

AUDIT COMMITTEE
TOWN OF SOUTH WINDSOR

Minutes

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February 6, 2018

Madden Room – South Windsor Town Hall

Roll Call

Members Present: Jeffrey Glickman, Town Council (arrived at 8:40 a.m.)
Mary Justine Hockenberry, Town Council (arrived at 8:50 a.m.)
Matthew Riley, Town Council

Members Absent: None

Also Present: Matthew Galligan, Town Manager
Patricia Lewis, Assistant Director of Finance
Patricia Perry, Director of Finance
Vanessa Rossitto, Blum Shapiro
Leslie Zoll, Blum Shapiro

1. Call Meeting to Order

The meeting was called to order at 8:40 a.m.

2. Approval of Minutes (August 26, 2014; February 17, 2015, & February 8, 2017)

Councilor Jeffrey Glickman made a motion to approve the minutes of August 26, 2014, February 17, 2015, and February 8, 2017 for filing purposes; Councilor Matthew Riley seconded the motion; and it was approved unanimously.

3. Discussion Items

A. 2017 Audit

Ms. Vanessa Rossitto handed out the Audit Presentation attached as **Exhibit A**. Ms. Rossitto will review the Engagement Scope and Standards as well as the Required Auditors' Communications. Ms. Leslie Zoll will review the Results and Financial Highlights as well as the New GASB Pronouncements.

Ms. Rossitto discussed the Engagement Scope and Standards. BlumShapiro has an opinion unit and will issue more than one opinion. The scope includes Governmental Activities, Business Type Activities, each Major Fund, and the aggregate Remaining Fund Information. They follow GAS and GAGAS standards of auditing as well as Federal Uniform Guidance and the State Single Audit Act.

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ITEM:

3. A. (Continued)

Ms. Rossitto discussed the Required Auditors' Communication. The significant accounting policies are described in Note 1 to the Financial Statement. BlumShapiro is required to disclose the significant accounting estimates such as OPEB liability, pension liability, allowance, and the useful lives of capital assets. There were no difficulties with management, disagreements with management, and management did not consult with another independent accountant.

Councilor Riley asked if the useful life of capital assets is by category. Ms. Rossitto said it is. Infrastructure such as roads and sidewalks would have a different useful life than furniture and fixtures.

Ms. Rossitto said management is responsible for the entire Financial Statement's preparation and fair presentation, and BlumShapiro is responsible for auditing the Financial Statement and expressing opinions. They have issued clean opinions on all of the opinion units. They provide reasonable assurance and do not test everything 100%.

Ms. Leslie Zoll congratulated the Finance Office for receiving the 2016 Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA). This is the first time they applied for the Certificate. Having this Certificate is not a requirement, but it is a great achievement to receive the Certificate the first year that they applied. Ms. Patricia Perry said they have submitted for the Certificate again but have not heard a response yet. Town Manager Matthew Galligan said it is very difficult to receive a GFOA Certificate on the first try, and the Finance Department did an excellent job.

Councilor Glickman asked if the GFOA is a more superficial review than the auditors. Ms. Rossitto said the GFOA follows a checklist, and they do not review working papers.

Councilor Riley asked about the LOCIP comment in the State Single Audit. Ms. Zoll said that would be reviewed shortly.

Ms. Zoll discussed the high level highlights within the Financial Statements. The net position increased \$14.8 million. The entity wide accounts are Capital Assets which increased by \$24 million and Debt which increased by a net of \$7 million.

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ITEM:

3. A. (Continued)

Ms. Zoll discussed the major governmental funds. Almost all accounts increased except for the Internal Service Fund which covers medical claims. The fiduciary funds all increased or are holding assets. Councilor Riley asked if this is a function of returns. Ms. Zoll said the market values on the pension plans, yes.

Councilor Riley asked why the medical claims were so much higher than what was projected in budgeting. Town Manager Galligan said the Board of Education had eight catastrophic claims, which is unusual. A typical year may have one catastrophic claim.

