

**Minutes of the Meeting of the Audit/Finance Committee of Council  
Held in the Caucus Room of the Municipal Building  
On Tuesday, August 9, 2016**

Audit/Finance Committee Members Present:

Chairman, Ward 2 Councilman Dennis McBride

Ward 1 Councilman Bob Butkowski; Councilwoman-at-Large Tammy Holtzmeier

Others in Attendance:

Ward 3 Councilwoman Mary Berges; Assistant Finance Director Beth Raicevich; Senior Audit Manager Reggie Novak and Senior Accountant Kristen Francis of Ciuni & Panichi, Inc.; Finance Director Bill Logan; Councilman-at-Large Brian Fischer

Mr. McBride called the meeting to order at 6:30 P.M.

**2015 Financial Audit**

Mr. Logan stated that this is basically an exit conference for the audit that was done for 2015 and as he had explained previously, he was just a little irritated with the audit. First, it was not completed until June 30<sup>th</sup> at 4:00 P.M. and on top of that we had a finding which he disagrees with. He wanted to have that explained briefly by the auditors tonight and to explain a little bit about the net pension liability that changes with Governmental Accounting Standards Board (GASBY) 68 and how it not only affects us but affects every government entity throughout the country. He said that he would tell them that the letter that he has written to Amy Main, the Director of Audit Administration, is going to be officially on record with our audit as it gets filed this year.

Mr. Novak stated that he would begin at the very front of the CAFR with the Independent Auditor's report. He wanted to go through a few of the changes that you might see if you compare this report to the prior year report. On page 2, you will see an "emphasis of matter" paragraph and this is a fairly consistent theme where we notify the reader that GASB 68 was implemented along with GASB 71 and as a result restated the prior year net position on both governmental and business type activities. The other change you will see is in the required supplementary information paragraph. GASB 68 created two new required supplementary information tables.

Mr. Novak said the other thing he can point out is that the opinion date is June 30, 2016. The City needs to push whoever is doing the preparation of the CAFR to set a strict schedule to have it available a little bit early. Typically when the auditors get it, they have about a month to complete a full financial statement audit. If they could get that filed even two weeks earlier it would give a two week window. We definitely need to set a schedule among the three parties and all agree to it. Mr. Logan noted that the State has done our GAAP conversion; we convert from a cash basis to accrual basis. Local Government Services has done that for the whole 8 years he has been here and he thought even much longer than that. Part of the problem is just getting our LGS auditor together with the Ciuni auditors and himself to set that schedule. As Mr. Novak said, we need to set some dates, some firm deadlines for Ciuni to have the work papers.

Mr. Novak said the next thing he would like to go over is the single audit report and Mr. Logan said that you will see this report at the end of our CAFR and this is required any time you receive federal grant money over \$750,000. in one year and we did with our Chester Road relocation. Mr. Novak noted that

the first letter basically tells you that Ciuni is not providing an opinion on controls or compliance but we are testing it because we are required to test it but that material weaknesses or significant deficiencies may exist and not be caught by the audit. In the first paragraph you will see GASB 68 is clearly depicted there so again, that is a theme that you are going to see throughout and again references the note disclosure. The report also defines the two major types of control deficiencies that you find: material weakness or significant deficiency. In the third paragraph you will see that we reference a material weakness in internal control over financial reporting, finding number 2015.001, which we will talk about in the schedule of findings which follows. The second page states that Ciuni provides no opinion on compliance; however, we tested it and we noted no instances of material non-compliance during our audit testing. Also, it says we provide no opinion on the City's response to the finding that is in the schedule of findings.

Mr. Novak stated that the next report focuses on internal control over compliance of federal dollars. We do provide an opinion on the compliance over the relevant testing attributes that we are required to test for: the specific grant, the ODOT federal highway grant and on that letter we provide a clean, unmodified opinion over the compliance for a major federal program. The next part then goes into internal control over that compliance and again, we say that we are not expressing an opinion upon the internal control. It goes through the definitions of material weakness and significant deficiency and after the definitions is basically where we say that there is no instances of a material weakness during that testing. The final piece of the letter is our opinion on the schedule of federal awards and we give the opinion that it is fairly stated in all material specs in relation to the financial statements.

Mr. Novak stated that the next page is your federal schedule, the federal cash disbursements and as we said, \$750,000. in a calendar year is the threshold that automatically puts you into the need for a single audit filing. The notes to the federal award tell you that it was done on a cash basis of accounting. The second note is new this year due to the new uniform guidance dictates.

