



## FINANCIAL AUDIT ADVISORY COMMITTEE

### Report

**Tuesday, April 24, 2018**

Present: Councilor Gentile (Chair), Councilor Grossman, Citizen Representative Tony Logalbo, Citizen Representative Jason Chow, Citizen Representative David Spector and Citizen Representative Terry Finn; also present: Sue Dzikowski (Comptroller), Julie Kirrane (School Department), and Matthew Hunt of Clifton Larson Allen LLP

#### FY 18 Audit Planning

The Committee met with Matt Hunt of Clifton, Larson, Allen, LLC (CLA), the City's external auditing firm, Mr. Hunt of Clifton Larson Allen began the meeting by highlighting the three things that he would like to accomplish during the meeting. The first is pinpointing key dates for draft reports and Financial Audit Advisory Committee meetings. The second is identifying the two special projects that the auditors will do for the upcoming audit. The third is to discuss any new requirements for the external audit.

The retirement system preliminary audit fieldwork is starting in the next week or two. The auditors will begin looking at the Retirement System budget, which will include a review of the actuarial evaluation of the pension-funding schedule.

The preliminary work on the municipal side should start in the next few weeks. The primary fieldwork historically begins in September; however, last year the auditors started their work in early October due to the transition in the Comptroller position. Comptroller Sue Dzikowski is thinking that the first week of October would be a good target date but would like to reserve the right to change that date. She would like to have the budgetary basis book done before fieldwork starts.

Several committee members stated that they would like to see the final Comprehensive Annual Financial Report (CAFR) issued by December 31, 2018. It is a good target date and a goal the City should strive to meet. Matt Hunt responded that if there is no delay in the issuance of the OPEB actuarial report, the final CAFR should be complete by the end of December. Ms. Dzikowski expects that the OPEB valuation timing will improve this year. There was a suggestion that the Comptroller and Chief Financial Officer e-mail the OPEB actuary stating that there is a goal to finalize the CAFR by December 2018; therefore, the City requires the OPEB actuarial valuation by October 15, 2018. The e-mail should also request that the actuary provide a list of any information that the City needs to provide to meet the October 15 goal.

The Comptroller pointed out that an early bond sale could also delay the CAFR. The bond sale requires a significant amount of work in the Comptroller's Office. There will be a better sense of the bond sale timing in October 2018 and, if necessary, the Financial Audit Advisory Committee could adjust the schedule.

The Committee expects to meet on October 23, 2018 for an update on the audit and on Tuesday, December 18, 2018 to review the draft audit reports.

Each audit cycle the Committee chooses a school and/or City department for the auditors to visit for a more focused review. The below is a list of the projects undertaken since Fiscal Year 2014.

- FY 14 Bigelow Middle School Student Activity Funds and Inspectional Services cash collection
- FY 15 Oak Hill Middle School Student Activity Funds and payroll testing related to the enterprise funds
- FY 16 Specialized payroll testing
- FY 17 Athletic fees and gate receipts at the high schools and payroll testing

It has been a few years since the auditor has looked at student activity funds at any of the middle or high schools. Julie Kirrane informed the Committee that School Department recently received a Freedom of Information Act request for the most recent internal and external audits for the student activity funds. If the City does the student activity funds as a special project, there will not be a separate report. The School Department is open to an external review of any student activity funds, as it is an area of risk for the School Department. Mr. Hunt pointed out that there is a Massachusetts general law related to student activity funds that is not enforced, which requires an audit of student activity funds. In practice, the Department of Revenue and other regulatory bodies are fine with school districts handling the audits internally. There are communities that hire a certified public accountant to audit their student activity funds. Mr. Hunt suspects that the Department of Revenue and other regulatory agencies are going to enforce the audit requirement, as there have been recent news reports of incidents in other school districts related to student activity funds. It may make sense for the City to consider hiring a firm to do a formal audit of the student activity funds every three years at a minimum. The City would be out in front of any issues that could result in both monetary and reputational damage. The Chair suggested discussing the issue with the Chief Financial Officer and Mayor to get their thoughts on doing external audits of the student activity funds.

The Committee felt that the auditors should look at the Newton South High School student activity funds for one of the special projects. It might make sense to test the Fire Department's procedures and controls for overtime payroll, as it is one of the larger overtime budgets. The Chair will get input from the Mayor and Chief Financial Officer on the two proposed special projects and let Mr. Hunt know if CLA should move forward on the two special projects by the middle of May at the latest.

Mr. Hunt moved the discussion to the implementation of new Governmental Accounting Standards Board (GASB) pronouncements. This year the City is required to implement GASB Pronouncement 75, which requires the City to put the full OPEB liability in the financial statements as part of the balance sheets. The Administration and the Financial Audit Advisory Committee have

been aware of the requirement for the past few years and last year's CAFR included a table of the OPEB liability, which will now be included in the balance sheet.

Auditor Services Selection

The Accounting and Audit Sub-committee will begin working on the Request for Proposals for audit services in the next couple of months and a schedule for the process of hiring an external auditor.

Respectfully submitted,

Leonard J. Gentile, Chair