1. BET Audit Comm. Meeting Document

Documents:

BET_AUDIT_COMM_MEETING_MINUTES_07-13-06.PDF
The meeting was called to order at 8:02 A.M.

**Review Anticipated Engagement of McGladrey and Pullen as Town’s Independent Auditor**

Mr. Mynarski reported that he had no new information for the Committee. He has had email correspondence with Scott Bassett but has yet to receive a copy of the litigation letter from McGladrey & Pullen’s Law Department. In response to a request for clarification from Mr. Stone, Mr. Mynarski stated that McGladrey and Pullen has no involvement in litigation. Mr. Mynarski reminded the Committee that during the initial interview with McGladrey & Pullen, Mr. Bassett stated that the only litigation that came up within the last few years concerned a divorce proceeding.

McGladrey & Pullen’s initial and formal response to the RFP was that they would comply with the insurance requirement put forth by the Town. This held until approximately three weeks ago, when Joan Sullivan, Director of Purchasing, tried without success, to obtain the final documentation.

Ms. Tarkington shared a recent [April 15, 2006] Wall Street Journal article which described talked about a suit brought against McGladrey & Pullen byin the US Bankruptcy Court in April [14]2006. This as a result of Stratesec (sp?), a company that hired McGladrey & Pullen, had changed auditors in 2001 after McGladrey & Pullen disagreed with the way an acquisition was accounted for in 2004. Stratesec threatened to sue McGladrey & Pullen, which led the accounting firm McGladrey and Pullen to resign. The Bankruptcy Court case Trustee alleging the auditor failed to properly notify markets of misleading statements made by a client.

Initially, M&P communicated that the insurance requirement for a three year contract could be met. It is unclear what changed and why the three year requirement can now not be met.

In response to a request from Ms. Tarkington about his comments and advice, and his recommendation of appropriate action if he were to do an audit of this decision making
process, Mr. Lalli suggested a conservative approach, and perhaps a re-bid in the initial stages.

Mr. Stone pointed out that historically, McGladrey & Pullen has been and continues to be professionally satisfactory when performing the job, and was ranked considerably above the only other firm interviewed. However, they technically have not met all requirements specified in the RFP.

Mr. Himes noted that in the RFP process, no other applicant had the insurance that the Town requested.

After further discussion, the following motion was made by Ms. Tarkington, and seconded by Mr. Himes, carrying 3-0:

“The Audit Committee recommends to the BET that we engage McGladrey and Pullen as per the RFP, with the proviso that if within the 30 day period following a set date approved by the BET, that they have not made the representation required in the RFP, a new RFP will be issued for subsequent years.”

Ms. Tarkington proposed that Mr. Mynarski contact five or six other large firms and explore their involvement in a further RFP process. Mr. Himes seconded and the proposal carried 3-0.

**Review of Payroll Audit**

Mr. Mynarski reported no changes. Mr. Stone reported meeting with the First Selectman to communicate the Audit Committees concerns, and stated that no apparent action has been taken. He stressed that if town policies had been followed, the nature of the findings would be reduced. The structure of the policy is there, but there exists no follow through on adherence to policy.

In response to a question from Ms. Tarkington with regard to electronic/mechanical systems of timekeeping, Mr. Lalli stated that Nathaniel Witherell has the most sophisticated system. The Fire Department utilizes a similar system.

In response to a question from Ms. Tarkington as to if the First Selectman indicated an action plan, Mr. Stone responded that he was pre-empted from asking the First Selectman if an action plan exists, as Mr. Lash, during the meeting they had concerning the subject, indicated that he was not aware of the audit. Mr. Stone described the audit to Mr. Lash, who gave Mr. Stone the impression that action would be taken.

Mr. Himes made the motion, seconded by Ms. Tarkington to propose the following:

The Audit Committee of the BET considers the findings of the Internal Auditor with respect to Payroll Processing to be very significant and considers the addressing of instances in which town departments are not following established
policies to be extremely urgent. The Committee believes that many findings of the Internal Auditor will be addressed simply by adhering to town policies. The Committee requests that the First Selectman in coordination with relevant appointed authorities provide to the BET a specific plan for addressing the findings at the earliest possible time.

The Committee approved the proposal 3-0.

**Update Status of Marina facilities Risk Exposure Report**

Mr. Lalli reported that the walk through of the marinas was very thorough. Mr. Mynarski will ask Mr. DeMeo to communicate the results of the walk through to the Committee members via email.

**Review status of project concerning Record Keeping/Auditing various aspects of town health insurance program**

Mr. Lalli completed his report and will share the results with the Committee at the September meeting.

**Review “Findings Report”**

Mr. Lalli distributed copies of the report to the Committee. At the request of the Committee, he listed open or pending items from previous audit reports. Important issues with regard to the Internal Audit report include the following:

- Travel/Entertainment Expense Report: there is no target date for implementation at this time.
- Internal Audit of medical Files that contain selective vendor reconciliation’s. There are at least 16 medical files that the Town has been paying for and should not have been. Reconciliation of files on a monthly basis would prevent this. Mr. Lalli reconciled the files himself, and found that approximately 1,000 out of 4,700 records were unmatched. In some cases it was a minor administrative issue: mismatched birth dates, misspellings of last name or incorrect middle initial, etc. Sixteen contracts on the vendor file did not have an existing record because the employee was terminated. Premiums have been paid, and so far full credit will be given on twelve of them, with the remaining four still being worked on. Mr. Lalli emphasized to Human Resources that a six or nine month target date for reconciliation of all files would be unacceptable, so a September 30, 2006 target date has been put on that recommendation.
- Audit of automated system that dispenses fuel: Mr. Lalli made the recommendation that department heads should sign off on the reasonable usage of vehicles and approve mileage of the vehicles that their employees are driving. At this time there is no formal sign off process. No target date available as of yet. Mr. Lalli suggested that members of the Audit Committee review old audit reports and if they find any old or open issues that would require attention to alert him.
Mr. Stone said that input from the Committee members in regard to format as well as content of the Internal Audit Report would be helpful.

-Audit of Town Marinas- There is no clear indication of town vs. state jurisdiction of town waters. Some progress is being made by GIS and the Army Corps of Engineers, who have been mapping the marinas. Mr. Lalli believes this issue is moving forward.

-401(K) - Policy has not been finalized.

Consideration of Changes to the Internal Audit Plan

There were no suggested changes.

Review of Minutes from June 15, 2006 Audit Committee Meeting

The Committee will review these minutes at their September meeting.

Review of Minutes from June 22, 2006 Special meeting of the Audit Committee

The minutes were reviewed and upon a motion by Ms. Tarkington, seconded by Mr. Himes, the Committee voted 3-0 to approve the minutes as submitted.

There being no further business, upon a motion by Mr. Himes, seconded by Ms. Tarkington, the Committee voted 3-0 to adjourn at 9:34 A.M.

Respectfully Submitted,

Valerie Zebrowski, Recording Secretary

Robert Stone, Chairman