

CALLAWAY AUDIT COMMITTEE WORKSHOP
SEPTEMBER 29, 2010
TIME: 6:00 P.M.

Called to order by Chairman Jones, Chairman, at 6:00 P.M.

ROLL CALL – PRESENT: Chairman Jones, Citizens - Harry Johnson, Pam Henderson, and Linda Schwartz and Utilities Superintendent Smith

ALSO PRESENT: Angela Balent and Richard Martin from O’Sullivan Creel, LLP, City Attorney Beninate and Assistant to the City Manager Hirth

Chairman Jones asked the Committee members to introduce themselves as well as our new auditors from O’Sullivan Creel and then turned the meeting over to Ms. Balent.

Ms. Balent gave a Power Point presentation regarding Internal Control Design and Common Fraud Problems. Mr. Martin mentioned that they are members of ACFE (Association of Certified Fraud Examiners). The presentation covered most areas of internal control and fraud which goes back to lack of internal control. Ms. Balent said that the employees need to be educated on prevention of fraud. She also stated that it’s very good that our City has an Audit Committee. Other suggestions she made were that as auditors they like to see direct deposits, control over disbursement policies for invoice check to see how mail is handled, that daily deposits are made, verify cash logs, limited access, etc.

She stated that electronic controls are a huge concern generally. This includes protection of passwords, appropriate access to the system, and that backing up the system is critical. As far as employees, they believe that background checks should be made, credit checks and to have exit interviews with employees. Suggested credit card procedures would be to limit the number of users, have policies and procedures in effect that that would limit the users on the amount they can purchase without prior approval. She covered several other areas such as required communication, management’s responsibilities, financial statements, etc.

Ms. Balent stated that so far they have been to the City three times and have had very good cooperation/communication with the staff. To date, they have no current financial findings. She gave an overview of the auditing process. They have visited with CRI to review their work papers. She stated that work papers are not given out to anyone except someone who is authorized by the State. They have been at City Hall reviewing internal control such as testing the purchase order procedures, disbursement policy and payroll testing. She said that they are new and will not be able to learn everything there is to know about the City in their first year. They have met with the Department Heads, reviewed the bond issue regarding the legal process on how it’s to be re-paid, they have checked sanitation billing, meter reading, etc. At the end of the audit they will present a formal letter to the City, report any deficiencies, instances of fraud abuse, violation of federal grant guidelines, etc. She stated that the timeline for the audit is five months after the end of the current fiscal year.

At this time they have found that overall we have a very good design of internal control. She has spoken with the City Manager regarding the review of cash postings until the City Clerk returns – they would like to see initials/dates to verify that this is happening. Ms. Balent suggested that our travel reimbursement form needs some work such as the times should be posted on the meals section to verify eligibility and that the form should have all items that are paid for that particular travel whether it is paid by credit card or reimbursed with cash. She also suggested that we look at

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the cost allocation plan, for example the Finance Director's salary is charged out over several accounts. She said these are just a couple of suggestions and that they are not material deficiencies.

Chairman Jones stated that the Audit Committee made some recommendations last year regarding how employees can inform management of issues that they see on the job and that they needed more guidance in this area. Ms. Balent said that they will also be speaking to regular employees and they will come up with a game plan to submit to the Audit Committee for their approval on report of possible fraud. She asked if anyone had brought anything to the Audit Committee's attention regarding possible fraud and they replied that nothing has been reported to this date.

Ms Balent stated that when they are in the City and auditing that they will be located in the Copy Room at City Hall. Chairman Jones stated that per the Resolution, the Audit Committee is charged with recommendation of the auditing firm, provide ongoing oversight of the audit and to evaluate the final report. He asked for the auditors' assistance with development of a "reserve fund policy", which should become part of the budget; and assistance within the general fund regarding identifying reserved or unreserved funds.

Chairman Jones thanked Ms. Balent for a very good report/presentation.

Chairman Jones asked for a motion to approve the minutes of the March 8, 2010, Audit Committee meeting. Committee Member Johnson moved to approve the minutes. Second by Committee Member Henderson.

All ayes.

Committee Member Smith mentioned that the majority of the employees in the Public Works Department would like to have direct deposit but currently it is not handled in an electronic fashion – currently checks are hand delivered to banks in Bay County and that the employees do not particularly trust this type deposit.

Committee Member Johnson nor Committee Member Henderson had comments at this time, Committee Member Schwartz stated she is learning how the Audit Committee works and did not have any questions at this time.

Ms. Balent asked if anyone had brought anything to the Audit Committee's attention regarding fraud. Committee members stated that nothing had been brought to their attention.

Chairman Jones asked everyone to review the resolutions in their books regarding how the meetings are conducted and their responsibilities as the Audit Committee.

Committee Member Schwartz asked how the Audit Committee worked. Chairman Jones stated that the auditors will notify the Committee of any problems they perceive. He also mentioned that if any member of the Committee had questions about the financial operations they can ask to speak with the Finance Director or City Manager. Committee Member Johnson stated that the Committee evaluates the audit report also.

John J. Malone addressed the Committee. He thanked the auditors for the good presentation. He also stated that their only responsibility is to pick an auditing firm. He cited the Auditor General's

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Report No. 2009-014 regarding Audit Committee responsibilities and said the Committee needs training opportunities. Ms. Balent said that they have a presentation on Audit Committees.

David Griggs addressed the Committee. He said that he had questioned the make-up of the Committee in the past but now agrees with the membership and likes that a staff person is involved in the Committee. Mr. Griggs also stated that he's glad Chairman Jones brought up the issue of reserves. It was previously stated that the City needs to have 25% of the operating budget held in reserve.

Committee Member Schwartz said that she comes from the business world and that the City should be mindful of such things as tools being removed for City property, theft of paper, etc. She stated that little things that do not appear to be a big issue can add up in a hurry.

City Attorney Beninate addressed the Committee. He stated that the Committee did not just select an auditing firm. They provide ongoing oversight of the audit and he provided the other duties as stated in Resolution 08-31. He also stated that the Committee needs to be mindful of the Sunshine Law and that the members should not call each other with questions or remarks. This is public business and should be in the public view.

Committee Member Henderson asked if there were any other minutes that should be approved. She questioned when did they pick the new auditing firm, were the minutes approved where they gave the Committee's recommendation? Chairman Jones stated that they had not been present at a meeting since the out brief at the regular Commission meeting and that the new auditing firm was selected and minutes approved at a previous meeting.

There being no further business to discuss, the meeting was adjourned at 7:28 P.M.


Sandra B. Hirth, Assistant to the City Manager