

# **FINANCIAL AUDIT ADVISORY COMMITTEE**

## **REPORT**

**Thursday, October 10, 2013 @ 8:15 AM**

Present: Ald. Fuller (Chairman), Alderman Gentile, Alderman Danberg, Robert Fox, Tony Logalbo, Gail Deegan, and Howard Merkwowitz

Also present: David Wilkinson (Comptroller), and Sue Dzikowski (Director of Finance; School Department), Chris Rogers, CPA (Sullivan, Rogers & Company, LLC), and Marisa Batista, CPA (Sullivan, Rogers & Company, LLC)

### External Audit Status Update

Chris Rogers and Marisa Batista of Sullivan, Rogers & Company, LLC provided a Fiscal Year 2013 audit status update. The update began with an engagement summary. The fieldwork for the City's audit began September 9, 2013 and is substantially complete. The fieldwork related to two education grants and the Community Development Block Grant (CDBG) should be complete by the end of the week. The city had seven grants that met the major federal grant threshold that required audit, which falls within the engagement budget. Chris Rogers expects the audit to be complete before the December 5 exit conference. So far, there have been no material weaknesses identified or material noncompliance found as it relates to grants. However, there is a potential that there could be some material noncompliance related to program income as it relates to CDBG funds. The noncompliance would be because of how the funds were applied when money was drawn down in the IDA System provided by the federal government and not that funds were misspent.

At this point, the City needs to provide information to complete the audit. The Workers' Compensation actuarial valuation is outstanding but is in process. Comptroller David Wilkinson explained that the delay is a result of the turnover in the Human Resources Department but the City has hired a new Workers' Compensation Agent that will be providing the information. There are seven workers' compensation cases that the City's actuary needs additional information on but as the Workers' Compensation Agent position was vacant, the City did not have the information available. The new agent is in the process of reviewing the seven case files to make a determination of the permanency of the disabilities in the seven cases. If all seven cases were judged permanent, it would double the City's number of permanent disability cases. The workers' compensation fund would go from a healthy fund balance to a deficit. The City should be providing the actuary with the information next week.

The external auditor is also awaiting the Tufts and Harvard Pilgrim lag reports through September 30, 2013. The auditor verifies that the incurred but not reported liabilities that have been recorded on the books are appropriate based on actual activity.

The Comptroller explained that the City has used one month of average paid claims over the past several years as the norm for the claims that have been incurred but not yet paid by the time the books close for the year. The third item that is required for completion of the audit is the Newton Commonwealth Foundations' audited financial statements. The Commonwealth Foundation is a component unit of the City; therefore, their audit is part of the City's financial statements. Comptroller David Wilkinson added that there has been changes in the responsibilities of the board members of the Commonwealth Golf Foundation but the member who is now responsible for the audited financial statements expects to provide the statements to the City within the next two or three weeks.

In regards to the financial statements, the auditor is awaiting the letter of transmittal the management's discussion and analysis, which is dependent on the completion of the open audit items, and the statistical section. Once all of the information is received, Sullivan, Rogers & Company, LLC will issue a management representation letter for signatures and once signed the final report will be issued.

The first draft of the Comprehensive Annual Financial Report will be issued by October 31, 2013 and the final report should be issued by November 28, 2013. The Management Letter and Reports on Internal Control of Financial Reporting, Compliance and Federal Award Programs first drafts will be available by October 31, 2013 and the second draft will be issued by November 28, 2013, which will include the management's responses. After the December 5, 2013 exit conference with the Financial Audit Advisory Committee, the final Management Letter and Reports on Internal Control of Financial Reporting, Compliance and Federal Award Programs will be issued.

There was a question related to the level of scrutiny that the external auditor gives to the Other Post Employment Benefit (OPEB) and the pension valuation reports. Mr. Rogers explained that the data going in and the data going out is tested to ensure that it is the exact same. The auditor also verifies that the actuary doing the valuation reports is a certified actuary. It is important to understand what is actually in the report in terms of pension and OBEP, as those numbers will be further scrutinized by the rating agencies. It is helpful to compare the City's numbers with other municipalities.

Last year, the Financial Audit Committee requested that the auditor look more deeply at how cash and checks are handled at satellite locations in the City. The external auditor looked at the Police Department's new procedures for cash and checks and at how two schools handle cash and checks related to the student activity funds. Mr. Rogers has not had an opportunity to review the information.

Comptroller David Wilkinson stated that he has worked with external auditors on over twenty external audits and Sullivan, Rogers & Company, LLC has been the most organized and efficient company that he has worked with.

## Selection of the External Auditor

The City is at the end of its contract with Sullivan, Rogers & Company, LLC for auditing services. Comptroller David Wilkinson provided the attached schedule for the selection of a public accounting firm that incorporates the committee members' comments and suggestions from the previous meeting as far as the calendar. The Comptroller suggested resending the previously provided draft Request for Proposal (RFP) through e-mail for committee members to review and provide comment. The Comptroller would like to finalize the document by the first week in December; therefore, comments should be submitted by the first week in November.

