

# **FINANCIAL AUDIT ADVISORY COMMITTEE**

## **REPORT**

**April 3, 2012**

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

Also present: David Wilkinson and Sue Dzikowski

### Work Plan for 2012

The Committee reviewed the draft work plan for the year. The work plan proposes the establishment of four sub-committees: Accounting and Audit Sub-committee, Internal Controls & Financial Policies and Procedures Sub-committee, Risk Assessment, Monitoring and Compliance Sub-committee, and Investment Policies Ad Hoc Sub-committee. There was some concern that some of the sub-committees appeared to have more of a workload compared to others. Most notably, the Accounting and Audit Sub-committee seems to have a heavy workload. Some consideration should be given to putting more people on the Sub-committees with larger workloads. The Chair suggested contacting some of the individuals who expressed interest in serving on the Financial Audit Advisory Committee to see if they would be willing to serve on a sub-committee.

Following up on the management letter concerns should not require a significant amount of hands-on work on the part of the Accounting and Audit Sub-committee. The work should and will be done by city officials. It is the sub-committee's responsibility to understand the work and provide input when requested. Although it should take time and thought to respond to requests, the workload should not be too heavy. The Internal Controls & Financial Policies and Procedures Sub-committee's charge includes a lot of detail work that is likely to be time consuming. Once the Risk Assessment, Monitoring and Compliance Sub-Committee reaches the point where it begins to look at the broader area of risk assessment, the workload will increase substantially.

The Financial Audit Advisory Committee is an oversight committee for the City's senior financial management teams. It is the responsibility of the Chief Financial Officer and Comptroller to ensure that the department heads are following the City's financial policies and addressing audit issues. The City's department heads should be meeting with the committee to provide information on the issues related to their department contained in the outside auditor's management letter and the proposed action plan to respond to the issues. The Financial Audit Advisory Committee would either agree or disagree with the proposed action plan. The more the committee gets involved with the individual departments, the more likely it is that the committee will lose its perspective. There is some urgency to respond to the outside auditor's management letter. The Finance Committee will expect regular reports from the Financial Audit Advisory Committee regarding how the issues contained in the management letter are being addressed.

There was some concern that it is not the role of the Financial Audit Advisory Committee to determine what the financial implications would be in terms of reporting long-term liabilities and determining how to fund the long-term liabilities. The policy issues related to financial reporting are really a city issue working with the Board of Aldermen. Comptroller David Wilkinson suggested that the Financial Audit Advisory Committee can play a role in communicating the financial consequences of a particular reporting decision. For example, what is the appropriate discount to use for liabilities, as it has financial reporting implications? It was suggested that the wording in the work plan under 1B, Bullet 2, be changed to “how should Newton prepare for both reporting and communicating the financial implications.” The final work plan for the Financial Audit Advisory Committee for 2012 is attached.

The Chair reviewed the workflow of the Risk Assessment Sub-Committee in terms of developing Internal Whistleblower Policies and Procedures. The policies are the responsibility of the city staff. The sub-committee would provide the first review of the policies, it would be forwarded to the City’s outside auditor for comment, and the full Financial Audit Advisory Committee would then review the policies and forward the policies to the Finance Committee.

The composition and leadership of the sub-committees appear to be on target. The sub-committees could be expanded to allow for additional members. The sub-committee meeting notices will be sent to all committee members, who should all feel free to join any sub-committee meeting. Each of the sub-committees will need to come up with a work plan. The sub-committees will work with the Comptroller, the Chief Financial Officer, the Deputy School Superintendent of Finance and Administration, and other financial staff. It is important that the sub-committees be aware that the city officials have a heavy workload and are often committed to other meetings and the sub-committees should make an effort to work with the officials to schedule meetings.

#### Extension of Auditor’s Contract

Back in 2004, the City entered into a five-year contract with the current audit firm, Sullivan, Rogers and Company, for a fixed fee amount per year. In the last year of that agreement, the City renegotiated an extension of the contract for what was thought to be another five years. Instead of extending the contract for another five years, the contract was extended for another four years, which means that the contract ends at the completion of the June 30, 2012 audit.

The Comptroller is recommending extending the current contract by one year to allow the Financial Audit Advisory additional time before going through the procurement process for an auditor. The audit firm is willing to extend the current contract one year at the current fee. The firm would also like to work with the committee to determine whether the committee is comfortable with the firm and the firm is comfortable with the committee.

The City currently pays the audit firm \$70,000 for the Comprehensive Annual Financial Report, which includes the retirement system. The rate has been fixed for the past four years.

For single audit work, it is \$4,600 per major program. The City charges the single audit work back to the grants that support the major programs.

The committee members had no problem with extending the contract by one year, as the Chair of Finance, Lenny Gentile, the President of the Board, Scott Lennon, and Comptroller David Wilkinson were comfortable with the extension. They all felt that the City has a good working relationship with the audit firm. The procurement process generally takes three to four months to complete and the extension would allow the committee time to address some of the work related to the sub-committees before focusing on retaining an audit firm. The committee felt that it was appropriate to recommend extension of the contract to the Finance Committee.

