CITY OF NEWTON

IN BOARD OF ALDERMEN

FINANCE COMMITTEE REPORT

MONDAY, JANUARY 27, 2014

Present: Ald. Gentile (Chairman), Norton, Salvucci, Rice, Blazar, Fuller and Lappin
Absent: Ald. Ciccone
City staff: Katy Hax-Homes (Planning Department), David Wilkinson (Comptroller), and Maureen Lemieux (Chief Financial Officer)

Chairman's note: The Chairman postponed the update on the results of the December2013 meeting with Moody's Investor Service until February 24, 2014.

#431-13 COMPTROLLER requesting acceptance of the June 30, 2013 Independent Financial Audit Report. [12-04-13 @ 10:42 AM]
ACTION: APPROVED 7-0

NOTE: The Committee met with Chris Rogers of Sullivan, Rogers & Company, LLC, the City's external auditing firm, to review the Comprehensive Annual Financial Report, the Reports on Internal Control and Federal Awards and the Management Letter. The Financial Audit Advisory Committee has previously met with the auditor and reviewed all the materials associated with the audit. The attached presentation provides a high-level view of audit. The Committee also previously received copies of the audited Comprehensive Annual Financial Report (CAFR), the Reports on Internal Control and Federal Awards and the Management Letter which can be found on the City web site under the following link: http://www.newtonma.gov/gov/comptroller/audrep.asp. Mr. Rogers informed the Committee that the audit process was very smooth and the City's information was provided in timely manner, was well organized and City management and staff was responsive to all inquiries.

The City's audit began in September 2013 and the CAFR, and drafts of the Reports on Internal Control and the Management Letter were issued on November 27, 2013. The independent auditor is only responsible for providing an audit of the financial statements provided by the Comptroller in the CAFR and an opinion on those statements.

The Governmental Accounting Standards Board (GASB) implemented Statement #63 this year, which results in minor language changes in the report. The Auditing Standards Board issued clarity standards for the auditors' opinion letter that provides a more structured and easily read report.

Mr. Rogers reviewed the Fiscal Year 2013 CAFR including the water and sewer enterprise funds. The independent auditor's opinion is unmodified, which is the best opinion available. Mr. Rogers highlighted that the Newton Commonwealth Foundation's financial statements are audited by a different audit firm, which is provided to the City for inclusion in the

CAFR as a discretely presented component unit. Mr. Rogers also pointed out that the Newton Community Farm is no longer part of the City's financial statements, as it was determined that the Farm's financial activities are immaterial to the City's financial statements. The review included financial highlights for the City's pension trust fund, health, workers' compensation, building and liability insurance. The required supplementary information was provided and includes historical pension and Other Post Employment Benefit obligations. For further details on the CAFR, please refer to the attached presentation and the City's website.

Mr. Rogers moved on to the Report on Internal Controls over Financial Reporting, Compliance and Federal Award Programs. The independent auditor provides two reports on the internal control over financial reporting and on compliance. The City received approximately $9.7 million in federal grants this past year. The auditors had no findings in either report, which is a rare occurrence. The accountants gave an unmodified opinion, the best available, on all major federal award programs. During the audit, no material weaknesses were identified and there were no instances of noncompliance or other matters that are required to be reported within the reports.

The discussion continued with the Management Letter. The Management Letter does not identify the strengths of the City's financial systems. The letter is structured differently this year and now includes the prior year comments that are resolved, prior year comments that are partially resolved, prior year comments that are unresolved, current year comments and informational comments. There are six prior year comments that have been resolved. The Management Letter contains eight comments that are either partially resolved, unresolved, new or informational. There two new comments this year, two partially resolved and three unresolved repeat comments from the prior year, and one informational comment.

The first partially resolved issue related to the issues in the student activity funds. There is no formal documentation of the procedures performed and the auditor recommends that the School Department document the procedures. In addition, the auditors also recommend that the School Department consider an independent audit every three years for the student activity funds as recommended by MASBO. The school Department has documented the procedures for the student activity funds.

The second partially resolved comment related to the City's disaster recovery plan. Last year the auditors identified that the City lacked hardware needed to access the accounts receivable data in event of a disaster. The City has since purchased that hardware but did not locate the hardware offsite. The auditor is recommending that the City fully complete the disaster recovery plan and locate the hardware offsite.

There are three prior year comments that remain unresolved. The Police Department detail accounts receivables is still an issue. There is approximately $28,000 in outstanding police detail accounts receivable that is older than a year. There is no policy for the "write-off" of the uncollected receivables. The auditor recommends that the City develop a formal policy regarding the uncollectible police detail funds and the "write-off" of those funds. The Police Department should also consider purchasing billing and collection software.

