

City of Annapolis
Boards and Commissions
Audit Committee (AC) Minutes
Monday, June 29, 2020

The “virtual” meeting of the Audit Committee was called to order over Zoom at 8:03 a.m.

Members Present: Chair and Ward 2 Alderman Frederick M. Paone, Ward 3 Alderwoman Rhonda Pindell-Charles, Ward 1 Alderwoman Eleanor “Elly” Tierney, James A. Cardillo, Albert Kirchner, and Julie Mussog

Member Absent: Jared Littmann

Non-voting Members Present: City Manager David Jarrell and Finance Director Jodee Dickinson

City Leadership and Staff Present: Ward 8 Alderman Ross H. Arnett, III, Ward 4 Alderwoman Sheila Finlayson, City Attorney D. Michael Lyles, Mark Hildebrand, and Accountant Kim Ellen Maronski

CliftonLarsonAllen LLP (CLA): Keith Novak, Engagement Principal, and Sean Walker, Quality Assurance Principal

Roll Call

Chair and Alderman Paone greeted the Audit Committee (AC), noting that Mr. Littmann was excused. Later the Chair indicated that this was the last meeting for Ms. Mussog as her term ends June 30, 2020, leaving a vacancy on the AC. Ms. Mussog was thanked for her many contributions and service to the City.

Agenda

Alderwoman Tierney motioned for the agenda to be approved, seconded by Alderwoman Pindell-Charles. The agenda was approved unanimously.

Chair Paone designated some topics to be discussed out of sequence.

Minutes

Alderwoman Pindell-Charles motioned for approval of the minutes, seconded by Mr. Cardillo and unanimously approved by the AC for:

- May 19, 2020.

New Business

Education – CliftonLarsonAllen LLP (CLA)

Mr. Cardillo motioned for the Audit Committee to hear next from the external audit firm of CLA, seconded by Alderwoman Pindell-Charles.

Mr. Novak discussed the FY 2019 engagement, which the firm has completed:

- Scope
 - Financial Statements – issued January 2020
 - Single Audit
 - Uniform Financial Report
- Deliverables
 - Report on Financial Statements
 - Report on Internal Control over Compliance with Major Program Requirements
 - Internal Control Letter
 - Governance Letter
 - Management Letter
- Required Communications
 - Generally Accepted Auditing Standards
 - Auditor’s Opinion
 - Significant Accounting Policies
 - Management Judgments and Estimates
 - Management Representation Letter
- Results
 - Financial Statements Audit
 - Delay encountered (issued December 2019 letter to City)
 - Unmodified (clean) opinion
 - No material uncorrected misstatements
 - No disagreements with management
 - No material weaknesses identified in internal controls
 - Recommendations
 - Accounting procedure manual
 - Monitoring collateral requirements
 - Year-end closing improvements
 - Single Audit
 - Unmodified report on major (federal) program
 - Homeland Security Grant
 - No non-compliance noted
 - Low risk auditee (first time)

Mr. Kirchner asked Mr. Novak if the City can look for a model from some other municipality within the State of Maryland for best practices and assistance in developing an accounting procedure manual. Mr. Novak replied there are other jurisdictions that the City could look towards, but every jurisdiction is going to be different in some ways.

Chair and Alderman Paone asked Mr. Novak how important it is to have an accounting procedures manual, given that this has been recommended for the past four or five years. Mr. Novak replied when long-term employees leave and other employees have to fill in, having an updated manual becomes critical. Mr. Novak said by writing its own manual, the City might determine how to do things better.

Ms. Tierney asked for Finance Director Dickinson's input. Ms. Dickinson indicated that although they are not aggregated and consolidated into a comprehensive manual, most Finance employees have desk procedures written down that document what they do. She also acknowledged that there are several policies and procedures in place that need updating,

Alderswoman Pindell-Charles asked Ms. Dickinson whether an accounting procedures manual can be put together by the end of the year. Ms. Dickinson indicated that the Finance Department presently has insufficient staffing to be able to commit to completing the manual in FY 2021, especially due to the constraints existing during COVID-19.

City Manager Jarrell commented that the City had already lost its top three people in Finance and having an accounting procedures manual would have been helpful. He supports its development and updating as managerial changes occur.

The City Council members on the Audit Committee all expressed support for Ms. Dickinson to add additional high level staff to the Finance team. Mr. Jarrell stated that this is a difficult time for the City to start adding positions because of the outlook for reduced funding from the State for public safety services provided by the City.

Alderswoman Pindell-Charles asked Mr. Novak, given the dilemma the City is in, what could be done to develop the accounting procedures manual. Mr. Novak suggested the Finance Director continue the initiatives to have individual staff document their procedures with an aim of synthesizing and evaluating them for potential process improvements. Additionally, the City has available to it the controls documentation created during the audits by CLA.

