CITY OF CALLAWAY AUDIT COMMITTEE
MEETING, 04/04/12

Meeting called to order by Chairman Mike Jones at 5:33 p.m.

Committee Members present: Pamn Henderson, Doug Smith, Chairman Mike Jones
Committee Members absent: Linda Schwartz, Harry Johnson
With greater than half of the members in attendance there was a quorum.

Pamn Henderson moved to approve the Minutes of the March 8, 2012 Audit Committee meeting. Doug Smith seconded the motion. Passed 3-0.

Chairman Jones introduced Finance Director Alice Bennett for staff presentation and response to auditor comments.

Finance Director Bennett stated this is the second year the City has utilized O'Sullivan Creel (Warren Averett) for the annual financial audit, however, due to internal changes in the auditing firm a new auditing supervisor was assigned so it was very much like having a brand new auditor. Finance Director Bennett stated the audit had been timely and in terms of cooperation went very well. In response to the Auditor's Management Discussion comments, Finance Director Bennett provided the following:

- Information technology planning (contracts) – a written agreement with the hardware service provider had been obtained, as well as a verbal agreement with the software provider.
- Information technology planning (software updates) – previously the City made a budget decision not to upgrade the software, however, now the version utilized by the City is out-dated. Staff had requested a revised quote for the upgrade for Commission consideration which came in at approximately $100,000.
- Information technology planning (disaster recovery) – while no written disaster recovery plan exists, there are steps in place to assure electronic information is retrievable; which includes nightly backups, weekly backup taken off-site, and when a threat of immanent disaster presents itself arrangements have been made with the software company to do a remote backup from Oregon.
- Cost allocation was not implemented in FY11, but had been for the FY12 fiscal year.
- Utility Rate Structure – the Auditor's suggested a utility rate study, and staff agrees as the future debt is not an immediate concern but it would be in 4-6 years. A utility rate structure analysis would provide information necessary to incrementally implement rate increases to meet projected needs. Finance Director Bennett stated that the utility rate structure did not need to be done

immediately but in order to address Auditor's comments it should at least be considered.

- Long term debt – based on facts and circumstance, Finance Director Bennett projected that if Sandy Creek acquisition went through the City would have funds to cover long term debt payments through 2018. Finance Director Bennett reviewed the fund balance policy and the current plan of setting aside $300,000 annually for debt and setting fund balance thresholds (reserve targets).

Pamn Henderson stated that it may not be an opportune time to do a utility rate study because of the economy, but it would become necessary in upcoming years.

Chairman Jones stated it makes sense to have an incremental increase and not hit the citizens with dramatic increases.

Doug Smith suggested that the City consider earmarking the 25% non-resident utility surcharge for bond debt payment, further stating Sandy Creek customers are getting the benefit of the water extension.

Finance Director Bennett also informed the Audit Committee of necessary modifications to the City's Accounting Policy Manual, stating GASB54 had changed some definitions, and the Accounting Policy Manual was updated to reflect those changes. She also informed the Audit Committee that the Utility Billing Policy Manual was in draft process and would be prepared for their review and comment by June.

Audit Committee Members agreed recommending to the City Commission that the current auditing firm continue to serve City through the third year of the contract. Additionally, Audit Committee Members agreed that any suggestions or comments regarding the Accounting Policy Manual could be provided to City Clerk Vigil via email.

Doug Smith motioned to adjourn the meeting at 6:36 p.m.

Jennifer M. Vigil

Jennifer M. Vigil, City Clerk