

AUDIT COMMITTEE
Thursday December 17, 2009
80 Boston Neck Road
North Kingstown, RI 02852
7:00 P.M.

1. **Call to Order** – 7:00 P.M. by the Chairperson Jeffrey Wadovick

Present: Richard August, John McNamee, Charles Cardente, and Jeffrey Wadovick.

Absent: Matthew Leonard

A tape recording of this meeting was made to supplement the written record.

2. **Pursuant to RIGL 42-46-6 © - Notice of this meeting has been posted on the Secretary of State's Website**
3. **Approval of minutes – August 4, 2009, October 15, 2009 and November 24, 2009**

MOTION: R. August second C. Cardente to approve the minutes of August 4, 2009 as amended.

R. August read corrections to the minutes of August 4, 2009. He will provide a copy of the corrections to P. Sunderland. **Voted: Unanimous.**

MOTION: R. August second J. McNamee to approve the minutes of October 15, 2009 and November 24, 2009 as amended.

R. August refer to North Kingstown Ordinance 06-12 which was provided in the packet. He read Section 2 -401A. He will provide P. Sunderland a copy of the ordinance. All references to the Ex-Officio should be changed to Finance Director.

Charles Cardente asked that the spelling of his last name be corrected. **Voted: Unanimous.**

R. August asked under what authority the Finance Director called the meetings of October 15, 2009 and November 24, 2009 to order.

Chair does not have that information at this time.

MOTION: R. August made the motion to lay the question on the table until the next meeting for that explanation.

Motion fails for lack of a second.

4. Review/discuss draft copy of the June 30, 2009 financial statements with Braver, P.C.

Representatives from Braver, P.C in attendance.

Chair stated we will discuss open issues with representatives and highlight any items of interest. The Committee has received a draft packet. There are a couple of open items. The management discussion and analysis, transmittal letter and incomplete disclosure as far as lease revenue regarding the cell towers.

Representative from Braver, P.C. referred to page 16 & 17 of the financial statements. For the year ending June 30, 2009 –general fund had an operating deficit of the town is \$665,000, the ending fund balance is \$10,153,000 and the undesignated portion of that is \$8,355,000. Very healthy as far as the undesignated percentage of expenditures. The town has not tapped that as a revenue source to defray taxes for the past few years. Page 60 shows the budgetary basis presentation. There was an overall surplus of \$332,000 in the general fund. There was a deficiency in revenue compared to budget under \$270,000 and expenditures were about \$602,000 below appropriated amounts. Once again, the budget line items did not exceed the budget.

Chair asked the recent information regarding the stimulus funds, is that being accounted for here in the intergovernmental dollars? We were just notified.

Representative answered yes, it is, on the school side.

Representative gave the figures for the school unrestricted funds balance is \$459,000, the ending fund balance is \$2,412,000 and the undesignated portion of that is \$1,599,000. Operating results for the school unrestricted fund are on page 16 & 17. There are some designated reserves against the \$2,412,000.

Chair questioned the school lunch program.

Representatives gave figures for the transferred out of school unrestricted fund into the school lunch funds. Page 61, the school department has a budgetary surplus of \$794,262. The school is healthy. The school operated within their budget and accumulated some additional assets.

Charles Cardente asked the pension figures, the revenue and expenses are those employee contributions.

Representative stated that is the State contribution funds to the teacher's pension fund.

Chair explained the process of the pension fund.

Representative refers to Page 14 – Major Governmental funds - \$4 million senior center fund. At the end of the year it had almost \$2,400,000 of net assets. Expended \$1,282,000 in capital expenditures. Also, recognized \$4,000,000 of bond proceeds as revenue during the year.

Chair stated that fund should be completed by next year. The building is just about finished.

Representative referred to page 19 – Major Proprietary Funds. Water fund ending with net assets better than 9 million dollars split equally about 4.7 million invested in capital assets. Unrestricted net assets are 4.3 million. It did report a net loss of 217,000. One item was the implementation of GASB 49 on pollution remediation in the amount of \$718,696. Referred to page 19. Finance Director explained pollution remediation due to lead based paint. Fund is healthy.

