

**MINUTES OF THE REGULAR MEETING OF FINANCE COMMITTEE OF THE CITY OF SUNSET HILLS,  
MISSOURI HELD ON MONDAY, JULY 23, 2018**

Meeting convened at 5:30 p.m.

Place of meeting: Public Works Conference room at Sunset Hills City Hall.

The Finance Committee of the City of Sunset Hills, Missouri met in open session. Chairman / Alderman Mark Colombo, Member Michael Sawicki, Member Jeff Camilleri, Member Joe Stewart, Member Mike Fitzgerald, Finance Director Susanna Messmer and City Administrator Eric Sterman were personally in attendance. Alderman Nathan Lipe was absent.

**Approval of Minutes:**

The minutes of the June 25, 2018 Finance Committee meeting were distributed for review. Mr. Fitzgerald noticed a typo and that was corrected. A motion was made by Member Sawicki to adopt the minutes as amended. Member Stewart seconded the motion and it was passed unanimously.

**2017 Financial Statement Audit and Single Audit Discussion:**

***a. Overview by Michelle Graham, CPA of Botz Deal & Co.***

Ms. Graham said the audit was completed later than originally planned due to some difficulties encountered during the audit. But in the end, the City received a clean, unmodified opinion.

Mr. Fitzgerald then asked if the journal entries played a role in delaying the audit completion. Ms. Graham explained that changes were required to year end journal entries, especially for accounts payable. The payables balance as recorded by the City did not have sufficient supporting documentation; therefore, the balance needed to be recalculated. Another major factor in the delay was the need for a Single Audit that was not originally in the scope of audit work. It was excluded from the original scope because of a miscalculation by the City of the amount of expense that triggers a Single Audit.

Mr. Fitzgerald then asked about the overall impact of these difficulties. Ms. Graham responded by saying that there were internal control deficiencies. If an entity needs audit adjustments, then that is considered an internal control deficiency which must be reflected in the Single Audit Report on Compliance. Also, if an entity is unable to calculate or miscalculates its own

Schedule of Expenditures of Federal Awards, the SEFA, that is also considered an internal control deficiency. However, Ms. Graham stressed that there were no compliance issues. Because there were no compliance issues, future requests for federal awards should not be negatively impacted.

Mr. Colombo then asked about corrections needed to address the internal control issues. Ms. Graham stated that the primary corrective action is to have a person in house able to perform the necessary functions. She acknowledged that the professional staff turnover which occurred during the audit time frame as an issue.

Mr. Fitzgerald asked about definition of materiality. Ms. Graham stated that materiality is relative to the individual funds and that no set dollar amount is prescribed. Further discussion ensued about the requirements for a Single Audit. Ms. Graham explained that because the need for a Single Audit was not properly identified, by definition and not by materiality, internal control deficiencies were reported.

Mr. Fitzgerald asked about bullet point #9 which states that Sunset Hills is not considered to be a low risk entity. Per Ms. Graham, the "low risk" auditee classification can be avoided only if a clean Single Audit occurred for the previous two years. She stressed that this is not negative language.

Mr. Fitzgerald asked if the Single Audit covers stand-alone financials and if the expenditures should be capitalized. Ms. Graham clarified that Single Audit transactions are part of the general ledger/fund financials and that expenditures are capitalized in the Government Wide Financial Statements, but not the Fund Financial Statements.

Ms. Graham then summarized by saying the important aspect is that the City had a clean audit opinion, meaning the audited financial statements have reliable data.

Mr. Fitzgerald asked about deferred inflows and outflows from pensions as reported in the Statement of Net Asset Position. Ms. Graham referred to page 39 "Schedule of Changes in Net Pension Liability (Asset) and Investment". She explained that LAGERS data must be tested by her firm rather than relying on the LAGERS auditors. She pointed out that the City has a net pension asset. However, when changing the discount rate assumption as illustrated on page 32, the asset fluctuates significantly indicating that the discount rate is the largest lever of variability. The important aspect is that the asset is 116% of liability and is 60% of employee's payroll. Also, it will be important to watch the trend over the next 10 years.

