

CITY OF NEWTON

IN BOARD OF ALDERMEN

FINANCE COMMITTEE REPORT

MONDAY, JANUARY 14, 2013

Present: Ald. Gentile (Chairman), Ciccone, Linsky, Salvucci, Rice, Blazar, Fuller and Lappin  
Also present: Ald. Danberg

City officials present: Jonathan Yeo (School Committee Member), Sandra Guryan (Deputy Superintendent/Chief Administrative Officer; School Department), Josh Morse (Director of Operations; Public Buildings Department), David Turocy (Commissioner of Public Works), James Reardon (Treasurer/Collector), David Wilkinson (Comptroller), Gail Deegan (Financial Audit Committee Member), Howard Merkowitz (Financial Audit Committee Member), Tony Logalbo (Financial Audit Committee Member), and Michael Herbert (Director of Performance Management)

Re-appointment by His Honor the Mayor

#426-12      MARIA BIANCHI ROSEN, 41 Aspen Avenue, Auburndale reappointed as a Constable for the City of Newton for a term of office to expire December 5, 2015.  
[12/07/12 @ 3:55 PM]

**ACTION:**      **APPROVED 8-0**

**NOTE:**      Ms. Rosen is being re-appointed as a Constable of the City for a fourth term. The appropriate paperwork has been filed with the Clerk's office, including a copy of the required \$5,000 bond. The Chairman did not feel it was necessary for Ms. Rosen to be present for the meeting as she is a re-appointment and is well known to most Committee members. Ald. Ciccone moved approval of the re-appointment, which carried unanimously.

#16-13      HIS HONOR THE MAYOR requesting the vote of the Board of Aldermen to complement by RESOLUTION the vote of the School Committee to transfer the sum of three hundred fifty thousand dollars (\$350,000) from unspent reserve in the Fiscal Year 2013 School Operating Budget (which resulted from an additional State circuit breaker reimbursement received at the end of Fiscal Year 2012) to a capital account established for the purpose of funding the design and engineering work for the installation of several modular classrooms at various elementary schools. [12/31/12 @ 9:25 AM]

**ACTION:**      **APPROVED 8-0**

**NOTE:**      Deputy Superintendent Sandy Guryan and School Committee Member Jonathan Yeo joined the Committee for the discussion of the above item. The School Committee voted to support utilizing the \$350,000 in unspent reserve from an additional State circuit breaker reimbursement to fund the design and engineering for proposed modular classrooms at four elementary schools. The Mayor is requesting that the Board of Aldermen vote a resolution to

complement the School Committee's vote to create a capital account and transfer \$350,000 into the newly created account.

Sandy Guryan explained that the School Department is recommending the installation of additional modular classrooms to address near-term space needs at the Bowen, Burr, Horace Mann and Mason Rice Elementary Schools. The School Committee has investigated a number of different options to address the needs and will continue to do so; however, it does not appear that there currently other alternatives to the modular classrooms.

The plan is to install two double-stacked modular classrooms at Bowen Elementary School and move one of the existing one-story modular classrooms at Bowen Elementary School to the Horace Mann Elementary School. The plan also includes the addition of one new modular classroom at the Burr Elementary School and two new modular classrooms at the Mason Rice Elementary School. The proposal is to use the \$350,000 from the School Budget to design and engineer the seven new modular classrooms and develop a plan to move the existing modular classroom. The design money also includes funding for the design of a sprinkler system at the Mason Rice Elementary School, which is the only one of the four schools without an existing sprinkler system.

The estimated cost associated with the additional modular classrooms is \$4 million. Each of the modular classrooms is estimated to cost \$350,000. The School Department needs the modular classrooms to be in place for the September 2013 start of school. The City is using one of the City's on-call architects. HMFH was awarded the design work after a request for proposals for this project was sent to the on-call architects and HMFH came in as the lowest bidder. The architect has provided a schedule from HMFH that includes a date of April 10, 2013 for the bid opening and April 17, 2013 as the date that the City awards the bid.

There was concern among Committee members that by approving the resolution it would appear that the Board of Aldermen is approving the modular classroom before the actual request for modular classrooms funding and site plan approvals have come before the Board of Aldermen for action. The Chairman suggested that the resolution include language that clearly states that the Board of Aldermen is supporting only the design and engineering funds. With that, Ald. Rice moved approval, which carried unanimously.

#19-13      HIS HONOR THE MAYOR requesting authorization to transfer the sum of seventeen thousand four hundred eighty dollars (\$17,480) from Fiscal Year 2013 Budget Reserve to Public Buildings Repairs & Maintenance Account to fund the demolition costs for the Department Public Works salt shed that was damaged beyond repair during Hurricane Sandy.

**ACTION:**      **APPROVED 8-0**

**NOTE:**      The above request is to transfer funds to pay for the demolished salt sheds at the Public Works Department's Crafts Street Yard. Hurricane Sandy exacerbated the already poor conditions in the salt barns. The Inspectional Services deemed the structures unsafe and an outside structural engineering firm determined that the building needed to be demolished immediately. The sheds were demolished in November 2012 at a cost of \$17,480.

The Public Works Department is currently using a waterproof tarp system to protect the salt. The tarp is peeled back to access the salt. The system seems to be working and is an acceptable storage solution until the salt sheds are replaced.

Ald. Linksy stated that he had heard from abutters to the Public Works Yard that they had not been notified regarding the demolition of the sheds. Ald. Linksy requested that the neighbors be informed when the new sheds are installed or constructed. In addition there was also concern that the salt could do damage to abutting properties. Mr. Morse explained that the storage system is a sealed system and should not cause any damage to surrounding properties. The Department of Transportation does not have any problem with the use of the tarp system.

The City is in the process of investigating which type of salt shed would be the most appropriate replacement for the sheds. The Public Buildings Department is in the process of pricing new sheds and determining what size sheds should be purchased.

Ald. Lappin moved approval, which carried unanimously.

