

FINANCIAL AUDIT ADVISORY COMMITTEE

REPORT

Tuesday, October 9, 2012

Present: Alderman Fuller (Chairman), Alderman Gentile, School Committee Member Matt Hills, Gail Deegan, and Tony Logalbo

Also present: Chris Rogers, CPA (Sullivan, Rogers & Company, LLC), David Wilkinson (Comptroller), Maureen Lemieux (Chief Financial Officer), and Sue Dzikowski (Director of Finance; School Department), and Sandy Guryan (Assistant Superintendent Business & Finance; School Department)

The Committee met with Chris Rogers from the City's external auditing firm, Sullivan, Rogers & Company, LLC, to receive a status report on the ongoing Fiscal Year 2012 Audit. Mr. Rogers provided the attached status report summary. The firm is substantially complete with the fieldwork. There is one federal grant which remains to be audited and one site visit to be performed. Two additional grants required auditing this year. At this point, there are no major findings to report in the Reports on Internal Controls over Financial Reporting and Major Federal Awards Program. The audit is on track to be completed by the end of December.

The City still needs to provide the workers' compensation valuation, lag reports from the health insurance providers, which are included in the audit but not reported. The auditor will also require a letter of transmittal, Management Discussion and Analysis and the statistical section, which are delivered after the initial draft audit is provided to the Comptroller. The target date for the initial draft submittal is October 31, 2012.

The American Recovery and Reinvestment Act Energy Efficiency Grant had been scheduled for an audit on September 17, 2012; however, the audit was cancelled and has yet to be rescheduled. The window to ensure that the grant audit is completed in time is shrinking. It is critical that the information requested by the external auditor is received at the time of the re-scheduled appointment or the completion of the federal report could be delayed. The grant is under the Public Buildings Department and the person who is administrating the grant for the department is on vacation. Comptroller David Wilkinson and Chief Financial Officer Maureen Lemieux assured Mr. Rogers that the required information would be available on or before the meeting.

Mr. Rogers suggested that the City might want to consider a centralized approach to grant administration similar to the School Department's approach. Grants are hard to administer without experience and it is important that all grant requirements be met to ensure a smooth audit without findings related to the grant. The City has no formal process for grant administration. In the future, it may be helpful to assign an individual as an administrator when a grant expenditure is authorized by the Finance Committee. Assistant School Superintendent Sandy Guryan

suggested that the School Department's Grant Coordinator could provide grant administration training to City staff.

The only other open item is the Management Letter. Mr. Roger's will be making a site visit to the Parks and Recreation Department to look into their process for cash and check collection at the request of Comptroller David Wilkinson. The external auditor does not have enough time during this audit cycle to do more than one site visit but is willing to do between two and three site visits when the next cycle begins in the spring. Ald. Fuller pointed out that it would be helpful for the auditor to make a site visit to the Police Department in the spring.

From an audit perspective, the external auditors care about materiality. The auditor will look at satellite collection points in the City if there is concern from a risk standpoint. Currently, Mr. Rogers has no concerns that if a site visit is not performed, the financial statements are at risk of being misstated. Over the years, the auditors have done site visits to document the process and offer a finding to tighten internal controls as they relate to that department.

When the external auditor does a site visit, they document the systems to make sure that there are systems in place to safeguard the cash receipts process. The auditor is not looking at what may have happened in the past. They will relay any weaknesses in the system through the management letter.

The Internal Controls & Financial Policies and Procedures Sub-committee is in the process of documenting all points of collection for cash and checks in the City. The Treasurer's Office has looked at each city department in regards to collection and made recommendations to tighten controls. It is helpful to have the external auditor focus on a few external cash collection points. It was pointed out that any weakness identified by the external auditor at the first site visit will be representative of how cash transactions are handled at all locations. It will be useful to have that framework.

It might be useful to look at other departments and document how cash transactions are handled within a particular department. As part of the audit each year, the auditors could do a few site visits each year but it would take 15 years to document all departments. Mr. Rogers suggested that if the City wanted to do a review of all cash management in the City, they would need to come up with a plan to address it.