Ms. Zoll discussed the two new GASB disclosures that came into effect for the most recent audit. GASB 74 is related to Other Post-Employment Benefits (OPEB), so there are additional disclosures in the Financial Statement, and the way liability is calculated will be changed. Town Manager Galligan said the Council should think about getting rid of that liability by putting more into the OPEB fund than the required ARC. The Town has two people out of all employees who are actually using the OPEB funds, and when they turn 65, they will need to go onto Medicare. Once the funds are no longer used, there may need to be a resolution within the next few years to move it into the Pension Fund. Ms. Rossitto said the Town currently has an OPEB asset.

Ms. Zoll discussed which GASB 77 is related to Tax Abatements. The abatements will now be disclosed in the Financial Statements.

Ms. Zoll continued to the Federal Single Audit. BlumShapiro tested the Highway Planning and Construction Grant, and clean compliance and internal opinions were issued.

Ms. Zoll discussed the State Single Audit. BlumShapiro tested Municipal Grants-In-Aid, LOCIP, and Town Aid Road. The only discrepancy found was in terms of reporting needing to be filed for the LOCIP program, and a qualified opinion on compliance was issued just for reporting. All other requirements received unmodified clean opinions. That reporting finding had to do with year-end filing that the Finance Department was not aware of. Most of those grants are being run by the Public Works Department. Councilor Riley asked if this was being rectified. Ms. Perry said it has been filed late but going forward all filings will be done on time.

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ITEM:

3. A. (Continued)

Ms. Zoll said that BlumShapiro did not find material weaknesses or significant deficiencies in the Finance Statement as a whole. They suggested improving internal controls in accounts payable as well as interfund reconciliation processes at the Board of Education. Councilor Mary Justine Hockenberry asked for clarification on the interfund reconciliation. Ms. Zoll said there were differences in balances that needed to be reconciled, and Ms. Rossitto said that efficiency needed to be approved. Councilor Riley asked if ultimately the balances were accurate. Ms. Rossitto said the Financial Statements are accurate and balanced.

Ms. Zoll discussed the new GASB pronouncements that will come into effect between 2018 and 2021:

- 2018, Statement 75 – OPEB accounting
- 2018, Statement 81 – Irrevocable Split-Interest Agreements
- 2018, Statement 85 – Omnibus 2017
- 2018, Statement 86 – Certain Debt Extinguishment Issues
- 2019, Statement 83 – Certain asset retirement obligations
- 2020, Statement 84 – Fiduciary activities
- 2021, Statement 87 – Leases

Councilor Glickman asked for business cards from Ms. Rossitto and Ms. Zoll and also asked if it is all right to meet with them. Town Manager Galligan said that generally, the three members can call an Executive Session and discuss sensitive matters with the auditors while they are here.

Councilor Glickman asked about the role of the three member of the Audit Committee. Town Manager Galligan said the role is to inform the Council whether management is doing what they are supposed to do. The Council can have a discussion with the auditors and be transparent.

Councilor Glickman asked if this is the first year that BlumShapiro has audited the Town. Ms. Rossitto said no. The Town is required to have an audit every year, and BlumShapiro has been the auditor since 2005. Town Manager Galligan said that auditors used to be rotated more frequently, but many firms do not audit municipal governments anymore. BlumShapiro has rotated their audit teams within the company every couple of years.

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ITEM:

3. A. (Continued)

Councilor Glickman asked how much the Town pays for BlumShapiro to conduct the audit. Ms. Perry said the quoted amount from the RFP process of \$54,000 is paid in installments.

Councilor Hockenberry asked about the RFP process. Town Manager Galligan explained the process. Ms. Perry said the RFP was for two years, this is the second of the two years, and there are two one-year extensions. The Committee will need to decide whether to extend the contract or go out for an RFP.

