**City of McMinnville**
**City Council Audit Committee**
**Meeting Minutes**

**Date:** January 6, 2010, 3:00 p.m.

**Audit Committee:** Kellie Menke, City Councilor
Scott Hill, City Councilor
Travis Parker, Budget Committee member
**Auditor:** Rob Moody, Talbot, Korvola & Warwick, LLP
Kristi Russo, Talbot, Korvola & Warwick, LLP
**Staff:** Kent Taylor, City Manager
Marcia Baragary, Finance Director
Laurie LeCours, Technical Services Accountant
Julie Orth, Accountant
**Handouts:** City of McMinnville Comprehensive Annual Financial Report, Year Ended June 30, 2009
City of McMinnville Report to the Honorable Mayor and City Council
City of McMinnville, Letter of Recommendations Year Ended June 30, 2009, Management's Response

**June 30, 2009 Audit and CAFR**

Rob pointed out the City and TKW staff teams worked well together. Rob said that although there are no major issues regarding the audit, a debriefing is planned for Rob, Kristi, Marcia and Laurie.

Rob presented the Comprehensive Annual Financial Report (CAFR) and indicated that a "clean" opinion was given with no major issues. Rob explained that "clean" indicated the financials are presented fairly.

Rob complemented Marcia on the well-written Management Discussion and Analysis, completely revised from previous years, with explanations as to why changes occurred.

Rob explained the biggest change from last year was the implementation of GASB 45 reporting Other Post-Employment Benefits (OPEB). The City's OPEB amounts are relatively small compared with Water & Light, who chose to amortize OPEB over 1 year, leading to a significant change from last year. The implementation of OPEB did not change the structure of the CAFR from prior years.

Rob reviewed the compliance section.

- A "clean" opinion was given on internal control based on *Government Auditing Standards*.
- A single audit was required this year for major federal programs based on OMB Circular A-133. There were no material non-compliance, however, an instance of non-compliance was reported and two deficiencies in internal control; all related to the Airport Improvement grant.

Scott asked if monetary penalties are possible with these deficiencies. Rob replied that if not corrected, potentially. Scott also asked if deficiencies will have future repercussions. Rob again replied that potentially, as they will show up as prior year findings, but if corrected, they

likely will not. Travis asked how often the City receives federal funds. Laurie replied that every year the city receives some funds but not always enough to require a Single Audit; examples of significant funds received in the past are the Virginia Garcia Health Center and Juliette's House. Travis asked if the same requirements applied for each federal grant and Rob explained that it depends, each grant has a specific federal number with specific requirements. Scott asked if FEMA would be considered a federal program and Rob replied that it would. Travis indicated the deficiencies do not seem to be significant and Rob replied that the deficiencies are technical items but that that they need to be addressed and corrected. Kent pointed out that for Finding 09-01 the City did review the state's list of suspended or debarred entities, although it had not reviewed the federal excluded parties list system.

**Report to the Honorable Mayor and City Council (SAS 114 letter)**
Kristi presented the report and explained the contents.

Required Communications

- Kristi indicated these were consistent with last year with the exception of OPEB.
- Kristi reviewed the new policies, GASB 45 OPEB, which Rob previously discussed and GASB 49 Environmental Remediation, where items were reviewed but they had no material impact to the financial statements.
- Kristi mentioned that there were findings but nothing material during the surprise cash counts reported in the section on significant issues discussed with management. Marcia commented it was an opportunity for improvement, to comment on the processes, and to ensure controls are in place. Marcia indicated we will likely continue the review cash controls regularly.

Summary of Accounting Estimates

- Kristi indicated these were consistent with the past.

Recently Issued Accounting Standards

- Kristi reviewed the new standards. It is unclear the impact GASB 51 will have on the City. Laurie indicated the City is currently working on determining this.
- Rob explained that GASB 54 will change the look of the financial statements, changes to fund balance titles and changes to classification of fund types, i.e. special revenue funds can only be used for legally restricted amounts.
- Scott asked if the updated software will minimize the effect of the change. City staff responded that no, changes in fund classification will still need to be determined and made and the labeling of funds will change. It was also noted that the City Council may need to formally commit funds for a special revenue fund. Marcia indicated the biggest question we have is how to classify the Airport fund and some options were discussed.

**Letter of Recommendations**
Rob reviewed the Letter of Recommendations indicating there were two items and that they were not significant. Marcia distributed Management's Response letter which addressed each item. Rob noted that the information regarding the continuation of business coverage for IT wasn't available when the CAFR was printed. Scott asked for clarification regarding the long

term strategic plan for Information Technology (IT). Kent indicated that IT coordinates all the information technology needs and that formal long range planning is in the works. Travis asked for what period JE's are being backdated, if it was for prior years and Laurie indicated it is only for the current audit year. The group further discussed management's response and felt it addressed the items.

**Minutes From June 18, 2009 Meeting**

The minutes from the June 18, 2009 meeting were approved as drafted. Kellie motioned to approve, Scott 2nd the motion. Minutes approved as drafted.

**City Council Presentation**

Kellie and Scott will present the City Council with the June 30, 2009 CAFR at the February 9, 2010 meeting. Travis will attend the council dinner to be present to discuss the audit. Rob will not attend.