Quonset Davisville Recreation Fund - The income is just under \$600,000 for the year. Unrestricted net assets \$46,000. Meeting its purpose.

Nutrition Fund – School Lunch Program – Operating loss of \$96,000. The school transferred in \$340,083 to give the fund a net income of \$244,204 which just happens to coincide with what its accumulated deficit was \$63,008. This fund has no assets. Broke even with the transfer in from the school department.

Chair questioned the due to on Page 19 of \$457,000 will stay as shown.

Representative believes the cash will go back to the general fund. The school committee does not want to see the program outsourced. They are passionate about the program. They feel comfortable with subsidizing the program out of the unrestricted account. They are hoping over the long term goal to breakeven.

R. August doesn't believe the final contract for the support personnel has been published yet. He understands there were some concessions made by the cafeteria workers in terms of the backup package.

Water Capital Reserve – increase of \$726,000 with the majority being a transfer in from the water fund of \$840,000. At the end of the year, the fund had over \$2,016,000.

Chair asked what the water capital reserve fund is for?

Representative answered future capital expenses.

Finance Director stated this is for future contract with mandates.

Representative stated the fund is healthy.

Disclosure items –page 58 #17 - \$1,650,000 – pollution remediation operation related to governmental activities. Based on estimates. We will see how they come out when the projects are completed.

Representative referred to page 52 #12 –other post employment benefits. Referred to footnote and page 53. If funded by the town, would be to contribute just under \$2.3 million. Actual contributions made during the year were \$942,000 leaving us with an obligation of a \$1,348,000 that as well is accrual but only in the government-wide financial statements.

Discussion of prior year management comments: Cafeteria funds, student activity funds, old inactive funds and accounting manual. One comments some old outstanding checks which should be researched. Housekeeping items: tower leasing, payroll deductions being made without formal approvals, tax exemptions for veterans without proper backup, weakness in not making payroll deposits which incurred some penalties.

Chair stated we have applied to get the penalties back which we did pay.

Finance Director stated the finance department was losing people; they tried to cross train people. Some people are not finance people but just clerical people. What happened was backlog and getting bank reconciliations done, did not realize until we reconciled the bank statements.

R. August asked was the \$30,000, the penalty or the deposit?

Representative answered the penalty.

J. McNamee needs to improve the system so it is caught before the next reconciliations. Penalties are pretty stiff. Did not have sufficient personnel.

C. Cardente is there a control in place. Is one person performing those procedures?

Finance Director stated staffing shortages causes the system to breakdown.

J. McNamee do other towns do their payroll internally?

Finance Director answered some do, some don't. Technically, the next day you could go into the payroll account to insure the payment was made in whole.

Representative did receive total cooperation.

Chair some procedural questions: will need to get the certificate by December, 31st, need to have this to the Auditor General by December, 31st, then to present to Council. We can accept the draft as submitted to meet all the requirements.

Finance Director suggested sending a recommendation to the Council for approval.

MOTION: J. McNamee, second R. August to submit the financial statement to the Town Council for approval for 2009, with all revisions discussed tonight.

Voted: Unanimous

Chair thanked everyone for their work.

R. August thanked the Finance Director and her staff for their work.

5. Appointment of a 2 member sub-committee of the Audit committee to assist the policy subcommittee of the School Committee with proposed policies and procedures.

Chair discussed at last meeting. School Committee is trying to make changes to their policies and procedures and would like some guidance from us.

R. August suggested a mission statement for the policy and review subcommittee. Read into the record.

Chair asked R. August to put the motion in layman's terms.

MOTION: R. August second C. Cardente appoint 2 members of the Audit Committee to act as a review body for the final draft of any policies or procedures guidelines having a financial implications and where there are substantial changes recommended or have material effects on internal controls or financial controls then the policy review subcommittee would come back to this body with its recommendations for discussion. One member of the subcommittee should be the person nominated by the school committee.

Discussion.

J. McNamee asked any reviews of policies would come before the full audit committee before being finalized?

R. August answered not all of them. Initially, I did think that would be the way to go but there might be some insignificant materials presented and they might want a quick turnaround. We need to trust the two members would know when they should bring it to the full committee. Two members would be able to get together without any problem with open meetings law.

