

Friday - March 14, 2008

Assabet Valley Regional Technical HS

Marlborough, MA

“Current IRS issues in Payroll
Benefit Administration”



Register at www.mgfoa.org



OPEB (Continued from page 7)

NESGFOA Meeting, September 2007 by Sue Milne & Ed Spellman

When health insurance premiums are rising nearly three times as rapidly as the Consumer Price Index, when people are living longer and fuller lives after retirement, when private sector employers are doing away with these very same benefits, it is prudent to look to the future.

“Without pre-funding and a cost recovery system will the employer be able to afford retiree insurance?”

Current public employees need to ask themselves the following: Without pre-funding and a cost recovery system will the employer be able to afford retiree insurance? The employer needs to ask a similar question: Given the current tax rates and economic condition of the Commonwealth for increases in aid to fund these programs, does a cost recovery system make sense?

To be fair, local decisions about the nature of jobs, the role of employees and employer, insurance provisions, and pre-funding should be made by all the interested parties. If pre-funding is instituted, will entities form a VEBA and share governance with the employees or use an IRC 115 trust and assume total control of investments and programs?

All OPEB decision makers need to understand that pre-funding by any method is only half of the formula for paying for retiree health care premiums; the other half is taking advantage of a cost recovery system.

These are not insurmountable decisions, but they do require ingenuity and reasoned analysis.

Since this article was written, Pew Charitable Trusts released “Pew Study Finds States Face \$2.73 Trillion Bill for Retiree Benefits” which may be reviewed at http://www.pewtrusts.org/news_room_ektid32368.aspx

David Chin, CLU, ChFC, CFP, can be reached at dchin@nycap.rr.com Terry Monteau, a retired teacher, can be reached at tmonteau@nycap.rr.com



The New England States GFOA celebrated its 60th Annual Fall Conference in South Burlington, Vermont on September 20-23, 2007. The Conference featured a very informative educational program highlighted by instructive and entertaining sessions lead by municipal finance expert Paul Glick. Additional notable sessions included candid remarks from national GFOA Executive Director Jeffrey Esser regarding the ongoing pronouncements by GASB. The Vermont State Auditor gave a rousing keynote speech at the Conference’s opening ceremonies which included a full color guard and a presentation of the U.S. flag.

The Conference was blessed with beautiful fall weather with the temperatures rising to above 80 degrees. The Friday night cruise on Lake Champlain was truly spectacular as we sailed into New York state waters. The annual golf tourney was a great treat for over 60 golfers who enjoyed the scenery at the Williston Country Club.

The conference concluded on Saturday night with formal presentations to outgoing NESGFOA President, Denis Gravelin who did a great job in coordinating the conference over the past year. Attending the banquet on Saturday night were 7 former NESGFOA Past Presidents who assembled for a group picture.

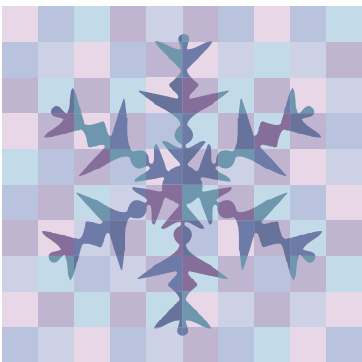
The current NESGFOA President, Vincent Izzo Jr. began his term and announced that the 61st Annual Conference will be held in Newport, RI on October 5-8, 2008. Also on the horizon is the Spring Training Seminar scheduled for March 27-28, 2008 in Marlborough, MA.

Visit the NESGFOA web site at <http://www.nesgfoa.org> go to the Events page to review the 60 Annual Conference Highlights that include the GASB update, Developing a CIP plan, and New England Regional Bond Ratings.

Sue Milne and Ed Spellman represent Massachusetts on the NESGFOA Board of Directors.

\$small change, by Mike Daley

Happy New Year! I hope that you all have enjoyed your busy lives since our last issue was released during the fall.