The auditors also recommend the development, and implementation of a documented risk assessment program to identify, evaluate, and manage the risk of asset misappropriation. The third unresolved comment from the prior year relates to the preparation of formal policies and procedures manual to improve and standardize the City's financial policies and procedures.

The first new comment details the City's lack of procedures to reconcile departmental and other detailed accounts receivable balances to the general ledger monthly. The auditors recommend establishing formal procedures to reconcile those accounts within 30-days after the end of the month with a requirement that the department head and comptroller approve each reconciliation.

The second comment relates to the Day Middle School and the Angier Elementary School reconciliation procedures. The School Department should use a standard turnover form, implement procedure to require the supervisory review of reconciliations that includes a sign-off, deposit cash receipts within 48 hours and perform monthly reconciliation of the total student activity fund balance that includes the signature of the preparer.

The Management Letter also contains an informational comment regarding pension accounting and financial reporting. The Accounting and Audit Sub-committee will be meeting to discuss all of the comments contained in the Management Letter with the relative Department Heads. There was a request that the Management Letter include the date or length of time that a comment has remained in the Letter. With that, Ald. Salvucci moved approval of the acceptance of the audit report, which carried unanimously. For further detail on the Management Letter, comments and the City's responses please refer to the following link: http://www.newtonma.gov/civicax/filebank/documents/56104.

#29-14 ALD. BLAZAR requesting a creation of a revolving account under the authority of the Planning Department to fund the printing of historic preservation education materials for sale to the public with an initial deposit of $500.

ACTION **APPROVED AS AMENDED 7-0**

NOTE: Ald. Blazar explained that he docketed the request to create a revolving fund with a $500 limit in order to dedicate funds to print historic preservation material. Preservation Planner Katy Hax Holmes joined the Committee for the discussion. She explained that the Planning Department intends to sell the printed pamphlets for a small fee. There is a high demand for printed copies of the walking maps of the City villages and other materials. Any funds generated by the sale of the pamphlets would be deposited to the revolving fund in order to continue to print pamphlets. If the Planning Department needs $500 to start the printing, the request will either need to be docketed or found within the Planning Department's budget.

There was some concern that the $500 limit is too low. Comptroller David Wilkinson explained that the limit could be raised during budget discussions if it is too low. There was also a request to substitute the word "deposit" in the docket item with "limit". The Committee had no problem with the change and Ald. Lappin moved approval, which carried unanimously.

REFERRED TO PROGRAMS & SERVICES AND FINANCE COMMITTEES

#254-12 ALD. HESS-MAHAN, SANGIOLO, DANBERG, KALIS, CROSSLEY proposing an ordinance relating to plastic bag reduction that would add a fee to single-use plastic and paper bags that are not at least 40% post-consumer recycled content, at certain retail establishments in Newton [07/18/12 @4:34 PM]
PROG & SERV VOTED NO ACTION NECESSARY 8-0 on 01/08/14

ACTION **NO ACTION NECESSARY 7-0**

NOTE: The Programs & Services Committee voted no action necessary on this item but has since docketed two new items related to banning plastic bags and establishing a fee for paper bags. The possible fee for paper bags is also referred to the Finance Committee and will be discussed later. Ald. Rice moved no action necessary, which carried unanimously.

REFERRED TO PUBLIC SAFETY AND FINANCE COMMITTEES

#18-14 ALD. JOHNSON, ALBRIGHT AND NORTON requesting discussion with the Newton Police and Executive Departments regarding ticketing on Newtonville Avenue at the bottom of a handicap ramp. [12/31/13 @ 4:55 PM]
PS&T VOTED NO ACTION NECESSARY 7-0-1 (Fuller abstaining) on 01/22/14

ACTION **NO ACTION NECESSARY 7-0**

NOTE: The Public Safety & Transportation Committee voted the item no action necessary as the Board of Aldermen does not have any authority regarding parking enforcement and ticketing. Ald. Lappin moved no action necessary, which carried unanimously.

Chairman's Note: The Financial Audit Advisory Committee provided its annual report, work plan and calendar to the Committee, which are attached.

The Committee adjourned at 9:20 PM and all other items before the Committee were held without discussion. Draft Board Orders for the above items that are recommended for Board of Aldermen action are attached.

