

**FINANCIAL AUDIT ADVISORY COMMITTEE
AND
FINANCE COMMITTEE**

Agenda

Monday, January 13, 2014 at 6:00 PM

Room 222, City Hall

Agenda Items

- Determine goals for the year, work for sub-committees, and schedule.
- Review and approve the annual report to the Finance Committee.
- The Financial Audit Advisory Committee will meet jointly with the Finance Committee to review proposals for the City of Newton external auditor, decide which firms to interview, and decide on questions to ask and criteria.

Financial Audit Advisory Committee

2014 Work Plan

DRAFT

January 9, 2014

Full committee meets with the auditor three times:

April: Meet prior to field work to:

Review Committee goals for the audit

Have the auditor alert the Committee to any new issues or regulations

Receive from the Administration a status report on issues in the Management Letter

October: Receive a status report

December: Exit Conference. Note: At the end of this meeting, go into Executive Session with the Auditor without City employees

Continue work in two sub-committees.

Typically, policies will be drafted by City staff, reviewed by the Sub-Committee, reviewed by the Financial Audit Advisory Committee and forwarded to the Finance Committee.

1. Accounting and Audit Sub-Committee

- A. Review Responses by City Personnel to Specific Concerns in the Auditor's Management Letter that are not covered by the other sub-committee

Prior Year Comments – Partially Resolved

Student Activity Funds (2011 and 2012)

Disaster Recovery Plan (2011 and 2012)

Prior Year Comments – Unresolved

Police Details (2011 and 2012)

Financial Policies and Procedures Manual

Current Year Comments

Departmental and Other Accounts Receivable

F.A. Day Middle School and Angier Elementary School

Informational Comment

Pension Accounting and Financial Reporting

- B. Prepare for Accounting and Financial Reporting Requirements, including Long-Term Liabilities
- What are the potential impacts to accounting and financial reporting requirements?
 - How should Newton prepare for both reporting and communicating the financial implications?
- C. Run Process for Selecting Auditor (Current contract ends December 2013)
- Working with the Finance Committee and all members of the Financial Audit Advisory Committee,
- Review submissions
 - Do interviews
 - Recommend Auditor

Committee Members: Gail Deegan (chair), Howard Merkowitz, Vicky Danberg, Ruthanne Fuller (ex officio)

2. Risk Assessment, Monitoring and Compliance Sub-committee

A. Develop an approach for risk assessment and monitoring regarding cash receipts

The external auditor has been consistently noting that all municipalities must periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment is one element of internal control. The focus for 2014 will be on cash receipts.

The external auditor recommends that risk assessment be performed by management-level employees who have extensive knowledge of the City's operations. To quote the external auditor, "Ordinarily, the management-level employees would conduct interviews or lead group discussions with personnel who have knowledge of the City's operations, its environment, and its processes."

The external auditor also suggests questions that should be considered (e.g., What departments receive cash receipts? How could assets be stolen? How could potential misappropriation of assets be concealed?).

Working with, among others, the CFO, the Comptroller, and the Treasurer, the Committee will determine what options the City has for performing a risk assessment of cash receipts and make a recommendation.

B. Develop a multi-year plan for overall risk assessment and monitoring

While the focus for 2014 will be on cash receipts, the sub-committee will help develop a multi-year plan for an overall risk assessment and monitoring effort. As the external auditor suggests, questions like the following should be considered:

What assets are susceptible to misappropriation?

What departments have movable inventory?

What operations are the most complex?

How could assets be stolen?

Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?

What prior internal control issues could still continue to be problematic?

What monitoring program should be used to periodically evaluate the operational effectiveness of internal controls?

Committee Members: Bob Fox (chair), Gail Deegan, Tony Logalbo, Ruthanne Fuller (ex officio)

City of Newton Financial Audit Advisory Committee

2014 Calendar

January 9, 2013

Monday, January 13, 6 pm – 7 pm

Meet jointly with the Finance Committee re auditor:

Review proposals.

Decide which firms to interview.

Decide on questions to ask and criteria.

Determine goals for the Financial Audit Committee for the year, work for sub-committees, and schedule

Review and approve the annual report to the Finance Committee

Monday, January 27, 4 pm – 7 pm

Meet jointly with the Finance Committee. Interview potential auditors.

Monday, January 27, 7 pm

Finance Committee having exit interview with Rogers & Sullivan

Monday, February 10, 4 – 7 pm

Meet jointly with the Finance Committee. Finish any remaining interviews of potential auditors.

