

PUEBLO CITY-COUNTY LIBRARY DISTRICT BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING
June 18, 2019

I. CALL TO ORDER

The Audit Committee meeting was called to order at 12:35 p.m. at the Rawlings Library, Executive Conference Room.

Board Members Present: Marlene Bregar, Philip Mancha and Fredrick Quintana

Staff Present: Jon Walker, Executive Director; Sherri Baca, Chief Financial Officer; Gloria Madrill, Recording Secretary

Auditors Present: Allison Slife, Clifton Larson Allen LLP

II. DISCUSSION ITEMS

Audit Report: Ms. Baca distributed the 2018 Comprehensive Annual Financial Report (CAFR) and management letter to the Audit Committee of the Board of Trustees from the auditor. Ms. Slife said the management letters tells the Board that the numbers are fairly stated, and audit opinion issued is a “clean”, unmodified opinion.

Ms. Slife began her full review with the Introductory Section noting the section contains an introduction letter and summary from library management.

Ms. Slife then moved on to the Financial Section, referencing page 20. In addition to the library being given an unmodified or “clean opinion,” there is a section of note called Emphasis of Matters with two new items this year.

“Changes in Accounting Principle

Pueblo City-County Library District adopted the provisions of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. As a result of the implementation of GASB Statement No. 75, Pueblo City-County Library District reported a restatement for the change in accounting principle, as described in Note 16. Our opinions are not modified with respect to the restatement.

Correction of an Error

As described in Note 16, the District restated its net position for governmental activities due to a correction of an error for deferred outflows and deferred inflows relating to the net pension liability. Our opinions are not modified with respect to the restatement.”

New accounting standards hit our reports regarding the Health Care Trust Fund. Ms. Bregar asked if it was in addition to the percentage paid by PERA. Ms. Baca answered it was all included. Regarding the correction of an error, the deferred outflows and inflows were accounted for but not correctly and discovered during the audit. The error is in the library’s favor and was under reporting the library’s net position. The restatement from the prior year on PERA responsibility resulted in a positive net change

of \$814,291 resulting in a 4% positive change in total net assets from about 20 to 21 million.

Mr. Quintana asked if there is a way to ensure we are doing the calculations correctly and using the right information. Ms. Baca said there is continuous improvement to the process and a new auditor and fresh set of eyes is an improvement and part of their role. The District looks at RFP's every five years for auditing services and that is a good thing.

Ms. Bregar asked if it has to do with PERA liability not our withholdings. Ms. Baca and Ms. Slife answered yes. It is our portion of the pay out in the future and something we list as a liability. There are two kinds of PERA data, every day and once a year brought to the liability report.

Ms. Slife discussed the Management's Discussion and Analysis section next. This section is a summary of what happened in the year. It is unaudited because "future talk" is included and can't be audited.

She then moved to the next section, Basic Financial Statements. This section is audited. Ms. Slife reviewed each section including the sections with deferred outflows and inflows. She noted 6.7 million total in the Net Pension Liability. Also \$614,452 amount in Net OPEB Liability, which is a new liability. Ms. Slife said there is a year lag due to the timing of PERA's annual report but it should have a positive impact. Also, Net Capital Assets are shown separately since it can't be spent.

Dr. Mancha asked about the funds restricted for the Tabor Amendment and wanted additional information. Ms. Slife said in the 90's this tax policy directed every organization to show a restricted amount of 3% of revenues. Ms. Baca added it was meant to be a reserve. We have de-Bruce and it is not required for us to show it but we take a conservative approach and report this restriction.

Ms. Slife continued her review referencing page 32. The Statement of Activities is shown in an income statement format. The format of this report shows expenses first. Since library district exists to provide services, they show activities with the expenses first. GASB practices dictate how and what layout is best. Ms. Baca noted the pension liabilities are included in these number and why they may look odd. Ms. Slife also referenced items on a few more pages. Page 33 is a balance sheet and page 35 an income statement. There was a positive change in Fund Balances of \$241,221.

In the Notes to Basic Financial Statements section additional information about the Defined Benefit Pension Plan can be found on page 52 and information about Note 16, referenced in the correction of an error can be found on page 67. The total Employer Contribution Rate to the LGDTF is 12.68%, 1.02% is apportioned to the LGDTF OPEB through actuaries. Ms. Slife also referenced page 54, where the error with Deferred Outflows and Inflows happened. Also, page 55 speaks more on Actuarial Assumptions.

