

FINANCIAL AUDIT ADVISORY COMMITTEE

REPORT

Tuesday, April 8, 2014

Present: Ald. Fuller (Chairman), Ald. Gentile, Ald. Danberg, Gail Deegan, Tony Logalbo, and Margaret Albright (School Committee Member)

Also present: Matthew Hunt, CPA (Clifton, Larson, Allen, LLC), Marisa Batista, CPA (Clifton, Larson, Allen, LLC), and David Wilkinson (Comptroller)

The Committee met with Matt Hunt and Marissa Batista of Clifton, Larson, Allen, LLC, the City's external auditing firm to review the goals for the upcoming audit and for the Committee to set some guidelines for the audit.

The Committee and the auditors reviewed the audit schedule. The preliminary fieldwork is scheduled to start on April 13, 2014. The Federal grant audit will be scheduled in the near future but the testing is typically done in the spring and the final review in September or October. The auditors expect to begin work on the City's Comprehensive Annual Financial Report (CAFR) on September 15, 2014. The draft audit reports are expected in early to mid-November and the final audit report should be issued by the first week in December. The Financial Audit Advisory Committee has tentatively scheduled the exit conference with Clifton, Larson, Allen, LLC (CLA) for December 16, 2014.

The auditors usually make a visit to a school and another department within the City each audit cycle. The site visit to the school is done prior to June 30th in order to focus on the City's financial statements in September and/or October. The auditors would like the committee's input on which school and department they should visit this year. The sites are generally chosen based on cash receipts and revenue generation. Typically, the two sites have a large number of cash receipts and large revenues; however, the Committee could recommend a site visit to a department based on value to the Committee.

Comptroller David Wilkinson stated that a site visit at a school should continue. Comptroller David Wilkinson and the School Department's Director of Finance Sue Dzikowski will determine which of the City's schools should be visited this year. Mr. Hunt stated that the auditors would be willing to look at two schools if the only focus is the cash receipts and not disbursements. Mr. Wilkinson stated that he has not worried about disbursements as there are better controls.

After weighing the merits of a site visit to the Inspectional Services Department or the Human Resources Department, the Committee felt that it would be more beneficial to visit the Inspectional Services Department. The visit would align with the implementation of the Community Plus software module. In addition, the department handles a large amount of cash and checks as part of issuing building permits. The auditors could also focus on how the department tracks and collects building permit money, violations and the associated fines.

There have been payroll errors in the entry of new hires and employee transfers related to health insurance deductions and Other Post-Employment Benefit (OPEB) deductions. The City recently hired a new Human Resources Director and it is expected that he will be addressing those issues in the near future. The Committee felt it was appropriate to give the new Human Resources Director an opportunity to resolve the issues before auditors make a site visit.

The Committee discussed whether the Municipal Medicaid Program, which reimburses the City for expenses associated with the School Department's special needs program, should be included in the audit. The program generates reimbursements of approximately \$900,000. Mr. Hunt stated that he will check with the Clifton Larson Allen Grant Specialist to determine if the program falls under the federal grant program category. If it is a federal grant program, it will be audited. It was pointed out that the program may have been audited in the past but was deemed a low-risk program and, therefore, not audited again. If it does not fall into the federal grant program category, the City can opt to include it as a single audit review at a cost of \$4,600.

The Committee also discussed whether the audit should include a check on the City's cyber security. Mr. Hunt stated that it would require a specialist like an Audit Information Technology Specialist. He will look to see what, if anything, CLA can provide in terms of data protection and cyber security checks. The Committee would also like to know what other municipalities are doing in this area. It was pointed out that cyber security is not generally a main focus of the audit and might be outside the scope of the audit but the auditors agreed to provide any information they could.

The auditors spoke about the Governmental Accounting Standards Board (GASB) Pronouncement #68. There will be a meeting of the Financial Audit Advisory Committee with a representative of the PRIT Board, the auditors and actuaries in July to discuss the City's implementation of GASB 68. This is the first stage for the implementation of Pronouncement #68. It is important that all the parties involved in the implementation are part of the planning process to ensure smooth implementation in 2015.

Comptroller David Wilkinson informed the Committee that the CAFR will contain a schedule for the override funds.

The Committee reviewed the work of the sub-committees of the Financial Audit Advisory Committee. The Accounting and Audit Sub-committee met with the appropriate department heads to review the auditors' comments and the administration's responses to the comments contained in the auditors' management letter dated June 30, 2014. The Risk Assessment, Monitoring, and Compliance Sub-committee continues to work on developing a Risk Assessment Policy for Cash Receipts and developing a multi-year plan for overall risk assessment and monitoring.

Respectfully submitted,

Ruthanne Fuller, Chair