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**CITY COUNCIL AD HOC COMMITTEE
AUDIT COMMITTEE
TUESDAY, DECEMBER 5, 2011**

The City Council Ad Hoc Audit Committee met in the 2nd Floor Finance Conference Room of City Hall on Tuesday, December 5, 2011. **Chairman Gregg Seabury called the meeting to order at 9:00 a.m.**

Present

Audit Committee Members: Gregg Seabury, Phil Curran and Fred Visconti.

Also in attendance: David St. Hilaire, Director of Finance, Dan Garrick, Assistant Director of Finance, McGladrey & Pullen (independent auditors) Scott Bassett, Partner, Neal Travanti, Manager, Jon Nash, Senior Associate.

Mr. Seabury asked everyone to introduce themselves. He then turned the meeting over to Mr. St. Hilaire. Mr. St. Hilaire explained that the City engages the auditors to review the City's financials, and the City responds to management questions with regard to how operations are performed. This review also includes the Board of Education. The auditors determine if the City's financials are sound and it is operating in accordance with accounting standards. Mr. St. Hilaire informed the committee that the City is not totally finished with the audit, but it is in the final draft stages. There are a couple of minor outstanding issues, and Mr. St. Hilaire needs to complete the M&D.

Mr. Bassett stated that this is their exit interview with the audit committee. The auditors review many areas including information provided by attorneys and the City's actuary, federal and state grants and the Board of Education. Various component units are included, though their individual audits are performed by other auditors but reviewed by McGladrey & Pullen. Mr. Bassett reported that nothing significant happened during the audit that needs to be brought to the attention of the audit committee. The City and Board of Education have been very responsive to any request from the auditors.

Mr. Travanti explained to the committee that five deficiencies were found at the Board of Education. Deficiency means there is an error in the financial reporting which would be a deficiency in control or execution of controls as related to encumbrances. There are three levels of deficiency but those found at the Board of Education are considered lower end deficiencies. These include: recording of encumbrances which had to be removed; no purchase order support for some of the encumbrances; check from special activities of a particular school was made out to cash rather than to the individual; an employee cancelled health care coverage but was not removed until several months later when this clerical error was found; and one of the smaller bank accounts was left off the GL. Mr. Bassett indicated that the Board of Education should be setting up its bank accounts through the City's Finance Department. The BOE did recoup the premium on the health care issue. The BOE should also review its encumbrances by the end of the fiscal year.

Mr. Curran asked why we cannot require the Board of Education to handle encumbrances in the same manner as the City. Mr. St. Hilaire responded that this year it was a requirement for them, and it is planned to enforce this next year also. Mr. Bassett indicated that the auditors recognized the encumbrances for the Board of Education were higher than in previous years, and they requested documentation. Mr. Visconti inquired as to whether this was strictly a Board of Education problem. Mr. St. Hilaire indicated that there are a few City departments that be in the same situation but the City strictly enforces compliance.

Mr. Visconti asked if the City contributes to the pension funds and if the City has been paying into the fire department pension funds over the course of the last two or three years. Mr. Travanti said the City has contributed. There is a certain amount of actuarial liability required in funding levels, and Mr. Travanti showed Mr. Visconti the information that is being presented in the CAFR. Mr. Bassett explained that the actuary tells the City what its recommended contribution should be. Mr. St. Hilaire said that the City contributed \$5.2 million for all of the pension funds. There will be an additional \$2.3 million added to that

amount for the current year. Mr. Visconti asked Mr. Bassett if they review all of this. Mr. Bassett confirmed that they work with the City's actuary.

Mr. Seabury asked if the fire fighters receive the actuary's report. Mr. St. Hilaire said that the reports are provided to the pension boards, and it is his understanding that this is shared with the membership.