Rank order the firms.

Tuesday, April 8, 8:15 am

Meet with Auditor prior to field work to:

Review Committee goals for the audit

Have the auditor alert the Committee to any new issues or regulations

Receive from the Administration a status report on issues in the Management Letter

Tuesday, October 14, 8:15 am

Committee meets with Auditor to receive a status report

Tuesday, December 16, 8:15 am

Committee meets with Auditor for Exit Conference

Note: At the end of this meeting, go into Executive Session with the Auditor without City employees

Financial Audit Advisory Committee

DRAFT

2013 Annual Report

January 3, 2013

In December 2010, the Board of Aldermen established a Financial Audit Advisory Committee and it met for the first time in March 2012. 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. In 2013, its membership consisted of the Finance Committee chair (Lenny Gentile) as well as three other Aldermen appointed by the President of the Board of Aldermen (Ruthanne Fuller, Vicki Danberg, and 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).

In calendar year 2013, the Committee met five times. In these meetings, the Committee concentrated on:

- Reviewing the updated Investment Policy and the new Whistleblower Policy, both of which were subsequently approved and adopted by the City.
- Reviewing and updating policies for affiliated and discretely presented component units of the City.
- Meeting with the external auditor three times to develop the scope of the audit, get a status update and review the audit.
- Developing a process and schedule for selecting the external auditor (the current contract ends in December 2013), including working with the Comptroller on a Request for Proposal. In early 2014, working with the Finance Committee, the submissions will be reviewed, interviews conducted and a recommendation made.
- Discussing with departments and the Administration findings from the 2012 audit.

In addition, the following sub-committees met:

(1) Accounting and Audit Sub-Committee (Committee Chair: Gail Deegan; Committee Members: Howard Merkowitz, Vicki Danberg, Ruthanne Fuller (ex officio)): This sub-committee met twice. It reviewed responses by City personnel to specific concerns in the Auditor's Management letter (student activity funds, police details, water and sewer billings, Newton Community Development Authority, Parks and Recreation cash policies, the disaster recovery plan, old outstanding and unclaimed checks, service organization controls). Significant progress was made in all areas.

(2) Risk Assessment, Monitoring and Compliance Sub-Committee (Committee Chair: Bob Fox; Members: Gail Deegan, Scott Lennon, and Ruthanne Fuller (ex officio)). This sub-committee met five times in 2013. The sub-committee focused on two issues. First, it finalized the internal whistleblower policies and procedures. The Finance Committee reviewed it and then the full Board of Aldermen approved it. Second, it reviewed financial policies related to affiliated organizations. The sub-committee reviewed materials from NewTV, the Newton

Municipal Credit Union, Angino Farm, the Newton Historical Society, the Newton Schools Foundation, Newton Pride, and Neighborhood Area Councils. The sub-committee made the following recommendations:

1. The policies of the City should clearly identify Affiliated Units (AUs) as independent entities, not managed by the City, and not financially “backstopped” by the City. For example, Boards that are appointed by the City need to act independently of Boards of AUs, even when the City-appointed Board supports the activities of the AU.
2. The HR Departments of the City and the Schools should have clear policies regarding city employee participation in the governance and management of AUs.
3. The Law Department should establish guidelines for AUs regarding the use of the City of Newton’s name in fundraising events, and remind city employees involved with AU’s of the prohibition with respect to fund raising activities.
4. The Public Buildings Department of the City should have clear policies regarding the use of buildings, including the appropriate charging of rent. Similarly, the School Committee should have clear policies for the use of schools and school department buildings. Along with clear policies, we would encourage the City to promote equitable treatment of AUs.
5. The Information Technology Department of the City should review the use of city e-mail addresses and access to city servers by non-City employees of AUs. In general, use of city e-mail addresses and servers should be discouraged since it erodes the independence of AUs.
6. Where practical, e.g. in charters establishing AUs, contracts or other agreements with AUs, the City should require that all AUs file annual reports with the Clerk of the Board of Aldermen and that such filings be communicated to the Board. In the absence of a charter requirement or contract, the City should request the same from all AUs. It is not our intent to require AUs to have audited financial statements; that determination should be made by the Board and Management of each AU. The financial statements will be reviewed by the Financial Audit Advisory Committee. To reduce the burden on the AUs and the Committee, we would suggest that such reviews be conducted on a rotating three-year basis. The reviews would focus on compliance with GASB 14, and maintenance of the independence of the AUs.

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 Merkwitz – 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