Respectfully submitted,

Leonard J. Gentile, Chairman

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City of Newton, Massachusetts

Fiscal Year 2013 Audit Exit Conference, Finance Committee

January 27, 2014

Presented by: Chris Rogers, CPA, Principal

#431-13

Agenda

- Engagement summary
- CAFR/Financial Statement summary
  - CAFR Structure
  - New pronouncements
  - Opinion
  - Prior period reclassifications and adjustment
  - Financial highlights, including significant footnotes and RSI
- Reports on Internal Control and Federal Awards
- Management Letter

Engagement Summary

- Audit began September 2013
- CAFR issued 11/27
- Management letter and Reports on Internal Control and Federal Awards issued 12/5
- Information provided timely and was well organized
- Management and staff responsive to all inquiries
- No disagreements with management
- End result – smooth audit process

CAFR Structure

- Introductory section (p i-viii)
- Financial section
  - Auditors' opinion (p 1-3)
  - Management's discussion and analysis (p 4-17)
  - Financial statements and notes (p 18-76)
  - Required supplementary information (p 77-78)
  - Combining statements and schedules (p 79-114)
  - Additional information (p 115-124)
- Statistical Section (p 125-148)

New Pronouncements

- Governmental Accounting Standards Board (GASB)
  - GASB Statement No. 63, *Financial Reporting for Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
    - Current impact – renaming "Net Assets" to "Net Position" and other minor language changes
  - GASB Statement No.'s 60, 61 and 62 do not impact the City
- Auditing Standards Board
  - Clarity standards implemented by SRC
  - Impact – Change in the structure of our independent auditors' opinion (see pages 1-3)
    - Provides a more structured and easily readable report

Opinion

- Opinion (p 1-3)
  - Unmodified opinion (consistent with prior years)
    - Best opinion available
  - Other auditors audited Newton Commonwealth Foundation
    - Discretely presented component unit
  - Emphasis of Matter paragraph for prior period reclassifications and adjustment

Prior Period Reclassifications and Adjustment

- Note 17 (page 72)
  - Reclassifications
    - During FY 13, the City established an irrevocable OPEB trust that is now reported in the Fiduciary Funds Financial Statements (p 31-32)
      - Previously reported in General Fund as restricted fund balance
    - Reclassification totaled $312,973
  - Adjustment
    - Newton Community Farm previously reported in the financial statements as a discretely presented component unit no longer reported
      - City determined that the activities of the Farm are immaterial to the financial statements ($379k was FY 12 ending net position)

Financial Highlights

- Government-Wide Financial Statements (Full Accrual)
  - Statement of Net Position - Governmental Activities (p 18-19)
    - Assets - $566.4m
      - Cash and investments - $116m
      - Capital assets - $419.8m
    - Liabilities - $422.4m
      - Bonds payable - $189.3m
      - Net OPEB obligation - $173.3m
    - Net Position– $144m
      - Net investment in capital assets - $238.4m
      - Restrictions - $28m
      - Unrestricted – ($122.4m)
  - Statement of Net Assets - Business-type Activities (p 18-19)
    - Represent collective balances of enterprise funds, which are discussed individually further in this document

Financial Highlights

- Government-Wide Financial Statements (continued)
  - Statement of Activities - Governmental Activities (p 20-21)
    - Decrease in net position of $16.9m, or 10.5%
      - Primarily the result of recognizing $29.0m in OPEB expense
    - Total expenses - $408.3m
      - Education - $264.7m, or 64.8%
      - Public safety - $57.0m, or 14.0%
      - Public works - $28.2m, or 6.9%
    - Total revenues – $389.7m
      - Program revenues - $104.3m, or 26.8%
        - Operating grants and contributions - $69.3m, or 66.5%
      - General revenues and transfers - $287.1m, or 73.4%
        - Real estate $258.6m, or 90.1%

Financial Highlights

- Governmental Funds Financial Statements (Modified Accrual)
  - General Fund
    - Balance Sheet (p 22)
      - Fund balance - $32.7m
        - Restricted - $3.2m (debt service, capital)
        - Committed - $5.3m (funding of the FY 14 budget, continuing appropriations and capital)
        - Assigned - $3.1m (encumbrances and capital)
        - Unassigned - $21.1m
          - Includes $11.0m of general/"rainy day" stabilization funds
          - Represents 6.0% of total revenues and other financing sources (3.4 – 6.0% over the past 6 fiscal years)
      - See Note 14, page 71, for further detail

Financial Highlights

- General Fund
  - Statement of changes in fund balance (p 24)
    - Net change in fund balance – $4.8m
      - Use of reserves (including prior year carry-forwards) – $13.6m (primarily free cash and continuing appropriations of $6.8m and $4.6m, respectively)
      - Budgeted revenue positive variance - $7.3m
      - Budgeted expenditures positive variance - $7.7m
        - Encumbrances and continuing appropriations totals $5.9m
    - General Fund debt service as a percentage of total expenditures and transfers out – 4.7% (4.8% in prior year)
    - Paid approximately $179k in interest on refund to Verizon

