

**CALLAWAY AUDIT COMMITTEE MEETING  
APRIL 8, 2014  
TIME: 5:00 P.M.**

Meeting was called to order by Committee Member L'Heureux at 5:00 P.M.

ROLL-CALL – PRESENT: Commissioner Henderson, John L'Heureux, Skip Daube

ABSENT: Shelley McKinney, Larry Johnson

ALSO PRESENT: City Manager Collins, City Clerk Hirth

**APPROVAL OF MINUTES:**

**Committee Member Daube moved to approve the Audit Committee meeting minutes of October 30, 2013. Commissioner Henderson seconded the motion.**

**All ayes**

**Chairperson McKinney absent**

**Committee Member Johnson absent**

**BUSINESS ITEM:**

**ITEM #1 FY2013 AUDIT PRESENTATION**

Ms. Angela Balent, with our auditors – Warren Averett, greeted the Audit Committee and stated they issued an unmodified opinion of the financial statements. She said they noted no deficiencies in internal control over compliance that they would consider to be material weaknesses and there were no identified instances of non-compliance. She stated there were a couple of recommendations which she had previously discussed with the Audit Committee at the October meeting 1) bank statement reconciliation review procedures and 2) the segregation of duties surrounding the purchasing cards that are in the audit report. Ms. Balent said with regard to Audit Adjustments, they proposed an adjustment (reclassification) of \$251,437 for early lease payoff and transfer of fire truck out of Debt Service and into General Fund Capital Outlay. She said there were no Disagreements (a financial accounting, reporting, or auditing matter, whether or not resolved to the auditor's satisfaction, that could be significant to the financial statements or the auditor's report) during the course of this audit. She also stated that to her knowledge, there were no "second opinions" requested by the City's management with other accountants. She said there were no illegal acts or fraud that they were made aware of during the audit. Ms. Balent said they did not encounter any difficulties in dealing with the City's management and staff while completing the audit. She stated they prepared the requested information in a timely manner and were available for questions at all times. She said the auditor is required to inform those charged with governance that certain representations are being requested from management in connection with the audit and that the letter signed by the City Manager and Finance Director follow the summary in their packet. Ms. Balent was finished with her presentation at this time and took questions from the Committee Members.

Committee Member Daube asked if the bond expense had been written off. Ms. Balent stated it was expensed over the term of the bond. She said there were two non-recurring funds which

were the BP funds and the Sandy Creek funds. He also asked if the City's cash flow was sufficient and she said the City is in a good financial position. She stated the City has encumbered funds for the debt payments for the bonds. City Manager Collins said there have been a lot of cuts in the City's budget which he has encumbered to pay the bonds to 2017. He stated in 2017 the bonds can be re-negotiated for a lower interest rate. She also said regarding paying off debt, the revenue from Sandy Creek capital extension fees will not be sufficient to pay the annual bond debt but they realize the City has also pledged franchise fees for this purpose. City Manager Collins stated there was 3.8 million dollars in restricted cash that can be used for whatever they choose so they can make a payment from those funds. He said senior management will continuously monitor the bond repayment issue.

Ms. Balent noted the City had moved forward with the development of a written fraud reporting policy which was approved by the Commission. She said they were very pleased the City had put mandatory fraud training in place for employees. She stated the City also reviewed and enhanced actual operating procedures in key areas to reduce the potential for fraud of cash and physical assets.

With regard to written control risk assessment, Ms. Balent said they found that the City had been conducting risk assessments for many years without the benefit of the process being formally documented. She said management does believe it is in the best interest of the City to have control risk assessments documented and they are currently in the process of writing a control risk assessment policy and procedure as well as a plan on how it is to be implemented before the end of this fiscal year (2014).

She stated they recommended that a member of senior management approve the monthly bank reconciliations and that this be done as soon as possible after they are prepared in order to timely and effectively resolve any unrecognized differences. They also recommended that the reconciliations be signed and dated as an indication of approval. Ms. Balent said a formal review/approval process was implemented by senior management effective for the September 30, 2013 bank reconciliations.

