

CITY OF NEWTON
IN BOARD OF ALDERMEN
FINANCIAL AUDIT SUBCOMMITTEE AGENDA

THURSDAY, JUNE 10, 2010

8:00 AM
Room 202

ITEMS SCHEDULED FOR DISCUSSION:

- Introductory discussion with Chris Rogers, Sullivan & Rogers regarding the impact of Other Post Employment Benefits (OPEB)
- Discussion of the scope of the Committee
 - Mission
 - Membership
 - Establish set meeting date and time
 - Review draft language developed by Alderman Fuller
- Topics for June and July meetings, including:
 - **Management Letter** - Accounts Receivable Finding, Page 2
 - **Report on Internal Control over Financial Reporting, Compliance and Federal Awards** ó Finding #09-1
 - ARRA / Federal Stimulus grant reporting
 - Upcoming Sullivan & Rogers fieldwork
- Timeline for review regarding areas of interest of other members

If anyone has any questions, please feel free to contact me at 617.584.5723 or sflennon@comcast.net.

Respectfully Submitted,

Scott F. Lennon, Chairman

Draft of the Audit Committee Rules

March 26, 2010

DRAFT Audit Committee Rules

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STRUCTURE

A stand-alone committee of the Board: to elevate the importance of fiscal accountability through strong internal controls, budgetary and other legal compliance, accurate and timely financial reporting and a culture of strong ethical behavior; to allow items to be docketed directly to the committee; to allow, and encourage, more time to be devoted to fiscal accountability matters;

Draft Language for Establishment of a Committee of the Board of Aldermen via the Rules of the Board of Aldermen An Audit Committee is hereby established, which reports to the Board of Aldermen through the Finance Committee, to provide oversight of the auditing and financial reporting process for the City of Newton.

Composition and Appointment

The Audit Committee shall consist of nine voting members as follows:

Finance Committee Chairman

Three Aldermanic members selected by the President of the Board of Aldermen

Four citizens of the City with financial expertise¹, selected by the President of the Board of Aldermen with input from the Board of Aldermen

One School Committee member

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Each appointment shall be for a term of three years. Initial citizen terms shall be staggered as follows: one for a term of one year, one for a term of two years, and one for a term of three years.

¹ Financial expertise may include the person having completed a program of learning in accounting or auditing; having experience as a principal financial officer, comptroller, public accountant or auditor; having experience overseeing or assessing the performance of companies, non-profits or municipal organizations or accountants with respect to the preparation of financial statements; or having other relevant experience. For example, the person may have an understanding of generally accepted accounting principles (GAAP) and financial statements; the ability to apply such principles in connection with the accounting for estimates, accruals, and reserves; experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that can reasonably be expected to be raised by the City's financial statements, or experience actively supervising one or more persons engaged in such activities; and an understanding of internal controls and procedures for financial reporting.

No citizen member shall be eligible to serve as a member for more than two consecutive full terms. For purposes of this clause, the initial one and two year appointments shall be deemed not to constitute full terms.

PURPOSE and AUTHORITY

To assist Newton's Board of Aldermen in fulfilling its oversight responsibilities for the financial reporting process to ensure transparency and integrity, the system of internal control, the audit process, and for monitoring compliance with laws and regulations and the code of conduct.

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The Audit Committee has authority to conduct or authorize investigations into any matters within the scope of the aforementioned responsibilities. It is empowered to:

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- Appoint, oversee, and contract the work of any registered public accounting firm employed by the City.
- Resolve any disagreements between the City and the auditor regarding financial reporting.
- Pre-approve all auditing and non-audit services.
- If needed, retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation with the approval of the Mayor.
- Seek any information it requires from employees-all of whom are directed to cooperate with the committee's requests-or external parties.
- Meet with City officials, external auditors, or outside counsel, as necessary.