The Chair pointed out that the Committee would be meeting with Mr. Rogers in December and at that point, the site visit to the Parks and Recreation Department would be complete. It would be a logical time to revisit the collection of cash and checks. The Chair encouraged Tony Logalbo, Chair of the Internal Controls & Financial Policies and Procedures Sub-committee to think about what the City should be doing internally versus how much the City wants to use the external auditor to do work and over what period the work should be done. The City may want to consider standardizing the cash and check collection process or limit where cash and checks are collected.

Mr. Rogers reviewed the schedule to completion of the audit. The draft Comprehensive Annual Financial Report will be issued to the Comptroller's Office no later than October 3, 2012. The draft management letter and reports on internal control over financial reporting and major federal awards programs are dependent on whether the ARRA Energy Efficiency Grant is complete but it should be issued by November 9, 2012. The final draft reports, which should include the City's responses to findings, will be issued on November 30, 2013. The exit conference between the auditor and the Committee has been scheduled for December 6, 2012 and the final reports will be issued prior to December 31, 2012.

At some point, the auditor will need to present the annual financial reports to the Finance Committee. The Committee discussed whether they should attempt to meet jointly with Finance Committee for the exit conference. Committee members felt that it would be beneficial to have one more meeting with the auditor before the reports are presented to the Finance Committee. The Committee would like to meet with the Finance Committee for the review of the annual financial reports and to provide the required yearly report on the Committee's work to the Finance Committee. It was decided that the Committees would meet jointly at some point after December 6, 2012.

The Committee thanked Mr. Rogers for the presentation and adjourned at 9 AM.

Respectfully submitted,

Ruthanne Fuller, Chair

City of Newton

Fiscal Year 2012 Audit Status

Presented by: Chris Rogers, CPA, Partner

Date: October 9, 2012

Agenda

- Summary
- Open items
- Schedule to completion
- Change in audit scope - federal grants
- Questions/Comments

Summary

- Fieldwork began September 10 and is substantially complete
 - 1 federal grant remains to be audited and 1 site visit remains to be performed
- City still owes certain information to complete the audit (discussed further in the pages following)
- 2 additional major federal grants were required to be audited
- Audit is on track to be completed prior to our December Exit Conference
- To date, no major findings to be reported in the Reports on Internal Control over Financial Reporting and Major Federal Awards Programs

Open Items

- Financial Statements
 - Workers' Compensation actuarial valuation
 - Lag reports from third-party insurance providers
 - Letter of Transmittal, MD&A and Statistical Section
 - These are provided after the initial draft is provided to the Comptroller
 - Support related to several assets and liabilities
 - Other nominal items

Open Items

- Federal Grants
 - ARRA Energy Efficiency Grant
 - Initially scheduled for September 17 but cancelled by Grant Administrator
 - Has not been rescheduled as of 10/9/12
 - Critical that the information we requested is provided at time of re-scheduled appointment; otherwise timing of federal report could be delayed

Open Items

- Federal Grants (Continued)
 - COPS Secure Our Schools Grant
 - Listing of security cameras purchased and installed at Newton South
 - Access to employees who worked on emergency lights/signs projects
 - Other Grants
 - Final reports and other nominal items

- Management Letter
 - 1 site visit remaining to be performed

Schedule to Completion

- October 31 – Draft CAFR
- November 9 - Draft Management Letter and Reports on Internal Control Over Financial Reporting and Major Federal Awards Programs
 - Depending on timing, the ARRA Energy Efficiency Grant may not be complete
- November 30 - Final draft reports (including management's responses to findings)
- December 6 or 13 - Exit conference with Financial Audit Advisory Committee
- Final reports will be issued subsequent to the Exit Conference

Change in Audit Scope – Federal Grants

- Engagement letter includes audit of 7 federal grants
- 9 federal grants required to be audited in fiscal year 2012
- Change order to be issued for the 2 additional grants
 - COPS Secure Our Schools
 - ARRA Energy Efficiency
- Total change order is \$9,200 (\$4,600 per grant)

Questions / Comments