

# FINANCIAL AUDIT ADVISORY COMMITTEE REPORT

March 5, 2012

Present: Ald. Fuller (Chairman), Gail Deegan, Ald. Lennon, Ald. Danberg, Ald. Gentile, Robert Fox, Anthony Logalbo, and Howard Merkowitz

Also present: David Wilkinson and Maureen Lemieux

## Term Limits and Meeting Schedule

Following the guidelines in the Resolution establishing the Financial Audit Advisory Committee, the Committee established term limits for the citizen members. Gail Deegan will serve the one-year term, as she is hesitant to make a commitment for a longer period, due to her schedule. Mr. Logalbo will serve the two-year term, which will allow him to be reappointed two more times, as he is not serving a full three-year term. Mr. Merkowitz and Mr. Fox will serve the three-year terms.

Morning meetings worked for all of the Committee members. As a consensus could not be reached, it was decided that there would be no set day of the week. The Chair will provide a calendar of meetings for the entire year. The meetings will begin at 8:30 a.m. unless there is a need to begin at 8:15 a.m. if the agenda is lengthy. It was important to Committee members establish an end time for meetings. The Committee established an end time of 9:30 a.m. for all of its meetings.

## Purpose and Authority of Committee

The Committee members had reviewed the purpose and authority of the committee prior to the meeting. Ms. Deegan felt that it was a comprehensive charter. She felt it would be a challenge to meet all of the charges. The structuring of time in a meeting will be essential to get value and meet the charter of the Committee. The Committee may want to consider reviewing the charges to determine what items can be done by consent instead of discussing the charge.

There are a number of major areas of concerns for the Committee to study. The lack of written financial policy and procedures is an important one. There are a number of departments that handle cash receipts (currency (bills and coin), checks, and electronic payments) and therefore have the risks associated with it. There is not a comprehensive list of departments that handle cash. The Committee and the Finance Committee must do everything they can to protect the taxpayers' dollars. In addition, the Board of Aldermen's Finance Committee is composed of Aldermen of mixed levels of ability in terms of auditing. Comptroller David Wilkinson added that establishing financial procedures is critical. There are department heads that perform day-to-day work. They are no longer supervising and are not in a position to spend time documenting policy and procedures. The City is not in a financial position to hire someone to create these policies and procedures.

The City may want to look at financial policies and procedures that are used by other communities and organizations as role models. It was suggested that the City contact one of the

universities in the area regarding the possibility of using interns to do some of the work to establish policies and procedures.

One of the potential topics for additional work is Risk Management and Monitoring & Financial Policies and Procedure Manual. They are separate activities but are very closely related. The risk monitoring is as equally important as the financial policies and procedures. The risk monitoring can be done, in part, through the development of the policies and procedures.

#### Audit Cycle

A broad outline of the audit cycle is attached. The schedule is determined by the City's policy of issuing audited financial statements by December 31 of each year.

The outside accounting firm is appointed through a five-year contract. The current contract expires in 2012. Request for Proposals are sent out to audit firms and the City usually interviews three firms and makes a decision.

When the Committee meets next with the auditor, it will request that the auditor focus on key areas of concern along with all the other necessary reports. The Committee would ask that the auditors inform the Committee whenever the auditor identifies a critical issue. The Chair pointed out that the Committee has just been established and it is likely that the Committee will be more dependent on the Comptroller and Chief Financial Officer to identify the areas that need focus. The Financial Audit Advisory Committee will be meeting with the outside auditor at the next meeting in either late March or early April.

#### Contents & Purpose of Comprehensive Annual Financial Report (CAFR)

Comptroller David Wilkinson provided an overview of the CAFR. The CAFR is prepared using the standards provided by the Government Accounting Standards Board. The report consists of the City's representation of Newton's finances. Much of the information contained in the CAFR is included to demonstrate that the statements are reliable, a fair presentation of the financial status of the City, and in compliance with accounting standards. The financial statements included in the CAFR have been audited by the outside auditing firm. There are also extensive schedules included in the back of the CAFR that are not part of the basic financial statements.

#### Potential Topics

The Chair requested that David Wilkinson and Maureen Lemieux review the list of potential topics and help the Committee prioritize them. It is understood that the Committee needs to follow-up on items identified in the management letter from the auditor. The compensated absences and extended sick leave policies and procedures are areas that need to be addressed.

One of the major roles of the Committee will be to understand the long-term liabilities, such as pensions, debt and compensated absences. The Committee needs to look at the Other Post-Employment Benefits (OPEB) and determine how to address funding the OPEB.

The Committee may want to look at reviewing and possibly updating policies regarding short-term investments. It may be helpful to establish an Investment Advisory Committee to provide advice on investments. The Financial Audit Advisory Committee may also want to look at how small charitable funds are invested. In addition, the City turned over its retirement funds to the State's fund but that decision is scheduled to be reviewed.

#### Topics for Next Meeting

The next meeting date will be forthcoming. The Committee will meet with a representative from the City's outside auditor, Sullivan, Rogers & Company, LLC. The Chair will provide a draft list of the Committee's priorities for 2012 for discussion. The Chair requested Maureen Lemieux to provide a draft plan for City response to the Management Letters.

#### Adjournment

The Committee adjourned at 9:15 a.m.

## **City of Newton Financial Audit Advisory Committee**

### **Audit Cycle**

February 28, 2012

March - April: 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 a status report on issues in the Management Letter

Auditors meet with School Department to review the yearend financial report filed with the Department of Elementary and Secondary Education (DESE)

May - June: Auditors on premises doing field work

End of August: Comptroller issues Annual Financial Report (budgetary basis)

September – October: Auditors complete Financial Statements

Early October: Committee meets with Auditor to receive a status report

November: Auditors prepare:

- Draft Management Letter

- Draft Single Auditor Report of Federal Grant Programs

- Draft Comprehensive Annual Financial Report (CAFR)(GAP basis)

December: Committee meets with Auditor for Exit Conference

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