

CITY OF MCMINNVILLE
AUDIT COMMITTEE MEETING AGENDA
March 10, 2020
4:00 p.m.
Civic Hall Conference Room

1. Approval of the Minutes
 - June 11, 2019 Audit Committee Meeting
 - February 12, 2019 Audit Committee Meeting
2. City of McMinnville Comprehensive Annual Financial Report for the Year Ended June 30, 2019
3. Urban Renewal Agency Financial Statements for the Year Ended June 30, 2019
4. Report to the Honorable Mayor and City Council for Fiscal Year Ended June 30, 2019
 - Auditor Communication to Those Charged with Governance
5. Plan of Action Update
6. Other items for discussion

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

Date: February 12, 2019, 5:30 p.m.

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

Auditor: Tonya Moffitt, Merina & Company. LLP

Staff: Marcia Baragary, Finance Director
Dewey Burchell, Accountant

Handouts: June 26, 2018 Audit Committee Meeting Minutes
Comprehensive Annual Financial Report for the Year Ended June 30, 2018
McMinnville Single Audit Report for the Year Ended June 30, 2018
McMinnville Urban Renewal Agency Annual Financial Report for the Year Ended June 30, 2018

Minutes from Jun 26, 2018 meeting

The minutes from June 26, 2018 were presented. Kellie made a motion to approve the minutes; seconded by Scott. Motion passed.

Presentation of the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2018

Tonya thanked the Councilors for allowing Merina & Company. LLP (MCO) to perform the City's audit again this year. Tonya mentioned that the Comprehensive Annual Financial Report (CAFR) requires a lot of work by City staff and that she appreciated all of the effort required to produce the CAFR.

Tonya pointed out that the CAFR for fiscal year ended June 30, 2017 had received the Certificate of Achievement for Excellence in Financial Reporting from the Government Financial Officers Association (GFOA). She indicated that this prestigious national award requires extra work from the Finance Department and that it shows a lot of pride for the City's Staff to continue to receive this award year after year.

Tonya pointed out that the Transmittal letter and Statistical Section of the CAFR are not audited by MCO and that MCO applied limited procedures and reviewed the information for consistency only.

Tonya stated that MCO has issued an unmodified opinion on the City's 2018 Financial Reports. This is the highest opinion an auditor can issue and that she believes that the City will also receive the GFOA award of excellence for the CAFR for fiscal year ended June 30, 2018. Scott mentioned that he felt the City's formatting and methodology regarding financial reporting was

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time tested and proven successful and he appreciated the work the City commits to drafting the CAFR year after year.

Scott suggested that reading the Management's Discussion and Analysis (MD&A) would bring an added level of understanding to the City's Budget Committee members and Councilors. Scott mentioned that they were looking specifically to increase the level of knowledge Budget Committee members have regarding the state of the City's net position and historical trends. Tonya and Kellie both agreed that the MD&A is a good source of information that summarizes the fiscal state of the City.

Tonya suggested that the Budget committee members could also read information on the Oregon Department of Revenues website regarding Budget Law. Scott mentioned the League of Oregon Cities (LOC) training that will be held in Willamina, OR on March 6, 2019 as well as the Department of Revenue training opportunities held in March. Scott suggested that Budget Committee members and Councilors could be interested in attending the LOC training in Willamina to gain a better understanding of the budget process and enable them to provide constructive feedback on the state of the City.

Marcia asked if Scott and Kellie would like her to contact Peter Hofstetter about his desire to continue serving on the Audit Committee. Scott and Kellie both agreed that Peter is very busy but would let them know if he no longer wished to serve on the Committee. Committee members agreed that it is not necessary to appoint an "alternate" Audit Committee member.

Tonya directed Committee members to the Government-Wide Financial Statements and the City's Statement of Net Position as of June 30, 2018. She pointed out that there are new items on the Statement of Net Position this year that make the prior year's Statement of Net Position non-comparable due to the implementation of GASB 75. She mentioned the new line items for recording purposes under GASB 75; Deferred outflow of resources – OPEB, and Deferred inflow of resources – OPEB.

Tonya explained to the Committee that GASB 75 was similar to GASB 68 requirements to account and record for pensions, however, GASB 75 relates to other post-employment benefits (OPEB). GASB 75 requires reporting of a liability for potential future payments required to meet OPEB requirements. She explained that the City has to meet the State's requirement to allow retired employees to stay on the City's health insurance policy until they reach retirement age and become eligible for Medicare.

Tonya continued by explaining that the City currently has three insurance policies relating to OPEB which include; Oregon Public Employees Retirement System (OPERS) Retirement Health Insurance Account (RHIA), City County Insurance Services (CIS), and Teamsters Insurance. Tonya explained that MCO is not concerned about the OPEB liability, however the City's net position is less than it would have been five years ago due to the added liabilities from GASB 68 and GASB 75 reporting requirements.