**REFERRED TO PROGRAMS & SERVICES AND FINANCE COMMITTEES**

#400-12      **HIS HONOR THE MAYOR** requesting authorization to appropriate the sum of one hundred fifty thousand dollars (\$150,000) from bonded indebtedness for the purpose of funding plumbing and bathroom renovations at the Gath Pool facility.  
[11/13/12 @ 5:13 PM]

**PROG & SERV REFERRED TO PUBLIC FACILITIES on 12/05/12  
PUBLIC FACILITIES APPROVED 7-0 on 12/19/12**

**ACTION:**      **APPROVED 8-0**

**NOTE:**      The Gath Pool Facility is in poor shape. The Public Buildings Department addressed the issues in the basement of the facility. This is a request for funds to begin the second phase of improving the building. The project is part of the Fiscal Year 2013 Capital Improvement Plan.

The facility is open to the elements, which has resulted in plumbing, floor, plaster, and tile damage. The requested \$150,000 would be used to replace the plumbing system, including bathroom fixtures, with a new insulated system that provides frost protection. The proposed work also includes epoxy floors, new changing room partitions, ceilings and walls. All of the plaster in the building will be removed and if the under layer is concrete it will not be covered but if not, a panel system will be put in place. The Public Buildings Department has consulted with the Parks and Recreation Department regarding the project. The improved building would require less maintenance and be easier to clean.

It was suggested that the Public Buildings Department look at the possibility of getting some funds from the Community Preservation Fund. Director of Operations Josh Morse agreed to look into the possibility. However, he does not believe that the Community Preservation Committee would entertain any funding for this project, as it is outside of their funding guidelines. Ald. Lappin moved approval of the item, which carried unanimously.

#25-04(2)     HIS HONOR THE MAYOR requesting authorization to expend up to two hundred fifty thousand dollars (\$250,000) from Avalon at Chestnut Hill Traffic Mitigation Funds for the purpose of installing a fully-activated traffic signal at the intersection of Hammond Pond Parkway and the Boylston Street Eastbound Exit Ramp. [12/31/12 @ 9:25 AM]

**ACTION:**     **APPROVED 8-0**

**NOTE:**       The Commissioner of Public Works David Turocy explained that the request is to authorize expenditure of funds from a 2004 mediated decision related to Avalon at Chestnut Hill, LLC and the Zoning Board of Appeals. The decision required Avalon to deposit \$250,000 into an escrow account with the City to fund traffic improvements in the area of the Avalon at Chestnut Hill development. The Department of Public Works is ready to use these funds for the installation of a traffic signal at the base of the ramp and to supplement other improvements at the Hammond Pond Parkway and the Boylston Street eastbound exit ramp.

The Public Works Department is also working with a contractor to install traffic and roadway improvement in the area, as part of the Mass Works grant funding associated with the Chestnut Hill Square Development, which includes other improvements to the Hammond Pond Parkway and the Boylston Street exit ramps. The improvements include opening the existing median and removal of the pedestrian signal to provide access, widening Hammond Pond Parkway northbound to three travel lanes, widening Hammond Pond Parkway southbound to two travel lanes, and modifying the eastbound exit on Route 9 to provide a left turn/through travel lane and a channelized right turn lane.

Ald. Lappin asked if the use of the \$250,000 from Avalon would free up \$250,000 in Mass Works grant funding. Commissioner Turocy explained that it does free up those funds and that the estimates for all of the work proposed as part of the Mass Works grant funding came in around \$1 million under the authorized grant funding. The City submitted a list of projects to the State that it could fund with the unused portion of the grant funding. The State responded that all of the proposed projects are outside of the area intended for the grant funding. The State suggested that the money could be spent at the intersection of Hammond Pond Parkway and Heath Street and the Hammond Pond Parkway Rotary as the development will directly affect those sites. The Public Works Department has since submitted improvements to the Winchester Street and Route 9 intersection for State approval. Ald. Fuller suggested considering improvements to the Tully Street at Route 9 intersection. After the meeting, it was learned that the Tully Street at Route 9 intersection is already included as part of the original project.

Ald. Rice moved approval of the item, which carried unanimously.

#17-13        COMPTROLLER transmitting the Budgetary Basis Annual Financial Report for fiscal year ending June 30, 2012 for Board of Aldermen review/acceptance.

**ACTION:**     **HELD 8-0**

**NOTE:**       This year Chris Rogers of Sullivan, Rogers and Company, LLC provided the Committee with a top-level view of the Fiscal Year 2012 external audit. The audit began in September 2012, the draft 2012 Comprehensive Annual Financial Report (CAFR) was issued on

October 31, 2012 and the finalized CAFR was issued on November 30, 2012. The draft Management Letter was issued on November 9, 2012 and the draft Reports on Internal Control and Federal awards was issued on and November 30, 2012. The audit was a smooth process and all requested information was received and was well organized.

The attached presentation began with an overview of the Comprehensive Annual Financial Report (CAFR). The independent auditor is only responsible for providing an audit of the financial statements provided by the Comptroller in the CAFR and an opinion on those statements. The independent auditor's opinion is unqualified, which is the best type of opinion. The Newton Commonwealth Foundation and Angino Farm are not included in the auditors' report because they are discretely presented component units and are audited by another firm(s).

The presentation includes all of the financial highlights and details related to the CAFR. The financial section of the report contains the independent auditors' report, which includes the opinion. In addition, financial statements including combining statements, notes to the financial statements, supplementary information, individual fund statements and schedules, and information on the capital projects fund, the sewer enterprise fund, the water enterprise fund and stormwater fund are located in the section.

The notes include information on the implementation of new accounting principles for FY 2012. Mr. Rogers reviewed figures contained in the CAFR with the Committee. This is the fifth year that the Government Accounting Standards Board reporting standards require that the Other Post-Employment Benefits (OPEB) Liability be partially reported. The approximately \$148 million in unfunded liability represented as the net other post-employment benefits (OPEB) obligation at the end of the year does not represent the full-unfunded liability, which stands at about \$601 million. The annual OPEB cost was \$46.4 million and the City contributed \$16.6 towards the \$46.4 million. Therefore, the increase to the net OPEB obligation was \$29.8 million. The City has set aside \$313,000 in an OPEB trust but as it is not an irrevocable trust, it is reported as restricted general fund balance.

