

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

**Date:** May 10, 2016, 4:00 p.m.

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

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

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

Minutes from the February 9, 2016 meeting were presented. Kellie Menke made a motion for the minutes to be approved; motion seconded by Scott Hill. Motion passed.

The Committee discussed the issue that Fred Stemmler is no longer eligible to be a member of the Audit Committee. Resolution No. 2007 – 05 establishing the Audit Committee requires that the member of the Committee, who is not a City Councilor, must be a member of the Budget Committee. Since Fred Stemmler has moved outside of the City limits, he is no longer eligible to be on the Budget Committee or Audit Committee. The Audit Committee could choose applicants previously interviewed for the Budget Committee position or post the position again and interview those applicants. Research will need to be done to determine which approach is acceptable.

**Audit Deliverables**

Tonya Moffitt stated that Merina & Co is located in West Linn with 80% of their customers being municipalities and she is pleased to be contracting with the City for audit services. Scott noted that the Committee is excited to have Merina & Co as the City's auditors.

Tonya explained Merina & Co will render an opinion on the basic financial statements and perform a single audit. Single audit regulations, which were previously prescribed by OMB Circular A-133, are now included in 2 CFR 200, commonly called "Uniform Guidance." Under Uniform Guidance rules, the threshold for a single audit has increased from \$500,000 to \$750,000. The Community Development Block Grant (CDBG) and Federal Aviation Administration (FAA) grants will likely cause the City to exceed the threshold for fiscal year 2015-16. The City has not had a single audit since 2009. The single audit will be included in the Comprehensive Annual Financial Report, but will also be issued as a separate Report.

The Independent Auditor's Report Required by Oregon State Regulations is a separate report which addresses issues related to compliance with Oregon Revised Statutes. Ms. Moffitt indicated that a management letter may be issued. The management letter includes recommendations regarding issues that are not required to be reported to those charged with governance.

Ms. Moffitt 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 communicate any significant findings or issues from the audit. Ms. Moffitt also discussed AU-C 265 – Communicating Internal Control Related Matters Identified in an Audit.

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**Audit Approach**

Merina & Co staff will be on site for interim fieldwork June 20<sup>th</sup> through the 24<sup>th</sup>. They will focus on internal controls and gathering information for the permanent file. Tonya explained that their goal is to make the change in audit firms as seamless as possible. They use the workpapers and documents that the City already has rather than requiring City staff to create new documents, although a few adjustments may be needed. Tonya will contact Talbot, Korvola & Warwick (TKW) to request permanent file information.

Merina & Co staff will be on site November 7<sup>th</sup> through the 18<sup>th</sup> for final field work. Merina & Co uses a risk assessment approach to plan audit fieldwork. A surprise audit procedure will be included and cash confirmations will also be performed at this time. At the completion of the audit, Merina & Co will present their opinion and reports to the Audit Committee and City Council.

The audit team will include three experienced members. Tonya mentioned that she is aware that Finance department employees have full time jobs and she is sensitive to the use of their time. This is especially relevant this year because the Finance department is short staffed due to a recent resignation. Marcia indicated the hiring process to fill the Accountant II position is under way.

Marcia also mentioned that she will propose that the City contract with Smith-Wagar Brucker Consulting LLC to assist with financial statement preparation. Marcia has interviewed Debbie Smith-Wagar and was impressed with her qualifications. Ms. Smith-Wagar is an adjunct professor at Portland State and mentioned that she may be available to provide training to the employee hired into the Accountant II position. Tonya advised that she confidently recommends Smith-Wagar Brucker because she has worked on several projects with Debbie over the past ten years.

**Fraud Discussion**

Tonya asked Committee members if they have any concerns about fraud at the City. She mentioned that members could email or call her with concerns if they were more comfortable with that approach. She indicated that it's important to pay attention to "red flags", such as an employee living beyond of their means. Committee members should feel free to report anything that appears to be "just a bit off", in their opinion. City Councilors will also receive a letter that inquires about fraud concerns and asks questions regarding related parties. Scott and Kellie both indicated that they have no fraud concerns or any other areas of concern at this time.

**New GASB Statements**

Tonya reviewed new GASB statements that are effective for the 2015-16 fiscal year and in future years.

Effective for fiscal year 2015-16

- GASB Statement 72, Fair Value Measurement and Application
  
- GASB Statement 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Effective in future years

- GASB Statement 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendment to Certain Provisions of GASB Statements 67 and 68

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- GASB Statement 78, Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans
- GASB Statement 77, Tax Abatement Disclosures – Tonya mentioned that the City might have tax abatements that should be disclosed. Reduced SDC fees and affordable housing could be included. The OSCPA is working with County Assessors to obtain this information.
- GASB Statement 79, Certain External Investment Pools and Pool Participants
- GASB Statement 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 – Tonya mentioned that the City may need to consider the Library Foundation, etc.
- GASB Statement 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No.73.

Other Items for Discussion

Tonya explained that her firm does not charge the City for asking questions or other conversations throughout the year, so the Audit Committee should feel free to call Tonya if an issue arises.

Marcia reported that the City is continuing to discuss the PERS transition liability with McMinnville Water & Light. The City's share of the transition liability is approximately \$3.8 million. Water & Light has sufficient cash to pay off their portion of the liability, but the City would need to borrow funds to pay off the City's portion.

Marcia mentioned that Danielle from TKW will be here this Thursday and next week to perform Transient Lodging Tax audits. Kellie said she would like the results of the audits to be reported either to the City Council or the Audit Committee.

There being no further business to come before the Committee, the meeting was adjourned at 5:15 p.m.