Mr. Bassett indicated that the City's pension plans are well funded. Mr. St. Hilaire said that the City must contribute because of new retirees and the effect of the market crash. Mr. Bassett indicated that Danbury is having the same experience as many other cities. It is not anything the City has done, but the effect of the economy that has required additional contributions. Mr. St. Hilaire said that this is why it is critical going forward to make changes to the pension funds in the new contracts. The City needs to reverse the trend of a continual upward movement of contributions. Now is the time to take action so that this trend will be downward several years from now.

Mr. St. Hilaire reminded the committee that the auditors are dealing with a large number of financials. In addition to the General Fund, the audit includes the Enterprise Funds, pension funds and other funds. Mr. Curran inquired as to whether problems with reporting from the component units has improved. Mr. St. Hilaire reported that this year, they were up to date in their reporting.

Mr. Travanti explained the implementation of GASB 54 in the financial statements. There are new categories for fund balance which have been implemented. The auditors were also required to review each fund in accordance with GASB 54. If a special revenue fund did not meet the requirement of GASB 54, then it would be consolidated into the General Fund. There is a new schedule at the back of this year's CAFR regarding the continuing education fund. The Ambulance Fund was transferred into an enterprise fund since it operates as its own business and is self sustaining.

Mr. St. Hilaire said that the City is working on a cost allocation plan to determine a method for more appropriately allocating transfers between the enterprise funds and the general fund to recover costs.

Mr. Seabury asked if the committee had any further questions or if the City had any additional information. Mr. St. Hilaire said that the auditors and City staff have done an excellent job putting together this audit.

Mr. Curran inquired as to how the auditors are chosen. Mr. St. Hilaire explained the RFP process. There were two finalists for the most recent RFP. The committee, consisting of Chick Volpe, Dan Garrick, David St. Hilaire and Laszlo Pinter, chose McGladrey and Pullen.

Mr. Visconti asked if the Board of Education has replaced Elio Longo, former Finance Director. Mr. St. Hilaire said that there is a temporary appointment. The individual is a retiree and has worked in the financial sector for many years. Mr. St. Hilaire also informed them that Melanie Schroeder, Assistant Director, has also left. The departure of two key financial professionals will have a large impact on next year's audit.

Meeting was adjourned at 9:45 a.m.

Respectfully Submitted,

Gregg Seabury

Phil Curran

Fred Visconti

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**CITY COUNCIL AD HOC COMMITTEE
AUDIT COMMITTEE
TUESDAY, OCTOBER 3, 2011**

The City Council Ad Hoc Audit Committee met in the 2nd Floor Finance Conference Room of City Hall on Tuesday, October 3, 2011. **De-facto Chair Fred Visconti called the meeting to order at 10:05 a.m.**

Present

Committee Members: Phil Curran and Fred Visconti. Mr. Seabury was unable to attend.

Also in attendance: David St. Hilaire, Director of Finance, Dan Garrick, Assistant Director of Finance, McGladrey & Pullen (independent auditors) Scott Bassett, Partner, Neal Travanti, Manager, Jon Nash, Senior Associate.

Mr. Visconti asked everyone to introduce themselves. Mr. Travanti distributed the meeting agenda and a letter from McGladrey and Pullen outlining the audit process. Mr. St. Hilaire discussed the purpose of the committee and its schedule of meetings at the beginning and end of the audit process and suggested that the committee allow Mr. Bassett to discuss the role of the audit committee and provide an overview of the audit process.

Mr. Bassett indicated that McGladrey & Pullen are independent auditors and the audit committee may contact them directly for information, to discuss any issues, or to report any irregularities or problems, not only during the audit process, but any time during the fiscal year. His firm strives for two-way communication. He referenced to the agenda provided by Mr. Tavanti. The auditors began the preliminary phase in late spring, early summer. The field work begins this week; Neil and John are on site with the team for the month of October.

Mr. Travanti also indicated that his firm's goal is to have an open relationship with management and also to work with the committee to understand what concerns they may have. He encouraged committee members to feel free to contact him and indicated that they will meet with the committee again as the audit is being completed. McGladrey designs its audit to maintain independence. They take a risk based approach and design audit steps to address any major risks. This year the new "risk" is the GASB 54 reporting requirement. The auditors look at internal controls. After compliance and control work, they move into the audit phase, which will last 3-4 weeks. Then they proceed to the "wrap-up" phase into December.