Mr. Novak said, due to COVID-19, the implementation dates for new Governmental Accounting Standards Board (GASB) pronouncements have been extended. He presented various graphical/pictorial slides of the City's financial statements, comparing fiscal years (FY) 2017, 2018, and 2019.

Alderman Pindell-Charles asked about year-to-year changes presented in CLA's Entity-wide Statement on Net Position Summary slide. Finance Director Dickinson responded that in FY 2019, property tax rates and assessed values increased. With respect to State Shared taxes and other, Ms. Dickinson said that the City received a very large non-recurring income tax distribution in November 2017. Regarding miscellaneous, the golf course was sold in FY 2018 to fund the pool.

→ Alderman Finlayson asked about Community Services on CLA's General Fund – Expenditure Summary pie chart slide. Ms. Dickinson pointed out that the chart may need to be revised by CLA because Public Safety might have been mixed up with Community Services.

Mr. Novak explained that the City's FY 2019 actual revenues and expenses were close to budgeted revenues and expenses. He then discussed in brief the challenges facing state and local government clients, especially from COVID-19.

Alderman Finlayson asked Mr. Novak how his other clients deal with the rise in post-employment costs. Mr. Novak indicated that OPEB have two major components, assets and liabilities. Assets consist of the investments that the City gets professional advice on to maximize returns, which fluctuate. Liabilities are more controllable because the City can look at policy issues, i.e., what benefits are provided and the way they are provided.

Alderman Finlayson asked City Manager Jarrell to include OPEB costs in the next collective bargaining negotiations. Mr. Jarrell agreed to do so and indicated there were two years left in the current agreements.

In reply to questions from Alderman Tierney:

- Mr. Jarrell confirmed that the FY 2021 budget included a higher contribution by employee participants towards their health care costs; and
- Mr. Novak and Ms. Dickinson explained that the amount of OPEB liability is determined based upon informed management judgment and actuarial estimates and mortality assumptions, health care cost projections, future salaries, etc.

In reply to a question by Mr. Cardillo, Mr. Novak confirmed that the auditors' required communications - December 2019 CLA letter about delays - had been sent to the AC Chair.

Chair and Alderman Paone and the AC thanked Mr. Novak for his enlightened presentation.

Later, Ms. Mussog recommended that Ms. Susan Smith, the Anne Arundel County auditor, would be a good guest speaker for the AC to invite. This was seconded by Mr. Cardillo.

Change of Course

The AC discussed the possibility of members undertaking their own micro analytical projects and evaluations of City departments and finances that might result in savings, with examples given. Mr. Paone asked that each member contribute their ideas, which lead to a wide-ranging discussion. Alderwoman Pindell-Charles brought up the impact of COVID-19 on operations and therefore expressed that timing might not be ideal for the AC to perform such projects.

Old Business

Reports

AC Annual – CY 2019 – Mr. Paone told the AC that the report had been filed with the City Clerk. He thanked Mr. Kirchner for his contributions in writing up a good annual report.

➔ *AC Quarterly – CY 2020, Q1 and Q2* – Chair and Alderman Paone noted that COVID-19 had severely impacted the AC's productivity due to City facilities being closed. Mr. Paone stated his intention to file reports for both Q1 and Q2 as required by City ordinance.

Management Reports

The AC discussed whether to request written management reports from the Finance Director and City Manager be provided in advance of AC meetings. The general consensus was that oral reports were preferred.

City Manager – Deferred.

Finance – Deferred.

Legal – Deferred.

RFP (Planning and Zoning; and Transportation)

➔ Finance Director Dickinson indicated she is waiting for a decision by the AC on specific audit objectives and scope. Alderman Paone intends to finalize the RFP wording by working directly with AC members and management in the coming weeks. Ms. Dickinson will ensure that an updated RFP is provided to the AC.

➔ Mr. Paone said he would provide a copy of the Zelenkofske Axelrod LLC report on Recreation and Parks to the City Council and make it public.

Subcommittee (O-30-17)

The proposed ordinance revision is currently being reviewed by the City's Office of Law.

Adjournment and Concluding Remarks

Mr. Paone voiced appreciation to the AC members for their active participation and attendance.

By motion from Mr. Kirchner, seconded by Alderwoman Pindell-Charles and unanimously approved, there being no further business of this official meeting of the Audit Committee, it adjourned at 9:50 a.m.

Respectfully Submitted,

Kim Ellen Maronski
Finance Department

p.s. Next videoconference meeting: 8:00 a.m. on Monday, July 20, 2020.