Councilor Glickman asked if the three voting members are charged with engaging someone's advice to audit. Town Manager Galligan said the members are charged recommending to the Town Council to extend the contract or conduct an RFP. Councilor Glickman asked if the Committee recommends the auditor. Town Manager Galligan said that is correct.

Councilor Glickman said there are two conflicting items, and he does not know how to assess them. On one hand, it is easier to use the same auditors year after year. On the other hand, for integrity, every year there should be a different auditing group. He asked if there is a discount for a multiple-year contract. Ms. Perry said the RFP spells out the costs up front. Councilor Glickman asked if it is easier to conduct audits from the same auditor multiple years in a row. Ms. Rossitto said it is easier. The industry standard is about three years, and it does not happen often where a municipality goes out to bid every year. Ms. Zoll said that BlumShapiro takes pride in ensuring every audit is new every year. Different items are reviewed and teams are changed if needed. There are requirements that keep the integrity intact even though you may have the same firm for multiple years.

Councilor Riley said that he would be conflicted in an actual RFP. He would not be able to vote as BlumShapiro is a client of Webster, and he does a lot of work with Webster clients. He asked if it is fine for him to sit in on these discussions. Town Manager Galligan said that is fine as long as he is not part of the RFP process. Councilor Glickman thanked Councilor Riley for his integrity.

Councilor Hockenberry asked if the Town has ever used BlumShapiro for more than three years in a row. Ms. Perry said they have been the Town's auditor since 2005. Ms. Rossitto said there are been different engagement

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ITEM:

3. A. (Continued)

teams within those years. Councilor Hockenberry asked if Ms. Perry is able to call the auditors with any questions. Ms. Rossitto said that they have one fee, and that covers the audit no matter how long it takes, and management can call them at any time with questions. BlumShapiro works with about 50 municipalities in Connecticut, and they issue about 80 financial statements each year.

Councilor Riley asked about reviewing controls. Ms. Rossitto said the auditors have to get an understanding of the controls in order to perform the audit tests. BlumShapiro documents everything that affects the financial statements, and they do walkthroughs of key controls. Councilor Riley asked about the top areas that are reviewed. Ms. Rossitto said the Tax Collector's Office, payroll, and cash are the top controls. Councilor Riley asked if those are reviewed each year. Ms. Zoll said yes, and there are different internal control environments between the Town and Board of Education, so both need to be tested. Councilor Riley asked if online systems are reviewed. Ms. Rossitto said that is part of cash, and Ms. Perry said an I.T. questionnaire is also given. Ms. Rossitto said their I.T. consultants do that review. Councilor Riley asked if there were any issues like in Farmington. Ms. Rossitto said no issues were found. Ms. Perry said ACH controls are in place.

Councilor Hockenberry asked what happens to records. Town Manager Galligan said the State determines what records need to be kept or can be destroyed. The Town needs to send a disposition form to the State for approval before any destruction of documents.

Councilor Riley asked about dual controls. Town Manager Galligan said that Ms. Perry cannot write a check. Only the Town Manager and the Treasurer can sign checks. The Town Manager can do some transfers, but ultimately the Treasurer has to sign off on bills once both Ms. Perry and Town Manager Galligan have already given their approvals.

Councilor Riley asked about purchase cards. Town Manager Galligan said all credit cards are controlled. Only the Town Manager and Assistant Town Manager/Human Resources Director have actual credit cards. Ms. Patricia Lewis and the Treasurer both review all purchase card information. Town Manager Galligan said he would like to be able to pay trash hauler bills with a credit card with points, and then be able to use bonus points to send people to conferences. He said if that would happen, it would be in the far future, and controls would have to be implemented.

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ITEM:

3. A. (Continued)

Councilor Riley asked the auditors if they were satisfied with their findings. Ms. Rossitto said they issued clean opinions, and they had the one finding with the State Single Audit. Everybody is very organized, and the Town is a pleasure to work with.

Ms. Patricia Lewis left the meeting at 9:25 a.m.

