

BFAC Moderator's Committee (MC) Meeting – Thursday, July 22, 2021
with Audit Committee representatives
Draft Minutes

Present (via Zoom):

Committee Members: David Pollak (Chair), Petra Bignami, Ben Franco, Janet Gelbart, David Kirshner, Mike Toffel; Audit Committee Members: Bernard Greene (Chair, Liaison), Paul Healy, Mariah Nobrega, Alok Somani; Town Staff: Finance Director Jeana Franconi, Comptroller Michael DiPietro; Town Moderator Kate Poverman; Select Board Member John VanScoyoc

Documents referenced:

- Audit Committee Response to BFAC (v3)

The meeting was called to order at 6:35 PM.

Audit Committee Chair Bernard Greene walked the Moderator's Committee (MC) through his memo on Audit Committee discussions and actions relating the BFAC's recommendations, focusing primarily on the Audit Committee's December 9, 2020 meeting (report attached). Following the recommendations of Town Administrator Mel Kleckner and deliberations at the Select Board, the Audit Committee rejected much of what BFAC proposed:

- agreed to issue request for responses (RFRs) for audit services at least every 10 years to test the availability and cost of qualified audit firms and gain fresh thinking on presentation
- did not accept mandatory change in auditors every 10 years
- did not agree to begin the RFR process now given the demands of the pandemic and turnover in staffing; extended the current audit contact for three years
- agreed to review timeline for implementing a change in audit partners
- disagreed that it was the auditors function to monitor internal controls and policies beyond the requirements of OMB Administrative Guidance regulations

New appointees to the Audit Committee who were not in attendance at the December 9 meeting suggested those conclusions should be revisited in light of longstanding concerns with the Public Schools of Brookline's administration of various revolving funds that the auditors never picked up. BFAC's recommendations stemmed from a desire to implement best practice as well as some frustration with the end product and a sense that the audit relationship would benefit from fresh eyes.

MC members who served on BFAC indicated that there is value in an audit scope that includes managerial as well as financial accounting. Current audit best practice also includes a review of potential risks. Auditors sometimes also opine on the availability of sufficient staffing resources to accomplish the appropriate level of internal review.

The meeting adjourned at 7:45 PM

RE: BROOKLINE FISCAL ADVISORY COMMITTEE, RECOMMENDATION NO. 5

Bernard Greene

The BFAC recommendations concerning the Town’s audit firm (the “Auditor”) are found in its Recommendation No. 5 (“R5”). The elements of R5 are found in different sections of the BFAC Final Report, dated January 30, 2020 (the “Report”): (1) the Executive Summary’s explanation under “Improve Our Financial Decision Making” at page 6 (“Explanation”), (2) the Executive Summary’s summary of R5 at page 10 (“Summary”), and (3) the Findings and Detailed Recommendations at page 28 (“Recommendations”). The following are what I have discerned from the above are the discrete recommendations under R5:

- A. Institute a policy of posting a request for responses (“RFR”) for audit services every ten years to obtain “fresh thinking concerning the presentation and communication of the audited financial report as well as monitoring internal adherence to financial controls and policies.”
- B. Using the ten-year RFR to change auditors.
- C. Issue an RFR in time to have a new auditor ready to conduct the next audit (FYE June 2021).
- D. Change the partner managing the audit every five years.
- E. Engage the new auditor for “monitoring internal adherence to financial controls and policies” (Summary).
- F. Engage the new auditor to “conduct a sufficiently inquisitive review of the Town and School’s internal controls” (Summary).
- G. Engage the new auditor to “apply appropriate procedures in testing compliance with key policy [policies?] and credit agency ratios” (Recommendation).

My response, as Chair of the Audit Committee, to the above is presented in the below template:

		Considered (Y/N)	Accepted (Y/N)	Consider by (Qtr)	Implement by (Qtr)
5	Change Auditors (Audit Committee)				
	A	Y	Y (in part) ⁱ	n/a	n/a
	B	Y	N ⁱⁱ	n/a	n/a
	C	N ⁱⁱⁱ	N	n/a	n/a
	D	Y	Y ^{iv}	Tbd	Tbd
	E	Y	N ^v	n/a	n/a
	F	Y	N ^{vi}	n/a	n/a
	G	Y	N ^{vii}	n/a	n/a

ⁱ RFR for Auditor Every Ten Years

[A] The Select Board deliberated on the BFAC Recommendations over three meetings on February 25, March 3, and March 10, 2020. The March 10 meeting was where the Select Board deliberated on R5 and generally accepted it as appropriate to (1) test the availability of competing audit firms and their capability to handle a municipal audit such as Brookline's and (2) to obtain "fresh thinking concerning the presentation and communication of the audited financial report." Note the concerns below with respect to "monitoring internal adherence to financial controls and policies."

ⁱⁱ Auditor Rotation Every Ten Years

[B] The Select Board accepted the comments of the Town Administrator on mandatory change of the auditor at its deliberations on March 10, 2020, which the minutes reported as follows:

MR. Kleckner noted that the town receives robust and objective audits. He expressed a concern on the arbitrary term of changing the firm every ten years, there are some reasons this could be counterproductive, like competition within that arena, causing higher prices. He proposed every ten years executing a formal FPR [RFP] to proceed, but not mandated to change the audit firm. This Board could direct the Audit Advisory committee to review this.

The Audit Committee in its comments at its December 9, 2020, meeting generally concurred with Mr. Kleckner's view.

ⁱⁱⁱ New Auditor in FYE 2021

[C] The Audit Committee at its December 9, 2020, meeting agreed with the Town Administrator that we currently receive robust and objective audits from the Auditor and saw no reason to disrupt the audit process with a new Auditor that would have to become acquainted with the Town's processes and staff, get up to speed in the midst of a continuing COVID pandemic, and incur costs related to the foregoing that would likely make the audit significantly more costly to the Town. The Committee voted to approve an extension of the Auditor's contract for three-years with a two-year option to renew.

^{iv} Rotate Auditor Partner

[D] The Audit Committee may meet before its regular meeting and discuss this recommendation and determine whether and when it would be appropriate to implement it.

^v Financial Controls and Policies

[E] "monitoring internal adherence to financial controls and policies" (Summary).

The Auditor evaluates certain financial controls and policies of the Town, such as the appropriateness of accounting policies used and the presentation of the financial statements. But the overall responsibility to ensure adherence to financial controls and related policies is undertaken by the Comptroller. Evaluation whether the Comptroller is performing these responsibilities adequately would not be the Auditor's job but an undertaking of a separately engaged consultant.

^{vi} Town and School Internal Controls

[F] "conduct a sufficiently inquisitive review of the Town and School's internal controls" (Summary)

It is unclear whether a "sufficiently inquisitive review" of internal controls differs from the examination of internal controls currently a part of the Auditor's engagement. The Auditor performs a review of internal controls related to the financial statements and a Single Audit pursuant to the federal OMB Administrative Guidance regulation.

^{vii} Compliance with Policies and Credit Agency Ratios

[G] “consider requesting the audit firm apply appropriate procedures in testing compliance with key policy [policies?] and credit agency ratios” (Recommendation).

These are non-audit tasks that the Audit Committee does not believe are appropriately included in the scope of services of the Auditor. Powers & Sullivan suggested that these are tasks that can be performed by an independent consultant or the Town’s financial advisor. Such an entity would have to look at the quantitative data collected by the rating agency and use its judgment to determine, looking at the data as a whole and its relative weight, as is the method used by the rating agencies, whether the Town deserves its current triple-A rating or whether there are threats to the rating that the data may suggest are on the horizon. Attached is Moody’s current scorecard for Brookline.