

PUEBLO CITY-COUNTY LIBRARY DISTRICT BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING
March 26, 2013

I. CALL TO ORDER

The Audit Committee meeting was called to order at 3:00 p.m. at the Rawlings Library.

Board Members Present: Marlene Bregar, Committee Chair; Philip Mancha, Roy Miltner

Staff Present: Jon Walker, Executive Director; Chris Brogan, Chief Financial Officer

Auditors Present: Wendy Swanhorst, Austin Bump, Dmitriy Chernyak

II. DISCUSSION ITEMS

Ms. Brogan noted that introductions had been made, and reviewed plans for the auditors who will be here most of the week before turning the discussion over to Ms. Swanhorst.

Ms. Swanhorst added there is an IT consultant who has been out to talk with Ms. Brogan and spent some additional time looking at the new systems.

Mr. Bump provided a recap of the audit process which actually begins in December with some interim work and testing transactions. This takes place early on, so when the auditors come back, they can get through the audit faster. Mr. Bump also credited Ms. Brogan with being prepared which makes the audit more efficient.

Mr. Bump noted that refunding the COPs is a new aspect for the library, although it is not really an audit challenge, it does require some different activity. The Foundation also kicked up in 2012, but for the most part things are smooth with business as usual. There were some recommendations about IT that were discussed and followed up on, but there have been no snags. The auditors are in the middle of the audit process, and the ultimate goal is to get everything done and to finish up the financial product.

Dr. Mancha asked how the auditors go about evaluating the Foundation. Mr. Bump explained that the Foundation is considered a component unit, and they look at what kind of activity it had, and by the end of 2012 the activity was minimal. In 2013, it may get more activity, so the auditors will continue to watch to determine when it might need to be added as a component unit in the library financial statements. Ms. Swanhorst added that the library is required to follow accounting standards, and the fact that the Foundation exists solely to provide support to the library would be one of the determining factors in recognizing the Foundation as a component unit.

Mr. Miltner asked if Books Again is a stand-alone. Ms. Brogan said the auditors also look at them, and determine whether or not the financial activity justifies recognition as a component unit.

Mr. Miltner asked how the testing is done or whether the auditors just pick a month. Mr. Bump said they may test a range, a random sample, a month, or something that just "sticks out." From the auditor's standpoint, it is important to not disclose exactly what they test. Ms. Swanhorst added that auditors look at the internal controls to make sure one person cannot write a check and mail it out, and the IT consultant looks at the security of the system. Based on how strong those controls are for accounts payable and payroll during the year, and if there are no errors, they can assume the controls are working. If the controls were weak, the auditors would test larger samples. Because the library is doing capital projects, they will also do some samples for that. Mr. Bump said the auditors provide written communication that recaps the process, anything noted and recommendations. Ms. Swanhorst emphasized that controls are set up to detect errors.

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Ms. Swanhorst pointed out that fraud is rarely caught by auditors, but is caught by the controls. The value of the audit is that it will show any weaknesses in the controls.

Mr. Miltner recalled that one of the recommendations made by the auditors last year was about the payment of fines and handling of money, and he pointed out the investment and changes made in the system to improve that. Mr. Bump agreed that the library has been chipping away at the recommendations every year.

Mr. Bump said if the controls are working, it does not matter whether activity goes up or down, and it has been nice to see the library's progress over the last several years.

Ms. Brogan noted that the meeting is the Board's forum to discuss anything they are concerned about.

Dr. Mancha invited the auditors to make any suggestions that may be helpful as they plan for the complexities of adding three new libraries. Ms. Swanhorst said they do that throughout the process, and the IT consultant will also help.

Dr. Mancha commented that the library is doing a lot of things virtually, and he recently attended a library design meeting where someone talked about how long libraries will continue to have books, although it was expected that public libraries will have books longer than the academic libraries.

Mr. Bump said the auditors have a lot of opportunities to dig into the detail, and if they see anything that could become a problem, they will let the Board know. That is the positive side of what auditors do. A lot of the activity will be in the Foundation and the capital project fund. From an accounting standpoint, those are the same kind of things coming in and out, but they will evaluate what the risks might be and may have some recommendations. Mr. Bump said they are not quite at that point yet, but one of the goals of the auditors is to provide constructive recommendations.