Other communities are in the same situation as the City of Newton and the OPEB liability issue is not a unique concern for Newton. At some point, the full funded liability for OPEB will be required to be reported. It is unlikely that there would be an immediate impact to the City's bond rating. The unfunded liability is a national issue and if there were an impact to the bond ratings, it would create a financial crisis for local governments. For further detail on the CAFR, please refer to the attached presentation and the following link: <http://www.newtonma.gov/civicax/filebank/documents/48342>

Mr. Rogers moved onto the draft "Reports on Internal Control over Financial Reporting, Compliance and Federal Award Programs" portion of the report, which is available at the following link: <http://www.newtonma.gov/civicax/filebank/documents/48287>. The report contains the auditor's opinion on the City's compliance with the requirements of laws, regulations, contracts, and grants associated with the City's major federal programs. The auditor issued an unqualified opinion on all major award programs. However, the auditors reported fourteen findings; seven related to internal control and seven related to program non-compliance. Each of the findings is included in the attached presentation. The appropriate City representative

has already responded to each of the reported material weaknesses as represented in the report. The representatives will also review the findings and responses with the Financial Audit Advisory Committee.

Mr. Rogers continued the review with the draft Management Letter portion of the report. The Management Letter does not identify the strengths of the City's financial systems. The Management Letter is intended to provide information, comments, and recommendations on the City's internal controls. The Management letter contains three new recommendations, eight recommendations that are repeats of last year's recommendations, and one informational comment. Mr. Rogers reviewed each of the comments and recommendations with the Committee.

Mr. Rogers explained that issues remain in the water and sewer bills. Although the number of estimated reads has dropped significantly from the previous year, there are still too many estimates. Approximately 99% of the meters were installed by June 30, 2012, but the reading system was not fully functional. The auditor is recommending that the City implement the full system as soon as possible. The next comment is a recommendation that the City hire a citywide grant administrator. During discussion with the Financial Audit Advisory Committee regarding the Management Letter, there was discussion that the School and Planning and Development grant administrators could provide regular training in grant administration. In addition, when the Finance Committee recommends approval of expenditure of a grant, a person is designated as the grant manager. Mr. Rogers reviewed the other ten comments and recommendations with the Committee, which were attached to the agenda. The City has responded to each of the comments, which will be further discussed in the Financial Audit Advisory Committee. The Management Letter can be accessed at the following web address: <http://www.newtonma.gov/civicax/filebank/documents/48285>

The Committee would like an opportunity to further review the information contained in the CAFR and accompanying reports. Therefore, a motion to hold the item for further discussion was approved unanimously.

#13-13      FINANCIAL AUDIT ADVISORY COMMITTEE providing the annual report of the Financial Audit Advisory Committee for review by the Finance Committee of the Board of Aldermen. [12/18/12 @ 9:31 AM]

**ACTION:**      **HELD 8-0**

**NOTE:**      Ald. Fuller, who is the Chair of the Financial Audit Advisory Committee, introduced the members of the Financial Audit Advisory Committee. A list of the Committee membership and of the sub-committees membership is attached. The Financial Audit Advisory Committee has four sub-committees. Three of the Chairs were present and provided a brief report of their sub-committee's work to the Finance Committee. Ald. Danberg also joined the discussion, as she is member of the Financial Audit Advisory Committee.

Gail Deegan is the Chair of the Accounting and Audit Sub-committee, which reviewed the responses by City personnel to issues contained in the Fiscal Year 2011 Reports on Internal Controls over Financial Reporting, Compliance, and Federal Award Programs and the

Management Letter. The Sub-committee also recommended that the external auditor's contract be extended by one year to cover this fiscal year.

In the upcoming year, the sub-committee will continue to address 2011 Management Letter concerns as well as the 2012 Reports on Internal Control over Financial Reporting, Compliance and Federal Award Programs and Management Letter concerns. The sub-committee will begin discussion regarding preparing for the upcoming changing to financial reporting requirements including reporting the full Other Post-Employment Benefits obligation. In addition, the sub-committee will recommend an auditor to the Financial Audit Advisory Committee.

Tony Logalbo is the Chair of the Internal Controls & Financial Policies and Procedures Sub-committee. Mr. Logalbo began by stating that internal controls are not a question of the amount of money lost but minimizing any risk to the City's reputation by putting financial policies in place. The Chair has met with various department heads regarding cash management and the auditor has done a site visit at the Parks and Recreation Department and suggested ways to strengthen cash management in the department. The sub-committee will continue work on cash management in 2013 through a survey of departments where cash is handled and development of policies and procedures for accurate financial reporting and minimization of cash collection related risk.

Howard Merkwitz, Chair of the Investment Policies and Ad Hoc Sub-committee, reviewed the sub-committee's work. The Sub-committee developed an Investment Policy, which was reviewed by the Financial Audit Advisory Committee and submitted to the Board of Aldermen for approval. The Sub-committee has completed its mission; therefore, there is no longer a need for this Sub-committee in 2013.

Robert Fox the Chair of the Risk Assessment, Monitoring and Compliance Sub-committee was unavailable to attend the Finance meeting. Therefore, the Finance Committee held the item for Mr. Fox's portion of the report. For further highlights of the work of the Financial Audit Advisory Committee and its sub-committees, refer to the attached annual report.

The Finance Committee Chairman thanked the members of the Financial Audit Advisory Committee for all of their hard work, in particular Ald. Fuller for her dedication and hard work that she has put into the Financial Audit Advisory Committee.

#14-13      FINANCIAL AUDIT ADVISORY COMMITTEE requesting review and acceptance of a City of Newton Whistleblower Policy. [12/18/12 @ 9:31 AM]

**ACTION:**      **HELD 8-0**

**NOTE:**      The item was held without discussion.

#15-13      FINANCIAL AUDIT ADVISORY COMMITTEE requesting review and acceptance of the revised City of Newton Investment Policy. [12/18/12 @ 9:31 AM]

**ACTION:**      **HELD 8-0**

**NOTE:** The item was held without discussion.

The Committee adjourned at 9:45 PM and all other items before the Committee were held without discussion. Draft Board Orders for the above items that are recommended for Board of Aldermen action are attached.

