

FINANCIAL AUDIT ADVISORY COMMITTEE

Report

Thursday, April 11, 2013

Present: Alderman Fuller (Chairman), Alderman Danberg, Robert Fox, Tony Logalbo and School Committee Member Matt Hills

Also present: David Wilkinson (Comptroller) and Sue Dzikowski (Director of Finance; School Department)

Schedule and Content for Fiscal 2013 Financial Statement Audit

The Committee reviewed the external audit cycle with the external auditor, Chris Rogers of Sullivan, Rogers & Company, LLC. The audit will begin on site fieldwork in late April or early May. The audit starts with the Retirement System and the planning work, which is really the risk assessment portion of the audit. The auditors will begin the major federal grant awards audit in May, which often takes several months to complete. Mr. Rogers anticipates that the audit of the Comprehensive Annual Financial Report (CAFR) will take place the first or second week of September and the draft audit reports should be completed by October 31, 2013. Mr. Rogers expects to meet with the Financial Audit Advisory Committee before and after the draft reports are issued to discuss any issues.

At this point in the audit cycle, the Financial Audit Advisory Committee reviews the goals for the audit and the auditor alerts the Committee of any new issues or regulations implemented by the Governmental Accounting Standards Board (GASB). Committee members should also inform the auditor of any areas or concerns that should be focused on during the audit.

Mr. Rogers informed the Committee that no new standards have been implemented by the GASB for the upcoming year. Next year the pension liabilities will need to be reported and the Other Post-Employment Benefit (OPEB) liabilities are likely to follow in Fiscal Year 2017.

The Committee asked if it would be possible to give a picture of the pension and OPEB liability for Fiscal Year 2014. At some point, the City will need to start a public education campaign regarding these liabilities. In addition, the City's credit rating firm wants a concrete plan to address the OPEB liabilities. The City has begun to address the OPEB liabilities by enacting an ordinance and establishing a trust fund in order to invest City funds with the State Retiree Benefits Trust Fund.

The Committee requested that the Comptroller add a schedule as an appendix to the CAFR on the general override funds that includes how the city is expending those

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funds. It is important that taxpayers know that the override money is being spent as intended.

The Committee members discussed concerns regarding the City's internal controls in terms of handling currency and checks at satellite locations throughout the City. It was suggested that the auditor should document the internal controls as they relate to one elementary school and one middle school.

Chris Rogers informed the Committee that when his firm has looked at the procedures for student activity funds in other communities, which are done in order to ensure compliance with Mass General Law, they have usually issued eight to ten findings per school. The high schools have the largest number of student activity funds and the Committee should be very specific in directing the auditors at what to look at, as many things fall under student activity funds. Mr. Rogers would be happy to share the process that the auditors go through when performing agreed upon procedure engagements. He added that once controls are in place, an internal audit should be done every year and have an outside party perform an audit on the internal control procedures every three years. Mr. Rogers added that it would be a risk assessment and the City can always strengthen procedures to reduce risk. Whether he looks at the student activity accounts or not will not have impact on the auditor's material opinion as the amount of money is typically small and immaterial.

The School Department is willing to have the auditors come and perform the assessments. The School Department received a checklist from Mr. Rogers about six months ago about internal controls and have performed the recommended checks and implemented procedures. Sue Dzikowski visits the high schools periodically to determine that the schools are following the procedures in place for student activity funds. In general, the sense is that the School Department is following the law and has appropriate controls. The School Department is cognitive of the fact that the only deposits that can go into the student activity funds are student monies.

If the City can internally monitor the School Department's student activity funds for compliance rather than have the external auditors do so, it would save taxpayers money. It would seem to make sense to test one middle school and one elementary school this year to ensure that the School's established process is working and possibly test one high school next year.

It was pointed out that the procedures for cash and checks need to be the same throughout the City departments. It would be easier to tighten the internal controls if there was less cash flowing through the City. The Committee may want to look at how other municipalities are implementing internal controls related to cash. If the City relies on credit card payments, it could present another set of risks related to internet security and information technology system security. The Committee will speak with the Chief Financial Officer regarding credit cards and automatic payments.

Selection Process for External Auditor

The current contract with Sullivan, Rogers & Company, LLC ends with the completion of the Fiscal Year 2013 external audit reports. The draft document of the Request for Proposals (RFP) will be available in June. The Committee would like to spend some time on the specifics of what constitutes quality audits. The language needs to be very clear in the RFP. The selection of the external auditor needs to take place in January or February 2014 so the chosen firm can begin in March 2014. It was suggested that the RFP should include a request for a client list, a termination list and the reasons for termination.

The Committee adjourned at 9:15 AM.

Respectfully submitted,

Ruthanne Fuller, Chair