

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

Date: January 11, 2008, 7:30 a.m.

Audit Committee: Kellie Menke, City Councilor
Scott Hill, City Councilor
Phil Olsen, Budget Committee member

Auditor: Rob Moody, Talbot, Korvola & Warwick, LLP
Lynn Larsen, Talbot, Korvola & Warwick, LLP

Staff: Kent Taylor, City Manager
Carole Benedict, Finance Director
Julie Orth, Accountant
Laurie LeCours, Technical Services Accountant

Others: Mark Carlton, Water & Light Finance Director

Handouts: Agenda via email
June 30, 2007 Comprehensive Annual Financial Report (CAFR)
Statement on Auditing Standards (SAS) 61 Letter
Management Letter

Introductions

Carole introduced all attendees.

Fiscal Year-End June 30, 2007

Lynn reviewed the Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2007 noting that it all “looks good”.

Rob reviewed the SAS 61 Letter. He explained that they (the auditors) need to “sign off” if their work (i.e. audit opinion) is included in or referred to in another official document (i.e. a bond issuance official statement).

Rob reviewed the Management Letter. Areas for improvement include segregation of duties and cancellation of City credit cards issued to terminated employees.

- There is a lack of segregation of duties related to Escrow Account cash receipts and bank reconciliation preparation.
- There is also a lack of segregation of duties related to vendor files and cash disbursements.
 - Rob noted the Water and Light Finance Director reviews new vendors before they are setup.
- The list of City credit cards is not routinely compared to the list of terminated employees.
 - Scott will send Carole Key Bank’s policy for company issued credit cards which states the employee is personally responsible.

The auditors will attend the January 22, 2008 City Council meeting to briefly discuss moving away from addressing the full City Council each year regarding the audit and instead communicating through the Audit Committee.

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June 30, 2008 Audit

Rob would like to schedule interim fieldwork for March 2008. There are several new standards that will increase the auditors' required planning for the audit.

Rob explained Governmental Accounting Standards Board (GASB) Statement #45 *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. Water and Light would like to implement this next year. A portion of Public Employee Retirement System (PERS) is for health insurance which will need to be disclosed in the Notes to Basic Financial Statements in the CAFR.

Rob reviewed new SASs. Basically large company audit standards are being forced onto small companies which will increase the number of audit hours required by 20-40%. The City can help reduce those hours by documenting internal controls.

ERP Update

Carole gave an update on the financial system implementation project. Currently payroll is going live and the budget process is beginning on the new system.

Audit Contract

After Rob and Lynn left, there was discussion regarding renewing the audit contract with Talbot, Korvola, and Warwick (TKW). Given that any audit firm would require more hours due to new standards and that TKW is a quality firm, it was decided to recommend to the City Council at the January 22, 2008 meeting to renew the contract with TKW.

Mark explained that Water and Light is looking for a firm to help document internal controls. He also explained their current financial system software transition. Mark expressed that Water and Light would like to have an audit firm with more utility experience – in the future Water and Light could go with a different audit firm than the City.

Internal Control Documentation Contract

The committee also recommended hiring TKW for the additional contract Rob discussed that would address the new internal control documentation audit standards. The committee said given the new financial system, the \$13,000 suggested fee would be "money well spent".