

LPS Audit and Hanscom Contract Review

June 1, 2023

Table of Contents

1. Background / History of Hanscom Contract Generally
2. Audit Purpose and Goals
3. Hanscom Reserve Purpose
4. Hanscom Contract Reimbursement
5. Initial Actions Taken Regarding Hanscom Reimbursement
6. Estimated Costs and Action Items
7. Anticipated Timeline
8. Glossary of Terms

Background on Hanscom DoDEA Contract

- Hanscom Overview
- Different types of contracts historically
 - Enrollment Bands (previous contracts) - FY20 and all prior years
 - Full Cost Recovery (current contract) FY21 - FY25
- General process for allocating expenses
 - Split-funded employees
- Hanscom Reserve - how funded
 - Holds the unallocated fund balance from prior years (give example of Hanscom funds for past year and how calculated each year) and balance transferred into reserve at end of year.
- Interplay between town and school financial management
 - Limited scope of current town financial audits in regard to Hanscom (what is current scope?)

3

Audit Purpose and Goals

1. Validate the effectiveness of our current policies and procedures (for all LPS), and identify and rectify areas of weakness (one focus being the identified issue with Hanscom employee pensions which will be further discussed in an upcoming slide); [see attached scope]
2. Provide a road map for the incoming superintendent to help understand the financial processes of the Town/District.
3. Hanscom Reserve - Audit for current and ideal position for meeting known liabilities
4. Future Hanscom Contract Negotiations - understanding costs and concerns
5. Providing guidance to town: recommend aligned practices and procedures, and revisions to Town of Lincoln Audit FY23 and FY24 presentation (e.g. Hanscom Fixed Assets)

4

Hanscom Reserve - Purpose

1. Direct Hanscom Contract Responsibility
 - a. Capital Planning Funds for Building and Technology related expenses
 - i. Establish 5yr, 10yr, Lifecycle plans for building repair, maintenance, etc.
 - ii. Capital Expenses up to \$50k
 - b. Funding of improvement Initiatives or budget shortfalls
2. Cost Recovery Activity with Town of Lincoln
 - a. Retirement Obligations (Employee Pensions)
 - i. Middlesex County Retirement Charges
 - ii. Massachusetts Teachers Retirement System (State Funded)
 - b. Unfunded Liabilities
 - i. OPEB [more details next slide]
 - c. Workers Compensation
 - d. Unemployment Cost Projections

5

Other Post Employment Benefits (OPEB)

Formerly referred to as GASB 45. Going forward will be referred to as **OPEB** due to additional guidance documents being issued.

As of June 30, 2022:

Hanscom's Total liability is \$12.4 million,

with plan assets of \$4.7 million,

Resulting in a Net OPEB Liability of \$7.7 million,

Per the June 30, 2022 Actuarial Valuation Report Hanscom is about 38% funded.

School Committee voted to transfer its annual contribution of \$400,000 for FY23 on May 17

6

Hanscom Contract Reimbursement

- A town resident inquiry prompted review of a portion of the Hanscom Contract expenses being subsidized by Lincoln taxpayers
- Town and school administrators met several times this spring to review the existing practices and to discuss recommendations for corrective action
 - Contract practices are actively being modified for past, current and future contributions.

7

Hanscom Contract Reimbursement

- Internal review resulted in identifying two areas that were not following 100% cost recovery under the Hanscom Contract (additional funds being paid by Town)
 - Active Retiree Health Care Insurance for split funded employees at the time of retirement, and
 - Hanscom Employee portion of Town Middlesex County Retirement System (MCRS) Assessment
 - Using a 9% assessment against actual wages as contribution to Town's MCRS annual assessment based on historical methodology
- Practices will begin with the FY23 end of year closeout and will continue through the end of the current contract.