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MEETINGS

The committee will meet at least four times a year on the Wednesday following the fourth Monday of the month, and at additional times when necessary. The committee will invite members of the Executive Department, management, auditors, or others to attend meetings and provide pertinent information, as necessary. It will hold meetings with auditors and, when appropriate, with the Chief Operating Officer, the Chief Financial Officer, the Treasurer, the Comptroller, the City Solicitor or anyone else desired by the committee

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The audit committee shall be authorized to hire professional consultants as necessary. ¶

RESPONSIBILITIES

The committee will carry out the following responsibilities:

Financial Statements

- Obtain from Comptroller and/or external auditors information on significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.

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- Review with City officials and the external auditors all matters required to be communicated to the committee under generally accepted auditing *Standards*.
- Review draft financial reports with management and the external auditors before filing, and consider whether they are complete and consistent with the information known to committee members.

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Internal Control

- Consider the effectiveness of the City's internal control systems, including information technology security and control.
- Evaluate areas of significant risk or exposure facing the City; assess the steps City officials have taken or propose to take to minimize such risks; and periodically review compliance with such steps.
- Understand the scope of external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- Review with the Executive Office the policies and procedures with respect to use of all appropriated monies and funds, including, for example, the use of City vehicles.

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External Audit

- Review the external auditors' proposed audit scope, approach and fees, including coordination of audit effort with internal employees.
- Review the performance of the external auditors, and exercise final approval on the appointment, replacement, reassignment or dismissal of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the City, including non-audit services, and discussing the relationships with the auditors.
- Establish a regular schedule for periodically discussing whether to re-bid the audit contract with an outside CPA firm.
- Review with City officials and the external auditors the results of the audit, including any difficulties encountered.
- Review City's responses to the audit
- Review with the independent auditor all critical accounting policies and practices used and alternative treatments of financial information within generally accepted accounting principles
- On a regular basis, meet with the external auditors to discuss any matters that the committee or auditors believe should be discussed.

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Compliance (Needs review by the Comptroller and Director of Human Resources)

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.

- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the code of conduct and conflict of interest policies to City personnel, and for monitoring compliance therewith, including Whistleblower Policies. *(Note: I assume we have a code of conduct)*
- Review the procedures for the receipt, retention, and treatment of complaints (including confidential or anonymous ones) received by the City regarding accounting, internal accounting controls, auditing matters, or suspected fraud that may be submitted by internal or external parties; review any complaints that have been received, current status, and resolution
- Obtain regular updates from management and City legal counsel regarding compliance matters.

Reporting Responsibilities

- Regularly report to the Board of Aldermen about committee activities, issues, and related recommendations.
- Provide an open avenue of communication between the Comptroller, the external auditors, the Executive branch, the Board of Aldermen, and the School Committee.

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Other Responsibilities

- Perform other activities related to this charter as requested by the Board of Aldermen.
- Institute and oversee special investigations within the committee's scope of responsibilities, as needed.
- Review and assess the adequacy of the committee rules annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.

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Sources:

The Institute of Internal Auditors; Sample Audit Committee Charter;
<http://www.theiia.org/guidance/additional-resources/audit-committees-board-of-directors/sample-audit-committee-charter/index.cfm?print> American Institute of Certified Public Accountants; Audit Committee Charter Matrix for Government Organizations;
http://www.aicpa.org/audcommctr/toolkitsgovt/Audit_Committee_Charter_Matrix.htm *New Vision for Public Sector Audit Committees*. By Stephen J. Gauthier |April, 2007. Government Finance Review.
<http://www.thefreelibrary.com/A+new+vision+for+public+sector+audit+committees.-a0162620687>