The Comptroller reviewed the schedule with the Committee. If the City receives a number of responses to the RFP, the Financial Audit Advisory Committee may need to narrow the list to those firms that the Committee feels should be interviewed. Once there is a list of firms to interview, the Finance Committee and Financial Audit Advisory Committee will meet jointly to interview the candidates. The interviews will likely require two joint meetings, which will tentatively take place between 4 PM and 7 PM on Monday, January 13, and Monday, January 27, 2014. There is a possibility that there will be a delay in the schedule and the interviews could shift to Monday, January 27, 2014 and Monday, February 10, 2014.

Not all public accounting firms are qualified to submit a proposal to the City due to the single audit component. Chris Rogers of Sullivan, Rogers & Company, LLC reviewed the qualifications, which include Certified Public Accountants that have continued professional education in the Generally Accepted Government Auditing Standards (Yellow Book), which provides framework for quality audits of government entities. Other qualifications include experience with federal grant audit work, and affiliation with the Governmental Audit Quality Center. If firms do not have the qualifications, they are not experienced in municipal audits. However, it is unlikely that an audit firm would submit a proposal without the necessary qualifications. The Comptroller will provide the Committee with a criteria sheet. Chris Rogers will also provide sample criteria for the City to review.

## Affiliated Organizations

Bob Fox, Chairman of the Risk Assessment, Compliance and Monitoring Subcommittee reviewed the draft report that was attached to the meeting agenda. The subcommittee was charged with looking at the requirements of the Governmental Accounting Standards Board (GASB), as they relate to the City's component units. Component units of the City are easily identified using the standards established in GASB's Summary of Statement No. 14 and No. 61. Through that work, the subcommittee identified organizations that are not component units of the City but are affiliated with the City. It is important that the City is aware of these organizations because of the potential impacts those affiliated units could have on the City's financial reporting and its reputation, as they share some type of connection with the City such as use of public building space, shared employees and/or use of the City name.

The draft report summarizes the discussion surrounding the City's affiliated units. The sub-committee met with a number of the affiliated units to discuss the aspects of the affiliated unit that connect the unit to the City like shared employees, non-city employees with city e-mail or phone number, addresses, use of the City name, and/or use of City funds or equipment. The sub-committee discussed what information the City could or should request from affiliated units in terms of financial statements, who in the City should review financial statements, and how a deficiency in the financial statements would be addressed by the City. The sub-committee also discussed what assets the affiliated units are to the City and not placing undue burdens on affiliated units. The sub-committee made a number of recommendations for consideration that are contained in the draft report. The recommendations are essentially to ensure that affiliated units continue to maintain their independence from the City.

There are outstanding issues related to the neighborhood area councils. The City's Charter governs the establishment of neighborhood area councils and requires that each neighborhood area council provide the Board of Aldermen an annual report and that each council keep complete financial records that shall be subject to city audit. The City's Law Department is looking at the Charter language. It was suggested that it might be appropriate to request home rule legislation to allow neighborhood area councils to keep their finances separate from the City's finances. Ald. Gentile and Ald. Fuller were willing to submit a docket item on behalf of the Committee regarding requesting the home rule legislation.

#### Whistleblower Policy

The Whistleblower Policy was approved by the Board of Aldermen on February 4, 2013. The Administration had requested an amendment to the policy but the amendment was voted no action necessary by the Board of Aldermen on September 16, 2013. Unfortunately, the Human Resources Director's position is vacant and as a result, the new Whistleblower Policy has not been publicized. Once the Human Resources Director is hired, that person will be responsible for ensuring it is publicized by putting it in the employee handbook, making it available on the City's website, and informing current employees of the policy, as it a policy and not an ordinance. Ald. Gentile and Bob Fox will meet with the Mayor to discuss publicizing the policy.

#### Next Meeting

Thursday, December 5, 2013 @ 8:15 AM.

Respectfully submitted,

Ruthanne Fuller, Chairman

CITY OF NEWTON, MASSACHUSETTS  
FINANCIAL AUDIT SERVICES  
SCHEDULE FOR SELECTION OF PUBLIC ACCOUNTING FIRM  
TO PERFORM THE ANNUAL FINANCIAL AUDIT FOR  
Fiscal Years 2014 – 2018

- Finalize Request for Competitive Proposal Document – December 2, 2013
- Docket item before Board of Aldermen for Selection of Independent Financial Auditor for the next five year period – December 2, 2013
- Issue Request for Competitive Proposals Document – December 12, 2013
- Audit Services Proposals Due – January 9, 2014
- Distribution of Audit Services Proposals to Finance Committee & Financial Audit Advisory Committee – January 10, 2014.
- Finance Committee/Financial Audit Advisory Committee Interviews – January 13 – 27, 2014 (prior to the start of the Finance Committee regular business meeting)
- Finance Committee vote on recommended audit firm to full Board of Aldermen – February 10, 2014
- Board of Aldermen vote to select audit firm – February 17, 2014
- Engagement letter/contract signing – March 14, 2014
- Preliminary audit work begins – April/May 2014
- Final audit work begins – September 2014

October 3, 2013