

PUEBLO CITY-COUNTY LIBRARY DISTRICT BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING
June 23, 2015

I. CALL TO ORDER

The Audit Committee meeting was called to order at 4:35 p.m. at the Pueblo West Library.

Board Members Present: Jim Stuart; Philip Mancha

Absent: Marlene Bregar, Chair; Roy Miltner

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

Auditors Present: Wendy Swanhorst

II. DISCUSSION ITEMS

Ms. Brogan distributed the Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2014 together with the management letter from Swanhorst & Company, LLC.

Mr. Walker invited Ms. Swanhorst to go through the presentation.

Ms. Swanhorst said there were no major issues with the audit, the financial statements were fairly stated, and the recommendations were fairly minor.

Ms. Swanhorst understands the system issues that are not accurately depreciating fixed assets, and there was discussion of the FAS (Fixed Asset System). Ms. Brogan discussed plans to provide more intensive training in the system for the accountant and changes made to enter assets in a spreadsheet during the bill-paying process to update the assets inventory quarterly. Mr. Walker added that the FAS database had not been transferred to the new server in IT, and it took a few weeks to get the back-ups moved over to the new server, so the inventory team was scrambling to catch up.

Ms. Brogan said this year it will be particularly important as the library replaces staff PCs, and they will have to pull the tags from the old PCs.

There was discussion whether it was appropriate to consider computers as fixed assets since the current policy considers a fixed asset items with a value of \$1,000 or more, whether computers are valued cumulatively, and the importance of inventorying computers even if not considered as fixed assets in terms of value. Mr. Walker suggested alternatives might be to include computers as part of the cataloging system or using IT software connected to the network to track computers. Mr. Stuart suggested it may be time to rethink that and to implement the change when replacing computers.

Ms. Swanhorst said the IT auditor looked at the system to identify risk, and recommended a security audit because of system changes such as the addition of mobile devices. The IT auditor recognizes the library has a lean IT department, and it will have a lot of work to do.

Mr. Walker said they studied the IT audit, and they are looking at four or five things that were pointed out. One of the recommendations was to test the back-up as well as restore capabilities. Mr. Walker explained that after an earlier security audit, changes were made to back-up the system off-site to the Pueblo West Library. The restore capability has only been tested as needed; however, there had not been a systematic testing of the entire system sequentially.

Mr. Walker discussed the need for another study of network security since it has been over five years since the last one. This involves all systems and having a security plan. Wireless presents a different set of security issues, particularly in a public computing environment. After providing some specific examples, Mr. Walker said this will be a big project that will be planned for 2016 to make sure good practices are in place to keep systems reliable.

AUDIT COMMITTEE MINUTES

June 23, 2015 — 2

Ms. Swanhorst said another recommendation is for the Board to adopt a budget for the Chamberlain Fund.

Ms. Swanhorst reported that the new GASB (Government Accounting Standards Board) standards require the library to report its share of PERA's unfunded liability in its financial statements. Ms. Swanhorst said the changes will not appear in the budget or the general fund but will be shown as an additional liability in the net position statement. Ms. Swanhorst said they will soon have the 2014 PERA CAFR, and she estimated the library's proportional share will be about \$100,000 per employee which will amount to about \$10 million. The library's equity is now about \$30 million, which will be reduced to about \$20 million as a result of the added PERA liability. Ms. Swanhorst noted that PERA is split into divisions and the proportional share is based on the contributions made in excess of the actuary tables for the division the library is in. Other divisions are only contributing 79% of the contributions recommended by the actuary, but PCCLD is in the local governments division which is funded at greater than 100%. PERA's auditor will provide the total liability and the library's proportional share. That will be based on contributions made and not necessarily the number of employees; however, organizations with more high-dollar employees will have a higher proportional share.

Mr. Stuart asked if the library will ever be called to make payments against that liability. Ms. Swanhorst explained it is PERA's responsibility and GASB decided to make this change to measure underfunded government pension plans. She also explained recent political moves to attempt to shift liability to the state, and the impact of the change on school districts is even greater.

(Dr. Mancha arrived at this point) The committee reviewed some of the earlier discussions for Dr. Mancha.

Mr. Walker said the Board has talked about going ahead to establish a budget for the Chamberlain Fund. There was a discussion whether doing this outside the budget cycle still complies with the statute. Ms. Swanhorst said the Board can approve a supplemental budget, and the statute provides that the budget has to be by fund. Mr. Walker said the Board could adopt a budget resolution at the July Board meeting. There was discussion whether a public hearing would be necessary prior to passing the budget resolution, and Ms. Brogan offered to put a quick notice in the newspaper.

Ms. Swanhorst said the committee had also discussed PERA, and Mr. Walker explained that the library district's unfunded liabilities will go up \$10 million. Ms. Swanhorst said they do not yet have the exact number, and there was additional review of the previous discussion. Ms. Swanhorst said it should not change the budget, but it will show up in the final financial statements as a liability. Mr. Walker explained that if the library were to go get a loan, the library's net position will be lower. Ms. Swanhorst said rating agencies understand this, and have taken that into account, and she does not expect it will change the entities' rating.

There was additional discussion of how this will affect the library's assets. Mr. Stuart noted that some of the assets are encumbered and have collateral. Ms. Swanhorst said it will not be noticed much until the audits start to come out. Ms. Swanhorst said in 2000, the economy was flush, and PERA was diverting funds into employee 401Ks and selling service credits fairly cheap. In 2008, the economy crashed, and with 20/20 hindsight, they might have been in better shape if they had not taken those actions. This was cited as an example of how long-range planning is important.

III. ADJOURNMENT The meeting adjourned at 5:20 p.m.

Respectfully submitted,

Jane Carlsen/
Secretary