



FINANCIAL AUDIT ADVISORY COMMITTEE

Report

Tuesday, October 23, 2018

Present: Councilor Gentile (Chair), Councilor Auchincloss, Councilor Markiewicz, Councilor Grossman, School Committee Member Kathy Shields, Citizen Representative Tony Logalbo, Citizen Representative Terry Finn, and Citizen Representative David Spector

Also present: Comptroller Sue Dzikowski, Public Schools Assistant Superintendent Liam Hurley, and Matthew Hunt of Clifton Larson Allen LLP

Audit Update

Matt Hunt of Clifton Larson Allen LLP joined the Committee to provide an update on the external audit. The auditors are at the mid-point of this year's audit. Any financial information provided at this meeting is considered in draft. The preliminary work on the audit started in the spring and included much of the audit work on the Retirement System and testing of controls.

The Retirement Systems net position at its year-end of December 31, 2017 was \$351 million, which is an increase of \$45 million. The primary driver of the increase in net position was the \$50 million from investment income. The net pension liability is \$308 million. Last year the net pension liability was \$326 million. The \$18 million decrease in the liability is attributable to investment income and the inclusion of a portion of the deferred investment income from the previous year.

Last year the City implemented GASB Pronouncement 74, which requires the City to include the net OPEB liability, the OPEB Trust's net position, the assumptions used to determine the net OPEB liability, a 10-year schedule and other information related to OPEB contributions and reserves as part of the Comprehensive Annual Financial Report (CAFR) footnotes. The implementation of GASB 74 provides more information on the City's OEPB liability position. The City is implementing GASB Statement 75 this year. GASB 75 requires the City to put the full OPEB liability in the financial statements as part of the balance sheets like the implementation of GASB 68. As a frame of reference, that liability was \$290 million in the previous year. Previously, the number used was the difference between the Annual Required Contribution (ARC) and what the City actually paid. The only new thing related to GASB 75 is the increase in OPEB liability in the financial statements.

The City is still on track to fully fund its pension liability by 2030 and then shift to the OPEB liability funding. The Chief Financial Officer's PowerPoint presentation on the OPEB and Pension liability funding plan is attached and provides detail on the plan. Mr. Hunt pointed out that Newton is one of the few communities with a forward funding plan for both liabilities.

There was a uniform grant guidance change that resulted in less grants being audited as part of the Single Audit Report. The City is deemed a low risk auditee, which means that only 20% of its federal grants are audited. The auditors determine which grants are audited by the level of risk

associated with a grant. If a specific grant has a clean audit over a few years, the grant that has the next highest level of risk is audited. This year the auditor will look at the Community Development Block Grant.

The auditor expects to have the draft reports for the December 18, 2018 Financial Audit Advisory Committee meeting. The final reports should be available at the end of December or the beginning of January 2019.

Mr. Hund offered the services of CLA to help the City in any way it can during the Munis Software implementation. It could be beneficial for the City to utilize CLA for a couple of days to look over the implementation.

Special Audit Projects

The auditors will be looking at the Oak Hill Middle School student activity funds and the City's year-end closing process as the special project for the audit. The Committee previously recommended that the auditors look at the student activity funds at Newton South High School (NSHS); however, the School Department has requested that the auditors look at the Oak Hill Middle School student activity funds instead. The person with the most in depth knowledge of the management of the NSHS activity funds is out for an extended time and it would be easier if NSHS funds were done during the next audit. Assistant Superintendent Liam Hurley added that DESE will be doing an audit of the school lunch program in March 2019 and he would be happy to report back on those findings.

The auditor will also be doing a high-level audit of the City's IT security. The auditors are working with the City's Information Technology Department on the audit. The auditors have found some IT security recommendations to include in the Management Letter like improving password protection, testing external protection, improving written policies and procedures and encrypting USB ports. A Committee member asked Mr. Hunt if the City should consider purchasing cyber security insurance. Mr. Hunt will ask the cyber specialists at CLA and let the Committee know.

Update on Auditor Selection Process Services

A sub-committee of the FAAC was formed to develop a Request for Proposals (RFP) for a new five-year contract, evaluate the submitted proposals, conduct interviews, and make a recommendation. The six members of the sub-committee included Tony Logalbo (Chair), Councilor Rebecca Grossman, Councilor Chris Markiewicz, Terry Finn, Comptroller Sue Dzikowski, and David Spector. A Request for Proposals (RFP) was advertised and the City received three responses to the RFP. All three firms met the necessary qualifications outlined in the RFP. At this point, the sub-committee has interviewed the three firms and submitted independent evaluations of each of the firms. The sub-committee is meeting on October 24, 2018 to review the rankings, open the price proposals, and hear the Chief Procurement Officer's recommendation. The sub-committee will choose which firm to recommend and the recommendation will be sent to the Finance Committee of the City Council for approval.

Next Meeting

The next meeting of the Committee is scheduled for December 18, 2018 to review the draft reports.

The Committee adjourned at 8:50 AM.

Respectfully submitted,

Leonard J. Gentile, Chair