Ms. Slife reminded everyone that there is a one year lag when PERA released the report and it will have an impact on reports next year. Page 58 contains a brief summary of the major changes to plan provisions. Changes were made to overhaul it and get PERA back on track. Mr. Mancha noted the Trustees will want to hear about the PERA changes.

Ms. Slife noted page 59 contains general information about the OPEB Plan, a new addition to the CAFR this year. It also includes more details and health care cost trends. Ms. Slife also referenced page 67 for more details restatement of net position.

Ms. Slife proceeded to the Supplemental Information section of the CAFR noting there are four schedules showing trends over time since first implemented and how contributions have changed over the years. Page 72 and 73 show the OPEB changes. Page 74 is a comparison showing budget to actual schedule. The budget is overall \$352,142 greater than budgeted and we had \$86,077 less than expected from expenses. The general fund got \$438,219 stronger in 2018.

Ms. Baca referenced pages 77 and 78. The biggest change was in Grants and Contributions, due to a reimbursement from Erate and a Rawlings Foundation grant. The District was also budgeted to spend more but ended up spending less than thought in IT mostly due to the turnover in the department. Ms. Baca also noted the Trustees gave \$9,000 to the Pueblo Library Foundation.

Ms. Slife then reviewed the last part of the CAFR, the Statistical section starting with page 79. The Statistical Section is unaudited nonfinancial information showing how things have changed. Page 88 includes information about big property tax payers, page 94 lists Pueblo's largest employers and page 95 contains library stats.

After the review of the CAFR, Ms. Slife proceeded to the Letters of Discussion. The first letter contains a summary of significant audit findings. Also, changes in accounting policy for OPEB, Net Pension & OPEB liability, and Capital Assets (evaluated each year on useful levels). There were no difficulties in the audit and a corrected misstatement for pension. Reporting ended up in CAFR without any adjustments. Mr. Walker asked Ms. Slife how common is it to have adjustments. Ms. Slife said at least half of organizations they visit have them from a material perspective and the District had none. It is rare not to find some errors.

Ms. Slife reported there were no disagreements with management and they are not aware of opinion shopping for different results by the Library. The Management Representation Letter is also included with the letters and states the District is representing ourselves in a good way to the auditors.

The management letter includes findings and best practices. Worst case scenario would be finding a material weakness. There were no material weaknesses. There is also a best practice section. Ms. Slife wanted to call to attention something the District needs to keep an eye on, administration access and segregation of duties. Auditors recommend reviewing controls and super users who have access to everything (i.e. upper level managers such as Executive Director, CFO, and Sr. Accountant). Staff that could override system controls. They did not find issues but it would be best to review who has access and pull back on some of that access. Ms. Baca commented that administrator access can be moved and approvals on who has access to it. There have been some changes to internal controls and Mr. Walker now has override to the system. Auditors recommend reviewing internal controls and administrative access. Ms. Baca added it also protects us as employees in addition to the library.

Dr. Mancha had a question regarding page three of the letter on potential impact of an ASU. Ms. Slife answered that there are changes that are coming up in the next year and just something to be aware of.

Ms. Baca briefly discussed page 49 of the CAFR, a section unique to 2018 regarding depreciation of assets. Capital Assets went through a reclassification. Some assets had not been put in the right category in previous years and the District did a one-time adjustment getting them to the right classification. The reclassification column lists the adjustments. The reclassification creates a much cleaner asset sheet increasing the integrity of our data.

Mr. Walker said in regards to work session agenda, he would propose reporting findings and support accepting the audit report to the broader group. Dr. Mancha agreed and wanted to extend his appreciation to the staff for a clean report. Ms. Baca said thank you. Having a new auditor is a big deal.

Ms. Baca asked Dr. Mancha if he would still like the Audit Committee to interact with the auditor earlier than today as indicated in another discussion. Dr. Mancha said he would be more confident and comfortable in presenting to the board if he had an opportunity to look it over and read it with more time prior to the meeting. Mr. Quintana agreed thinking it would be a good idea as long as it could be done without much inconvenience suggesting an additional meeting midway through the process checking in. Ms. Slife said it gets hectic at year end as they are testing and reviewing procedures. Maybe a conference call later may be a better option.

Mr. Walker commented he would like to send a copy of the report to elected officials with a note saying he is pleased to send the library's financial report and that it was a clean audit with no adjustments.

III. **ADJOURNMENT** The meeting adjourned at approximately 1:45 p.m. The Work Session was scheduled to begin at 2:00 p.m. in the Ryals Room.

Respectfully submitted,

Gloria Madrill
Recording Secretary