

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

Date: May 3, 2007, 7:30 a.m.

Audit Committee: Kellie Menke, City Councilor
Scott Hill, City Councilor
Phil Olsen, Budget Committee member

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

Staff: Kent Taylor, City Manager
Carole Benedict, Finance Director
Candace Haines, City Attorney
Laurie LeCours, Technical Services Accountant

Others: A. John Montgomery, citizen
Mark Carlton, Water & Light Finance Director as of July 1

Handouts: Accounts Payable Payment Authorization Process, Check Run Review, & Check Signing Comparison

Introductions, Agenda, & Prior Minutes

Carole introduced all attendees.

Kent reviewed the agenda.

There were no changes to the minutes from the March 26, 2007 meeting.

Audit Fieldwork

Rob reviewed items related to the upcoming interim fieldwork for the fiscal year ending June 30, 2007.

- Water & Light will not have interim fieldwork.
- Prepared By Client (PBC) List – Rob has given City of McMinnville (COM) a list of workpapers to be prepared by staff for interim fieldwork.
 - Single Audit – a single audit may not be necessary this year due to COM & W&L not exceeding the \$500,000 expenditure threshold
 - Confirmations
 - Long-term Debt
 - Budget Compliance
 - Major and unusual transactions
 - Issued Public Safety Bond
- Rob asked everyone in the room if they were aware of any fraud, everyone replied no.
- Rob asked if the City had received any communication from regulatory or granting agencies. Carole said that we had, she had already informed Rob, and it had been positively resolved and was a misunderstanding of OECDD.
- Rob asked if anyone had specific areas they wanted the auditors to look at during the audit. No one mentioned anything and Rob said they could email him if they thought of something later.
- TKW is going to re-write the fraud inquiry/related party letter that goes to the Mayor, City Council, department heads, and now the audit committee too.

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- Kent suggested that the letter have an introduction that explains the rationale for the questions.
- Kent mentioned that the Mayor, City Council, and City Manager also fill out a comprehensive ethics questionnaire from the State of Oregon. This questionnaire includes related party but not fraud inquiry. Rob was not aware of this questionnaire but was interested in learning about it. Scott will fax a copy of his most recent one to Rob. Potentially, the Mayor, City Council, and City Manager could send the auditors a copy of their State questionnaire in lieu of some of the questions on the auditor's letter.
- Rob also reviewed TKW's staffing of the City's and Water & Light's audit and fieldwork.

Ethics Hotline & Alternatives

Kent explained that the staff is working on setting up a mandatory ethics training session which would take place in June with a follow-up session in the Fall for those who missed a June session. Candace and an outside consultant will be conducting the sessions. Rob suggested that we might include Water & Light in these sessions.

Kent also explained that staff is researching an ethics hotline. Public records law is an issue since confidentiality is key to having an ethics hotline be useful. Options include email, anonymously calling the Mayor or a City Councilor, and using a 3rd party administered hotline. There was discussion about the confidentiality issues of each option. Currently, the City Handbook instructs employees to call the Mayor or a City Councilor. Laurie will send Rob a copy of the current policy. Statistics show that approximately 45% of all discovered fraud comes through an ethics hotline.

ERP Update

Carole handed out and reviewed Accounts Payable Payment Authorization Process, Check Run Review, & Check Signing Comparison. Carole explained that staff will be setting-up the new financial system soon and therefore will need some guidance on new, electronic procedures. Kellie is hesitant to give-up 3rd party (City Council/Mayor) involvement related to check signing. Phil suggested giving view only access to the City's new financial system to the Mayor and/or City Council.

Laurie encouraged the audit committee members to consider a couple of things as this process develops:

- In the future, there will be fewer checks produced and more electronic transactions, so we need to be thinking about electronic controls instead of manual controls.
- Related to the Mayor or a City Councilor signing checks – is it really authorizing or is it more information gathering? If it is information gathering, staff can provide information in different ways that might be more effective.

Rob explained that there are preventative controls and detective controls. Preventative controls happen before a transaction occurs and detective controls happen after a transaction occurs. Preventative controls can be inefficient, although prevent fraudulent transactions from occurring. Detective controls allow transactions to be processed quicker, but would catch a

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problem before it got large. There is a delicate balance between establishing preventative and detective controls.

After staff learns more about the new system, they will meet with the Audit Committee again and include the Mayor and the City Council President for further discussions particularly around manual check signing over a particular amount.

Next Meeting

Rob said he does not need to meet with the Audit Committee until after the audit.

The Audit Committee will need to meet before the end of the audit to discuss the ethics hotline and the ERP project.

Citizen Comment

A. John Montgomery, who is a Government Finance Officers Association (GFOA) reviewer, reviewed the City's Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2006. He mentioned that it would be helpful if the City included more information about Water & Light's sales in it's CAFR. Rob explained that it is not appropriate to include details about Water & Light in the City's CAFR since Water & Light is a discretely presented component unit that issues it's own financial statements. Rob said it would be OK to add some information in the statistical section.