

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

**Date:** June 26, 2018, 4:00 p.m.

**Audit Committee:** Kellie Menke, City Councilor  
Peter Hofstetter, Chief Executive Officer for Willamette Valley Medical Center

**Auditor:** Tonya Moffitt, Merina & Company  
Danielle Groves, Merina & Company

**Staff:** Marcia Baragary, Finance Director  
Dewey Burchell, Accountant II

Minutes from the February 13, 2018 meeting were presented and approved.

**Audit Deliverables**

Ms. Tonya Moffitt, partner with Merina & Company (MCO), explained that MCO will render an opinion on the basic financial statements and perform a single audit. Tonya described the Independent Auditor's Reports required by Uniform Guidance and by Oregon State Regulations. She also described the Summary of Revenues and Expenses that will be prepared by MCO and is required by Oregon Minimum Standards.

Tonya gave a brief overview of the Management Letter and then discussed AU-C 260 – The Auditor's Communication with Those Charged with Governance. The purpose of this letter is to disclose the planned scope and timing of the audit and explain the role of the auditor. Tonya also discussed AU-C 265 – Communicating Internal Control Related Matters Identified in an Audit, which is shared with those charged with governance upon completion of the audit.

Tonya explained how the Generally Accepted Government Auditing Standards also known as the "Yellow Book", was in the process of having revisions made. She explained that the "Yellow Book" was used for the A-133 Single Audit standards. She further explained that the amount of The Federal Aviation Administration (FAA) grant money being used for the Municipal Airport renovation projects was over the single audit threshold of \$750,000. Tonya mentioned that the City would have the Single Audit prepared in addition to MCO rendering an opinion on the basic financial statements.

**Audit Approach**

Ms. Danielle Groves (Dani) explained that MCO staff will be on site for interim fieldwork July 16<sup>th</sup> through the 20<sup>th</sup>. They will focus on internal controls and will perform walk-throughs of City processes. Information gathered during interim fieldwork plays an important part in MCO's risk assessments and development of audit programs and procedures.

Dani explained that MCO staff will be on site November 5<sup>th</sup> through the 16<sup>th</sup> for final field work, which includes performing all remaining audit areas not completed during interim fieldwork, evaluating audit results, and conducting an exit interview with City management.

Dani then discussed that MCO will conclude the audit by reviewing the financial statements, completing all of the audit deliverables, and presenting their findings to the Committee in January.

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**Fraud Discussion**

Tonya asked Committee members if they have any concerns about fraud at the City. She mentioned that when auditing, MCO does not look for fraud. She explained it is difficult to pick up on fraud unless MCO is notified of and can look into a particular concern. She indicated that the Committee could always reach out by email or call her with concerns.

Tonya indicated they have looked at areas of possible concern in the past, but had no findings. She also mentioned that MCO has worked with city staff on tightening up internal controls believed to be possible problem areas.

Kellie indicated that the Committee had no fraud concerns or any other areas of concern at this time. Kellie enquired about the Transient Lodging Tax (TLT). She said that there was confusion about Oregon Administrative Rules' (OARs') parameters of the TLT and the Committee and City Council were both concerned about not collecting all eligible revenues and use of the TLT funds.

Tonya replied that MCO historically had not looked at TLT in depth. Kellie indicated that the Committee would like for MCO to take a look at the TLT Fund, collections and spending of funds this year during their audit. Tonya indicated that they would be happy to do this for the Committee.

Tonya explained ways other cities used their TLT funds within OAR regulation, including city festivals and websites. Kellie and Peter both voiced their appreciation of the information and for MCO taking a closer look at the City's TLT transactions. Tonya mentioned that many things the City is already doing were eligible for TLT fund use.

Peter asked for further information about a possible fraud and the ethics letter sent out to employees. Kellie mentioned the Committee's concern regarding confidentiality. Tonya replied that the State of Oregon has a great reporting website for fraud issues that would make anonymity easier than reporting to management or even MCO directly.

