

Audit Committee

Meeting Minutes

Monday, April 16, 2012, 3:00 p.m.

1. Opening Remarks/Roll Call -

Chairman Williams called the meeting to order at 3:03 p.m.

Present:

Rick Williams, Audit Committee Chairman Preston Edwards Lori Barnett Dodson

Staff:		Absent:
Bill Dollar	John Baker	David Schuler
Bryan Bradford	Craig Hametner	
Steve Anderson	Jed Johnson	

Joe Beauchamp Elizabeth Morales Kathryn Ritchie Christian Thony Nancy Guerra Marla Hamilton

Deloitte:

Reem Samra, Audit Director Nick Scott, Audit Manager

2. Approval of the minutes from the meeting of March 19, 2012 –

Upon motion made by Preston Edwards and seconded by Lori Barnett Dodson, the minutes of March 19, 2012 were approved.

3. Deloitte Presentation -

Craig introduced Reem Samra, Audit Director for Deloitte & Touche, who took Terry Kile's place while he was out of town. Ms. Samra introduced Nick Scott, Audit Manager. She began her report with a discussion of the engagement and the audit of the City's financial statements:

- Comprehensive Annual Financial Report Ms. Samra pointed to the
 opinion that the financial statements do fairly present in all material
 respects the financial position of the City. She also discussed a
 paragraph regarding the adoption of a new accounting standard that
 relates to the presentation of the fund balance and restrictions of those
 funds. She stated that management implemented those standards.
- Single Audit Report The summary of the audit results indicated that the
 auditors' were required to perform an audit of four federal and state
 grants: Home Investment Partnership, Homeless Prevention and Rapid
 Re-housing Program ARRA, Housing Vouchers Cluster, Energy Efficiency
 and Conservation Block. For these grants the auditor's opinion is clean
 with only one finding regarding the Energy Efficiency and Conservation
 Block Grant. The finding relates to obtaining documentation to ensure that
 vendors are not debarred. The auditors did not find any vendors who
 were debarred; however, the suggestion was to put controls in place to
 ensure documentation is obtained in the future.
- Report to Management This was a letter to management which usually includes findings as related to internal controls. The auditors did not find any material weaknesses or significant deficiencies this year. Ms. Samra commented that this was very good news for a city of this size. Ms. Samra also discussed new accounting standards that will be effective over the next three years. There were two more accounting standards added since the management letter.
- **Governance Letter –** She mentioned that financial statements rely on accounting estimates which include contributions to self-insurance liabilities, pension plans, post-employee benefits, and allowance for

doubtful accounts. Actuarial review noted that Deloitte's estimates were consistent with management's estimates.

Two minor adjustments were noted during the audit:

- One construction project was expensed rather than capitalized; management noted and corrected it in the following year and should have made the correction in the prior year, FY2010. The amount was \$426K.
- o An A/R adjustment in one of the non-major funds occurred.

Management agreed with the adjustments but decided not to book them as recommended. Management also implemented GASB 54.

Financial statements include other information that is not audited; however the auditors reviewed the information to ensure consistency. There were no disagreements with management as it relates to accounting policies.

Chairman Williams asked Steve Anderson if the new accounting standards will be difficult to implement and he indicated that the accounting department is on track and should have no problems.

Bill Dollar, City Manager, asked Ms. Samra what caused new standards to be written. Ms. Samra indicated that these standards were codified by GASB and simplified for management to search in one place. She also indicated that the standards are implemented to clarify accounting standards for management. The next major standard will be related to pensions requiring that the City add this liability to its balance sheet. Another controversial requirement is to put 5-year projections as supplementary information.

Chairman Williams commented that the reports were overall good news.

4. Wastewater Audit -

Craig began discussions with the objectives of this audit which were to determine if monthly billing is performed accurately and timely. Craig then discussed the factors involved in billing. He also pointed to the exhibit in the reports of what was reviewed and where the focus of the audit was. Chairman Williams asked about the codes in the audit and Craig verified that these were actual entities. Mr. Dollar interjected with clarification regarding the overall industry characteristics and the specifics for each industrial customer. He also discussed the strength of flow and how rates are calculated.

- Finding #1 City's Expired Contract. Craig discussed that there are issues that could present a problem for the City because of this expired contract. The recommendation was to renew the contract. Management partially concurred and responded that they were working on a standardized contract which would take a year. The Auditor's comment requested a renewal for one year. John Baker discussed the standardized contract and the clarification process involved in the Wastewater Department processes. He did agree that renewing the contract for one year would be appropriate.
- Finding #2 City's billing cycle was excessive. Craig discussed that one of the cities had an excessive billing cycle in the amount of 58 days. He discussed the process of billing which involved three parts: reporting, invoicing and collecting. The recommendation was to reduce the billing cycle. Management partially concurred with this finding. Craig also mentioned that the customer is installing a meter which will take care of the first portion of the billing cycle; however, management did not address the other two factors in the billing cycle. Mr. Baker had no comments on the above because the meter is being installed and will provide accurate measures of flow. Mr. Baker also discussed the current method of billing which was reporting the flow and how the city was delayed. Mr. Anderson discussed moving the billing to Banner with the upgrade and the reasons why this has not been done in the past.
- Finding #3 Late Fees. Craig discussed that late fees were not assessed and two cities did not have late fee provisions. He noted a loss of revenue. The recommendation was to monitor and assign accountability for late fees and amend the contracts to add late fee provisions. Management partially concurred with the finding and did not believe there was any incentive to amend the contracts for the two cities. Chairman Williams agreed since the expiration was several years in the future. Mr. Baker discussed the standardized contract which would be required by the contracted cities at some point.
- Finding #4 Ordinance Compliance. An industrial customer does not have an operational meter and their invoice is calculated based on the number of times the treatment tanks are discharged. This is not a method of calculation listed in City Ordinance 50.35. The recommendation was to use the method listed in the City Ordinance. Management partially concurred stating that the ordinance did not specify that this was not an acceptable billing method. In the Auditor's comment, Craig stated that this