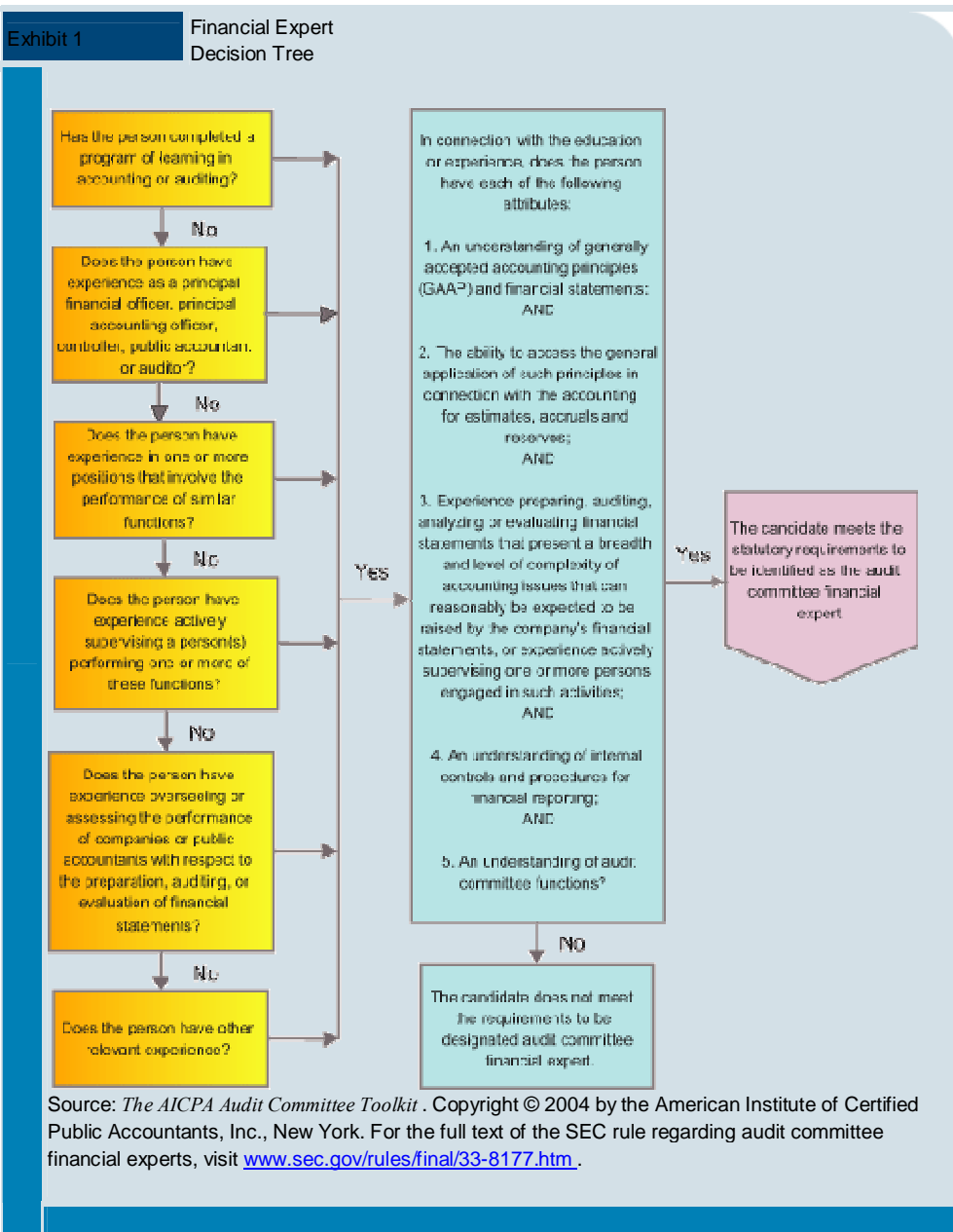
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Appendix I: Financial Expert Specifications as defined by the Sarbanes-Oxley Act and the SEC



Accounts Receivable Reconciliations

Comment

Consistent with prior years, procedures are not in place to reconcile the Collector's detailed accounts receivable balances to the general ledger timely. Effective internal controls require the timely reconciliation of detailed accounts receivable balances to the general ledger. Failure to perform these tasks timely inhibits the safeguarding of assets and does not provide for accurate and timely financial reporting.