Respectfully submitted,

Leonard J. Gentile, Chairman



CITY OF NEWTON  
IN BOARD OF ALDERMEN

2013

ORDERED:

That, in accordance with the recommendation of His Honor the Mayor and with the confirmation of the Board of Aldermen pursuant to G.L. chapter 41, section 91, be it known that MARIA BIANCHI ROSEN, 41 Aspen Avenue, Auburndale is hereby re-appointed as a CONSTABLE of the City of Newton for a term of office to expire on December 5, 2015 and in accordance with G.L. chapter 41, section 92, a surety bond in the amount of \$5,000 has been filed with the City Clerk.

Under Suspension of Rules  
Readings Waived and Approved

(SGD) DAVID A. OLSON  
City Clerk

(SGD) SETTI D. WARREN  
Mayor

CITY OF NEWTON  
IN BOARD OF ALDERMEN

2013

RESOLVED:

That the Mayor and Board of Aldermen support the vote of the Newton School Committee to transfer the sum of three hundred and fifty thousand dollars (\$350,000) from unobligated Fiscal Year 2013 School Operating Budget funds, resulting from additional State special education circuit breaker reimbursements, to a new capital account, within the School Building Capital Project Fund, established for the purpose of funding the design and engineering work for the possible installation of several modular classrooms at various elementary schools.

Under Suspension of Rules  
Readings Waived and Adopted

(SGD) DAVID A. OLSON

City Clerk

(SGD) SETTI D. WARREN

Mayor

Date: \_\_\_\_\_

CITY OF NEWTON  
IN BOARD OF ALDERMEN

2013

ORDERED:

That, in accordance with the recommendation of the Finance Committee through its Chairman Leonard J. Gentile, the transfer of the sum of seventeen thousand four hundred eighty dollars (\$17,480) from Fiscal 2013 Budget Reserve to a Public Buildings Repairs & Maintenance Account to fund the already completed demolition of the Crafts Street Salt Sheds is hereby approved as follows:

FROM:	Budget Reserve (0110498-5790).....	\$17,480
TO:	Crafts St Salt Shed Demolition (C11505-52409).....	\$17,480

Under Suspension of Rules  
Readings Waived and Approved

(SGD) DAVID A. OLSON  
City Clerk

(SGD) SETTI D. WARREN  
Mayor

Date: \_\_\_\_\_

CITY OF NEWTON  
IN BOARD OF ALDERMEN

2013

ORDERED:

That, for the purpose of paying costs of electrical, plumbing and bathroom renovations at the Gath Pool facility and any and all other costs associated therewith, there be and hereby is appropriated and authorized to be borrowed under and pursuant to Chapter 44, Section 7(25) of the Massachusetts General Laws, as amended and supplemented or pursuant to any other enabling authority, the sum of one hundred fifty thousand dollars (\$150,000).

Under Suspension of Rules  
Readings Waived and Adopted

(SGD) DAVID A. OLSON  
City Clerk

(SGD) SETTI D. WARREN  
Mayor

Date: \_\_\_\_\_

CITY OF NEWTON

IN BOARD OF ALDERMEN

2013

ORDERED:

That, in accordance with the recommendation of the Finance Committee through its Chairman, Alderman Leonard J. Gentile, the sum of two hundred fifty thousand dollars (\$250,000) to be appropriated from the Receipts Reserved – Avalon Chestnut Hill Account be and is hereby appropriated, granted, and expenditure authorized for the purpose of funding traffic and roadway improvements in the area of the intersection of Hammond Pond Parkway and the Route 9 eastbound exit ramp be and is hereby approved as follows:

FROM:	Receipts Reserved –Avalon Chestnut Hill (14K101F-5901) .....\$250,000
TO:	Hammond Pond Pkwy/Rt 9 Traffic Signal (C401073-58508).....\$250,000

Under Suspension of Rules  
Readings Waived and Approved

(SGD) DAVID A. OLSON  
City Clerk

(SGD) SETTI D. WARREN  
Mayor

Date: \_\_\_\_\_

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# City of Newton, Massachusetts

Fiscal Year 2012 Audit Exit Conference

December 6, 2012

Presented by: Chris Rogers, CPA, Shareholder

# Agenda

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- Engagement summary
- CAFR/Financial Statement summary
  - ▣ CAFR Structure
  - ▣ Opinion
  - ▣ Financial highlights
  - ▣ Significant footnotes
  - ▣ Required Supplementary Information
- Reports on Internal Control and Federal Awards
- Management Letter

# Engagement Summary

3

- Audit began September 2012
- Financial statement/CAFR draft issued 10-31; final issued 11-30
- Management letter and Reports on Internal Control and Federal Awards drafts issued 11-9 and 11-30
- Information provided timely and was well organized
- Management and staff responsive to all inquiries
- No disagreements with management



# CAFR Structure

4

- Introductory section (p i-viii)
- Financial section
  - ▣ Auditors' opinion (p 1-2)
  - ▣ Management's discussion and analysis (p 3-16)
  - ▣ Financial statements and notes (p 17-73)
  - ▣ Required supplementary information (p 74-75)
  - ▣ Combining statements and schedules (p 76-113)
  - ▣ Additional information (p 114-121)
- Statistical Section (p 122-139)

# Opinion

5

- Opinion (p 1-2)
  - ▣ Unqualified opinion (best opinion available)
  - ▣ Other auditors audited Newton Commonwealth Foundation and Newton Community Farm
    - Discretely presented component units

# Financial Highlights

6

- **Government-Wide Financial Statements (Full Accrual)**
  - ▣ **Statement of Net Assets - Governmental Activities (p 17-18)**
    - **Assets - \$545m**
      - Cash and investments - \$101.5m
      - Capital assets - \$407.5m
    - **Liabilities - \$383.3m**
      - Bonds payable - \$188.3m
      - Net OPEB obligation - \$144.3m
    - **Net Assets – \$161.2m**
      - Invested in capital assets, net of debt - \$220.2m
      - Restrictions - \$34.5m
      - Unrestricted – (\$93.5m)
  - ▣ **Statement of Net Assets - Business-type Activities (p 17-18)**
    - Represent collective balances of enterprise funds, which are discussed individually further in this document