Tonya referred the Committee to the additional note disclosures required under GASB 75. She also referred the Committee to the additional Required Supplementary Information (RSI) tables

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in the 2018 CAFR document. These disclosures were not required in the 2017 CAFR document, but now that they are included, succeeding years will build on these tables to include ten years' worth of data. She drew the Committee's attention to the "Schedule of Contributions" and explained that as long as the number in the "Contribution deficiency (excess)" column is not a "deficiency," the Committee has no reason for concern. Tonya stated that the numbers on these RSI tables come from a third party actuary. Kellie asked Tonya to mention GASB 75 and the OPEB reporting requirements when she gave her presentation to the City Council later that evening.

Scott asked if the City's OPEB liabilities were similar to a COBRA insurance plan. Tonya explained that they are, however the City's OPEB liabilities are due to the Oregon statutory requirement that the City provide health insurance until retired employees are eligible for Medicare. Tonya further explained that when a retired employee of the City elects to stay on the City's insurance, it increase the rates of the City's pool and, even though that retiree pays the full premium amount, there is an increase in the plan rate for the whole City.

Scott mentioned that while they were working with the Budget Committee, some members expressed concern about decreases in the General Fund balance. Tonya indicated that the Statistical Section of the document reflects historic fluctuations of the General Fund reserve.

In response to questions about the City's debt, Tonya directed the Committee to the "Legal Debt Margin" table in the Statistical Section, page 161 which reflects that over the last ten years the City has never exceeded 35% of their applicable limitation on debt and the City is currently just over 24% of that debt limit. Tonya also directed the Committee's attention to the note disclosure "Change in Long-Term Liabilities" which shows all of the City's Long-Term Liabilities and their terms. She noted that the City's Park Bond debt obligation matures in fiscal year 2021.

Scott thanked Tonya for this information and suggested that she might also mention this at her presentation to the City Council later that evening. Kellie added that she was very pleased with the City's ability to pay their debts and the City's good Credit rating which allows them to borrow at a low rate.

Tonya noted that the Airport Fund had a negative balance at June 30, 2018. Marcia indicated that the reason the Airport Fund had a negative balance was due to receivables that had not yet been received from the FAA grant and the State's ODOT grant.

Presentation of the McMinnville Urban Renewal Agency Annual Financial Report for fiscal year ended June 30, 2018

Tonya referred the Committee to the McMinnville Urban Renewal Agency (URA) Annual Financial Report and the Independent Auditor's Report. MCO issued an unmodified or "clean" opinion on the URA statements. Tonya mentioned that the 2017 report would be comparable to the 2018 report due to GASB 75 not being applicable to the URA statements.

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Presentation of the Single Audit Report for Year Ended June 30, 2018

Tonya referred the Committee to the Single Audit Report for Year Ended June 30, 2018. She said that MCO was issuing an unmodified or “clean” opinion for the Single Audit. This is the highest opinion that can be given and MCO was very pleased that there were no reportable findings.

Tonya referred to the Federal Aviation Administration (FAA) grant received by the City for Airport improvement projects. She indicated that the City is managing the FAA grant extremely well and is in compliance with all grant requirements.

Other Items for Discussion

Marcia brought up the Rate Review that MCO will be performing for the City Council in regards to Recology’s request to increase rates. Marcia and Tonya reviewed the letter sent to the City by a concerned citizen and Tonya indicated that MCO was very comfortable with this industry and has done rate reviews for many other municipal organizations across the state.

Tonya mentioned that the report that MCO will issue to the City Council will be confidential and not public record because the City has only one residential solid waste franchise operating within the City limits. Tonya indicated that it will be very difficult to find comparable data, however with Recology being a national company, MCO will review overhead allocations from the parent company to ensure that administrative costs are allocated appropriately. Scott asked Tonya to mention MCO’s rate review for Recology at her presentation to the City Council later that evening.

Tonya mentioned to the Committee that MCO had recently completed a restructuring, eliminating their tax practice and focusing solely on government auditing and consulting business. She mentioned that they have also merged with another government consulting business to increase their level of expertise and experience.

Kellie, Scott and Marcia were pleased to hear this and Scott commented on how happy the City and the Audit Committee are to have MCO working for them.

There being no further business to come before the Committee, the meeting was adjourned at 6:09 PM.

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Date: June 11, 2019, 4:00 p.m.

Audit Committee: Kellie Menke, City Councilor
Absent: Scott Hill, City Councilor
Absent: Peter Hofstetter, Budget Committee member

Auditor: Tonya Moffitt, Merina & Company. LLP

Staff: Jeff Towery, City Manager
Marcia Baragary, Finance Director
Ronda Gretzon, Senior Accountant
Dewey Burchell, Accountant II

Handouts: February 12, 2019 Audit Committee Meeting Minutes

Minutes from Feb 12, 2019 meeting

The minutes from February 12, 2019 were presented for approval. A quorum was not present to approve the minutes.