Although the City performed procedures to resolve some of the variances between the accounts receivables records of the Comptroller and the Treasurer/Collector that were identified in the prior year; the following variances still remain at June 30, 2009:

<u>Receivable Type</u>	<u>Comptroller</u>	<u>Treasurer</u>	<u>Variance</u>
Real Estate Taxes - 2009..... \$	2,860,685	\$ 2,842,558	\$ 18,127
Sewer Liens Added to Taxes - 2007.....	37,633	37,650	(17)
Sewer Liens Added to Taxes - 2008.....	47,052	60,736	(13,684)
Sewer Liens Added to Taxes - 2009.....	200,374	206,595	(6,221)
Water Liens Added to Taxes - 2007.....	25,685	26,205	(520)
Water Liens Added to Taxes - 2008.....	36,897	44,328	(7,431)
Water Liens Added to Taxes - 2009.....	143,886	144,413	(527)
Stormwater Management Fees.....	164,498	122,363	42,135
Sewer User Charges.....	3,927,673	3,756,198	171,475
Sewer Renewal.....	36,984	6,175	30,809
Water User Charges.....	2,089,453	2,212,652	(123,199)
Water Maintenance Charges.....	29,939	12,183	17,756
Water Renewal.....	24,748	494	24,254

In addition, the City hired a consultant to assist with the reconciliation, which, among many things, identified that current personnel did not have a full understanding of how the system operates. The current condition has a negative impact on the reconciliation process and accurate and timely financial reporting.

Recommendation

We recommend that formal procedures be implemented to reconcile the Collector's detailed accounts receivable balances to the general ledger no later than 30 days after the end of the previous month. We also recommend that the Treasurer/Collector and Comptroller approve (e.g., sign off) each accounts receivable reconciliation.

We recommend that the Comptroller and Treasurer/Collector investigate and resolve the variances identified above.

We recommend that the appropriate personnel obtain the necessary training on the MUNIS detailed accounts receivable module. We also recommend that the City evaluate the need for additional training as new versions of the software become available and are implemented.

8. The threshold used for distinguishing between Type A and B programs was \$403,529.
9. The City of Newton, Massachusetts did not qualify as a low-risk auditee.

B. Findings - Financial Statement Audit

Significant Deficiency Considered to be a Material Weakness

09-1 Reconciliation of Primary Depository Account

Condition: Procedures are not in place to investigate and resolve reconciling items identified on the City's primary depository bank account reconciliation to the Treasurer's cash book timely.

Criteria: Effective internal controls require the timely investigation and resolution of reconciling items.

Effect: Misstatements due to error or fraud may occur and not be detected timely.

Auditors' Recommendation: We recommend that procedures be implemented to investigate and resolve reconciling items between individual bank accounts and the Treasurer's cash book by the end of the subsequent month.

Response: The City will undertake a complete review of current procedures for the reconciliation of bank statements to the Treasurer's cash book, with the objective of making maximum use of Quickbooks software and regularly reporting unidentified variances to the Comptroller for investigation.

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None.

D. Summary of Prior Audit Findings

FINANCIAL STATEMENT AUDIT

Significant Deficiencies Considered to be Material Weaknesses

08-1 Cash Disbursements

Conditions: The municipal finance laws of the Commonwealth require prior approval of the Comptroller and Mayor for all disbursements from the City treasury. The source document for this approval and for updating the general ledger was a disbursement warrant that was prepared by the Comptroller's Office. Certain time sensitive disbursements such as state and federal payroll tax withholdings and debt service payments were, however, routinely wired by the Treasurer and subsequently reported to the Comptroller for placement on a "checkless" warrant. Procedures were not in place to consistently report "checkless" disbursements to the Comptroller's Office.

Current Status: During fiscal year 2009, procedures were implemented to resolve this finding.