Mr. Fitzgerald asked about Investment Fair Value Measurements as shown on page 24 and why the City's investments are measured at Level 2. Ms. Graham responded that treasury obligations are measured using different inputs. Level 1 requires identical assets.

Mr. Fitzgerald asked which property has tax abatement as reported on page 34. Mr. Sterman responded that it is the former trailer park on the east side of Lindbergh which is now the Borzillo strip mall.

Ms. Graham discussed her firm's openness to the City's inquiries and requests for advice and support. She encouraged reaching out to Botz Deal without hesitation.

Mr. Colombo thanked Ms. Graham and she then left the meeting.

***b. Action plan to address audit findings by Susanna Messmer, Finance Director***

Ms. Messmer referred to the Action Plan packet, Appendix A of these minutes. Additional discussion about the Action Plan occurred as follows:

Regarding I.1., Journal Entries: Ms. Messmer discussed the need for monthly and/or quarterly account reconciliations and analyses. Over time as these processes are implemented, adjusting journal entries will be easier to identify and support.

Regarding I.2., Reconcile Accounts: Mr. Stewart asked about the Active source of funds. Mr. Sterman and Ms. Messmer explained they are credit cards, cash and check from the Community Center/Pool/Concessions. A key driver of this audit finding is that there was a time lag between receiving funds and posting them in the general ledger. The time lag has already been discussed with the Parks Director.

Regarding I.3., Budget Adjustments: Mr. Sterman added that we track overages and underages to budget during the year, and now we need to adopt a budget adjustment in January for compliance. Mr. Sawicki asked how the City should best monitor budget adjustments. Mr. Sterman suggested either a new standing agenda item for Board approval at each cycle, or continuing to point out larger variances (typically \$5,000 or higher) and only take those to the Board as they arise. Because there are fewer, but larger variances with the current process, there is more explanation and scrutiny. Mr. Sterman then proposed that he and Ms. Messmer provide a proposal about how to handle variance explanations and prepare for Board adoptions of required budget adjustments.

***c. Q&A Session for all attendees***

No discussion occurred under this agenda item as questions were asked during the preceding topics.

### **Routine Monthly Financial Reporting:**

#### ***a. Review current report structure and content***

Mr. Sterman provided background information on historical reporting process which included Treasurer's report and Collectors report. In the previous two months, the package was expanded to include a balance sheet and an expenditure report in addition to the Treasurer's Report and Collector's report. He solicited feedback.

#### ***b. Get feedback from Finance Committee on potential modifications & enhancements***

Mr. Stewart stated that the finance package has large amount of information. Mr. Sterman stressed the important point is to understand budget to actual variances. This concept relates to the previous conversation of understanding and managing actual versus budget from a compliance standpoint.

Mr. Stewart then asked about a Finance Committee annual work plan. Mr. Sterman stated we will prepare an updated work plan.

### **Bid Process for services-discussion of current status:**

Mr. Sterman said it has been at least 5 years the last RFP was issued for professional services of audit, banking and insurance brokerage. Therefore, he thinks it is time to issue RFPs for all three, to which Mr. Sawicki added investment management services. Mr. Camilleri suggested we can get much information by going through the RFP process, such as keeping the service providers competitive and finding new, more appropriate services. Mr. Sterman suggested doing the RFP for audit services first. At the August meeting, he stated there will be a draft RFP available for Committee review. Mr. Camilleri stated his concern about understanding that the City has the optimum insurance coverage. Mr. Sterman added that from his experience and with conversations with SLATE, etc. he believes the City has good, competitive plans in place now. SLATE is a group of St. Louis area cities that became a self-insured pool. Regardless, he proposes we will do the RFP's for the auditors, then banking, then insurance over the next year.

### **Other Matters:**

No other matters were discussed.

**Adjournment:**

Member Sawicki made a motion to adjourn the meeting. Member Fitzgerald seconded the motion and it passed unanimously. Meeting adjourned at 6:56 p.m.

Recording Secretary – Dede Hendricks