Dr. Mancha asked if there is any kind of alert in the software if a drain becomes a big drain. Ms. Swanhorst said that would be Ms. Brogan. Dr. Mancha expressed concerns about the long-term effects of TIF areas and he does not want to be surprised. Ms. Swanhorst responded that property tax revenues are the most stable. Dr. Mancha said he sees TIF encroaching on that, and the library does not have control over TIF and what it does.

Mr. Miltner asked if the auditors evaluate the risk in terms of what the library is borrowing. Ms. Swanhorst said that is not one of the auditor's goals. The auditors will say that the numbers are fairly stated, but what happens with forecasts rests with management. If the auditors see trends, they might bring those up, but the Board should not rely on the auditor for that. Mr. Walker commented that there are regular conversations with the Board about long-range planning and projections, although there can be some unknowns. Mr. Walker agreed that it is easier to plan for property tax revenue than to rely on the whims of sales tax revenues. It is informative to have this discussion to understand the role of the auditor.

Dr. Mancha said he considers that the auditors work for the Board, and he said it is reassuring to have the auditors talk with the Board.

Dr. Mancha asked how the auditors propose to use this committee. Ms. Swanhorst responded that there are not a lot of committees like this, and it is great that this committee meets to discuss the audit.

Ms. Bregar asked about the IT side and whether the three new libraries coming online might change the recommendations. For example, do the additional libraries make the IT systems weaker or does it complicate it, or will it just follow along. Ms. Swanhorst responded that any additional sites are always additional work with more employees with more access to the system, but she added that if the system works, it probably will not make a difference in terms of higher risk. When the library puts in the new system is when

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the auditors take time to look into that area and the system to see if there is good security and recovery.

Ms. Bregar wondered if increasing wireless sites would increase the risk because there will be three other areas where people will have access or if the security is there, it is there for the new systems. Ms. Swanhorst said that is why they have an IT consultant. Ms. Bregar expressed concerns about the credit card readers, and Ms. Brogan explained the library keeps no records of the credit card number or name, and all of that information is maintained through Wells Fargo. Ms. Brogan said in terms of credit cards, she feels confident the controls are in place.

Mr. Bump said they have had discussions with governments about disaster recovery, and with the fires in Colorado Springs it was interesting to see how they responded to that. Those have been hot topics in the last few years.

Ms. Bregar opened the discussion for any other questions and asked about the rest of the time line. Ms. Swanhorst responded that she expects to have the audit work done this week, and then Ms. Brogan works on the CAFR (Comprehensive Annual Finance Report), which the auditors will review and finalize.

Mr. Bump credited Ms. Brogan for the work she does on the CAFR, and Ms. Swanhorst added that most governments do not prepare a full CAFR or the auditors are asked to prepare the CAFR for them, which takes a lot of work. Ms. Brogan added that she appreciates the gentle reminders from Ms. Swanhorst.

Mr. Bump said the Audit Committee is priceless and wished more governments had them in order to get detailed answers. He also appreciates that the Audit Committee meets while the auditors are doing their field work. Ms. Brogan said the Audit Committee will also meet before the audit is presented to the Board which could be in May or June.

Mr. Walker suggested Ms. Brogan talk to the Audit Committee about the RFP (Request for Proposal) process. Ms. Brogan said the library has a five-year term in the audit policy, and best practices are to go back and issue a new RFP every five years. The policy does not require the library to change, but it requires that review.

Ms. Bregar asked when that needs to be done, and Ms. Brogan responded it should be out to bid by summer. Ms. Brogan said there is a GFOA (Government Finance Officers Association) recommended RFP they will use, and she will ask the committee to help with the rating. Most auditors are familiar with the RFP, and Ms. Brogan will provide a rating sheet which will help rate the proposals.

Mr. Walker wanted the Audit Committee to know that there are not only the next steps in the audit but also the selection of the auditor, and that work will begin in the next several weeks to make sure the library has an auditor on board.

After some discussion among Audit Committee members about their availability, it was agreed they should plan to work on the selection process in May. Ms. Brogan will email the RFP to the Audit Committee as soon as she can. Mr. Walker suggested the Audit Committee review the draft 13-page RFP before it goes out. Ms. Brogan reassured the committee that the rating sheet will make it easier to evaluate the responses.

III. ADJOURNMENT There being no further discussion, Ms. Bregar thanked the auditors and adjourned the meeting at approximately 3:40 p.m.

Respectfully submitted,

Jane Carlsen
Secretary