Peter and Kellie discussed this possible letter with Tonya further agreeing that it was something the Committee would like to look into further. Tonya mentioned that MCO did interviews as part of their audit process and they try to do one-on-one interviews when they can to protect the interviewee and address concerns with confidentiality.

Tonya indicated that, typically, auditors will review processes and procedures in areas that handle a lot of cash and make recommendations. Tonya also mentioned that MCO will identify different areas of focus every year and will perform "surprise" audit procedures, when appropriate.

Marcia mentioned the current state HR responsibilities and how this affected some of these confidentiality concerns that the Committee had with employees coming forward to address issues including fraud. She mentioned that the budget for fiscal year 2018-19 included hiring a designated HR employee. Everyone present expressed their excitement for this new addition. Tonya mentioned that it would be very nice for employees to have a single person to reach out to with any questions or concerns.

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**New GASB Statements**

Tonya reviewed new GASB statements that are effective for the 2017-18 fiscal year and in future years.

- GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – This Statement establishes new accounting and reporting requirements for OPEB plans. Statement 75 is required to be implemented with fiscal years ending June 30, 2018.
- GASB Statement 85, *Omnibus 2017* – This Statement addresses a variety of topics (minor revisions to prior GASB Statements), including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Statement 85 is required to be implemented with fiscal years ending June 30, 2018.
- GASB Statement 86, *Certain Debt Extinguishment Issues* – This Statement's objective is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. Statement 86 is required to be implemented with fiscal years ending June 30, 2018.
- GASB Statement 83, *Certain Asset Retirement Obligations* - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). Statement 83 is required to be implemented with fiscal years ending June 30, 2019.
- GASB Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* – The objective of this Statements is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. Statement 88 is required to be implemented with fiscal years ending June 30, 2019.
- GASB Statement 84, *Fiduciary Activities* - The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement 84 is required to be implemented with fiscal years ended June 30, 2020
- GASB Statement 87, *Leases* - The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. Statement 87 is required to be implemented with fiscal years ended June 30, 2021.
- GASB Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* - This Statement establishes accounting requirements for interest cost incurred before the end of a construction period and reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. Statement 89 is required to be implemented with fiscal years ended June 30, 2021.

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Other Items for Discussion

Marcia mentioned that the City will again contract with Smith-Wagar Brucker Consulting LLC to assist with financial statement preparation. Marcia indicated she was very impressed with Debbie Smith-Wagar's expertise and knowledge of governmental accounting after working with her the prior two years. Kellie expressed her excitement and was glad that Marcia was able to work out a contract with Debbie Smith-Wagar for another year.

Marcia asked Dani about the contract renewal with MCO. She indicated that if the Committee would like to renew their contract with MCO they would not meet again until January of 2019, which would not give them a lot of time to consider a contract renewal. Tonya said that if the Committee was planning on doing an RFP (request for proposal) that they should consider getting it in before February of 2019. Kellie discussed further possibilities with Tonya regarding a contract renewal with MCO such as possible extensions built into the current agreement.

Peter inquired about best practice regarding length of contracts with independent auditors. Tonya responded that it typically will take an auditor 2-3 years to get to know the auditee and 4-5 years before the audit process becomes more streamlined. She mentioned that between 5-10 years MCO will often request to opt out of a contract in the best interest of the auditee, indicating that redundancy can be harmful to the effectiveness of the audit process.

Marcia inquired about the staffing team for this year's audit and how many familiar faces the Cities' Staff might be seeing. Tonya mentioned that the same people would be working on the A-133 Single Audit due to the nature of the single audit and the advantage of being familiar with the auditee when preparing it. She indicated that there would most likely be a mix of familiar faces along with some new faces working on the opinion of the basic financial statements and the rest of the audit deliverable that it entailed.

There being no further business to come before the Committee, the meeting was adjourned at 4:40 p.m.