3. B. General Discussion

There was no general discussion.

Item 5 was taken out of order and brought before Item 4.A.

5. Executive Session

Councilors Glickman, Hockenberry, and Riley went into Executive Session with Ms. Vanessa Rossitto and Ms. Leslie Zoll at 9:25 a.m.

Councilors Glickman, Hockenberry, and Riley came out of Executive Session with Ms. Vanessa Rossitto and Ms. Leslie Zoll at 9:39 a.m.

Ms. Vanessa Rossitto and Ms. Leslie Zoll left the meeting after the Executive Session.

4. Other Business

A. Auditor RFP

Town Manager Galligan asked the Committee if they wanted to conduct another RFP. Ms. Perry said the last time, there were only three responses. There is the option to exercise the extension in BlumShapiro's contract. Town Manager Galligan said that every time auditors change, there is a lot more work to do.

Councilor Glickman asked how much more work it would be to change. Town Manager Galligan said it would be about two or three times as much

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ITEM:

4. A. (Continued)

work. Ms. Perry said she was not sure as she has not had to change auditors since she has been in South Windsor. In a previous municipality, she has had experience changing auditors. Town Manager Galligan said the new auditors would interview everyone again, so it is time-consuming.

Councilor Glickman asked about the type of audit that is required. Town Manager Galligan said it would be a full financial audit. Councilor Glickman asked if that is the fullest description of what is required. Town Manager Galligan said the auditors are required by the general accounting and auditing standards to go into the Town's finances and make sure that there is no fraud. It's the same standard that any other auditor would do.

Councilor Glickman asked if anyone could be hired to perform an audit. Town Manager Galligan said yes, but the quality of work would be in question. Ms. Perry said that in the RFP, it states that is not solely based on cost alone. Prospective auditors need to meet certain minimum requirements. Town Manager Galligan discussed the issue with the Director of Finance and auditors who did not meet their standards when he became Town Manager in 1996.

Councilor Glickman asked if Town Manager Galligan would recommend staying with Ms. Rossitto and Ms. Zoll. Town Manager Galligan said he would, but BlumShapiro might switch their teams. He said that Ms. Rossitto and Ms. Zoll are phenomenal.

Councilor Hockenberry asked about the auditor qualifications. Ms. Perry said that she reviews their advice and timeliness. Councilor Hockenberry asked if Ms. Perry ever has any questions on why they would need certain documents. Ms. Perry said no, the auditors always explain the reason behind their requests. Town Manager Galligan said the auditors send an engagement letter in advance that will lay out what the auditors will be reviewing. Ms. Perry said the auditors send a checklist out in advance. Councilor Hockenberry asked if the engagement letters match up with the State or Federal Governments. Ms. Perry said they provided the future GASB requirements and offer training, so they keep themselves updated.

Councilor Riley asked if it makes sense to review recommendations to the Council. Town Manager Galligan said there could be a memo to the Council.

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ITEM:

4. A. (Continued)

Councilor Hockenberry asked if the Committee or the Council votes on the auditor. Town Manager Galligan said the Committee will make a recommendation to the Council, and the Council would vote.

Town Manager Galligan and Councilor Riley discussed the auditor recommendations.

Councilor Hockenberry asked about Councilor Riley's conflict of interest. Councilor Riley said that he is able to ask the right questions of the auditor, but he cannot vote on any RFP that involves BlumShapiro.

Ms. Perry asked if the Committee would like to conduct an RFP. Councilor Glickman asked what Town Manager Galligan recommended. Town Manager Galligan said it would not matter to him.

Councilor Glickman said he thinks an RFP is a good idea. Councilor Hockenberry said she did not think it was a good time with all of the changes that are being done. Councilor Glickman asked if the Committee needs to decide today. Ms. Perry said no, but she would need some notice if a decision is made.

6. Motion to Adjourn

The meeting adjourned at 9:50 a.m.

Respectfully submitted,

Ashley Booth
Recording Secretary