

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

Date: May 8, 2014, 4:00 p.m.

Audit Committee: Kellie Menke, City Councilor
Scott Hill, City Councilor
Travis Parker, Budget Committee member

Auditor: Rob Moody, Talbot, Korvola & Warwick, LLP
Cinnamon Williams, Talbot, Korvola & Warwick, LLP

Staff: Marcia Baragary, Finance Director
Julie Orth, Accountant
Absent:
Kent Taylor, City Manager

Minutes From January 14, 2014 Meeting

The minutes from the January 14, 2014 meeting were presented for approval. Kellie moved to approve the minutes as drafted; motion seconded by Scott. Motion passed.

June 30, 2014 Audit

Audit Deliverables

Rob started by thanking all for attending the meeting. A discussion of the Urban Renewal (UR) ensued. Rob noted that distinguishing the transactions for the UR as a standalone entity versus the UR as a fund of the City can be challenging. Rob mentioned the need for good documentation up front regarding the transactions between the City and the UR. Marcia stated that an intergovernmental agreement and documentation for a loan from the city to UR is in process. No single audit is expected this year. Rob reviewed the audit deliverables for the 2014 audit.

SAS 115 Communications: Rob indicated there will be a Statement of Auditing Standards (SAS) No. 115 *Communication of Internal Control Related Matters Identified in an Audit* letter regarding the over depreciation of street infrastructure. While converting the infrastructure assets from Excel into Logos Asset Management module, staff found street infrastructure was over depreciated when placed on the books during the implementation of GASB No. 34. The financial statements will be restated by approximately \$2.7 million to correct the error. Only the entity wide financial statements are affected. Rob noted the error does not affect operations, staff found it, brought it to the auditors' attention, and corrected it; however the result of a restatement will be the reporting of a material weakness. In response to questions regarding the impact this restatement will have, Rob stated, in his opinion, no impact. Rating agencies and grantors review steps that were taken to correct an error and to make sure the error will not happen again. A finding may not result in a negative impact; what matters is how you respond to the finding. Marcia acknowledged Julie for finding the error by championing the automation of infrastructure from Excel into Logos Asset Management module. Marcia emphasized no systemic issue exists; the error was related to implementation of GASB No. 34. Marcia noted assets were understated, depreciation was over stated.

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Audit Approach

Rob explained the audit approach. The interim audit is scheduled for July 21st – July 25th, 2014. Cinnamon noted some audit planning will take place prior to interim. There will be some additional work related to Transient Lodging Tax (TLT), which began January 31, 2014, and UR. UR tax increment will first be collected in fiscal year 2014-15. Field work is scheduled for November 10th – November 21st, 2014. All financial statement information will be reviewed during field work. An exit conference will be held with staff. A meeting will be held with the Audit Committee in January 2015 to present results and discuss any issues that may arise.

Cinnamon stated Amanda will be back as the “in charge”. Marcia mentioned a successful partnership with Rachael Lembo ended as Rachael became Finance Director at North Plains. Rina Byrne, a former TKW employee, will be employed this year.

Fraud Discussion and Any Areas of Concern

Rob explained the necessity for a fraud discussion with the Audit Committee. Rob asked the Audit Committee members if they had knowledge of any actual fraud, allegations of fraud, or communications or suspicions of fraud and all responded no.

Kellie mentioned a possible area for TKW to review during audit fieldwork. She inquired what the dollar requirement is for putting contracts out to bid. Rob responded he would need to check but inquired if Kellie had a concern. Kellie responded only that staff may need education on bid requirements. Rob indicated they may add some focus to purchasing and contracts in the audit.

Rob asked the other Committee members if they had any specific areas of risk they would like TKW to review during the audit. All indicated they did not. Discussion followed regarding the Fire Department purchasing a new ladder truck and the plans for financing. Rob verified there were no specific concerns. Rob noted TLT will be an added risk simply because it is new.

Rob asked the members if they had any areas, not necessarily risk areas, they would like TKW to review. All Committee members responded no. Rob indicated regardless of the nature and extent, any issues will be brought to the Committee’s attention.

New GASB Statements – effective for the City beginning with fiscal year ending June 30, 2014

- **GASB Statement No. 63**, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- **GASB Statement No. 65**, *Items Previously Reported as Assets and Liabilities*

Rob indicated the City will have a restatement for the change in accounting principal related to GASB Statement No. 65, which is not a material weakness.

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GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* will be effective for the City beginning with fiscal year ending June 30, 2015. The Statement will not have major audit implications but management will need to perform some additional verification of census information provided to pension plan administrators. Because pension information is reported in the financial statements, it will be audited. Discussion of pensions continued.

Rob asked if anyone had any questions, none were raised.

Other Matters

- Update on the 2014-15 budget: Scott stated the Budget Committee will be meeting within a week. Marcia stated that between the forecast and the fund balance policy, there is a clear target up front, making the budget process more efficient.
- Scott noted there are some pivotal changes occurring at the City, namely: Transportation Bond to voters in November; Urban Renewal; and Transient Lodging Tax.
- Travis questioned the impact of City Manager Taylor retiring. Rob responded no impact for fiscal year 2014 but they will consider it the following year in audit planning.

There being no further business to come before the Committee, the meeting was adjourned.