

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

Date: June 25, 2015, 4:00 p.m.

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

Auditor: Tim Gillette, Talbot, Korvola & Warwick, LLP

Staff: Martha Meeker, City Manager
Marcia Baragary, Finance Director
Julie Orth, Accountant

Handouts: SAS 114 Communication

Minutes From May 8, 2014 Meeting (no quorum present at January 21, 2015 meeting) and the January 21, 2015 Meeting

The minutes from the May 8, 2014 and the January 21, 2015 meeting were presented for approval. Kellie moved to approve the minutes as drafted; motion seconded by Travis. Motion passed.

June 30, 2015 Audit Deliverables

Tim Gillette, partner at Talbot, Korvola & Warwick, LLP (TKW), overseeing the City's audit for the first time this year, explained that TKW works for the Audit Committee. TKW is open to any communication from the Committee, Tim passed out his business card to each Audit Committee member. Tim indicated that Rob Moody, former partner overseeing the City's audit, is still at TKW and available for consultation. Scott commented that the Audit Committee has been together for 10 years. Communication is open and fair. Tim noted Cinnamon Williams, in charge of the City's audit last year, is no longer at TKW. Bill Barker will be audit manager for the City's audit this year. Bill is well known and has extensive experience with government audits. Marcia indicated the City is very fortunate to have someone with Bill's experience managing the City's audit this year.

Tim reviewed the audit deliverables:

- Opinions on Basic Financial Statements
- Independent Auditor's Report Required by Oregon State Regulations
- Summary of Revenues and Expenses as required by Minimum Standards
- Management Letter – as applicable
- SAS 114 Communications
 - Tim directed the Audit Committee to the SAS 114 May 27, 2015 communication to the Audit Committee from TKW and reviewed the letter.
- SAS 115 Communications – as applicable

Kellie inquired what the materiality level was and how it was applied (by fund?). Tim explained that materiality is a judgment call and it can be based on the major funds or a group of funds. Tim explained auditors generally do not provide a number for materiality level to clients for several reasons and provided an example of fraud that occurred when a specific level of materiality had been provided.

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

Audit Approach

Tim reviewed the audit approach, explaining the internal control walk through is used to help plan the audit, (decide what to test, develop risk areas, determine significant accounts, plan for final). It is not a complete audit of internal controls.

- Interim (July 20-24, 2015)
 - Audit planning
 - Update controls documentation and internal controls testing
 - Risk assessments
 - Develop audit programs and procedures
- Field work (November 9 - November 20, 2015)
 - Perform all remaining audit areas not performed during interim
 - Evaluate audit results
 - Conduct an exit conference with City management
- Concluding the audit
 - Review financial statements; targeted issuance date – December 15th
 - Complete all of the audit deliverables
 - Presentation to the Audit Committee in January

Fraud Discussion (SAS 99)

- Overview
- Discussion with Committee
 - Views of the Committee on risks for fraud
 - Any knowledge of actual or alleged fraud
 - Committee's oversight of fraud risks, assessments, controls
 - Nature and extent of communications the Committee desires with regard to fraud
 - Areas of concern or interest for Committee

Tim noted the primary purpose of the audit is not to detect fraud, the audit will only detect fraud to the extent it would cause a material misstatement.

Tim asked the Audit Committee their views on fraud, any areas of concern, and their role in preventing fraud. All committee members responded they are not aware of any fraud and do not have any areas of concern.

Scott commented the letter sent to all Council members helps focus Councilors on fraud and may prompt questions or discussions on potential areas of fraud. Tim responded that the letter is not required and currently is not sent to council members. Kellie requested the letter be sent this year in view of a change in senior management. Martha agreed the Council is another set of eyes with a different perspective and should be involved in helping identify potential areas of fraud.

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

Tim reiterated he would like to be contacted if any concerns arise. Tim asked if the City had a fraud hot line. Kellie responded it has been discussed but not implemented due to public record concerns. Tim recommended the Audit Committee look into a hot line which could be anonymous and that he will forward information regarding a fraud hot line provider used by other city clients. Scott noted, with the number of employees currently at the City, this should be considered. Martha agreed.

New GASB Statements – effective beginning with fiscal year ending June 30, 2015

- **GASB Statement No. 68**, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*
- **GASB Statement No. 71**, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*

Tim noted GASB 68 will be challenging to implement. He noted the information necessary to implement will be provided by PERS. He discussed the factors affecting implementation. Tim shared a chart with the relevant dates, including the measurement date. GASB Statement No. 71 revises Statement No. 68 regarding the recognition of deferred outflow of resources for pension contributions made subsequent to the measurement date. Kellie noted the information is not timely from PERS and Tim agreed. Generally, the information will always be from the prior year. A discussion on the implications of GASB 68 followed. Tim clarified that GASB 68 will not affect the budget, it will only be reflected in the entity wide financial statements.

Marcia noted an additional issue is that PERS combines the City and Water & Light (W&L) and is providing pension information as if both entities are a single employer. Mark Carlton at W&L requested PERS provide information for the City and W&L separately. PERS was not able to accommodate this request. Tim explained TKW and W&L's auditors will need to agree on method to allocate the pension liability between the two entities. Discussion on the merits of GASB 68 continued.

Tim asked if anyone had any more questions. None were raised.

As the TKW portion of the meeting was completed, Tim left.

Marcia verified everyone had a copy of the draft Request for Proposal for Professional Audit Services (RFP). Marcia pointed out the City Attorney had not reviewed the RFP and it was a draft.

Marcia reviewed the RFP and asked the Audit Committee for their thoughts. Much discussion followed. Committee members will get back to Marcia on the best date to conduct interviews.

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