

**PUEBLO CITY-COUNTY LIBRARY DISTRICT BOARD OF TRUSTEES**  
**AUDIT COMMITTEE MEETING**  
**July 18, 2017**

**I. CALL TO ORDER**

The Audit Committee meeting was called to order at 2:00 p.m. at the Rawlings Library, Executive Conference Room.

Board Members Present: Philip Mancha, Jim Stuart, Fredrick Quintana

Staff Present: Jon Walker, Executive Director; Sherri Baca, Chief Financial Officer; Jane Carlsen, Board Secretary

Auditors Present: Wendy Swanhorst

**II. DISCUSSION ITEMS**

Ms. Baca distributed the Comprehensive Annual Financial Report (CAFR) and pointed out there had been some formatting changes since it had been sent electronically and is now in final form. Ms. Swanhorst distributed the letter to management from the auditors.

Prior to starting, there was an informal discussion of E-rate funding being listed under miscellaneous revenue rather than grant revenue.

Ms. Swanhorst said the numbers in the CAFR are derived from the library's financial records. The auditors are hired to report whether the numbers are fairly stated. Auditing standards require the auditors to report anything in the internal controls that could allow the misstatement of numbers or fraud. Ms. Swanhorst said the library's internal controls were good, and auditors did not identify any material weaknesses.

Dr. Mancha said his review of the management letter seems to show there were really no concerns. Any misstatements were minor and had been corrected.

**Inventory of Books and Materials:** Ms. Baca said the library actually improved how books and audio visual materials are inventoried. In the past those calculations had been estimated, and this year the finance office used the software for the cataloging system to more accurately reflect the value of the collection. Mr. Stuart asked if there had been a physical inventory. Mr. Walker said there had not, but all new materials received are added to the catalog as the collection is purchased. As new materials are received items are expensed in the fund accounting system maintained by the ILS software. As new items are received, there is a check-in process to create an item record. Once processed, items are moved into the collection where the items move around. Part of the process includes removing an item from the collection when people fail to return the item or the item is withdrawn due to wear and tear or is no longer needed. Mr. Walker explained when a popular item comes out, the library buys several copies to meet the demand, but as interest drops, extra copies are withdrawn and are given to the Friends of the Library book store. Mr. Walker said the system tracks each item's use and when it is deleted from the system. Mr. Stuart said what he is describing sounds like a perpetual inventory.

Mr. Walker and Ms. Baca both provided a detailed description of the testing and spot-checking done to insure the results were accurate using the catalog system. Ms. Baca said the new inventory method resulted in a restatement of the library's inventory at year end 2015—this is noted in the 2016 notes to the financial statements.

Ms. Swanhorst noted that every library has this challenge, and it is more about how the books are valued. Mr. Walker said every item the library buys is paid for and has a value listed on the invoice. Mr. Stuart said it sounds like this would show the actual cost without any internal labor. Ms. Baca referred to page 51 showing "Library Books and Audio Visual Materials"

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restated balance. Ms. Swanhorst said the key will be continuing to use those reports as the source for the valuation.

**Recommendations:** Dr. Mancha noted that the management letter normally includes some kind of suggestion, and he did not see much in the way of suggestions. Ms. Swanhorst said the inventory change was a big deal for this audit. The library depreciates materials over a life of five years, and they recommend continuing to evaluate that time period for accuracy.

Ms. Swanhorst said the internal controls are pretty good. If there is a material error or fraud, there is a good chance that it could be detected. Unless the auditors see a material weakness it will not be in the letter, but they talk to Finance staff about things as they complete the audit.

Ms. Baca said the next goal is to electronically link the Technical Services ILS software with the accounting software to eliminate the duplicative labor. Linking the two would save library staff a lot of time. Currently, staff spend about eight to ten hours a week entering invoices. Linking the two systems requires ensuring that controls are in place that will satisfy accounting standards which need to be met and would reduce error.

**IT Audit:** Ms. Swanhorst said one of the components included in the audit is a review by an IT auditor who found nothing of high risk. There were some recommendations for policies and staff training. The IT policies are publicly posted on the website, and the auditor was not sure that was a good idea. Mr. Walker noted that the IT policies posted online are out of date but will be removed.

**Pension Liability:** The pension liability statement is shown on page 31. Ms. Swanhorst said GASB requires under-funded pension amounts to be reported with liabilities. The liability increased in 2016 and is expected to go up again; however, the library is in the best funded of PERA's pension plans. School districts and state plans are much worse in terms of funding. PERA put out their CAFR for 2016 and the big change is they dropped expected earnings from 7.5% to 7.25%. There is question about how realistic the 7.5% is. Recently the earnings expectation was lowered to 7.25%. There was additional discussion about the unfunded portion of the pension plan. Ms. Swanhorst indicated PERA is a pretty mature plan with a lot of retirees, and a recent study indicated that 2.2% of people paying into the plan are nearing retirement. There are not enough young people coming up who will be able to fund ongoing pension payouts. Mr. Stuart stated that this is outside the control of the library district. Mr. Stuart asked if the library should be laying money aside in the event it has to cover this unfunded liability at some point. Ms. Swanhorst stated that the PERA plan will likely always exist, and hopefully PERA's prediction of becoming fully funded in 28-30 years will be realized.

Mr. Quintana asked about the recent PERA error found in the library district's payroll system. (The library district has not applied PERA withholding to PERA 401(k) contributions from 10/1/13 to 6/1/17.) He asked if the error could have been caught sooner and how things like this could be caught going forward. PERA changes the rules from time to time, and Ms. Swanhorst added PERA does not always do a good job of communicating changes. Ms. Swanhorst was not aware of the requirement to include 401(k) contributions in PERA includable salary. Ms. Swanhorst noted that people do a number of things with PERA, for example a teacher decided to change her health care deduction to post-tax to avoid reducing her taxable income prior to retirement. Ms. Swanhorst said it is difficult to understand if this kind of thing is allowed or not.

Ms. Baca said the library is subject to a PERA audit at any time. She is working with PERA to validate the information, and the library will make a PERA contribution for amounts owed as a result of the error. There was additional discussion of how to know when PERA changes its policies. Mr. Walker suggested it might be a good idea to have someone from PERA address the Board of Trustees to allow them to ask questions. Mr. Walker stated that he and

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Ms. Baca explored PERA participation and discovered that it requires a vote of all employees and potentially a buyout of the allocated unfunded liability to exit from PERA.

Mr. Walker said periodically during Staff Development Day, PERA will come to address staff and answer questions about the pension plan, 401(k) or other benefits. PERA also has a regular series of sessions in town available to members. From a customer's perspective, they offer regular communication with their members. Ms. Baca added that PERA provides good support for employers as well but not much training.

Ms. Swanhorst anticipates that GASB will soon also require accounting PERA's post-retirement benefits, but that change will not be as dramatic.

**Direct and Overlapping Governmental Activities Debt:** Ms. Baca called the committee's attention to page 92 which is a new schedule. Ms. Baca said when GASB issues the budget award, they also make suggestions, and adding this schedule is one of those. This schedule shows the direct and overlapping governmental activities debt within the library district's boundaries. In order to create this schedule, Ms. Baca had to reach out to each of the governmental agencies that overlap with the library district and request their debt information. This provides interesting new facts included in the CAFR.

**III. ADJOURNMENT** The meeting adjourned at approximately 2:50 p.m. The Work Session was scheduled to begin at 3:00 p.m. in the Ryals Room.

Respectfully submitted,

Jane Carlsen/  
Secretary