was true; however, there are only two methods of billing which was metered billing or 80% of water usage. Additionally, using 80% of water usage will be more compatible with the Banner system upgrades whereas the current method is not. Chairman Williams asked if this was another old method used by previous management and Mr. Baker indicated was that how the method was determined was unknown, yet it was necessary to meet with this customer to determine if there was any additional documentation that allowed for the use of this method. Chairman Williams asked about the change in the ordinance. Mr. Baker mentioned that the change would include a clause that states "or other approved method."

- Finding #5 Calibration Records. Craig discussed that TCEQ (Texas Commission on Environmental Quality) recommends and the City of Garland's state permit states that calibration records should be obtained annually. The finding determined that calibration records were not obtained. He also discussed that calibration was considered to be very important as it relates to the accuracy of flow. The recommendation was to obtain calibration reports from the customers to verify the accuracy. Management partially concurred and wants to amend the ordinance to include calibration requirements for these customers. Chairman Williams asked if management wants to make the ordinance consistent with TCEQ. Mr. Baker answered affirmatively.
- Additional Consideration Customer Classifications. Craig discussed the difficulties when considering the rates in looking at both the commercial and industrial users. He stated that TCEQ has definitions for each customer class. The rates varied from customer to customer in the industrial class. This made it difficult to analyze the information in the audit appropriately. In determining the rates, the commercial customers' rates were calculated based on an average of effluent strength for all of the commercial customers in the city. The industrial rate on the other hand is calculated on an individual basis. One of the customers reviewed is listed in the CAFR as the fourth largest principal property taxpayer in Garland and its business appeared to be more industrial, yet is listed as commercial. The sixth largest principal taxpayer listed in the CAFR was classified as an industrial customer. Craig emphasized the objectivity and independence that IA brings to this audit and from that perspective the rates were very difficult to understand. Chairman Williams anticipated a response on this issue from Mr. Baker; however, Mr. Dollar interjected, stating that when these customers reached a tipping point of high volume, they were then reclassed to industrial which required additional individual

samples. The waste strength in the commercial class was very similar which did not require individual sampling. Mr. Baker admitted that there are some customers who are in commercial that should be classed as industrial and vice versa. He also mentioned that management was working to identify these customers and is hoping to have discussions with the City Council regarding these classifications within a year. Chairman Williams wanted to know if their review was occurring now and Mr. Baker replied that this was being reviewed by a third party. Bryan Bradford noted that this could result in significant rate shock to some customers and Mr. Baker agreed stating that some customers are not paying appropriately and the Ordinance lists each industrial customer by name. Mr. Baker pointed out that substantial capital improvements will have to be made to comply with new federal regulations in the future and he emphasized the importance of reviewing these classifications now rather than later.

5. Chamber of Commerce Annual Audit Report -

Craig opened discussions regarding page one of the audit report and explained that the opinion in the audit was that the financial statements are presented fairly in all material respects. This indicates an unqualified, clean opinion. Craig directed the group to page two regarding the statement of financial position and indicated that the current ratio and working capital were both very good. The organization has excellent cash balances. Craig did point out that the organization was tax-exempt, however it was paying federal income tax. He did follow-up with Huber, Prater and Henson. In speaking with Leslie Henson, she mentioned this was unrelated business income which comes from their membership directory advertising (ad) sales and anything over \$1,000 is taxed. She also indicated that they have had this in prior years, but it was immaterial. The ad sales did increase over the past year for the organization which generated income. Craig pointed out the changes in net assets due to the ad sales and discussed the financials of the organization further. He also discussed the statement of activities and the increase in specific expenses.

Chairman Williams confirmed with Craig that he was still receiving the monthly statements to which Craig responded affirmatively. Mr. Bradford asked questions regarding page three's funds moving from temporarily restricted to unrestricted. Craig mentioned that this was economic development which is moved from temporarily restricted to unrestricted. Mr. Bradford also asked about the footnote at the bottom of the page. He wanted to know how much rigor is performed in determining the 50% indirect cost rate. He wanted to determine if

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there was any type of allocation schedule. Craig stated that he would research and get information to Mr. Bradford as soon as possible.

There being no further business to discuss, the meeting was adjourned at 3:47 p.m.