# Financial Highlights

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- Government-Wide Financial Statements (continued)
  - ▣ Statement of Activities - Governmental Activities (p 19-20)
    - Decrease in net assets of \$19.6m, or 10.7%
      - Primarily the result of recognizing \$29.1m in OPEB expense and a decrease of \$3.3m in snow and ice expenses
    - Total expenses - \$389.7m
      - Education - \$252.9m, or 64.9%
      - Public safety - \$56.1m, or 14.4%
      - Public works - \$24.2m, or 6.2%
    - Total revenues – 368.9m
      - Program revenues - \$94.0m, or 24.1%
        - Operating grants and contributions - \$65.8m, or 70.0%
      - General revenues and transfers - \$274.9m, or 75.9%
        - Real estate \$249.3m, or 90.7%

# Financial Highlights

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- Governmental Funds Financial Statements (Modified Accrual)
  - General Fund
    - Balance Sheet (p 21)
      - Fund balance - \$28.2m
        - Restricted - \$938k (debt service, OPEB, capital)
        - Committed - \$9.8m (funding of the FY 13 budget, continuing appropriations & capital)
        - Assigned - \$2.6m (encumbrances and capital)
        - Unassigned - \$14.9m
          - Includes \$6.2m of general/"rainy day" stabilization funds
          - Represents 4.5% of total revenues and other financing sources (3.4 – 5.7% over the past 6 fiscal years)
      - See Note 14, page 67, for further detail

# Financial Highlights

## □ General Fund

### ■ Statement of changes in fund balance (p 23)

- Net change in fund balance – (\$2.5m)
  - Use of reserves (including prior year carry-forwards) – \$10.8m (primarily free cash and continuing appropriations of \$6.2m and \$3.8m, respectively)
  - Budgeted revenue positive variance - \$3.0m
  - Budgeted expenditures positive variance - \$6.6m
    - Encumbrances and continuing appropriations totals \$4.6m
- General Fund debt service as a percentage of total expenditures and transfers out – 4.8% (4.9% in prior year)
- Paid approximately \$494k in interest on refund to Verizon

# Financial Highlights

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## ▣ Other Governmental Funds

### ■ Fund balances

- Community Preservation - \$8.6m
- School construction/renovation - \$5.4m
- Education - \$4.5m
- Culture and recreation - \$2.9m
- Receipts reserved - \$4.8m

# Financial Highlights

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- Proprietary Funds Financial Statements (full accrual)
  - Sewer Enterprise
    - Statement of net assets (p 27)
      - Assets - \$54.4m
        - Cash and investments - \$9.9m
        - Capital assets - \$33.7m
      - Liabilities - \$13.4m
        - Bonds payable - \$11.1m
        - Net OPEB obligation - \$1.6m
      - Net assets - \$41.0m
        - Invested in capital assets, net of debt - \$24.6m
        - Restricted (capital) – \$2.9m
        - Unrestricted - \$13.5m



# Financial Highlights

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## □ Sewer Enterprise (continued)

### ■ Statement of revenues, expenses and changes (p 28)

- Net change in net assets - \$4.6m (\$3.3m in prior year)

- Primarily result of rate increase, reduction in abatements compared to the prior year and increase in capital contributions

## □ Water Enterprise

### ■ Statement of net assets (p 27)

- Assets - \$57.4m

- Cash and investments - \$8.8m

- Capital assets - \$42.6m

# Financial Highlights

13

## □ Water Enterprise (continued)

- Liabilities - \$21.4m
  - Bonds payable - \$18.2m
  - Net OPEB obligation - \$1.9m
- Net assets - \$36.0m
  - Invested in capital assets, net of debt - \$24.4m
  - Restricted (capital) – \$4.0m
  - Unrestricted - \$7.6m
- Statement of revenues, expenses and changes (p 28)
  - Net change in net assets - \$3.3m (\$3.8m in prior year)
    - Rate increase, reduction in abatements compared to the prior year offset by increase in depreciation (resulting from water meter additions)

# Financial Highlights

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- ▣ Internal Service Fund (self-insured activities for health, workers' compensation, building and liability insurance)
  - Statement of net assets (p 27)
    - Assets - \$28.1m
      - Cash and investments - \$27.6m
    - Liabilities - \$12.9m
      - Accrued health claims - \$3.7m
      - Workers' compensation - \$6.5m
    - Net assets - \$15.1m
      - Health - \$12.8m
      - Workers' compensation - \$1.7m
      - Building - \$434k
      - Liability - \$223k

# Financial Highlights

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- ▣ Internal Service Fund (continued)
  - Statement of revenues, expenses and changes (p 28)
    - Net change in net assets - \$2.1m ((\$248k) in prior year)
      - Primarily related to \$2.5m decrease in health insurance claims during fiscal year 2012

# Financial Highlights

16

- Fiduciary Funds Financial Statements (full accrual)
  - Pension Trust Fund
    - Statement of Fiduciary Net Assets (p 30)
      - Net assets - \$233.3m (primarily consisting of cash and investments)
    - Statement of Changes in Fiduciary Net Assets (p 31)
      - Change in net assets – (\$8.0m); prior year increase of \$18.8m
        - Change from prior year primarily the result of investment gains (losses) – (\$28m) decrease from the prior year
    - Funding progress (p 70)
      - Unfunded actuarial accrued liability (UAAL) - \$231.1m
      - Funded ratio – 53.1% as of 01/01/12
        - City is responsible for 98.9% of UAAL

# Significant Footnotes

17

- Note 10 - Long-term Debt (p 57-62)
  - ▣ Total outstanding
    - Governmental Funds - \$188.3m
    - Water - \$18.2m
    - Sewer - \$11.1m