Mr. Bassett informed the committee that a preliminary meeting was held with the Director of Finance and his staff with regard to procedures for completing the audit earlier this year. McGladrey introduced new procedures that should make the process more efficient during the "wrap-up" period. They are doing more of the report up front as they go through the process.

Mr. Bassett explained that the auditors place limits for planning purposes. The City may pass on a suggested adjustment but this would then have to be reported to the audit committee. The auditors review internal control and compliance but don't provide an opinion. However, they would report anything out of the ordinary. For the Federal and State compliance report, they determine if grants are administered properly. If the committee has any questions, they should feel free to contact his firm. They take their independence seriously; management has no authority over them.

Mr. St. Hilaire said that there should never be a perception that management is trying to manipulate auditors. He indicated to the committee members that they can request additional meetings at any time.

Mr. Curran inquired as to who is overseeing the City's authorities. Mr. St. Hilaire stated that from a management perspective, the authorities have their own financial oversight. The City consults with them and asks questions, but does not manage their day-to-day operations.

Mr. Bassett said that from an audit perspective, the authorities select their own independent auditors. These audits are provided to McGladrey for their review. McGladrey takes no responsibility for these reports; however, they have a responsibility to report to the committee on any problems that may appear in these separate audits. He suggested that the audit committee members review the audits of the authorities.

Mr. Curran asked if it would be advisable to require the authorities to use the audit services of McGladrey. Mr. St. Hilaire indicated that we would have to look back to the original procedures that were established to determine if the City could require this. He reminded the members that these separate audits are prepared by qualified CPAs.

Mr. Visconti raised questions about day-to-day operations, and Mr. St. Hilaire told him that this is a totally different issue not handled by the auditors. Mr. Visconti asked if McGladrey sees the tax returns. Mr. Bassett responded that they review the audit. Mr. St. Hilaire told the committee members that there are copies of the audited financial statements of the authorities in the Finance Department, and they may request a copy at any time. Mr. Bassett suggested that the committee review the discussion/narrative section of those individual audits.

Mr. Bassett informed the committee that the City is required to implement GASB 54 in the June 30, 2011 audit. He wants the committee to know that new terminology will be used for unreserved and undesignated fund balance and will include 6 or 7 new categories. This procedure should go very smoothly.

Mr. Curran and Mr. Visconti had several questions regarding the \$58,000 that was given to the sports program for the Board of Education. Mr. St. Hilaire reminded them that this money is not part of the current audit since it was award for the 2011-2012 fiscal year and will be part of the June 30, 2012 audit. The \$58,000 was approved by the City Council. The SOS provided a W-9 and the City has given the money to this organization. The Board of Education will provide a cost analysis to the SOS which, in turn, will reimburse the Board of Education. This is similar to payments to a grant agency.

For next year's audit, the auditors will review the amount of money coming into the Board of Education from the SOS. Mr. Bassett and Mr. Travanti indicated that controls need to be in place to monitor this. He suggested that the committee request a review of receipts and reporting from the SOS. Mr. St. Hilaire said that his primary concern is to insure that the \$58,000 is accounted for. If the Council wishes to go beyond that, then it will be up to them to make that request. Also, they should carefully review any future requests for funding.

Mr. Visconti asked if the BOE ever carries over any excess from the amount given to them in the budget. Mr. St. Hilaire said the BOE bases its budget on what is provided and spends all of it. He indicated that encumbrances are higher this year because the BOE has made commitments in the 6/30/2011 budget year to spend the amount provided.

There being no further questions, Mr. Visconti asked that another audit committee meeting be scheduled for the first week in December.

Meeting was adjourned at 10:45 a.m.

Respectfully Submitted,

Phil Curran

Fred Visconti