Our congratulations go out to Sue Milne, Yarmouth's Finance Director. Sue was recently elected Vice President of the New England States Government Finance Officers' Association. She will serve as the President of the NESGFOA before the end of 2008. That also means their annual conference is coming back to our state very soon. That annual conference is a big effort for the host state. Any MGFOA members interested in helping that sister organization should touch base with either Sue or Ed Spellman.

I want to thank the folks who take the time to send us their comments. The last issue of "*Dollars & Sense*" brought us several favorable comments and no adverse ones. We appreciate and desire the feedback. This is an organization of volunteers. We are always striving to do a better job for our membership. Whether you like this publication or you dislike it, your leadership wants to know. Please take a moment to send us an email with your thoughts once you finish reading this issue. We have added a job postings section in this issue. We will try to help members advertise professional position openings in the future.

We are also currently working with the MGFOA's Executive Board to iron out the details regarding the future of this publication. This is an important time for our readers to advise the board. Do our members really care if this publication continues? There are so many things to read in our busy days. Perhaps the efforts and the resources required to publish this newsletter are wasted. Please let us know if this document is valued or not.

Other Post Employment Benefits (OPEB) has started to get more of a foothold in our world of government finance. Many of us are now knee deep into our actuarial valuations and many prefunding discussions are underway with some actually moving forward. Strategies to reduce and eliminate OPEB costs are also materializing in our governmental organizations. Our lead piece takes a deeper look at this subject. We are grateful that David Chin and Terry Monteau took the time to extensively cover this subject for us. Dave and Terry live and work in Rensselaer County, New York and are independent brokers. Dave has 35 years experience in the financial planning and insurance industry. The use of life insurance policies placed on present employees with the proceeds used to fund benefits for future retirees is a very interesting premise. Over time we should all plan to learn much more on this interesting subject.

In keeping with the topic of OPEB we also have a contribution in this issue from Tom Gibson. He covers a subset of the OPEB topic in this issue. Tom is the Chairman of the Middlesex Retirement System, a member of the Belmont Retirement Board and he maintains a Cambridge legal practice that specializes in public employee retirement law. We thank Tom very much for his review of the recent SJC case decision pertaining to the health insurance eligibility of a Town of Ludlow retiree. Reducing benefits is a cost cutting strategy that we will encounter as we struggle to fund these growing post employment budget pressures. Another similar case to watch is now emerging in Hull. As the spring progresses, we will keep an eye on this budding area of interest.

Attorney Gregg Corbo from the law firm of Kopelman & Paige has covered the topic of indemnification for government officials in this issue. Gregg covers a recent decision in the case of *McCoy v. Town of Kingston*. We appreciate the effort Gregg made for our members. Take a moment and review this case. It just may come in handy some day.

Scott McIntire, a CPA with Melanson & Heath Company, covers the important subject of internal controls in this issue. Within his piece Scott helps us to learn more about COSO. Originally formed in 1985, this independent private sector organization continues to serve as the leading advocate for quality internal controls. Scott's piece will help you understand how your organization's internal controls match up to the ideal ones

We also thank Sue Milne and Ed Spellman for helping us stay abreast of the NESGFOA's activities. This issue contains both a description of the fall conference held in Vermont and the pending training program coming to Marlborough, MA in March. Keep an eye open for more information regarding the NESGFOA's March training program.

This is the fourth issue of "*Dollars & Sense*" that we have been contracted to deliver. Our contract expires with the delivery of this issue. One of the things I promised to deliver in this column when I started it last year was timely information that you can use in your daily work. As you monitor your FY 2008 revenues and plan your 2009 revenue budget, I strongly suggest that you take a look at a piece that two DOR staffers Robert Bliss and Jared Curtis recently collaborated on. You will find it on page four of the December 2007 issue of "*City & Town*."

Go to <http://www.mass.gov/Ador/docs/dls/publ/ct/2007/december.pdf> if you have not already read the column. Forecasting revenues for 2009 will be difficult at best. At a minimum, this article should stimulate you to closely monitor your FY '08 motor vehicle excise revenue and to cautiously estimate your FY '09 motor vehicle excise dollars.