# Significant Footnotes

18

- Note 12 – OPEB (p 62-65)
  - 5<sup>th</sup> year of OPEB accrual
  - UAAL at 06/30/12 - \$601.3m
  - Net OPEB Obligation at 06/30/12 – \$147.9m
  - FY 12 ARC - \$46.4m
    - Paid \$16.6m (pay-as-you-go)
    - Increase to NOPEBO - \$29.8m
    - Percentage contributed related to ARC – 35.3%
  - Note: \$313k set aside in OPEB trust (employer asset reported as restricted general fund balance)

# Significant Footnotes

- Note 14 – Fund Balances (p 67)
  - ▣ Provides detail of fund balances reported in Governmental Funds
  
- Note 15 - Stabilization Funds (p 68)
  - ▣ Describes establishment and use of funds
  - ▣ Capital stabilization totals \$5.2m
  - ▣ General/”rainy-day” stabilization totals \$6.2m



# Required Supplementary Information

20

- Pages 74-75
  - ▣ Includes historical pension and OPEB information
    - Schedules of funding progress
    - Schedule of employer contributions
    - City share of retirement system ARC

# Report on IC over FR, Compliance and Federal Award Programs

21

- Document structure
  - ▣ Report on internal control (IC) over financial reporting (FR), compliance and other matters (p 1-2)
    - Required by Government Auditing Standards
    - No opinion provided
    - Must report the following:
      - Any significant deficiencies or material weaknesses in internal control over financial reporting
      - Material noncompliance related to laws, regulations, contracts and grant agreements

# Report on IC over FR, Compliance and Federal Award Programs

22

- Document structure (continued)
  - ▣ Report on Compliance with Major Federal Award Programs (p 3-5)
    - Provides an opinion on compliance related to major federal award programs
    - Reports on any significant deficiencies or material weaknesses in internal control over major federal award program compliance
  - ▣ Schedule of Expenditures of Federal Awards (p 6-8)
  - ▣ Notes to Schedule (p 9)
  - ▣ Schedule of Findings and Questioned Costs (p 10-21)

# Report on IC over FR, Compliance and Federal Award Programs

23

## □ Results

- No findings cited in Report on IC over FR, Compliance and Other Matters
- Material weaknesses in internal control over compliance is reported in several federal award programs
- Unqualified opinion (best available) on all major federal award programs, which were:
  - Child Nutrition/School Lunch; CDBG; HOME; Public Safety Partnership and Community Policing; Energy Efficiency (ARRA); Special Education; Safe Schools; Education Jobs (ARRA); and Public Assistance
  - Total federal expenditures - \$11.9M
- 14 findings reported (7 related to internal control; 7 related to program noncompliance)

# Report on IC over FR, Compliance and Federal Award Programs

24

## □ Findings

### □ Child Nutrition Cluster (p 12-13)

- Material weakness in IC (finding 12-1)
  - Eligibility and Special Tests and Provisions - Procedures are not in place to ensure that lunch applications and income documentation obtained are maintained on file
- Noncompliance (finding 12-2)
  - The October 2011 claim for reimbursement to DESE did not agree to the detailed breakdown of school nutrition activity
  - Questioned costs - \$21
- Noncompliance (finding 12-3)
  - 4 of the 60 student files tested were either missing the original applications filed or did not contain sufficient documentation to support eligibility
  - Questioned costs - \$2,658

# Report on IC over FR, Compliance and Federal Award Programs

25

## □ Findings

### □ HOME Program (p 13-14)

#### ■ Noncompliance (finding 12-4)

- Program management did not enter program income enter federal IDIS system timely. As a result, there were instances where program income was not applied against grant expenses prior to federal grant drawdowns
- Questioned costs – None

### □ Public Safety Partnership and Community Policing (p 14-15)

#### ■ Material weakness in IC (finding 12-5)

- Internal controls are not in place to verify contracts entered into > \$25k are not suspended, debarred or otherwise excluded from doing business

# Report on IC over FR, Compliance and Federal Award Programs

26

- ▣ Public Safety Partnership and Community Policing (cont)
  - Noncompliance (finding 12-6)
    - Salaries charged to the grant for several employees were not supported by timesheets
    - Questioned costs - \$1,920
- ▣ Public Assistance Grants (p 15)
  - Material weakness in IC (finding 12-7)
    - Internal controls are not in place to verify contracts entered into > \$25k are not suspended, debarred or otherwise excluded from doing business

# Report on IC over FR, Compliance and Federal Award Programs

27

- ▣ ARRA Energy Efficiency (p 16–19)
  - Material weakness in IC (finding 12-8)
    - Internal controls are not in place to maintain payment requests and the accounting records supporting them
  - Material weakness in IC (finding 12-9)
    - Internal controls are not in place to prepare financial reports submitted to the Department of Energy based on activity recorded in the general ledger
  - Material weakness in IC (finding 12-10)
    - Internal controls are not in place to label equipment as federally funded and perform an annual physical inventory
  - Material weakness in IC (finding 12-11)
    - Internal controls are not in place to verify contracts entered into > \$25k are not suspended, debarred or otherwise excluded from doing business



# Report on IC over FR, Compliance and Federal Award Programs

28

- ▣ ARRA Energy Efficiency (cont)
  - Noncompliance (finding 12-12)
    - Program management did not maintain copies of the payment requests and supporting documentation
    - Questioned costs – none
  - Noncompliance (finding 12-13)
    - Financial reports submitted to the Department of Energy were not completed based upon expenditures recorded in the general ledger, which does not reflect an accurate and complete disclosure of results
    - Questioned costs – none
  - Noncompliance (finding 12-14)
    - Equipment purchased with federal funds was not labeled as such. In addition, the City did not perform a physical inventory.
    - Questioned costs - none

# Management Letter

29

- Does not identify the strengths of the financial systems
- 3 comments removed from prior year
  - ▣ NCDA, Bank Reconciliations and Test Database
- Summary
  - ▣ 12 comments
    - 3 new
    - 8 repeat
    - 1 informational