Financial Highlights

- Other Governmental Funds
  - Fund balances
    - Community Preservation - $9.4m
    - School construction/renovation - $4.2m
    - Receipts reserved - $5.1m
    - Education - $2.0m

Financial Highlights

- Proprietary Funds Financial Statements (full accrual)
  - Sewer Enterprise
    - Statement of net position (p 28)
      - Assets - $60.6m
        - Cash and investments - $16.8m
        - Capital assets - $34.5m
      - Liabilities - $16.7m
        - Bonds payable - $14.1m
        - Net OPEB obligation - $2.0m
      - Net position- $43.9m
        - Net investment in capital assets - $26.1m
        - Unrestricted - $17.8m

Financial Highlights

- Sewer Enterprise (continued)
  - Statement of revenues, expenses and changes (p 29)
    - Net change in net position- $2.9m
      - Contributing factors are enhanced revenue collection due to new meters and reduction in abatements from the prior year
- Water Enterprise
  - Statement of net assets (p 28)
    - Assets - $61.2m
      - Cash and investments - $12.0m
      - Capital assets - $44.2m

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Financial Highlights

- Water Enterprise (continued)
  - Liabilities - $22.8m
    - Bonds payable - $19.2m
    - Net OPEB obligation - $2.3m
  - Net position - $38.5m
    - Net investment in capital assets - $30.2m
    - Unrestricted - $8.3m
- Statement of revenues, expenses and changes (p 29)
  - Net change in net position- $2.4m
    - Contributing factors are enhanced revenue collection due to new meters and reduction in abatements from the prior year

Financial Highlights

- Internal Service Fund (self-insured activities for health, workers' compensation, building and liability insurance)
  - Statement of net assets (p 28)
    - Assets - $30.5m
      - Cash and investments - $30.0m
    - Liabilities - $17.1m
      - Accrued health claims - $4.0m
      - Workers' compensation - $10.4m
    - Net position- $13.4m
      - Health - $14.1m
      - Workers' compensation – ($1.4m)
      - Building - $484k
      - Liability - $223k

Financial Highlights

- Internal Service Fund (continued)
  - Statement of revenues, expenses and changes (p 29)
    - Net change in net position – ($1.7m) ($2.1m in prior year)
      - Primarily related to $3.9m increase in workers compensation liability

Financial Highlights

- Fiduciary Funds Financial Statements (full accrual)
  - Pension Trust Fund
    - Statement of Fiduciary Net position (p 31)
      - Net position- $254.2m (primarily consisting of cash and investments)
    - Statement of Changes in Fiduciary Net Assets (p 32)
      - Change in net assets – $20.8m; prior year decrease of $8.0m
        - Change from prior year primarily the result of investment gains (losses) – $30.2m increase from the prior year
    - Funding progress (p 74)
      - Unfunded actuarial accrued liability (UAAL) - $244.3m
      - Funded ratio – 52.3% as of 01/01/13
        - City is responsible for 98.9% of UAAL

Financial Highlights

- OPEB Trust Fund
  - Statement of Fiduciary Net position (p 31)
    - Net position- $539k
  - Statement of Changes in Fiduciary Net Position (p 32)
    - Change in net assets – $226k
      - City contribution - $225k
      - Interest - $1k
  - Beginning balance reclassification $313k
  - OPEB liability discussed further at slide 21

Significant Footnotes

- Note 10 - Long-term Debt (p 58-64)
  - Total outstanding
    - Governmental Funds - $189.3m
    - Water - $19.2m
    - Sewer - $14.1m
  - FY 13 advanced refunding
    - Reduced total debt service payments by $417k
    - See page 60 for more details

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Significant Footnotes

- Note 12 – OPEB (p 62-65)
  - 6th year of OPEB accrual
  - UAAL at 06/30/13 - $601.8m
    - 0.1% funded with assets of $539k
  - Net OPEB Obligation at 06/30/13 – $177.5m
  - FY 13 ARC - $46.1m
    - Paid $16.4m (pay-as-you-go plus contribution to OPEB trust)
    - Increase to NOPEBO - $29.7m
    - Percentage contributed related to ARC – 35.0%

Significant Footnotes

- Note 14 – Fund Balances (p 71)
  - Provides detail of fund balances reported in Governmental Funds
- Note 15 - Stabilization Funds (p 72)
  - Describes establishment and use of funds
  - Capital stabilization totals $2.6m
  - General/"rainy-day" stabilization totals $11.0m