Mr. Novak stated that the next page, the schedule of findings and question costs, gives a summary of the full financial statement audit as well as the single audit. The first 4 relate to the financial statement audit, and as you can see, we did have a material weakness reported at the financial statement level. The next 7 or 8 boxes all relate to the single audit testing itself, so again the material internal control weaknesses relating to the federal program itself and we did not have any of those. There are different levels as far as findings go: 1. Verbal is very low level. There is no financial statement impact and we just want to bring it to everybody's attention. We did have a verbal comment this year. In our employee reimbursement testing, we noticed the use of \$.56.5 a mile vs. the IRS-approved \$.57.5 a mile. Mr. Logan stated that we underpaid for about half the year and it worked out to about \$78.00 in total. Mr. Novak then said that the next level would be a control weakness that we do not feel would cause a mis-statement in the financial statements but again, is worth bringing to the management's attention. That is in a separate letter so it is written down and filed with the State Auditor and could be requested through public records, but is not in the CAFR itself. We did not have such a letter this year. The third level is significant deficiency which could potentially create a material mis-statement in the financial statements. That would be written and notified in the letters. We did not have any significant deficiencies. And then the fourth level is a material weakness, which essentially is an internal control or a material non-compliance that essentially could cause a material mis-statement to the financial statements. So with that, we did have a material weakness this year in relation to audit adjustments needed to be made in accounts payable, intergovernmental payable, and accounts receivable. Our thought behind it is that the cutoff procedures to catch that were not in place, were not working properly. Mr. Logan stated, and we disagree with that.

Mr. Novak said, to give a little bit of detail on it, we had a grants receivable adjustment for \$618,000. and a related grant payable, for the same grant, for \$620,000. Mr. Logan added that that was relating to the ODOT grant for the Chester Road relocation, where ODOT was paying a contractor directly so ODOT's 90% share would be paid directly to Mr. Excavator in this case. But they were not paid until April and it related to 2015 activity. Mr. Logan explained that when he says they were paid, we had no cash transactions; the City was not involved at all. That was ODOT's 90%. So unless we are looking at that ODOT site pretty routinely and maybe we should have been, we are not going to know even when that would have been paid. So our point was because they pretty much offset that, your net material affect on the P&L side of it is very minimal. Even if we had been notified about it at the end of May instead of at 4 o'clock on June 30<sup>th</sup>, he still would have objected to the overall premise that it is a material weakness because it truly is nothing to do with our cutoff procedures. It is a strange situation where it is a third party grant and he feels that this finding was not warranted. Mr. Logan added that we are running reports all the way through April looking at larger expenses, anything over \$5,000., to see what they pertain to. If they pertain to the previous year, we would want to make sure that the LGS auditor picks that up. However, this was not in our check register; this was an ODOT payment. He said he feels that we do not have any deficiencies in our cutoff procedures in the way we treat our payables and receivables. Where there is a deficiency might be in the communication and getting Ciuni and LGS together to make sure we have everything.

Mr. Novak stated that they did have another audit adjustment made to accounts payable for a total of \$245,000. but it was not the same fund. Mr. Logan said that was for the swimming pool retainage fund and that is one where he would like to see what other communities do on that because the way he looks at it, we have encumbered those funds. When you encumber it, it seems like it is a payable; that money is set aside and it is a payable. But that was not what resulted in this finding. It was the \$620,000. that resulted in this finding.

Mrs. Holtzmeier agreed with Mr. Logan that it is not so much a lack of internal control as it is a lack of communication about the control. What kind of timing can we look forward to in the future to get the LGS auditors communicating with Ciuni to get some of that paperwork put together earlier and then what is an appropriate cutoff time?

Mr. Logan said that he knew that Ciuni had some timing issues this year and the audit was just delayed too long. That one week in June is when it seems like the bulk of their audit took place and that is past the date of when the draft financial statements have to be filed. He said that he can work on LGS to get Ciuni work papers much sooner although they did have a lot of the work papers as early as some time in March. The bulk of the audit should be done the middle of May. In the last two audits, somebody from Ciuni came out in December and did a week's worth of testing of cash receipts, payables, etc., and that did not happen this past year. He said he was not criticizing but he does not want the bulk of the audit to be done in June. Ms. Francis agreed and said that with the amount of audits that they do, if it is not getting done by early May then it is going to be June. So if they could do things earlier and have it done by early May, that would be ideal. They will have to work with LGS and figure that out. Mr. McBride said that the bottom line is Ciuni should be engaged in the audit earlier and should be on the phone with Mr. Logan advising him that they do not have what they need from LGS. That should be how it works.