# Management Letter

30

- Water and Sewer Billings (Page 1)
  - Consistent with prior years, some water and sewer bills are based on estimates and false reads from a faltering reading system
    - Approximately 5% have multiple estimated reads (up to 12)
    - Abatements totaling approximately \$4M were issued during the year
      - \$800k less than the prior year
      - Our subsequent audit work identified abatements totaling \$130k for July & August 2012, a \$343k decrease from same period in prior year
  - Approximately 99% of the new meters were installed at June 30, 2012; however, the reading system was not entirely functional
  - We recommend the new metering system be fully implemented as soon as possible

# Management Letter

31

- City-Wide Grants Administrator (Page 2)
  - ▣ Current structure places responsibility of administering grants at the Department level
    - Grant administration positions only exist in the School and Planning and Development Departments
  - ▣ We believe the City is at risk in the administration and adherence to state and federal grant compliance requirements
    - Failure to comply with grant requirements potentially results in repayments to the granting agency or reduction in future awards
  - ▣ We recommend consideration of a City-Wide Grants Administrator

# Management Letter

32

## □ Parks and Recreation (Page 3)

### ▣ Cash receipt activities

#### ■ Swimming facilities daily bracelets

- No log is maintained that identifies the starting and ending number of daily bracelets sold. As a result, a reconciliation of bracelets sold to cash receipts cannot be performed.
- Schedule of Payments to City Treasurer does not include signoffs of the preparer or reviewer. As a result, control activities are not being documented.
- No documentation (signature or initials) supporting the reconciliation of bank deposit to receipts entered to SportsMan

- ▣ We recommend (1) a daily log be maintained and reconciled to daily cash collections; and (2) that all Schedules and reconciliations performed be documented by the preparer and/or reviewer's signature or initials

# Management Letter

33

- Service Organization Controls (Page 4)
  - ▣ City engages third-party service providers to process certain financial transactions (i.e., deputy tax collector)
    - The use of service organization's is an extension of the City's internal control over financial reporting, compliance, privacy, etc.
    - When third-party service providers are utilized, the City can monitor the third party's controls through the requirement of them obtaining a SOC 1 or SOC 2 report
  - ▣ We recommend:
    - The City identify each service organization utilized and request the applicable SOC report (annually)
    - The City include a requirement for each service organization to obtain an annual SOC report

# Management Letter

34

- Risk Assessment and Monitoring (Page 5)
  - ▣ The City, like many municipalities, has not implemented a formal risk assessment and monitoring program
    - Important element of internal control
    - Purpose is to identify, anticipate, analyze and manage risk of asset misappropriation (i.e., cash, movable inventory, etc.)
  - ▣ Should be led by employees who have extensive knowledge of the City's operations
    - However, all departments must be involved
  - ▣ We recommend the City implement a formal risk assessment and monitoring programs

# Management Letter

35

- Police Details (Page 6)
  - ▣ For financial reporting purposes, the City considers police detail accounts receivable uncollectible if greater than 1 year old (approximately \$33k)
    - However, a formal policy does not exist for the actual “write-off” of uncollectible amounts
  - ▣ In addition, the Police Department utilizes an internally developed database for billings and collections that doesn’t facilitate a clear audit trail and effective reporting
  - ▣ We recommend the development of a formal uncollectible policy and the consideration of purchasing software specifically designed for billing and collection



# Management Letter

36

- Student Activity Funds (Page 7)
  - ▣ MGL Chapter 71, Section 47 requires annual audit of student activity funds
    - MASBO recommends that every 3 years an independent audit firm perform agreed-upon procedures or an audit
  - ▣ Consistent with prior years, an annual audit or agreed upon procedures were not performed
    - Subsequent to year-end the City performed agreed-upon procedures related to the NNHS and NSHS student activity funds
  - ▣ We recommend the City have an annual audit or agreed-upon procedures of its student activity funds annually

# Management Letter

37

- Unclaimed Checks (Page 8)
  - A current list of check numbers, check dates, payees, address and related amounts was not provided to support the \$500,000 liability reported on the general ledger
    - This information is critical when following up and resolving unclaimed check amounts
  - We recommend:
    - T/C investigate and identify the pertinent unclaimed check information and reconcile to the general ledger
    - T/C implement procedures to investigate and resolve the unclaimed check amounts in accordance with MGL

# Management Letter

38

- Old Outstanding Checks (Page 9)
  - Vendor and payroll outstanding checklists identify approximately \$214k in checks > 3 months old
    - Typically means checks are lost, void or misplaced
  - We recommend procedures be implemented to investigate and resolve checks > 3 months old monthly

# Management Letter

39

- Financial Policies and Procedures (Page 10)
  - A formal financial policies and procedures manual does not exist
    - A formal manual would improve and standardize the City's financial policies and procedures, which enhances supervisory personnel effectiveness and transition effectiveness and efficiencies upon employee turnover
    - Should address major financial processes, such as cash receipts and disbursements, purchase orders, personnel, etc.
  - We recommend the development of a formal manual

# Management Letter

40

- Disaster Recovery Plan (Page 11)
  - ▣ In the prior year, we identified that although the City's financial data and software could be recovered, the City may not have the ability to physically run the software and access the data
    - During FY 12, the City addressed the hardware required to access the data and location to operate the g/l software; however, the hardware required to access the detailed accounts receivable data (MUNIS) has not been addressed
  - ▣ We recommend the detailed accounts receivable data be addressed in the City's disaster recovery plan

# Management Letter

41

- Pension Accounting and Financial Reporting (Pg 12)
  - ▣ GASBS 68 revises/establishes new financial reporting requirements related to pension benefits
    - Required to recognize long-term obligation for pension benefits in government-wide financial statements
    - Also requires:
      - More comprehensive measure of annual pension costs
      - Conditions on the use of discount rate
      - Requirement to use entry age method and each service period's cost is determined by level % of pay (attribution method)
      - Expanded note disclosures
  - ▣ We recommend management familiarize itself with GASBS 68 and prepare for its implementation

**FINANCIAL AUDIT ADVISORY COMMITTEE****Membership List**

Ald. Ruthanne Fuller, Chair  
 32 Suffolk Road  
 Chestnut Hill 02467  
*Aldermanic Appointee*