Required Supplementary Information

- Pages 77-78
  - Includes historical pension and OPEB information
    - Schedules of funding progress
    - Schedule of employer contributions
    - City share of retirement system ARC

Report on IC over FR, Compliance and Federal Award Programs

- Document structure
  - Report on internal control (IC) over financial reporting (FR), compliance and other matters (p 1-2)
    - Required by Government Auditing Standards
    - No opinion provided
    - Must report the following:
      - Any significant deficiencies or material weaknesses in internal control over financial reporting
      - Material noncompliance related to laws, regulations, contracts and grant agreements

Report on IC over FR, Compliance and Federal Award Programs

- Document structure (continued)
  - Report on Compliance with Major Federal Award Programs (p 3-5)
    - Provides an opinion on compliance related to major federal award programs
    - Reports on any significant deficiencies or material weaknesses in internal control over major federal award program compliance
  - Schedule of Expenditures of Federal Awards (p 6-8)
  - Notes to Schedule (p 9)
  - Schedule of Findings and Questioned Costs (p 10-14)

Report on IC over FR, Compliance and Federal Award Programs

- Results
  - ***No findings*** cited in either report
  - Unmodified opinion (best available) on all major federal award programs, which were:
    - Child Nutrition cluster; CDBG; HOME; Safe Schools; Fund for Improvement of Education; Special Education cluster and Title IIA
    - Total federal expenditures - $9.7M
  - No findings (versus 14 findings in the prior year)

Management Letter

- Does not identify the strengths of the financial systems
- New structure
  - Prior year comments – resolved (6)
  - Prior year comments – partially resolved (2)
  - Prior year comments – unresolved (3)
  - Current year comments (2)
  - Informational comment (1)

Management Letter

- Prior Year Comments – Resolved (p 1-3)
  - Water and Sewer Billings (page 2)
  - City-Wide Grants Administrator (page 2)
  - Parks and Recreation (page 2)
  - Service Organization Controls (page 3)
  - Old Outstanding Checks (page 3)
  - Unclaimed Checks (page 3)

Management Letter

- Prior Year Comments – Partially Resolved (p 4-6)
  - Student Activity Funds (Page 5)
    - The School performed agreed-upon procedures (AUP) related to the NNHS, NSHS, Day Middle School and Brown Middle school's student activity funds
      - No formal documentation of procedures performed and the related results were maintained for each school the AUP were performed
    - MASBO also recommends that every 3 years an independent audit firm perform agreed-upon procedures or an audit
    - We recommend:
      - The School formally document the procedures and related results of the internal AUP
      - The School consider the MASBO recommendation to have an independent audit firm conduct the AUP every 3 years

Management Letter

- Disaster Recovery Plan (Page 6)
  - In the prior year, we identified that the City did not have the hardware required to access the detailed accounts receivable data in the event of a disaster
    - During FY 13, the City purchased the hardware but it is not currently offsite.
  - The City is also currently transitioning to a new disaster recovery plan
  - We recommend the City complete the transition to the new disaster recovery plan in FY14

Management Letter

- Prior Year Comments – Unresolved (8-11)
  - Police Details (Page 8)
    - For financial reporting purposes, the City considers police detail accounts receivable uncollectible if greater than 1 year old (approximately $28k)
      - However, a formal policy does not exist for the actual "write-off" of uncollectible amounts
    - In addition, the Police Department utilizes an internally developed database for billings and collections that doesn't facilitate a clear audit trail and effective reporting
    - We recommend the development of a formal uncollectible policy and the consideration of purchasing software specifically designed for billing and collection

Management Letter

- Risk Assessment and Monitoring (Page 9)
  - The City, like many municipalities, has not implemented a formal risk assessment and monitoring program
    - Important element of internal control
    - Purpose is to identify, anticipate, analyze and manage risk of asset misappropriation (i.e., cash, movable inventory, etc.)
  - Should be led by employees who have extensive knowledge of the City's operations
    - However, all departments must be involved
  - We recommend the City implement a formal risk assessment and monitoring programs

Management Letter

- Financial Policies and Procedures (Pages 10-11)
  - A formal financial policies and procedures manual does not exist
    - A formal manual would improve and standardize the City's financial policies and procedures, which enhances supervisory personnel effectiveness and transition effectiveness and efficiencies upon employee turnover
    - Should address major financial processes, such as cash receipts and disbursements, purchase orders, personnel, etc.
  - We recommend the development of a formal manual