As I finish this column we have wrapped up another trip to Boston for the MMA's Annual Conference and Trade Show. At this event we get our first insight from the executive branch of state government relative to next year's budget. We now know what our Governor and his staff are thinking about for FY 2009. We have our first cut at the Cherry Sheets now on our desks. I am very impressed with how many MGFOA members we saw at the conference this year.

The groundhog saw his shadow. So enjoy the remaining extended portion of the winter. We will be back to update you once again come the spring

Mike Daley retired as Plymouth's Director of Finance. He is President of Financial Advisory Associates, Inc. and the editor of this newsletter. You can contact him at [edi-tor@mgfoa.org](mailto:editor@mgfoa.org)

Job Postings

Treasurer/Collector/Parking Clerk City of Lowell, Massachusetts

The City of Lowell (population 104,000) is seeking qualified applicants for the position of Treasurer/Collector/Parking Clerk. This position is a key member of the Town's financial team reporting to the Chief Financial Officer and is appointed by the City Manager. The salary range is \$76,217-\$89,690 per City Ordinance. The Treasurer/Collector/Parking Clerk will supervise a staff of 9 employees and oversees the City's cash management and monetary collection activities, including all tax collections, parking ticket payments and tax title collections. The successful candidate shall perform all statutory duties as outlined in MGL, including collection of real estate, personal property, vehicle excise taxes as well as other miscellaneous revenues. The Treasurer/Collector/Parking Clerk administers all City funds, short and long term investments, borrowings, cash analysis, and reconciliation of bank accounts, cash, and receivables. The Treasurer/Collector/Parking Clerk pursues tax title properties, foreclosure activities and the collection of all parking violations. Eligible candidates must possess a Bachelor's degree with an emphasis on finance, business management, or accounting and at least three to five years of municipal Treasurer/Collector experience. Master's or advanced degree is preferred. The successful candidate must be bondable and should have supervisory experience and a working knowledge of municipal finance laws, DOR regulations, other applicable state and federal laws, with excellent verbal, written, and analytical communication skills. A working knowledge of MUNIS systems is highly desirable. Please mail, fax or email your cover letter and resume to: Kellie A. Hebert, Human Relations Manager, Human Relations Office, 375 Merrimack St., Lowell, MA 01852, Fax: 978-446-7102, Email: khebert@lowellma.gov.

Chief Financial Officer City of Springfield, Massachusetts

The City of Springfield, MA (population 157,000), seeks qualified applicants for the position of Chief Financial Officer. Located in the Pioneer Valley of western Massachusetts and home of Dr. Seuss and the Basketball Hall of Fame, the Commonwealth's third largest city seeks an innovative and dynamic manager for the sound and prudent oversight, preparation, direction, management and administration of its \$515 million operating and capital budgets. The City is currently under financial oversight through a state appointed Springfield Finance Control Board. The successful candidate will be able to prepare complex financial reports including a five-year financial plan, supervise work of staff, perform ongoing fiscal planning and analysis and conduct project management oversight. The CFO manages the departments of Finance, Treasurer, Assessors, Collection, IT and Capital in order to maintain efficient performance and serves as a member of the Retirement Board. Strong written and verbal communication and presentation skills. The ideal candidate will possess a BS in accounting or related field as well as 5-7 years progressively responsible experience in purchasing, finance and information systems to support them. MBA or CPA strongly preferred. This position offers an excellent benefits package and the salary is negotiable DOQ. Letter of interest, resume, and five (5) references by 02/08/08 to: Springfield Finance Control Board, 36 Court Street, Room 312, 01103



MGFOA Annual Meeting Tower Hill Botanic Gardens Boylston, MA

Friday - May 16, 2008

Topics:

“New Audit Requirements”

“Risk Assessment Suite”

“Dealing with the Media”

Plus Speakers:

MMA's John Robertson

DOR's Bob Nunes

Register at www.mgfoa.org