

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

**Date:** June 22, 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  
Rachael Lembo, Talbot, Korvola, & Warwick, LLP

**Staff:** Kent Taylor, City Manager  
Marcia Baragary, Finance Director  
Laurie LeCours, Technical Services Accountant  
Julie Orth, Accountant  
Murray Paolo, IS Director

**Handouts:** January 6, 2010 Audit Committee Meeting Minutes  
City of McMinnville, Letter of Recommendations Year Ended June  
30, 2009, Management's Response

**Minutes From January 6, 2010 Meeting**

The minutes from the January 6, 2010 meeting were approved as drafted. Scott moved to approve the minutes as drafted, seconded by Travis. Motion passed unanimously.

**Physical Inventory**

Julie gave an overview of the capital asset physical inventory process the Finance staff performed. Finance will perform physical inventories at 3-4 locations each year, covering all City locations every 3 years. The inventories consist of a sample of items, not a full count, focusing on high risk items. High risk items include computers, vehicles, and equipment. Overall, the inventories went very well, only 4-6% of assets had findings. The findings primarily related to items that are obsolete or have been disposed of. Finance is using this information to focus efforts on improving communication with departments regarding keeping an accurate capital asset list.

Scott wanted to know what it would cost to implement bar coding and scanning. Finance agreed to get that information.

Rob asked if we projected our findings to all assets. Julie replied that we had not. Rob also wanted to know if we would focus on certain areas based on our results. Julie replied that yes, we will focus on educating the departments on obsolete items.

**Cash Handling Procedures**

Marcia gave an overview of the process Finance staff is going through to document and evaluate cash handling procedures at all City locations. Finance went out to each location and observed and documented their procedures. Finance verified with each department that their procedures were documented correctly. Currently, Finance is reviewing each department's documented procedures for internal control strengths and weaknesses. Finance will then

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follow-up with each department giving them feedback regarding their procedures and work with them to strengthen any weaknesses.

Rob requested to receive a copy of the final report when it is completed and Marcia agreed to send him one.

**Tax Compliance Project**

Rob gave an overview of the tax compliance project Talbot, Korvola, and Warwick, LLP (TKW) is working on. The Internal Revenue Service (IRS) is starting to focus tax compliance audits on local governments. Topics include taxable benefits to employees related to uniforms, employee reimbursements, awards, personal use of City assets (cell phones, computers, vehicles), and employee versus independent contractor status. TKW formed a governmental tax group to assist clients in preparing for a potential IRS audit. The City has agreed to be a test case for TKW to help them refine their process. This process is proactive and therefore may mitigate IRS penalties. Also, the IRS only audits back three years, so the sooner the City comes into compliance the shorter the timeframe for potential findings during a future IRS audit.

TKW staff met with City Finance staff twice to evaluate the City's potential risk. TKW is looking at three things – IRS regulations, City policy, and what the City is actually doing. TKW is currently drafting a report indicating areas of non-compliance with IRS regulations and City policy. TKW cannot report any areas of non-compliance to the IRS. If a material item is found, it may need to be disclosed in the City's Comprehensive Annual Financial Report (CAFR).

Kent asked if any items are significant and Rob responded that none of the findings are material.

Scott asked if there would be a penalty to being out of compliance with City policy and Rob replied that there would not be an IRS penalty.

There was discussion regarding addressing non-compliance items in union contract negotiations.

Rob mentioned that the IRS is performing these audits because there is a tax gap of millions of dollars. A tax gap is the difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time. A tax gap can also be thought of as the sum of non-compliance with the tax law.

Marcia agreed to forward a copy of TKW's report to the Audit Committee.

**Update on Management's Response to Letter of Recommendation**

Insurance coverage – Data recovery insurance coverage is included in the City's policy.

IT strategic plan – Murray gave an overview of the current status of a long-term strategic plan for Information Systems (IS). The IS department met last September and started to draft a

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plan which currently is incomplete. IS wants to meet with all City departments but has not yet done so. Murray would like it to be a topic at a future department head meeting then meet with all departments over the next six months. The City Council and Audit Committee are very interested as all departments have mentioned IT needs during goal setting sessions. Murray's goal is to have a draft ready for the next City Council goal setting session in February. Murray also mentioned that the plan needs to be updated on a regular basis and that it will be a rolling five-year plan, since there are many changes in the IT area. Scott suggested that the plan be included in both the goal setting session and the budget document. Kellie would like to see an executive summary at the goal setting session.

Computer room fire suppression – The Community Center does not have a fire suppression system suitable for the computer room. The City does not plan on implementing an alternative system due to the expense. The computer room in the Community Center does have a fire extinguisher. Murray mentioned that the Police Department does have a halon type fire suppression system.

Review of journal entries – Marcia reported that Finance now has a custom report that allows her to review all journal entries and that she is using it.

**Upcoming Audit**

Kristi gave an overview of the deliverables for the upcoming audit including

- Opinions on Basic Financial Statements
- Auditor's Comments and Disclosures as required by Minimum Standards
- Summaries of Revenues and Expenses as required by Minimum Standards
- Management Letters
- SAS 112/115 Communications – as applicable
- SAS 114 Communications

These are similar to last year except there will not be a single audit this year.

Rachael gave an overview of the audit approach for the upcoming audit including interim fieldwork (done in April), year-end fieldwork (scheduled for November), and conclusion of the audit. Interim fieldwork went well. TKW performed a risk assessment and found no significant items. TKW and City staff discussed unusual transactions (i.e. – how to record the totaled ambulance). And TKW reviewed the City's easements related to the implementation of GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets.

Rob explained the necessity for a fraud discussion with the Audit Committee. Rob asked the Audit Committee members if they were aware of any actual or alleged fraud and all responded no. He also asked them if they were aware of any regulatory issues and they all responded no. Rob explained that the meeting today demonstrates active oversight and monitoring by the Audit Committee. Rob asked the members if they had any areas of interest they would like TKW to look at during the audit – there were none. Scott mentioned that he felt good about City staff doing physical inventories of capital assets.

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Rob mentioned new Governmental Accounting Standards Board (GASB) statements with which the City needs to comply including GASB Statement No. 51 and GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

- GASB Statement No. 51 relates to reporting intangible assets and is effective fiscal year ended June 30, 2010. This GASB requires the City to record the value of easements. Thanks to the City's Engineering Department, easement information has been accumulated. TKW audited the City's easements during interim fieldwork in April and found no issues.
- GASB Statement No. 54 relates to fund balance reporting and fund type definitions and is effective fiscal year ended June 30, 2011. Finance has reviewed this GASB and is ready to implement it next year. Ordinance No. 4929 regarding airport revenue was part of GASB Statement No. 54 preparations.

Rob also mentioned GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, which relates to impaired capital assets and insurance recoveries. The City, with the totaled ambulance, will be Rob's first client to have a transaction fall under GASB Statement No. 42. TKW and Finance staff discussed this transaction during interim fieldwork and agreed on how to record it.

Rob mentioned that McMinnville Water and Light has different auditors this year. This is not unusual, it just requires some additional procedures and different language in the City's CAFR. TKW has done this before.

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