Management Letter

- Current Year Comments (pgs 12-15)
  - Departmental and Other Accounts Receivable (p 13)
    - Procedures are not in place to reconcile departmental and other detailed accounts receivable balances (maintained at the individual department level) to the general ledger monthly
    - We recommend:
      - Formal procedures be implemented to reconcile these accounts receivable no later than 30 days after the end of the month
      - The applicable department head and Comptroller approve (sign off) each reconciliation

Management Letter

- FA Day Middle School and Angier Elementary School (p 14-15)
  - F.A. Day Middle School
    - A standard turnover form is not used for cash collections by teachers and activity advisors when submitted to the Bursar's Office
    - Reconciliations of the total student activity funds to the g/l and bank account are not signed by the preparer or reviewer
    - We recommend:
      - A standard turnover form be used that includes, at a minimum, the name, date, amount, trip and trip date
      - Procedures be implemented requiring the supervisory review of all reconciliations and that the preparer and reviewer sign the reconciliation.

Management Letter

- Angier Elementary School
  - Cash receipts collected for field trips are not consistently deposited timely
  - There is no formal reconciliation of the total student activity fund balances to the general ledger
  - We recommend:
    - Cash receipts be submitted to the Executive Assistant daily and deposited no later than 48 hours after receipt
    - Procedures be implemented to perform monthly reconciliations of the total student activity fund balances to the general ledger and such reconciliations include the signature of the preparer and reviewer

Management Letter

- Informational Comment (p 16-17)
  - Pension Accounting and Financial Reporting (Page 17)
    - GASBS 68 revises/establishes new financial reporting requirements related to pension benefits
      - Required to recognize long-term obligation for pension benefits in government-wide financial statements
      - Also requires:
        - More comprehensive measure of annual pension costs
        - Conditions on the use of discount rate
        - Requirement to use entry age method and each service period's cost is determined by level % of pay (attribution method)
        - Expanded note disclosures and RSI
    - Implementation date is fiscal year 2015
    - We recommend management familiarize itself with GASBS 68 and prepare for its implementation

#431-13

CITY OF NEWTON

IN BOARD OF ALDERMEN

2014

ORDERED:

That, in accordance with the recommendation of the Finance Committee through its Chairman, Leonard J. Gentile, the following item be and is hereby approved:

#431-13 COMPTROLLER requesting acceptance of the June 30, 2013 Independent Financial Audit Report.

Under Suspension of Rules
Readings Waived and Approved

(SGD) DAVID A. OLSON
City Clerk

(SGD) SETTI D. WARREN
Mayor

#29-14

CITY OF NEWTON

IN BOARD OF ALDERMEN

2014

ORDERED:

That in accordance with the recommendation of the Finance Committee through its Chairman, Alderman Leonard J. Gentile, the Honorable Board of Aldermen hereby authorizes the establishment of a revolving account for the purpose of receiving and expending funds for the printing of historic preservation education materials. Said fund will be administered by the Planning and Development Department and is established with a $500 annual expenditure limit, under Massachusetts General Laws, Chapter 44, Section 53E ½.

Under Suspension of Rules
Readings Waived and Approved

(SGD) DAVID A. OLSON
City Clerk

(SGD) SETTI D. WARREN
Mayor

Date: _____

#254-12

CITY OF NEWTON

IN BOARD OF ALDERMEN

, 2014

ORDERED:

That, in accordance with the recommendation of the Programs and Services Committee through its Chairman Amy Mah Sangiolo and the Finance Committee through its Chairman Leonard J. Gentile, the following item be and is hereby voted NO ACTION NECESSARY:

REFERRED TO PROGRAMS & SERVICES AND FINANCE COMMITTEES

#254-12 ALD. HESS-MAHAN, SANGIOLO, DANBERG, KALIS, CROSSLEY proposing an ordinance relating to plastic bag reduction that would add a fee to single-use plastic and paper bags that are not at least 40% post-consumer recycled content, at certain retail establishments in Newton.

Under Suspension of Rules
Readings Waived and Item Voted NO ACTION NECESSARY

(SGD) DAVID A. OLSON, City Clerk

#18-14

CITY OF NEWTON

IN BOARD OF ALDERMEN

, 2014

ORDERED:

That, in accordance with the recommendation of the Programs and Services Committee through its Chairman Amy Mah Sangiolo and the Finance Committee through its Chairman Leonard J. Gentile, the following item be and is hereby voted NO ACTION NECESSARY:

REFERRED TO PUBLIC SAFETY AND FINANCE COMMITTEES

#18-14 ALD. JOHNSON, ALBRIGHT AND NORTON requesting discussion with the Newton Police and Executive Departments regarding ticketing on Newtonville Avenue at the bottom of a handicap ramp.

