

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

**Date:** February 14, 2017, 4:00 p.m.

**Audit Committee:** Scott Hill, City Councilor  
Kellie Menke, City Councilor

**Auditor:** Tonya Moffitt, Merina & Company. LLP

**Staff:** Marcia Baragary, Finance Director  
Ronda Gretzon, Senior Accountant

**Handouts:** September 9, 2016 Audit Committee Meeting Minutes  
Report to the Audit Committee, Auditor Communication to Those Charged  
with Governance, January 30, 2017  
Comprehensive Annual Financial Report for the Year Ended June 30,  
2016  
McMinnville Single Audit Report for the Year Ended June 30, 2016  
McMinnville Urban Renewal Agency Annual Financial Report for the Year  
Ended June 30, 2016  
Management Letter for the Year Ended June 30, 2016

**Minutes from September 9, 2016 meeting**

The minutes from the September 9, 2016 meeting were presented. Kellie made a motion to approve the minutes; seconded by Scott. Motion passed. Marcia commented on an item included in the September 9<sup>th</sup> minutes. She indicated that, to her knowledge, there has been no additional discussion between the City and McMinnville Water & Light (MW&L) regarding the option to separate the City and MW&L for PERS purposes. The City is currently the primary PERS employer and MW&L is a secondary employer.

Scott asked if there were any objections to him remaining on the audit committee, as he is now Mayor. There were no concerns. A new Audit Committee member will be appointed once the new Budget Committee members are appointed.

**Presentation of the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2016**

Marcia thanked Tonya for working with the City to complete the audit, especially with this year's challenges related to City staffing and inclement weather.

Tonya pointed out that the City received the Certificate of Achievement for Excellence in Finance Reporting for the fiscal year ended June 30, 2015. She stated that this is a prestigious award that requires the City to meet GFOA standards and to include additional information in the CAFR, such as the Transmittal Letter and statistical information. Tonya says she has no reason to believe that the City would not receive the GFOA award for the June 30, 2016 CAFR.

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Scott asked if we could submit our budget document for a similar award. Marcia explained that we have not submitted our budget in the past. Scott recommended that we submit our budget document to “see where we stand”. Marcia will review the requirements included in the GFOA checklist.

Tonya explained that Merina & Company has issued an unmodified or “clean” opinion, which indicates that the City’s financial statements are fairly stated in accordance with generally accepted accounting principles.

Tonya directed the Committee to the Management’s Discussion and Analysis (MD&A) included in the introductory section of the CAFR. She also pointed out the required supplemental information (RSI), which includes the Post Employment Healthcare Plan Schedule of Funding Progress. Tonya indicated that they performed limited procedures on the RSI. She also indicated that they read the Introduction and Statistic sections for consistency and did not opine on the information in those sections.

Tonya directed the committee to the Independent Auditor’s Report Required by Oregon State Regulation. Merina reported no findings on the items covered in the report.

Tonya mentioned that, for GASB 68, there was a net pension asset last year, however, there is a liability this year. The net pension asset reflected actuarial valuations made prior to the Moro decision, which had a significant impact on GASB 68 calculations. Tonya referred the Committee to the Schedule of Contributions in the RSI, which reflects that the City’s PERS contributions are equal to the statutorily required contributions.

**Presentation of the McMinnville Urban Renewal Agency Annual Financial Report for fiscal year ended June 30, 2016**

Tonya referred the Committee to the McMinnville Urban Renewal Agency (URA) Annual Financial Report and pointed out that Merina has issued an unmodified or “clean” opinion on the URA Report. Tonya mentioned the Management’s Discussion & Analysis (MD&A) section and the Independent Auditor’s Report, which included no findings.

Marcia mentioned that we have been budgeting the funds between the City and Urban Renewal as Interagency debt service and special payments, at the direction of the Department of Revenue. Although the URA is a distinct and separate agency in the URA “stand alone” financial statements, it is a fund in the City’s financial statements. In the fund financial statements in the City’s CAFR, the transactions are appropriately reported as transfers, instead of debt service, as budgeted. Marcia pointed out, that as a result of the difference in reporting and budgeting the transactions, the General Fund Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual reflects an over budget situation in Other Financing Sources, Transfers to Other Funds. Marcia is concerned that the over budget amount will be much greater in fiscal year 2016-17, due to the increase in transactions between the City and URA. The preferred method would be to budget these items as transfers. If the transactions on a budget basis are accounted for as transfers, this year would require a budget adjustment to avoid being over budget in the General Fund.

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Tonya indicated that, as the City's auditor, and although there will be an over budget situation in 2016-17, she would be comfortable if the City does not make the change in 2016-17. However, she recommended that the interagency transactions be budgeted as transfers for fiscal year ended June 30, 2018. With the Audit Committee's assent, Marcia indicated that the City will not adjust the fiscal year 2016-17 budget and will budget the transactions as transfers in 2017-18.

**Single Audit**

Tonya indicated that there has been changes to Single Audit requirements since the City's last single audit. For fiscal years ending June 30, 2016 and thereafter, the threshold for requiring a single audit increased from \$500,000 to \$750,000 in federal funds. Tonya explained that grants awarded after December 24, 2014 fall under the new Uniform Guidance. Grant agreements prior to that date fall under A-133 requirements. Because it can take years for federal dollars to pass through the state to the City, it can be difficult to determine which requirements apply to a federal grant.

The Schedule of Expenditures of Federal Awards (SEFA) included in the Single Audit Report reflects that the Federal Aviation Administration (FAA) grant funds received by the City for airport projects were audited as a major program. We should expect a single audit again next year due to the amount of FAA funds expected to be received in fiscal year 2016-17. In the notes to the SEFA, Note 4 indicates that \$321,022 was paid by the City to subrecipients of the Oregon Community Development Block Grant during fiscal year 2016-17. Tonya pointed out that the Schedule of Findings and Questioned Costs reflects that no material weaknesses or significant deficiencies, audit findings, or questioned costs were identified.

Tonya mentioned the Management Representation Letters for the City and URA financial reports. She indicated that there were no disagreements with management and no other issues to report.

Tonya then mentioned new accounting pronouncements, GASB 72, *Fair Value Measurement and Application*, GASB 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not Within the Scope of GASB Statement 68*, and GASB 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The City implemented these standards for the fiscal year ended June 30, 2016.

**Management Letter**

Tonya presented a management letter which she indicated reflects several items identified that were non-reportable and did not need to be brought to the attention of the City Council. However, the City should consider best practices and areas where internal controls could be strengthened.

- Merina recommended that, while mitigating controls are in place, the City should implement additional controls around payroll and segregation of duties.

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- Merina recommended that the City implement additional controls in the Fire Department around the processing of FireMed payments.
- Merina recommended that the Municipal Court implement a system that prints receipts from the court system, instead of creating manual receipts, which is the current practice.

Marcia indicated that she will report back to the Committee at the next Audit Committee meeting regarding how these issues have been addressed. The Audit Committee will convene again in May 2017, prior to the start of interim fieldwork for the fiscal year 2016-17 audit.

Tonya encouraged Scott and Kellie to contact her with any questions regarding the financial reports or with any other concerns.

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