The Committee will be meeting with the audit firm at its next meeting. The committee would like to have a dialogue with the auditor rather than a formal presentation. The auditors will provide an overview of the work they have done for the current year. The committee will review its goals and expectations for the next audit cycle. In addition, the auditors will provide feedback on the committee's work plan. Committee members requested any written material that the auditors are planning on presenting be provided beforehand. Members would also like a summary of where the auditors see the major risks in the City's financials and any upcoming changes in the financial reporting environment.

#### Committee's Calendar for 2012

A draft calendar for the 2012 meetings of the Committee was provided with the agenda. Several members of the Committee have conflicts with some of the dates included in the calendar. The Chair will be using an on-line application called doodle.com to propose possible dates for meetings and members and city officials can respond regarding availability. Once the Chair has confirmed availability for proposed dates, a new draft calendar will be available. (Committee members have confirmed availability on the proposed dates; therefore, a revised calendar is attached.)

#### Attachments

Revised Work Plan  
Revised 2012 Calendar

## **Financial Audit Advisory Committee**

Calendar for 2012 as of April 12, 2012

Thursday, May 10 at 8:00 a.m.:

- Meet with Auditor prior to field work to:
  - Have the Auditor provide an overview of the work done
  - Review Committee goals for the audit and expectations for the auditors
  - Get feedback from auditor on Committee work plan
  - Have the auditor alert the Committee to any new issues or regulations

Thursday, June 7 at 8:30 a.m.:

- Meet to review work plans of the Subcommittees

Tuesday, June 19 at 8:15 a.m.:

- Meet with appropriate City Personnel to receive a status report on issues in the Management Letter
- Review progress on Cash Management work

Summer:

- Sub- Committees meet

Friday, September 21 at 8:15 a.m. (tentative):

- Receive a status report on issues in the Management Letter from City Personnel
- Review progress on Cash Management work
- Review work by the other Subcommittees

Tuesday, October 9 at 8:00 a.m. (tentative):

- Committee meets with Auditor to receive a status report

Thursday, December 6 at 8:00 a.m. OR Thursday, December 6 at 8:00 a.m. (tentative):

- Committee meets with Auditor for Exit Conference\*
- Review progress on Cash Management work
- Review work by the other Subcommittees

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

## 2012 Work Plan for the Financial Audit Advisory Committee

April 10, 2012

Establish four sub-committees.

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

Consider asking college students, other applicants to the Financial Audit Advisory Committee and residents with expertise to help the sub-committees.

### 1. Accounting and Audit Sub- Committee

#### A. Review Responses by City Personnel to Specific Concerns in the Auditor's Management Letter

##### 2011 Management Letter Concerns:

Water and Sewer Billings

Newton Community Development Authority

Police Details

Student Activity Funds

Unclaimed Checks

Old Outstanding Checks

Bank Account Reconciliations

Disaster Recovery Plan

Test Database

#### B. Prepare for Accounting and Financial Reporting Requirements, including Long-Term Liabilities

- What are the potential impacts accounting and financial reporting requirements?
- How should Newton prepare for both reporting and communicating the financial implications?

#### C. Run Process for Selecting Auditor

- Determine what process will be used
- Work with comptroller to develop RFP
- Review submissions
- Do interviews
- Recommend Auditor

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

## 2. Internal Controls & Financial Policies and Procedures Sub- Committee

### A. Focus for 2012: Cash Management (Receipts and Disbursements)

Review work by City Management as they:

- Do a broad inventory of where cash (currency (bills and coin), checks, electronic payments) is handled currently, current procedures, current policies, current monitoring processes
- Research best practices in other municipalities or the private sector
- Prioritize: determine in what order to do the work, create a work plan and calendar
- Do detailed investigations (interviews and documentation) in order of priority
- Develop policies, procedures, and monitoring processes to insure accurate financial reporting and minimize misappropriation

Committee Members: Tony Logalbo (chair), Scott Lennon, Ruthanne Fuller (ex officio).

## 3. Risk Assessment, Monitoring and Compliance Sub-Committee

### A. Initial Focus: Internal Whistleblower Policies and Procedures

Review work by City Management as they:

- Develop a policy
- Develop safeguards for employees
- Determine who receives initial reports
- Determine procedures for how reports of concerns are followed up

Committee Members: Bob Fox (chair), Gail Deegan, Scott Lennon, Ruthanne Fuller (ex officio)

## 4. Investment Policies Ad Hoc Sub- Committee

### A. Investment policies for short-term cash, medium-term (e.g., 6 months – 1 year) cash, and endowment funds

Work with City Management as they:

- Inventory where such funds are located, the current amounts and (if growing substantially) in the future, current investment policies and vehicles, and decision making process
- Consider options for alternative investment policies and processes for making investment decisions (e.g., establishing an Investment Advisory Committee, having PRIT manage the OPEB funds, pooling endowment assets for investment purposes, etc.)
- Recommend investment policies and procedures

Committee Members: Howard Markowitz (chair), Lenny Gentile, Matt Hills, Ruthanne Fuller (ex officio)