Chair stated there is a school committee policy subcommittee working on this that has asked for assistance.

J. McNamee asked what would be the purpose of having a member from the school committee verses two members of the Audit Committee.

R. August referred to Whistleblower Screening Committee. Feels a lot of the requests for assistance will come from the School Committee as opposed to the municipal government.

J. McNamee feels two members of the Audit Committee gives more flexibility. He thinks he was appointed by Town Council on the Whistleblower Screening Committee. We are supposed to represent the Town which includes the School Committee. Feels there may be certain factions in town. Not saying we should not have someone from the school committee but it does limit us. What if the person is not available when the requests are to be heard? I do not want to hold up the process. Right now, the Whistleblower Screening Committee is very busy with meetings. It comes in spurts.

C. Cardente questions the need for the subcommittee.

J. McNamee answered with more than two members; then you have a problem with open meetings laws. This is mainly to assist the school. Want to give them guidance to deal with internal controls. The major concerns will be coming to the Audit Committee.

R. August wants to assist the school committee and the Town Council. **Voted: Unanimous**

MOTION: R. August second J. McNamee to appoint Matthew Leonard and Charles Cardente to the subcommittee. Voted: Unanimous.

6. Discussion of meeting separately with the School Committee.

Chair referred to section 2-402 meetings of the town ordinance states the Audit Committee should meet with annually Town Manager, Town Council, Superintendent, School Committee and the independent Auditors. Doesn't know if the Audit Committee has ever met with School Committee separately.

J. McNamee stated that most members of the School Committee attended our last meeting. Met with the Superintendent of Schools and the Chair of the School Committee.

R. August believes the ordinance does not state we have to attend a School Committee meeting. It seems to him our last meeting covered this ordinance. Their agenda for the first meeting in January is including a discussion with this committee. Feels the Chair of the Audit Committee should go.

J. McNamee is concerned with the open meeting laws.

R. August answered we are not meeting, we are attending their meeting. Suggested clarification from the Town Solicitor.

Chair stated there are specific items in the audit that pertain to the School Committee. Do we need to address those items with the School Committee? He has no problem meeting with the School Committee but wants to be sure of what our committee needs to do.

C. Cardente believes this section is satisfied by the School Committee coming to one of our meetings.

Representative from Braver, P.C. does not meet with the School Committee. They do not issue a separate report.

R. August understands the School Committee wants to address the report on the special examination of the Student Activity Fund with the Audit Committee. Thinks the Audit Committee should be represented.

Chair stated the Audit Committee was not involved in that report. Not sure what we are going to talk about. At the last meeting, he asked for policy and procedures on the Student Activity Funds and they were passed out at the meeting.

R. August stated those documents were not even a policy and it was not clear if they were adopted. They should be turned over the policy review committee.

R. August gave his opinion as to what the ordinance is designed to do. He thinks this has been addressed when the School Committee attended our last meeting. Any of our members can attend the School Committee.

Chair needs clarification from the Town Solicitor. He wants the School Committee to know we are here to assist them in whatever they want.

Chair thinks we should discuss the revising the members sitting on the Whistleblower Screening Committee. Neither two people on the Screening Committee are appointed by the School Committee. Right now, those two people are J. McNamee and himself. He recommends a motion to make sure the record reflects the two people on the Screening Committee are Mr. McNamee and Mr. Leonard.

Motion: R. August second C. Cardente to have the record reflect the two people on the Screening Committee are Mr. McNamee and Mr. Leonard. Voted: Unanimous.

R. August referred to minutes of October 15, 2009 under X –Correspondence. His motion regarding the Whistleblower complaint. No provision under town law that this body acts as a conduit for whistleblower complaints. My motion was out of order and therefore it cannot be discussed at this committee.

Chair stated it was forwarded to the screening committee and will not be discussed by this Committee.

7. Correspondence

Chair received a response through correspondence from the Superintendent regarding the matter that was presented to us. The correspondence has been handed over to Mr. McNamee who is a member of the Screening Committee and it will be reviewed by the subcommittee.

8. Public Comment –none

9. Adjournment

MOTION: J.McNamee second R.August to adjourn at 8:23 P.M. until the next scheduled meeting. Voted: Unanimous