Ms. Balent stated they recommended the Director of Finance review all transactions initiated using the City's purchasing cards. They said the review should include comparing transactions on the purchasing card statements to the actual invoices for propriety. They said this would properly segregate duties surrounding purchasing cards thus reducing risk of errors or fraud. They also recommended that purchases made using the Director of Finance's purchasing card be approved by the City Manager and purchases made using the City Manager's purchasing card be approved by the Director of Finance or a member of the City Commission. She stated these procedures were put into place by the City's management staff immediately.

Commissioner Henderson asked City Manager Collins if he had a detailed check off sheet for the bank reconciliation procedure which was stated in the minutes of the meeting from October 30, 2013. She said she believed this was what was to be used to train the Department Heads regarding how to do the bank reconciliations. City Manager Collins stated he would forward her a check off sheet as soon as possible.

Ms. Balent said GASB Statement 65 addresses participation in the Florida Retirement System with regard to unfunded liability. She said the City will have a pro rata liability of the Florida

Retirement System's unfunded liability in 2015. She stated it is currently funded at 88-89% which is very good for a retirement system.

Committee Member L'Heureux asked Ms. Balent to explain the acronym GASB. Ms. Balent stated it stands for Governmental Accounting Standards Board. She continued by saying it is the source of generally accepted accounting principles (GAAP) used by State and Local governments in the United States. She said the GASB has issued Statements, Interpretations, etc. defining GAAP for state and local governments since 1984 and they are consecutively numbered. She stated these dictate how state and local governments report.

### **Public Participation**

John J. Malone, 707 Plantation Circle, Callaway, FL, stated he had comments regarding the CAFR which ended September 30, 2013. He said the auditor expressed no opinions in their report dated February 26, 2014 and quoted them as saying the effectiveness of an entity is its' internal control. He stated that generally accepted accounting principles requires management's discussion and analysis be presented to supplement basic financial statements. He said such information is required by GASB. He quoted other instances where the auditors stated they applied certain limited procedures, they do not express an opinion or provide any assurance on the information because the limited procedures do not provide them with sufficient evidence to express an opinion or provide an assurance, etc. He made comments on the CAFR such as: the Management's Discussion and Analysis (MD&A) did not have the author's name but he presumed it was the City Manager; he asked why the Commission required a \$735,000 Bond Insurance at 5% interest per year (page 4 of the MD&A, paragraph 4 listed \$15.2 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors; on page 57 – note 15 – GASB pronouncements issued but not yet adopted – (a) GASB issued Statement 65 (items previously reported as assets and liabilities) for financial statements after December 15, 2012. He said it is one and one half years and the City is only now evaluating the effects of this statement on its financial statements. He asked why management is making policy without benefit of the elected Commissioners; (b) GASB 65 – Accounting and Financial Reporting for Pensions – he said this is an amendment to Statement No. 27 and the City will be required to record its proportionate share of the unfunded liability, if such liability exists, with the adoption of these statements. He summarized his input by suggesting the elected Commissioners hold a Special Meeting to discuss this excellent comprehensive audit, particularly Note 15, page 56, whereby management believes GASB Statements 67 and 68 will not have a material effect on the financial position changes in net position of cash flows of the City. He asked when was cash flow discussed with the elected Commissioners. His final statement was with regard to GASB Statement 65 – items previously reported as Assets and Liabilities. He said the provisions of this statement were effective for financial statements for periods beginning after December 2012. He stated after a 9 month evaluation (Jan.-Sept. 2013) and now through April, 2014 – management is currently evaluating the effects of this statement – why has it taken so long? His last comment on the CAFR was – another audit finding to be discussed by the elected officials. He suggested a Special Meeting to discuss the audit and would be glad to see why GASB was not followed. Ms. Balent stated they are not required to have the GASB 65 adopted yet. She said it has to be enforced effective 2013 (FY14) and they had not recommended for their clients to early implement.

After another brief general discussion, Committee Member L'Heureux moved to adjourn the meeting at 5:47 P.M. Committee Member Daube seconded the motion.

All ayes

  
Sandra B. Hirth, City Clerk