

# AUDIT COMMITTEE MINUTES

January 25, 2022 – 10:00 a.m. PUBLIC MEETING

CITY OF PORTSMOUTH, NH – City Hall – 1 Junkins Avenue

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The Audit Committee (AC) held the January 25, 2022 meeting in Conference Room A.

AC Members present: Chair Christopher M. White, Councilors John Tabor and Kate Cook, Secretary Harry (Hawk) Furman and Jesse Lynch.

City management representative: Deputy Attorney Suzanne Woodland

Public participation: Petra Huda, former Audit Committee Chair, spoke during the public-comment session at the end of the meeting.

## **Call to Order**

Chair White called the meeting to order at 10:00 a.m.

Chair White took roll call. Councilors Tabor and Cook, Mr. Furman and Mr. Lynch indicated that they are present. Attorney Woodland indicated she was present.

## **Approval of December 30, 2021 Minutes**

The minutes for the December 30, 2021 meeting were approved, 3 in favor with Councilors Tabor and Cook abstaining.

## **Welcome of Councilors Tabor and Cook**

Councilor Tabor introduced himself and said he wanted to initiate a discussion of the Audit Committee Charter that was unanimously adopted by the Audit Committee on December 15, 2021. He stated that the Charter adopts broad powers that do not reside in Ordinance 1.414. Further, the Ordinance states that the primary duty of the Audit Committee is to recommend the auditor. Councilor Cook introduced herself by saying she has a background in finance and audits. She shares Councilor Tabor's concerns as she compares the Audit Committee Charter with the Ordinance. She also expressed concern about the Audit Committee reporting to the State since the City Council did not give the Audit Committee authority to report to the State. Chair White suggested that the Committee discuss these topics under "Other Business" at the end of the meeting. At the request of Councilor Tabor, Attorney Woodland will draft an opinion of the Audit Committee Charter for the Audit Committee's review. Attorney Woodland did say that the Audit Committee had good ideas and suggestions for the drafting of the RFP for the new auditor and she adopted several of them. Councilor Tabor commented that there was a tension in the interpretations of the Ordinance, which is perhaps expected in this second year of the Audit Committee's operation.

## **Purchasing Manual Matter**

Concern was expressed that the appointment of Melanson Heath to conduct the nonattest services in preparation for the FY2022 audit violated the existing Purchasing Manual as well as Federal guidelines for acquiring services costing more than \$10,000. Attorney Woodland stated that professional services are not required to go out for an RFP. She gave as an example engineering and legal services where the City doesn't hire a new counsel each year and the work is not sent out to bid. If it is a new project, then it might be done. But Melanson has done this for years. She did not cite where in the City or Federal regulations where these exceptions are stated or what processes do exist, if at all, for retaining professional services.

From later in the meeting, Chair White expressed the opinion that the Purchasing Manual needs to be updated. It should incorporate Attorney Woodland's read of the document if that is correct and appropriate. It should also incorporate Federal guidelines since the City receives significant Federal grant dollars. And it needs to recognize new ways of acquiring technology, for example, by subscription.

### **Proposed Work Session Material for City Council**

Chair White then referenced the Audit Committee draft material for upcoming work sessions with City Council. It is anticipated that there will be a Non-Public Session to introduce to City Council the auditor selected by the Audit Committee. As part of that session, the Audit Committee plans to cover the points in the January 20, 2022 Memorandum on audits, audit committees and the definition of an independent audit. The City states that it presently conducts an independent audit and is thus in compliance with the City Charter requirements. The Audit Committee has taken the position that as long as the auditor conducts the audit under the supervision and control of management, it is not independent.

### **Pension Funding Status**

Chair White met with Mayor McEachern on January 21. In that meeting, the Mayor expressed a strong interest in the Audit Committee's initial analysis of the City's potential liability exposure regarding its underfunded pensions; the Audit Committee's ability to help the City better understand the potential liabilities associated with the City's litigation and consent decrees, especially dealing with the Coakley Landfill exposure; and cybersecurity and the need for upgrades to technology. Chair White stated to the Mayor that the private citizen members of the Audit Committee were ready to assist regarding these off-balance sheet liability exposures.

As to the pension fund exposure, Chair White presented his memo to the Committee that described the New Hampshire Retirement System's (NHRS) approach of having the same projected investment return number as it uses for the discount rate for future obligations. The current pension funds are only 64% funded. Using an elevated discount rate understates the future stream of liabilities, making the underfunding even greater a problem than the numbers from NHRS suggest. This is concerning for the City's employees and retirees and for the City taxpayers. Councilors Tabor and Cook asked that the memo be presented to the City Council's Legislative Subcommittee. Councilor Cook expressed an understanding of the potential financial impact on the City's financials from the underfunded pension liabilities.

Even though the Audit Committee was trying to be responsive to the Mayor's interest and his request for our help, Attorney Woodland pushed back on the Audit Committee's involvement in these three areas. In the January 21<sup>st</sup> meeting, the Mayor had pointed out to Chair White that the City Council does not have the expertise the Audit Committee has and he had hoped the Audit Committee could contribute in these ways. Attorney Woodland seemed less receptive and said she would welcome our support for the expenditures as proposed by the City during the current FY2023 budget process.

### **Review of Proposals from the 12/16/21 RFP for Auditors**

Chair White asked the Committee to please familiarize itself with the RFP and specifically pages 11 through 16. It was agreed that our first meeting will be on February 8 from 1:00 to 3:00 p.m. City staff will prepare checklists and send these with the proposals to the Committee members on February 4<sup>th</sup> for our review prior to the meeting. If we want to hold telephone interviews with the proposers, we should attempt to do so with City Council participation. Our goal should be to have final recommendations to the City Council prior to the March 7, 2022 City Council meeting. This will give the City the time necessary to negotiate a contract with the new auditor.

### **Other Business**

Councilors Tabor and Cook felt that the several discussions embodied throughout the meeting and captured in the comments above were sufficient. They felt no need for further conversations about their initial points of concern at this time.

### **Public Comments**

Petra Huda (280 South Street) spoke. She said the original intent in establishing the Audit Committee was to bring the City Council in compliance with the City Charter. As long as the auditor reports first and directly to City management, the auditor's work will not be fully independent. Problems will be dealt with by City management and the City Council will likely not know about them.

### **Adjournment**

Mr. Lynch moved for adjournment. Mr. Furman seconded. The Committee voted to adjourn at 11:47 a.m.

The next Audit Committee meeting is scheduled for February 8, 2022 at 1:00 p.m.

Date approved: 2-8-2022

Minutes Respectfully Submitted by

Christopher White, Chair