Under Suspension of Rules
Readings Waived and Item Voted NO ACTION NECESSARY

(SGD) DAVID A. OLSON, City Clerk

Financial Audit Advisory Committee

2013 Annual Report

January 3, 2014

In December 2010, the Board of Aldermen established a Financial Audit Advisory Committee and it met for the first time in March 2012. The purpose of the Committee is to assist the Comptroller and the Board's Finance Committee in the review of audit and fiscal accountability matters. One of its duties is to report annually confirming that its responsibilities have been carried out.

The Committee consists of nine members. In 2013, its membership consisted of the Finance Committee chair (Lenny Gentile) as well as three other Aldermen appointed by the President of the Board of Aldermen (Ruthanne Fuller, Vicki Danberg, and Scott Lennon). The President of the Board of Aldermen, with input from the Board, appoints four citizens of the City with financial expertise (Gail Deegan, Bob Fox, Howard Merkowitz, and Tony Logalbo). The President of the Board of Aldermen, upon the recommendation of the Chair of the School Committee, also appoints one School Committee member (Matt Hills). The President of the Board, in consultation with the Finance Committee Chair, appoints the Chair of this Financial Audit Advisory Committee from among the members of the Board of Aldermen on the Committee (Ruthanne Fuller).

In calendar year 2013, the Committee met five times. In these meetings, the Committee concentrated on:

- Reviewing the updated Investment Policy and the new Whistleblower Policy, both of which were subsequently approved and adopted by the City.
- Reviewing and updating policies for affiliated and discretely presented component units of the City.
- Meeting with the external auditor three times to develop the scope of the audit, get a status update and review the audit.
- Developing a process and schedule for selecting the external auditor (the current contract ends in December 2013), including working with the Comptroller on a Request for Proposal. In early 2014, working with the Finance Committee, the submissions will be reviewed, interviews conducted and a recommendation made.
- Discussing with departments and the Administration findings from the 2012 audit.

In addition, the following sub-committees met:

(1) <u>Accounting and Audit Sub-Committee</u> (Committee Chair: Gail Deegan; Committee Members: Howard Merkowitz, Vicky Danberg, Ruthanne Fuller (ex officio)): This sub-committee met twice. It reviewed responses by City personnel to specific concerns in the Auditor's Management letter (student activity funds, police details, water and sewer billings, Newton Community Development Authority, Parks and Recreation cash policies, the disaster recovery plan, old outstanding and unclaimed checks, service organization controls). Significant progress was made in all areas.

(2) <u>Risk Assessment, Monitoring and Compliance Sub-Committee</u> (Committee Chair: Bob Fox; Members: Gail Deegan, Scott Lennon, and Ruthanne Fuller (ex officio)). This sub-committee met five times in 2013. The sub-committee focused on two issues. First, it finalized the internal whistleblower policies and procedures. The Finance Committee reviewed it and then the full Board of Aldermen approved it. Second, it reviewed financial policies related to affiliated organizations. The sub-committee reviewed materials from NewTV, the Newton

Municipal Credit Union, Angino Farm, the Newton Historical Society, the Newton Schools Foundation, Newton Pride, and Neighborhood Area Councils. The sub-committee made the following recommendations:

1. The policies of the City should clearly identify Affiliated Units (AUs) as independent entities, not managed by the City, and not financially "backstopped" by the City. For example, Boards that are appointed by the City need to act independently of Boards of AUs, even when the City-appointed Board supports the activities of the AU.

2. The HR Departments of the City and the Schools should have clear policies regarding city employee participation in the governance and management of AUs.

3. The Law Department should establish guidelines for AUs regarding the use of the City of Newton's name in fundraising events, and remind city employees involved with AU's of the prohibition with respect to fund raising activities.

4. The Public Buildings Department of the City should have clear policies regarding the use of buildings, including the appropriate charging of rent. Similarly, the School Committee should have clear policies for the use of schools and school department buildings. Along with clear policies, we would encourage the City to promote equitable treatment of AUs.

5. The Information Technology Department of the City should review the use of city e-mail addresses and access to city servers by non-City employees of AUs. In general, use of city e-mail addresses and servers should be discouraged since it erodes the independence of AUs.

6. Where practical, e.g. in charters establishing AUs, contracts or other agreements with AUs, the City should require that all AUs file annual reports with the Clerk of the Board of Aldermen and that such filings be communicated to the Board. In the absence of a charter requirement or contract, the City should request the same from all AUs. It is not our intent to require AUs to have audited financial statements; that determination should be made by the Board and Management of each AU. The financial statements will be reviewed by the Financial Audit Advisory Committee. To reduce the burden on the AUs and the Committee, we would suggest that such reviews be conducted on a rotating three-year basis. The reviews would focus on compliance with GASB 14, and maintenance of the independence of the AUs.

