

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

Date: May 13, 2011, 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

Staff: Marcia Baragary, Finance Director
Murray Paolo, Information Systems Director
Laurie LeCours, Technical Services Accountant
Julie Orth, Accountant

Handouts: January 12, 2011 Audit Committee Meeting Minutes
Draft sample of Information Systems Department Strategic Plan

Minutes From January 12, 2011 Meeting

The minutes from the January 12, 2011 meeting were approved as drafted. Kellie moved to approve the minutes as drafted, seconded by Scott. Motion passed unanimously.

IS Long-Term Strategic Plan

Murray handed out and reviewed a draft sample of the Information Systems Department Strategic Plan. The draft sample consisted of the cover, table of contents, and two pages of the body. Murray explained that currently Kent has full draft after which it will go to the department heads, then to City Council. Murray is three to four months behind his desired timeline.

Murray explained the plan is intended to be a rolling plan – it will be updated annually. Murray's original intent was to have a five-year plan but departments were not comfortable with five years, so it is more of a three-year plan. IS will eventually build on the three-year plan to become a five-year plan.

Marcia asked if there was a connection between the plan and day-to-day operations. Murray replied, yes, the strategic plan will be the IS department's work plan. Scott mentioned that the department budget summaries in the City's Proposed Budget would contribute to the IS Strategic Plan and Murray agreed.

The Audit Committee requested another update at the next Audit Committee meeting in January. Travis would like to see a plan without "Draft" on it. Murray estimated there would be a final copy within 30-45 days and would get Travis a final copy at that time.

June 30, 2011 Audit

Rob mentioned that Cinnamon Williams will be coming back to work for TKW and will be the manager on the City's audit. Cinnamon worked on the City's audit a few years ago and did an excellent job. Rachael Lembo, who did a great job as the senior on the City's audit last year, will be the senior during interim fieldwork this year, although she won't be available during year-end fieldwork. Monica Parker will be the senior on the City's audit during year-end

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fieldwork. Interim fieldwork is scheduled for the week of June 20, 2011 and year-end fieldwork is scheduled for the two weeks beginning November 7, 2011.

Rob discussed the work plan for the upcoming interim fieldwork which will include the single audit and internal controls. Since the City did not have a single audit last year, we are considered a “high risk” auditee. Rob explained that is not really a big deal since there is only one major program, the Airport Improvement Program. Regarding internal controls, the auditors will perform walk-throughs and test controls during interim fieldwork.

In reply to Travis’s question, Rob explained the history and general criteria of a single audit. The single audit was created to consolidate audits from all the federal agencies from whom a recipient receives federal funds. A single audit is required when a recipient expends at least \$500,000 of federal funds in a fiscal year. Also, a single audit is focused on compliance rather than financial reporting.

Each year TKW focuses on different areas to look into. This year’s areas are Municipal Court and overtime. There is no indication that these areas have problems, however it is valuable to take a look to see what might come to light. It can be difficult to prove fraud or abuse, but may raise questions that “solve the problem” – the fact that someone is looking can be a deterrent.

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. Rob asked if the City had a hotline. Kellie responded that the City does not have one although she thought it was a good idea. The reason it has not been implemented is due to concerns over privacy versus public information. Rob indicated that other local governments in Oregon have implemented hotlines including Washington County, Clackamas County, Lake Oswego, and West Linn. Rob believes they use a third-party provider named Ethics Point. Kellie inquired about the cost and Rob replied he thought it was pretty inexpensive. Marcia agreed to follow up and Rob agreed to include it as a best practice comment in the management letter.

Rob asked the members if they had any areas of interest they would like TKW to look into during the audit. Kellie mentioned the City’s telephone costs, are they too high? Rob said that is not normally done as part of an audit, but maybe they could do something. Kellie also mentioned the desire for a central area for the City’s contracts, currently they seem to be disorganized. Via an email dated May 18, 2011, Kellie requested that TKW include a comment in the management letter regarding the City needing a Social Networking Policy.

GASB 54 Implementation

Rob explained that the City will be required to implement GASB Statement No 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for fiscal year ended June 30, 2011. GASB 54 provides new guidance on classifying fund balance of governmental funds and clarifies governmental fund type definitions. City staff is currently working on a plan to implement GASB 54 and anticipates discussing it with TKW during interim fieldwork to ensure the auditors approve of the City’s plan and assumptions.

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Fund Balance Level

Marcia discussed the 2011 City Council goal “Develop and adopt financial policies to guide future budget preparations and fund balance levels”. Kent’s thoughts are that a City Council sub-committee of Kellie, Scott, and Travis would work on the details of this goal and bring it to the full City Council since the goal is financial in nature. The discussion would take place outside the budget process, therefore would be during summer and/or fall. There are many things to be discussed including which funds to include and how the policy is worded regarding types of fund balance and basis of accounting.

Lease Note Disclosure

Marcia and Julie discussed a new note disclosure regarding leases to be included in the City’s Comprehensive Annual Financial Report (CAFR) for June 30, 2011. The City is the lessor in many lease agreements which needs to be disclosed in the CAFR. The disclosure needs to include both the amount of revenue as well as the cost of the asset being leased. This project has been time consuming because the City’s asset listing does not have the level of detail to match up with the leases.

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