Ald. Victoria Danberg  
 30 Chase Street  
 Newton Centre 02459  
*Aldermanic Appointee*

Ald. Leonard Gentile  
 99 Aspen Avenue  
 Auburndale 02466  
*Chair of Finance Committee*

Ald. Scott Lennon  
 55 Jackson Road  
 Newton 02458  
*Aldermanic Appointee*

Matthew Hills, School Committee Member  
 25 Hobart Road  
 Newton Centre 02459  
*School Committee Member*

Gail Deegan  
 89 Needham Street #2421  
 Newton 02461  
*Citizen Appointee*  
*1-year term*

Robert Fox, Jr.  
 25 Fountain Street  
 West Newton 02465  
*Citizen Appointee*  
*3-year term*

Howard Merkowitz  
 16 Williston Road  
 Auburndale 02466  
*Citizen Appointee*  
*3-year term*

Anthony Logalbo  
 55 Herrick Road  
 Newton Centre 02459  
*Citizen Appointee*  
*2-year term*

**Sub-Committees**

Accounting and Audit Sub- Committee - Gail Deegan (chair), Howard Merkowitz, Vicky Danberg, Ruthanne Fuller (ex officio)

Internal Controls & Financial Policies and Procedures Sub- Committee - Tony Logalbo (chair), Scott Lennon, Ruthanne Fuller (ex officio)

Risk Assessment, Monitoring and Compliance Sub-Committee - Bob Fox (chair), Gail Deegan, Scott Lennon, Ruthanne Fuller (ex officio)

Investment Policies Ad Hoc Sub- Committee - Howard Merkowitz (chair), Lenny Gentile, Matt Hills, Ruthanne Fuller (ex officio)

## Financial Audit Advisory Committee

### 2012 Annual Report

January 10, 2013

In December 2010, the Board of Aldermen established a Financial Audit Advisory Committee. The purpose of the Committee is to assist the Comptroller and the Board's Finance Committee in the review of audit and fiscal accountability matters. One of its duties is to report annually confirming that its responsibilities have been carried out.

The Committee consists of nine members. The Finance Committee chair is a member (Lenny Gentile) as well as three other Aldermen appointed by the President of the Board of Aldermen (Ruthanne Fuller, Vicki Danberg, Scott Lennon). The President of the Board of Aldermen, with input from the Board appoints four citizens of the City with financial expertise (Gail Deegan, Bob Fox, Howard Merkowitz, and Tony Logalbo). The President of the Board of Aldermen, upon the recommendation of the Chair of the School Committee, also appoints one School Committee member (Matt Hills). The President of the Board, in consultation with the Finance Committee Chair, appoints the Chair of this Financial Audit Advisory Committee from among the members of the Board of Aldermen on the Committee (Ruthanne Fuller).

The Financial Audit Advisory Committee met for the first time in March 2012. The Committee met eight times. In addition, the Committee had four sub-committees:

(1) Accounting and Audit Sub-Committee: This sub-committee met twice. It reviewed responses by City personnel to specific concerns in the Auditor's Management letter (water and sewer billings, Newton Community Development Authority, police details, student activity funds, unclaimed checks, old outstanding checks, bank account reconciliations, technology disaster recovery plan, and technology test database). Significant progress was made in all areas. The full discussion of the Newton Community Development Authority's relationship with the City will continue in the early part of 2013. The sub-Committee also recommended that the Auditor's contract be extended by one year to cover this fiscal year. The contract is put out to bid approximately every five years. Therefore, in 2013, this sub-committee will undertake the process for selecting the City's Auditor (determining what process will be used, working with the Comptroller to develop a Request for Proposal, reviewing submissions, conducting interviews, recommending the Auditor). Committee Chair: Gail Deegan. Committee Members: Howard Merkowitz, Vicky Danberg, Ruthanne Fuller (ex officio).

(2) Internal Controls & Financial Policies and Procedures Sub-Committee: This sub-committee met once in 2012. The focus of the sub-committee for 2012 was on cash management -- receipts and disbursements. The Chair of the sub-committee, Tony Logalbo, met with various department heads. In addition, the Auditor, Sullivan, Rogers & Company, was asked to do a site visit at the Parks and Recreation Department and suggested ways to strengthen cash management in this department. The work will continue in 2013. Committee Chair: Tony Logalbo. Committee Members: Scott Lennon, Ruthanne Fuller (ex officio).



(3) Risk Assessment, Monitoring and Compliance Sub-Committee. This sub-committee met three times in 2012. The focus for the year was on developing internal whistleblower policies and procedures. A draft of this policy has been reviewed and will go to the Finance Committee in January 2013 and then to the full Board of Aldermen for approval. Committee Chair: Bob Fox. Members: Gail Deegan, Scott Lennon, Ruthanne Fuller (ex officio).

(4) Investment Policies Ad Hoc Sub-Committee. This ad hoc sub-committee met four times in 2012 to review the investment policies for short-term and medium-term cash. A draft of this policy has been reviewed and will go to the Finance Committee and then the full Board of Aldermen. Committee Chair: Howard Merkowitz. Members: Lenny Gentile, Matt Hills, Ruthanne Fuller (ex officio).

One of the policies that the Financial Audit Advisory Committee suggests be implemented in the years ahead relates to federal and state grants. Chris Rogers from the City's auditing firm, Sullivan, Rogers & Company, has noted that grants can be difficult to administer and grant requirements must be met to ensure a smooth audit without findings. When the Finance Committee authorizes a grant expenditure, a specific individual should be assigned to be the grant administrator. The municipal side of the City should also receive grant administration training from the School Department's Grant Coordinator who has extensive experience in this area.

In closing, I would like to thank all members of the Committee for their time and insight. The expertise of our citizen members – Gail Deegan, Bob Fox, Tony Logalbo and Howard Merkowitz – has been invaluable. Quite a few staff members have invested considerable time in reviewing and improving the City's internal policies and procedures. Our work went more smoothly and improved substantively from the wise counsel of David Wilkinson and Shawna Sullivan. Thank you.

Respectfully submitted,

Alderman Ruthanne Fuller, Chair  
Financial Audit Advisory Committee