In closing, I would like to thank all members of the Committee for their time and insight. The expertise of our citizen members – Gail Deegan, Bob Fox, Tony Logalbo and Howard Merkowitz – has been invaluable. Quite a few staff members have invested considerable time in reviewing and improving the City's internal policies and procedures. Our work went more smoothly and improved substantively from the wise counsel of David Wilkinson and Shawna Sullivan. Thank you.

Respectfully submitted,

Alderman Ruthanne Fuller, Chair
Financial Audit Advisory Committee

City of Newton Financial Audit Advisory Committee

2014 Calendar

Monday, January 13, 6 pm – 7 pm

Meet jointly with the Finance Committee re auditor:

- Review proposals.
- Decide which firms to interview.
- Decide on questions to ask and criteria.

Determine goals for the Financial Audit Committee for the year, work for sub-committees, and schedule

Review and approve the annual report to the Finance Committee

Monday, January 27, 4 pm – 7 pm

Meet jointly with the Finance Committee. Interview potential auditors.

Monday, January 27, 7 pm

Finance Committee having exit interview with Rogers & Sullivan

Monday, February 10, 4 – 7 pm

Meet jointly with the Finance Committee. Finish any remaining interviews of potential auditors.

Rank order the firms.

Tuesday, April 8, 8:15 am

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 from the Administration a status report on issues in the Management Letter

Tuesday, October 14, 8:15 am

Committee meets with Auditor to receive a status report

Tuesday, December 16, 8:15 am

Committee meets with Auditor for Exit Conference

Financial Audit Advisory Committee

2014 Work Plan

Full committee meets with the auditor three times:

April: Meet prior to field work to:

Review Committee goals for the audit

Have the auditor alert the Committee to any new issues or regulations

Receive from the Administration a status report on issues in the Management Letter

October: Receive a status report

December: Exit Conference.

Continue work in two sub-committees.

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

1. Accounting and Audit Sub-Committee
   A. Review Responses by City Personnel to Specific Concerns in the Auditor's Management Letter that are not covered by the other sub-committee

      <u>Prior Year Comments – Partially Resolved</u>
      Student Activity Funds (2011 and 2012)
      Disaster Recovery Plan (2011 and 2012)

      <u>Prior Year Comments – Unresolved</u>
      Police Details (2011 and 2012)
      Financial Policies and Procedures Manual

      <u>Current Year Comments</u>
      Departmental and Other Accounts Receivable
      F.A. Day Middle School and Angier Elementary School

      <u>Informational Comment</u>
      Pension Accounting and Financial Reporting

   B. Prepare for Accounting and Financial Reporting Requirements, including Long-Term Liabilities
      - What are the potential impacts to accounting and financial reporting requirements?
      - How should Newton prepare for both reporting and communicating the financial implications?

   C. Run Process for Selecting Auditor (Current contract ends December 2013)
      Working with the Finance Committee and all members of the Financial Audit Advisory Committee,
      - Review submissions
      - Do interviews
      - Recommend Auditor

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

2. Risk Assessment, Monitoring and Compliance Sub-committee

   A. Develop an approach for risk assessment and monitoring regarding cash receipts

The external auditor has been consistently noting that all municipalities must periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment is one element of internal control. The focus for 2014 will be on cash receipts.

The external auditor recommends that risk assessment be performed by management-level employees who have extensive knowledge of the City's operations. To quote the external auditor, "Ordinarily, the management-level employees would conduct interviews or lead group discussions with personnel who have knowledge of the City's operations, its environment, and its processes."

The external auditor also suggests questions that should be considered (e.g., What departments receive cash receipts? How could assets be stolen? How could potential misappropriation of assets be concealed?).

Working with, among others, the CFO, the Comptroller, and the Treasurer, the Committee will determine what options the City has for performing a risk assessment of cash receipts and make a recommendation.

B. Develop a multi-year plan for overall risk assessment and monitoring

While the focus for 2014 will be on cash receipts, the sub-committee will help develop a multi-year plan for an overall risk assessment and monitoring effort. As the external auditor suggests, questions like the following should be considered:

What assets are susceptible to misappropriation?
What departments have movable inventory?
What operations are the most complex?
How could assets be stolen?
Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
What prior internal control issues could still continue to be problematic?
What monitoring program should be used to periodically evaluate the operational effectiveness of internal controls?

Committee Members: Bob Fox (chair), Gail Deegan, Tony Logalbo, Ruthanne Fuller (ex officio)