Mr. Logan stated that Ciuni has audited us for five years but before they came on, we were audited by the State and they would have three or four auditors here from February to the middle of May, every day. They did the whole thing – they audited, they did the GAAP conversion, and it worked pretty well

but he does not want three auditors sitting here from February to May. Again, he thinks the problem is communication and he will take some of the blame. Now that he sees the grant ramifications and third party grant payments, he has to push our LGS auditor a little more to sit down with us. Mr. Novak said, yes, he thought the first thing we need to do is set up a meeting with all three to talk about it because it is really hard to come out and audit cash when you do not have a trial balance and you do not have financial statements. We could get a lot done without those but it is not efficient and we try to be as efficient as possible. We take half the time than what the State would take and that is our goal and that is the way we are focused.

Mr. Logan stated that he wanted the Audit Committee to hear about the net pension liability even though we had no findings or anything.

Mr. Novak explained that, in regard to the net pension liability, Ohio is one of six states that has a pension system where it is written in the Constitution that the municipalities are required to pay xxx amount and that is all they are required. If they are making that payment, there is no liability. GASB 68 comes on board which requires recording your proportional share of the State Pension System's liability. It is calculated about as simply as you can do it. They take every city's contribution that comes in per year divided by the total and that is your proportional share. We take the audited financial statement numbers from OPERS, multiply it times your proportional share and those are your financial statement amounts. Mr. Logan added, and they become a liability on our accrual basis books and an expense for that fiscal year.

In closing, Mr. Novak said that he was available for questions as the Committee looks through the footnotes, etc. He said to email him any sorts of questions that anyone has.

### **Creation of Beautification/Art Fund and Appropriation for Fund**

Mrs. Holtzmeier stated a suggestion of \$20,000. for this fund, which is 20% of what we expect to collect for the bed tax for this year. Those funds then would be warehoused from year to year until the account would accrue enough to pay for something that would be to either beautify the City or for a piece of art. So those are funds that would not be coming from residents; they would be coming from visitors to the City. Mr. Logan noted that we could set up a separate line item for it in the General Fund and carry forward whatever is not spent from the appropriation; we would keep a running tab. Another way to do it is to establish a special revenue type of fund similar to the Memorial Tree Fund that we have.

Mr. Butkowski said, so the thought is to have this standing 20% each year coming off from the bed tax? Mrs. Holtzmeier said, yes. Mr. Butkowski said because at one point we had talked about opening a Visitors Bureau for the City of Avon with that money and he did not know how that might impact that. Mr. Logan explained that we are collecting 6% right now on the bed tax in anticipation of the Visitors Bureau getting decided so when we get our motel tax, that extra 3% we are getting is all going into a separate fund called an agency fund which just means we are holding that money as if we are going to pay it back to somebody. We are not spending any of that extra 3% and right now we have about \$300,000. in that fund. If we ever do get to the point of establishing a Visitors Bureau, we are going to use that money that we have already collected and then on a go-forward, he believes we have to put at least 1-1/2% into that Visitors Bureau from the motel tax. So Mrs. Holtzmeier's proposal would be 20% of the original 3%.

Mr. McBride said that his feeling is to establish a Special Revenue Fund, and then who decides how it is to be spent? There need to be some controls put into it and we need a process in place to make recommendation to Council. Mrs. Holtzmeier agreed, but said the first step is to be able to fund it, to know that there is money there to continue the conversation. Mr. Butkowski said that he was not opposed to the idea of beautification or art but he agreed with Mr. McBride that mechanisms and procedures need to be in place of how that money would be implemented. Mr. Logan said that the fund would have to be established by ordinance so you would probably specify in the ordinance how the money would be spent.

Mr. McBride, Mr. Butkowski, and Mrs. Holtzmeier all stated that they were in favor of recommending the creation of and an appropriation for a Beautification/Art Fund.

**Adjourn**

Mr. McBride adjourned the meeting at 7:31 P.M.

Transcribed by Gail Hayden, Assistant Clerk of Council