8

Initial Actions Taken Regarding Hanscom Reimbursement

1. School administration issued a request for a quote to four firms that are qualified to perform an audit for contract compliance and procedural review.
2. Rectifying Identified Issues
 - a. Active Retiree Health Care Insurance for split-funded employees: FY21, FY22, FY23. School Committee will vote to approve transfers from Hanscom reserve for FY21 and FY22 to town benefits account and from the FY23 current year on June 15th
 - b. Hanscom Employee portion of Town MCRS Assessment: Recently issued a request for MCRS actuarial estimate for the unfunded liability for Hanscom Employees going forward and a reverse calculation for prior years as to what should have been paid vs. actual past payments. [9% issue]

9

Resources Required (time and services)

Staff (former, current and future as necessary)

- School Administrator for Business and Finance
- Town Finance Director and Town Finance Team
- Superintendent
- Town Administrator

Consultants

- Actuary for Middlesex County Retirement System
- Actuary for Town OPEB Plan
- Auditor for School Committee Review
- Auditor for Town of Lincoln

Entities

- US DoDEA
- Middlesex County Retirement System
- Town of Lincoln
- Town of Lincoln School Committee

10

Anticipated Timeline

- Initiate audit / review action steps - March 2023
- Approval for hiring and scheduling audit firm - June 2023
- Active Retiree Health Care Insurance for split funded employees: Transfer unfunded amounts - June 2023
- Hanscom Employee portion of Town MCRS Assessment: Revise Unfunded Liability after audit review is completed - Sept 2023 (audit and actuarial services dependent)
 - Middlesex County: Waiting for quote by actuary on work to separate Hanscom Employees from Town of Lincoln Employees
- Town Auditor - in conjunction with Town Administration
 - Recommend establishing the appropriate additional lines in the FY23 audit statements that will show the progress of the financial reporting recommended by the Consulting Firm.
 - Recommend FY 24 audits show numbers in the appropriate categories as they are known

11

Closing Summary

- Currently estimating cost at \$25,000 - \$30,000 for both audit and actuarial study
- Future School Committee Agendas will include updates on these issues until resolved
- Endeavor to use all efforts available to make Town of Lincoln whole under Hanscom contract

12

Questions?

13

Glossary

- **US Department of Defense Education Activity (US DoDEA) -**
 - DoDEA operates 160 schools in 8 Districts located in 11 foreign countries, 7 states, and 2 territories across 10 time zones.
 - Lincoln is one of a select few that are full cost recovery contracts to operate the Hanscom Middle School and Primary School.
 - FY 20 and prior, the contract reimbursement was based on Enrollment Bands
 - FY21 through FY 25 is a fixed price contract.
 - DoDEA annually conducts a performance review of the educational practices and performance of the registered students.

14

Glossary

- **Hanscom Contract (Current contract runs from FY21-FY25)**: The Lincoln Public Schools/Town of Lincoln are contracted by the US Department of Defense Education Activity to operate the Hanscom Middle and Primary Schools for between 600 and 800 students each year.
- **Hanscom Reserve**: A segregated fund that hold the ending balance of unspent funds for each contract year. Its purpose is to fund Capital Projects, unfunded liabilities, and closure of the facility.

15

Glossary

- **Other Postemployment Benefits (OPEB)** – Benefits that an employee will begin to receive at the start of retirement. This does not include pension benefits paid to the retired employee.
- **OPEB Trust** – An entity which holds assets for the sole purpose of funding OPEB. All contributions and earning within this entity must be irrevocable and protected from creditors.
- **Pay-as-you-go funding** – Paying benefits (such as pensions or OPEB) on a cash basis, with no money set aside for future liabilities which are already incurred.

16

Glossary

- **Middlesex County Retirement System (MCRS)** - The Middlesex County Retirement System provides retirement, disability, and survivor benefits to approximately 5,000 retirees and 10,000 active employees of 31 Towns and 39 Districts and Authorities within Middlesex County.
- **Enrollment Band** - The grouping of enrollment of registered students to determine prior contract pricing annually.
- **Split-funded Employees** - Employees who are working to support students and activities on both the Lincoln School Campus and the Hanscom Campus.