

AUDIT/FINANCE COMMITTEE
September 27, 2016

After determining that a quorum is present, the Audit/Finance Committee of the City of Denton, Texas, met in a regular meeting on September 27, 2016, at 10:01 a.m., in the City Hall Conference Room, at City Hall, 215 E. McKinney Street, Denton, Texas at which the following items were considered:

PRESENT: Committee Chair, Joey Hawkins; Mayor, Chris Watts;
Council Member, Sara Bagheri

STAFF PRESENT: Jon Fortune, Assistant City Manager; Chuck Springer, Director of Finance; Antonio Puente, Assistant Director of Finance; Harvey Jarvis, Controller; Caroline Finley, Treasury Administrator; Cody Wood, Assistant Controller; and Kristy Odom, Recording Secretary.

OTHERS PRESENT: Nicole Bradshaw and John Manning with Patillo, Brown, & Hill L.L.P.

The following items were considered:

OPEN MEETING:

1. Consider approval of Audit/Finance Committee Minutes of July 18, 2016.

Council Member Sara Bagheri made a motion to approve the minutes. Mayor, Chris Watts seconded the motion. Motion carried unanimously.

2. Receive a report, hold a discussion, and give staff direction regarding the FY 2015-16 external financial audit to be conducted by Patillo, Brown & Hill L.L.P.

Chuck Springer, Director of Finance, introduces the auditors with Patillo, Brown & Hill. John Manning, Audit Partner, reviews items that Patillo, Brown & Hill will be going over as auditors. The reviews include internal control evaluations, IT specialist will review all the different systems, and test of controls. They will also review City policies and verify the policies are actually being followed on paper.

Nicole Bradshaw, Audit Manager, explains that during the initial assessment they will review the internal control evaluations such as; animal services, building inspections, purchasing, and risk management. And the test of controls; such as cash disbursement, procurement cards, payroll, and utility billing. They will also be looking at how the software is used within The City as well to see how everything overall relates, includes system controls and password protection. Sara Bagheri, council member, questioned if the capital projects through Bond Issuances were audited as well. Manning responded explaining yes as it is part of Capital Asset Testing.

Joey Hawkins, Committee Chair, questioned if it was standard for cities to have so many IT systems as The City of Denton uses. Manning responded that yes it is normal.

3. Receive a report, hold a discussion, and give staff direction regarding revisions to the City of Denton's Investment Policy.

Tony Puente, Assistant Director of Finance, explained that per state law The City of Denton is required to annually review the City's Investment Policy with the City Council. Recommended changes to the policy includes separating between local government investment pools that only hold government securities and those pools that have some additional risk securities, such as commercial paper. In addition we are recommending to increase the commercial paper exposure from 5% to 15% of the portfolio. By increasing the commercial paper investment level the City can capture additional yield for the portfolio, without having any additional risks. The revised policy would limit the portfolios individual CP exposure to no more than 5% of overall portfolio.

Hawkins questioned what commercial paper is and why such a small change in the percentage. Puente explained commercial paper is short term corporate or governmental debt obligation, which is a way for entities to get short term financing. Types of entities are restricted to those rated to A1/ P1 and higher and the City's list of authorized issuers is further restricted by the City's financial advisor. Sara Bagheri, Council Member questioned when CP is purchased is there any prohibition on investing on a company that the City works with. Puente, explained the entities issuing the CP are usually the financing arm of these entities but it is restricted to 5%, once we reach that level, we have to invest in another issuer.

Committee Chair, Joey Hawkins made a motion to recommend taking the Investment Policy to City Council for full approval. Council member, Sara Bagheri seconded the motion. Motion carried unanimously.

4. Receive a report, hold a discussion, and give staff direction regarding revisions to the City of Denton's Debt Service Management Policy.

Puente states that back in 2010 the decision was made to bring the debt policy to City Council annually, which is the purpose of today's discussion. The debt report is produced annually, that it differentiates between different types of City debt. In addition house bill 1378 which passed in 2015 requires additional information to be disclosed. The City is required to make the debt report compliant to the requirements of the house bill within 210 days after end of this fiscal year. The proposed policy has been reviewed by financial advisors and the City's Bond Counsel.

Committee Chair, Joey Hawkins made a motion to recommend to taking the Debt Service Management Policy to City Council for full approval. Council member, Sara Bagheri seconded the motion. Motion carried unanimously.

5. Receive a report, hold a discussion, and give staff direction regarding the City's contract for financial advisory, arbitrage rebate and continuing disclosure services.

Puente explained that the city is currently in 4th year of the contract with First Southwest Company for financial advisory services. The contract is expiring in February of 2017. Staff is recommending a five year renewal of contract with First Southwest, which include a decrease in fees for large bond sales, which could reduce fees by about \$42,000 for the upcoming revenue bond sale. This will reduce fees in current contract as well.

Mayor Chris Watts, asked if the reduction in the fees for this current contract a condition of accepting the new contract.

Council member Sara Bagheri, asked if there is an annual service fee as well.

Puente, explains there is not annual service fee their fees are contingent of us selling the bonds, and that the will reduce the fees of current contract is not a condition of accepting the new contract.

Mayor, Chris Watts made a motion to recommend taking to the City Council for full approval. He suggested that a short work session on contract lengths may be necessary. Council member, Sara Bagheri seconded the motion. Motion carried unanimously.

6. Receive a report, hold a discussion, and give staff direction regarding the City's contract for bond counsel services.

Puente explains currently in the 4th year of the contract with McCall Parkhurst. Contract is expiring in March 2017. Recommending a five year renewal of contract with McCall Parkhurst. Under the new proposed contract the discount has been memorialized to \$0.5¢ for any issuance over \$60 million. Fees are contingent of us selling the bonds.

Mayor, Chris Watts made a motion to recommend taking this contract to City Council for full approval. He suggested that a short work session on contract lengths may be necessary. Council member, Sara Bagheri seconded the motion. Motion carried unanimously.

7. Concluding items

Council member Sara Bagheri, asked what the policy for a departing employee using all of the remainder of their sick and vacation. She would like to look into the use or lose it policy.

Director of Finance, Chuck Springer mentioned an informal report will go out to the City Council, regarding sick and vacation time, so they will have all of the requested information.

8. Under Section 551.042 of the Texas Open Meeting Act, respond to inquiries from the Audit/Finance Committee or the public with specific factual information or recitation of policy, or accept a proposal to place the matter on the agenda for an upcoming meeting

AND

Under Section 551.0415 of the Texas Open Meetings Act, provide reports about items of community interest regarding which no action will be taken, to include: expressions of thanks congratulations or condolence; information regarding holiday schedules; an honorary or salutary recognition of a public official, public employee, or other citizen; a reminder about an upcoming event organized or sponsored by the governing body; information regarding a social, ceremonial, or community event organized or sponsored by an entity other than the governing body that was attended or is scheduled to be attended by

a member of the governing body or an official or employee of the municipality; or an announcement involving an imminent threat to the public health and safety of people in the municipality that has arisen after the posting of the agenda.

With no additional business to be addressed, the Committee adjourned at 10:58 a.m.



JOEY HAWKINS
COMMITTEE CHAIR
CITY OF DENTON, TEXAS



KRISTY ODOM
RECORDING SECRETARY
CITY OF DENTON, TEXAS