

**TO:** Executive Committee  
**FROM:** Margaret Bernier  
 Via: Tom Nies, Executive Director  
**SUBJECT: Audit**

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Presented below is a summary of the 2016 audit results.

### **Change of auditors**

Following Riley & Associates decision to no longer perform governmental audits, the Council engaged the firm of Fritz Deguglielmo LLC of Newburyport to complete the audit and all regulatory filings for 2016. The firm is highly qualified.

### **Audit Results**

1. The Council received an Unqualified Opinion; Additionally, no reportable conditions regarding internal controls or transactions were identified.
2. The Council's required Federal Clearinghouse was filed on time and accepted by the Clearinghouse.
3. IRS Form 990 and Massachusetts Form PC filings will both be completed before 11/15/2017 deadline.

### **Management Commentary letter highlighted two items:**

1. Need to align the Council's SOPPs to the Employee Handbook with respect to Sick Leave Payouts for terminally ill employees.
  - a. Working with Grants Officer to identify a streamlined approach to obtain regional office sign off on this correction.
2. Auditors concurrence with the Council's decision to not fully fund the Sick Leave Account
  - a. Funds can only be withdrawn for Sick Leave Payout at Retirement or terminal illness (1991 Memo).
  - b. While not fully funded, the Council has funded 88% of the total potential liability, which is more than likely to be sufficient funding.
  - c. Council is engaging the Regional Office in a proactive discussion of how funds could be re-budgeted in future years if significantly over funded due to retirements with capped payouts.

### **Other: Change of basis in accounting from "accrual" to "cash" basis**

Council's prior auditors inconsistently represented the Council's basis of accounting in both financial statements and IRS Form 990s in prior years. New auditors provided an opportunity to address this issue. Reasons supporting the change include:

1. Internally, the cash basis accounting has been followed for monthly reporting, with the additional ability to report based upon individual budget years for the 5-year award.

2. Council has always followed the cash basis for Grant Award reporting via SF 425 forms
3. Complexity of accrual basis accounting does not provide any additional value to Council operations due to single source of revenues and not for profit status
4. There is no requirement that Single Audits or the audit in general, be done on the GAAP basis. Instead, the Council can follow an "Other Comprehensive Basis of Accounting" (OCBOA), so long as it is consistently applied and clearly disclosed.
5. Review of 7 other councils' financial reports revealed a variety of approaches: 5 of 7 report as non-profits, 1 is cash basis, 3 accrual basis and the other 3 are unclear.

### **Questions and Follow-up**