

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

**Date:** January 7, 2009, 10:30 a.m.

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

**Auditor:** Rob Moody, Talbot, Korvola & Warwick, LLP

**Staff:** Kent Taylor, City Manager  
Marcia Baragary, Finance Director  
Laurie LeCours, Technical Services Accountant  
Julie Orth, Accountant

**Handouts:** City of McMinnville Report to the Honorable Mayor and City Council  
City of McMinnville Letter of Recommendations

**June 30, 2008 Audit and CAFR**

Rob said the audit process went very well this year especially given both the financial system transition and the Finance Director transition.

Rob reviewed the Comprehensive Annual Financial Report (CAFR) and indicated that it was very similar to last year – no big changes.

Scott asked how it went with the new audit standards this year. Rob replied that due to SASs 104-111, they did delve deeper into the City's internal controls this year. A benefit of the additional work is an Internal Control (IC) document that will be beneficial to City staff as well as the starting point for future audits. The IC document will only need to be updated for changes instead of created from scratch each year.

Travis asked who receives copies of the CAFR. Laurie explained that City staff has a list of places for distribution, including the Audit Committee, City Council, News Register, City staff, State of Oregon, Government Finance Officers Association (GFOA) (related to the Certificate of Achievement), central repositories (for bond covenant requirements), and other credit and grant related entities.

Marcia expressed her appreciation to Laurie and Julie for their hard work and praised their high level of technical expertise which resulted in no audit adjustments to the 2007-08 financial statements.

**Report to the Honorable Mayor and City Council**

Rob explained that the old SAS 61 Letter has been replaced by the Report to the Honorable Mayor and City Council which summarizes information TKW is required to communicate to the City in writing. There were no unusual disclosures.

This year's report includes the City and Water & Light in one report due to the way the Arrangement Letter was drafted at the beginning of the year. In future years, TKW will create separate documents for the City and Water & Light.

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Rob believes Water & Light is going out for bid for new auditors, looking for an audit firm with electrical expertise.

**Letter of Recommendations**

Rob reviewed the Letter of Recommendations and City staff explained what is being done for each item.

Vendor Records – the City’s financial system contains a number of duplicate and inactive vendor records.

- City staff is discussing a plan to complete a “Vendor Clean-up” project by June 30, 2009.
- City staff is also discussing on-going procedures which would limit or prevent the establishment of duplicate vendors and identify inactive vendors in a timely manner.
- City staff will pursue the possibility of creating a report that would identify vendors with similar addresses, etc.

Vendor Setup and Maintenance – the accountants who setup and maintain vendor records are the same staff who process payments through the system.

- City staff previously indicated that a custom report would be developed that would identify changes to vendor records. The most current version of Logos, implemented January 5, 2009, includes a Vendor Audit Report. The Finance Director will periodically print and review this report for questionable or inappropriate changes to vendor records.
- City staff recognizes this is a “detective” control, not a “preventative” control as recommended by the auditors. However, we feel that assigning setup duties to someone independent of processing payments through the accounts payable system could actually contribute to creation of additional duplicate vendors and be detrimental to the efficiency of the Accounts Payable process.
- The accountants who maintain vendor records and process payments have a zero purchasing threshold in the financial system, therefore all purchases initiated by them are required to be approved by another user.

Related Party Vendors – the City currently purchases materials and services from related parties.

- Department Heads are aware of the City policy regarding related party vendors. However, the City’s written policy on procurement has not been updated for some time. It would be appropriate to update the written policy, specifically state the City’s policy regarding related party vendors and circulate the written policy to Department Heads and appropriate staff.

Procurement Cards – the list of City procurement cards is not routinely compared to the list of terminated employees.

- The most current version of Logos includes a Terminated Employee Report. The Accounts Payable Accountant will periodically review this report, comparing the terminated employee list to the active procurement card list.
- The City has drafted an Employee Credit Account Usage Agreement, governing the use of City credit cards. The Agreement states that at termination the employee will turn the credit card in to their supervisor, who will forward the card to the Accounts Payable Accountant for destruction and cancellation of the account. Employees with City credit cards will be required to sign this agreement.

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Escrow Account – there is a lack of segregation of duties in that the same accountant prepares the escrow deposits and prepares the bank reconciliation.

- The Finance Director recently assigned the duties of preparing the Escrow Account deposits to an individual who is not responsible for reconciling the related bank account.

**Minutes From July 29, 2008 Meeting**

The minutes from the July 29, 2008 meeting were approved as drafted.

**Internal Control Documentation**

Rob delivered a final draft of the internal control documentation which is now complete.

**City Council Presentation**

Kellie and Scott will present the City Council with the June 30, 2008 CAFR at the January 27, 2009 meeting and Rob agreed to be present to answer any questions.