

**PUEBLO CITY-COUNTY LIBRARY DISTRICT BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING**

March 21, 2011

I. CALL TO ORDER

Ms. Baca called the meeting to order shortly at 5:05 p.m.

Board Members Present: Sherri Baca, Committee Chair; Roy Miltner; Marlene Bregar

Staff Present: Chris Brogan, Chief Financial Officer; Jane Carlsen; Executive Assistant/Board Secretary

Others Present: Wendy Swanhorst; Demitri Choernya; Austin Bump from Swanhorst & Company, LLC

II. DISCUSSION ITEMS

Ms. Swanhorst said the auditors went through this last year to let members of the Audit Committee understand what they do. The auditors were here for the interim audit in January, and the auditors usually look at internal controls and test them and give Ms. Brogan a chance to finalize the financial statements. The auditors will be here for about four days to start testing the numbers, reviewing capital assets, payrolls, etc. Ms. Brogan puts the financial statements together, and the auditors review the report.

Ms. Swanhorst said for the first time the library got the financial reporting award which is a huge accomplishment. Ms. Baca asked if it will be easier for the auditors to review with this report. Ms. Swanhorst said it would, and she provided a list of recommendations that is about as small a list as she has ever seen; many times there are pages and pages of recommendations. Ms. Swanhorst reiterated that Ms. Brogan did a great job on the report. Mr. Bump said it was no small feat to bring together the past ten years of data.

Mr. Miltner asked for further explanation of the recommendation on property tax collections. Ms. Brogan said that refers to the delinquent taxes, and they want you to show what year the taxes were delinquent, but the County does not provide that kind of information. *(Ms. Bregar arrived at this point.)*

Ms. Swanhorst said the final part of the audit started today. Ms. Swanhorst again recognized Ms. Brogan for receiving the award which was quite a feat, and they give a few comments, but it was a very short list. Ms. Brogan said her goal is to have none, but she was not sure that is possible. Ms. Swanhorst said it looked like they were grasping at straws with the recommendation to give a fund a different name because if that is what it is called, that is how it must be reported. Ms. Bregar said the Board may want to see if there is another name that can be assigned to that fund.

Ms. Swanhorst said there is a new accounting standard that will take effect next year which the library will have to adopt for 2011. They will not allow you to have special revenue funds unless there is a restricted revenue source, and the requirement is because they do not want governments to hide money.

In the Fund Balance section, if you have restricted money (e.g., building) that could show up in the report, and which has not been reported. You can set money aside, and the next day it could be changed. The reason for this is that it looks like there is unrestricted money laying around. Whatever you commit to doing with the money has to be done before the end of the year.

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Mr. Miltner asked how it would show that. Ms. Swanhorst said there is a big number, and even though you may commit that it was not shown on the report. Ms. Brogan said she needs to look at the Library Replacement Fund to address the issue. Ms. Brogan also pointed out that the Library Board now has a Fund Balance policy, and Ms. Swanhorst said the auditors will need to disclose that in the footnotes. Mr. Bump added that there should also be a priority order for spending that money included in the footnotes.

Ms. Brogan said that it gets complicated, and Mr. Bump said it will be straightforward. Ms. Brogan assured the Board that the auditors will let her know what the library needs to do.

Ms. Swanhorst also talked about the IT audit, and last year there had been some recommendations, and the auditors may be doing a follow-up on that. It was noted that the library has had some turnover so there may be some other things to work out. Ms. Brogan said she had sent the audit survey to IT, and it was a little daunting. Ms. Brogan said her part is a little bit easier. Ms. Swanhorst noted that the IT audit keys on security such as backups, etc. Ms. Baca asked if the IT auditor would point out design issues. Ms. Swanhorst responded that the library would see design issues before the auditor, and Mr. Bump added that he doubts they would be that specific, but she might discover security and access issues rather than design issues.

Ms. Brogan said the new system allows her to drill down to the smallest item which is a great improvement over Fundware.

Ms. Baca said she understands there is a new staff member in Finance. Ms. Brogan said Tracee Reeves is working 20 hours a week, and they are looking for a Purchasing Specialist for 30 hours a week. Ms. Brogan said she will be getting 50 hours a week to replace Darla Diaz who was at the M Step, and job duties have been redone to make the positions more up to speed. Ms. Brogan said there is also an intern, and she expects to be able to tackle some issues such as internal controls with the increased staffing. When they lost a staff member they were back in survival mode.

Ms. Bregar asked how the accounting records are backed up. Ms. Brogan said every night IT backs up the records for the entire district, and each week Finance takes a backup of the accounting records to the bank. Ms. Brogan said everything Finance processes is printed out, so records could also be recreated if necessary. Ms. Bregar mentioned a recent incident at the school district in which they had to go back and recreate grades for the past six weeks. There was discussion on the importance of having the paper records in addition to the electronic records. Ms. Swanhorst said the important thing is to have backups as well as make sure you can actually recover the data.

Ms. Brogan said Finance may use an old-fashioned method. One of their goals is to develop a disaster recovery plan for the district to include things like outcomes and tests to make sure you have usable data.

Ms. Bregar said this gets her thinking about where it would fit if we go forward with the foundation and we don't contract with someone else, and she would like to understand how that fits in with the audit. Ms. Brogan said her understanding is that it would have to be a component unit. Ms. Swanhorst said materiality is not an issue until it gets big, but it could be included as an additional piece.

Mr. Miltner asked if the foundation would have to be audited separately. Ms. Swanhorst said sometimes foundations are audited separately, and it depends on the size of the foundation. Accounting standards don't define it by a dollar amount. There's no question it belongs in there because they are so closely tied. Ms. Baca noted that the hope would be for the foundation to become larger. Ms. Swanhorst said if they have separate accounting records, it is like doing two audits anyway, depending on how it is set up.

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Ms. Swanhorst said she did not have anything else significant to add, and they had a good start today. Mr. Bump said that Ms. Brogan is always ready, and she needs to get credit for all the work she does to prepare. His experience is that many organizations are not as prepared as she is.

Mr. Miltner said he was not sure what the Audit Committee was going to do, because at the aircraft museum he actually had to take a statement and go through the receipts.

Mr. Bump said the auditors surprised Ms. Brogan with a list of items they want to look at, and everything is documented.

Mr. Miltner asked how many years they had been doing the library's audit, and Ms. Swanhorst responded that this is their third year. Ms. Baca said the previous auditor had been there for years and had actually prepared the financial statement. Ms. Swanhorst said there was a day when auditors did that, but the organization still has to take responsibility for it. Ms. Baca said for our size, this is a better way, and the library has made leaps and bounds from where it used to be.

Ms. Brogan said when you are doing this, especially with the software conversion, this is a higher level of perspective. Ms. Baca said she was glad it was going smoothly. The auditors will be back to present the audit at the June Board Meeting. Ms. Brogan said the Colorado State deadline is July 31, but June 30 for the Board.

Ms. Baca asked if Ms. Brogan can submit for that award every year, and we can. Ms. Brogan said if some of the recommendations are not corrected, there will be a comment explaining why or why not. Mr. Bump noted that they are all pretty easy fixes.

Ms. Swanhorst said if there is anything the Board specifically wants the auditors to look at they can do that too. Ms. Brogan said working with Swanhorst is a partnership, and there is not a feeling that they are trying to "get you." Ms. Swanhorst agreed that things are in good shape.

III. ADJOURNMENT There being no further discussion, the Board Audit Committee adjourned at 5:30 p.m.

Respectfully submitted,

Jane Carlsen
Secretary