

Town of Kingston, Massachusetts
Minutes of the Audit Committee
MEETING OF: July 16, 2004 at 8:30 AM
Location: Town Hall, Meeting Room 201, Kingston, MA

Attendees:

Audit Committee

Mary Fiore (Chair), Robert Ward, Joan Paquette (Town Accountant, Non-Voting) and Kevin Donovan, (Town Administrator, Non Voting)

Invited Participants

Frank Biron of Melanson Heath & Company (External Town Auditor)

Meeting was called to order at 8:30 AM by Ms. Fiore, Chair person

Elections

Mary Fiore was re-elected as Chair of the Committee. Moved by Ward, (Approved 2-0-0)

Minutes

- Minutes of March 19, 2004 – Moved by Ward, (Approved 2-0-0) – The approved Minutes will be filed with the Town Clerk.

Discussion on Role of Committee in Ad Hoc Audits – Outside of the Annual Audit Process

The Committee received the June 8, 2004 report from Melanson Heath & Company entitled *Analysis of Planning Board Inspection/Surety Accounts*. Mr. Donovan indicated that this report would be reviewed during the August 10, 2004 Board of Selectmen meeting. The Committee will review the report and will prepare a recommendation prior to that meeting.

This prompted a discussion on the Committee's role in special audits that are conducted on matters involving the Town. Since the By-laws restrict the Audit committee to the Annual Audit process, it was determined that the role of the Committee in special audits is advisory. However, the report and recommendations of any special audit should be shared with the Audit Committee so those recommendations/lessons learned can be incorporated into the annual audit process.

Status of Current Audit for Fiscal Year Ended June 30, 2004 with timeframes for completion

Frank Biron of Melanson Heath & Company (External Town Auditor) provided the Committee with an overview of the Audit Cycle. It is broken down into 4 phases.

Phase 1 – Pre-work

This is done prior to the closing of the books for the FY. It involves review and testing of invoices and payroll accounts. This also includes the distribution of requests for information and lists of documents to four financial areas: Town Accountant, Tax Collector, Treasurer and Assessor. This phase is nearly complete.

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Phase 2 – Books for FY Closed

This is scheduled to occur by August 15, 2004. In this phase Melanson Heath & Company will set up and compare their trial balances against the town's accounts investigating the variances.

Phase 3 – Field Work

This phase is broken into 4 distinct areas: Cash Work, Reconciliation Work, Review of the General Fund and the Trust Funds. It was noted that there is a special Cash audit underway at this time. It was also reported that there is a consolidation of the Trust Funds into one financial institution and they will customize the financial reports on the fund activity to allow faster reconciliation and tracking of activity.

SAS 99 – Fraud Detection Requirement

Frank Biron of Melanson Heath & Company (External Town Auditor) advised the Committee of a new requirement that requires the external town auditor to seek out fraudulent activity. This requirement is Statement on Audit Standard 99 (SAS99). SAS 99 requires, as part of planning the audit, that there be a discussion among the audit team members to consider how and where the entity's financial statements might be susceptible to material misstatement due to fraud and to reinforce the importance of adopting an appropriate mindset of professional skepticism. Two types of misstatements are relevant to the auditors' concerns. Misstatements representing fraudulent financial reporting can be caused by intentional manipulation or falsification of the financial statements. This can occur by omission, alteration of documents or misapplications of accounting standards. Secondly, misstatements arising from theft for which the financial statements are not in conformity with accounting standards because assets are overstated and/or liabilities are omitted or understated. Misappropriation is accompanied by false records or circumvention of internal controls

The Committee members and Frank Biron, external auditor, then engaged in a brain storming session where the risks of material misstatements due to fraud were evaluated.

Determination of Departments and Board for Focused Review by the External Town Auditor

As part of this phase the Audit Committee has to direct the external town auditor to the areas selected for focused review. This is part of a regular review cycle that over the course of 3 to 4 years will cover every department, board and committee that controls funds. This year's departments/boards are: The Police Department, Fire Department, Highway Department, Building Department, School System and Board of Health. The first 5 were selected due to the amount of money under their control. The Board of Health was added since they have a relatively new process for sewer connection fees. These areas could be subject to another audit in less than 3 years as other town departments and boards are added into the rotation. Also this does not preclude special audits of departments, boards or committees as conditions warrant.

Phase 4 – Management Report and Financial Statements

The Financial Statements for the Year Ended June 30, 2004 should be delivered by early December. The draft management letter is targeted for review by the Audit Committee by early to mid December with Departmental Responses due after the holidays.

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Other Reports on the current Audit

Joan Paquette advised the Committee of a potential issue that could cause delay in closing the books for FY2003. She is having difficulty reconciling transactions from the Tax Collectors office. This is a recurring issue noted in prior audits. The postings by the Tax Collector's office are either being posted incorrectly (i.e. wrong time frame, lacking documentation). The cause of the issue is not clear but it could be a lack of understanding of the operation of the MUNIS system or some other training issue in the Collector's Office. It was suggested that Ms. Paquette document her concerns to the Town Administrator with a copy of the memorandum going to the Audit Committee and the Tax Collector. Melanson Heath & Company will provide the town with a list of firms who offer training for these types of issues. Ms Paquette will also contact other towns in the area to see if they have a similar issue.

Ms Paquette also reported that the MUNIS System will be undergoing a major upgrade later this summer. She will insure that electronic back up of the town's data are delivered to her by MUNIS prior to the upgrade and at the end of each Fiscal Year for off site storage.

Open Forum

Town Treasurer John LeBranche asked the Committee for recommendations for people to be placed on the Audit Committee. This open position is appointed by the Finance Committee.

Next Meeting

The next meeting will be held on August 10, 2004 at 7:15 PM at Town Hall.

The meeting adjourned at 10:30 AM (Vote 2-0-0).

Respectfully submitted,
Robert J. Ward

rjw