

**MINUTES OF THE CHESHIRE TOWN COUNCIL AUDIT COMMITTEE MEETING
HELD ON TUESDAY, JANUARY 28, 2014 AT 6:45 P.M. IN ROOM 210, TOWN HALL,
84 SOUTH MAIN STREET, CHESHIRE CT 06410**

Present

Patti Flynn-Harris, Chair; Robert J. Oris, Jr., David Schrumm

Staff: Michael A. Milone, Town Manager; Finance Director James Jaskot; Deputy Finance Director Gina DeFilio; Vincent Masciana, Director of Management Services, Dept. of Education.

Guest: Scott Bassett, McGladrey, LLP.

1. ROLL CALL

The clerk called the roll and a quorum was determined to be present.

2. PLEDGE OF ALLEGIANCE

The group Pledged Allegiance to the Flag.

3. FY 12-13 AUDIT

Mr. Jaskot stated that this was the 4th year of a 5 year contract with McGladrey LLC for audit services. The audit insures financial reports are accurate and present the financial condition of the Town and the internal controls.

Mr. Bassett reviewed the history of McGladrey LLP as the auditor for the Town of Cheshire. The firm was hired as an independent auditor to audit financial statements, state and federal programs under government standards, and submit a report to the management and Audit Committee.

The auditors look at the condition of the records for Town and Board of Education, and want to see few adjustments. The Town of Cheshire has good people on its staff; the information being audited is complete and accurate with few minor adjustments; testing of state and federal grants is done; payroll is looked at along with expenses, pension plan, and investments. All the information is taken along with the financial statements, and everything is put together using Governmental Accounting Standards.

The staff of McGladrey spends between 500 and 600 hours, start to finish, for the Town and BOE audit. A 125 page document was put together; the opinion is clean and un, and there were no material weaknesses or deficiencies. Mr. Bassett said the Town had a good year, and assets are greater than liabilities by \$125 million, which is a \$4 million increase from last year.

General Fund – total fund balance is \$12.4 million; \$9.2 million is unassigned; fund balance increased by \$634,000 during the year; unassigned fund balance represents 8.84% of the operating expenses.

Revenue and expenses came in as expected.

Cheshire had a 99.71% tax collection rate.

Internal services fund is +\$316,000; pension fund net assets are \$63 million, a \$5.6 million increase from prior year. Notes are the same with nothing changed, and pension plan valuation date was 7/1/11.

There are some new accounting standards. GASB 68 will impact the Town; will match assets and liabilities together as far as funding process goes. Rating agencies look at controls, cash collection rate, pension plan (Cheshire's is well funded), and fund balance.

Mr. Basset stated that, overall, this was a good audit; there is clean and accurate information on a municipal basis for the Town Council.

In a letter to the Town Council a few years ago, Mr. Schrumm said there were encumbrances, and now there are more along the way, and he asked what happened.

According to Mr. Bassett, in practice, there should be exceptions to encumbrances, and these exceptions should be noted, i.e. some were issued after the service was rendered. He said Cheshire's exception policy may be too stringent. Mr. Bassett said the encumbrances were not significant.

Mr. Masciana cited one encumbrance, for grass seed at \$3,000, with the seed ordered before the purchase order was input.

A few years ago the BOE had a high number of purchase orders. Mr. Jaskot said some may have been inappropriate as to what could be encumbered at the end of the year, such as utilities.

Mr. Jaskot noted the comments in the Management Letter, and one repeated comment regarding segregation of cash in smaller departments. Another comment was about some encumbrances with purchase orders approved after the fact, and he said nothing should be ordered without an approved purchase order. There was one instance in the BOE and Library. However, sometimes there are things which cannot wait, i.e. broken pipes, and the service must be done immediately.

Mr. Masciana cited an example of BOE Chamber of Commerce Dues invoice dated May 31st, but received on June 10th, and paid on June 10th. This is a violation. On July 1st, the BOE has set up purchase requisitions to pay against smaller encumbrances.

It was stated by Mr. Bassett that there is limited risk for these types of transactions, and this could be written into the policy.

Pages 66 and 67 were cited by Mr. Schrumm.

Page 66 shows the financial information received by the Council each month, and Mr. Schrumm said in each category the number is different than the budgeted amount. On page 67, under the BOE column, the budget amount and actual expenses are identical, and Mr. Schrumm said there should be a variance there.

Mr. Masciana stated that the BOE adjusts costs against five major categories.

On page 67, Mr. Jaskot said variances are noted because money was shifted between categories ("final"). For the Town Manager's budget (page 66) the original number was \$396,054; \$400,854 was appropriated because the Town Manager's salary adjustment was not originally budgeted.

Page 91 – Internal services funds. Mr. Schrumm said this is the Town and BOE medical trust funds. On June 30, 2013 the numbers are what was there on that date.

Page 109 – Total 2013 expenditures are \$117,008,908.

Page 17 – Mr. Schrumm noted debt service is \$8,209,112, which ties in with the number in the operating budget; capital outlay is \$5.1 million. The capital improvement fund has money set aside and is exclusively for bonded projects.

Over the years the audit report and financial reports have become more complex and Mr. Jaskot informed the committee there are now 71+ GASB standards, and things are more difficult to understand. GASB mandates towns to do financial statements and report on an accrual basis. Aside from numbers, controls are important, and Mr. Jaskot makes sure everything reconciles on a current basis. He works with smaller departments for compliance with controls and the process in place.

Ms. Flynn-Harris commended Mr. Jaskot and Ms. DeFilio, and the Finance Department staff for doing a good job on the report and handling the Town's finances.

The report summary will be submitted to the Town Council, and Mr. Jaskot asked Councilors to contact the Finance Department if further details on the report are needed.

MOTION by Mr. Schrumm; seconded by Mr. Oris.

MOVED to approve and accept the FY 2012-2013 Audit and forward it to the full Town Council for approval.

VOTE The motion passed unanimously by those present.

4. ADJOURNMENT

MOTION by Mr. Oris; seconded by Mr. Schrumm

MOVED to adjourn the meeting at 7:25 P.M.

VOTE The motion passed unanimously by those present.

Attest:

Marilyn W. Milton, Clerk