Audit Deliverables

Ms. Tonya Moffitt, partner with Merina & Company (MCO), informed the Committee that the Audit Deliverables will be the same as last year. MCO will render an opinion on the basic financial statements and may also be required to perform a single audit this year. Tonya described the Independent Auditor's Reports required by Uniform Guidance and by Oregon State Regulations. She explained the difference in the reports. MCO will look at non-financial data in the Comprehensive Annual Financial Report (CAFR) for consistency but will not issue an opinion on that data. Tonya also mentioned that MCO will look at public purchasing for both the City of McMinnville and the Urban Renewal Agency.

Tonya gave a description of the Summary of Revenues and Expenses as required by Minimum Standards. She commented that MCO was subject to peer review in the prior year. The City's workpapers and financial statements were reviewed and no findings were reported by the peer reviewer. She gave a brief overview of the Management Letter and noted that this item is not always applicable. The Management Letter is used to communicate items that MCO identifies during the audit process that do not need to be reported as findings.

Tonya next discussed the AU-C 260 and AU-C 265 letters, which are required communications to those charged with governance. The AUC 260 letter is issued prior to the beginning of an audit to inform the Audit Committee about the items that will be included or excluded from the audit process. Tonya also discussed the the AU-C 265 letter, which is issued to the Audit Committee only if there are findings that should be reported to management or the State.

Audit Approach

Tonya explained that MCO staff has already been on site to complete interim fieldwork May 13-16, 2019. During this time, they performed audit planning, updated controls documentation, and performed internal

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control testing. The internal control testing included walkthroughs, following a process from start to finish and then working back to the beginning. MCO also completed risk assessments and developed audit programs and procedures for upcoming field work, which is scheduled for November 11-22, 2019. During fieldwork, MCO will review and test June 30 balances and perform all audit areas that were not completed during interim. Tonya mentioned that she is concerned that June 30 balances will not be finalized prior to August 31, 2019 which is Finance Director Marcia Baragary's final day of work.

Tonya also voiced concern regarding the timing of a replacement finance director coming on board with the City. If June 30 balances are not finalized before August 31, 2019, MCO will assume that closing journal entries may have more control risk without a finance director to review them. Tonya did not feel a consultant could maintain the workload of the current Finance Director and that a Finance Director or some other capable person with that capacity is crucial for completing the audit.

Tonya also expressed concerns regarding segregation of duties and internal controls for the June 30, 2020 audit. She is not as concerned about the 2019 audit because most of the closing work will be completed before the current Finance Director retires. Tonya also has concerns about ambulance transport billing that has been outsourced and the availability of the new billing company.

Tonya reiterated that the Finance Director position at a city the size of McMinnville is a key position and, regardless of the situation, MCO would have concerns about the change. Tonya was clear that she did not want the Audit Committee to feel that the City would have any more or less risk related to the change in the Finance Director position than any other city of their size. MCO will be able to help the City with any issues or concerns that may arise due to this change during the June 30, 2020 audit.

Tonya continued with her discussion on MCO's audit approach and deliverables. MCO will complete all audit deliverables mentioned earlier and there will be a final presentation to the Audit Committee in January.

At this time Tonya opened up the discussion for questions. Councilor Menke asked how many of MCO's audit clients, that are similar in size to McMinnville, have a finance director that is not a CPA. Tonya responded that she could only think of one, but that client did have two CPAs on staff. She continued that, though it is unusual for a finance director not to be a licensed CPA, there are some finance directors that have never been licensed and certified that are qualified for the position. Tonya also mentioned that typically a qualified individual without a CPA license would be found under the title of "Finance Manager" and would work for smaller organizations.

Councilor Menke followed with an enquiry regarding the benefits of having a licensed CPA in the finance director position. Tonya responded that the technical training paired with a high level of both skill and resources that are required of a CPA allows them to work, advise, and implement items that would otherwise require services from outside the organization.

Councilor Menke enquired regarding the resources available to the City that might be helpful if the City does not have a CPA on staff. Tonya answered that MCO is allowed to aid their clients in technical implementation for items such as GASB requirements. She also mentioned that training by audit firms such as MCO, the Government Finance Officers Association (GFOA), and the Oregon Society of CPAs (OSCPA) is available. She continued that consultants such as Debbie Smith-Wagar, whom the City is currently hiring to assist with the audit, can also be helpful. However, Tonya had concerns regarding the number of knowledgeable governmental consultants working the area.

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Tonya explained that there is a nationwide trend that is placing strain on many governmental organizations as older CPAs and skilled finance staff who have been working in government for a long time begin to retire. The majority of younger CPAs and skilled finance staff are moving into the private sector causing smaller governmental organizations in particular to employ non-licensed staff with little to no governmental experience at higher levels in their organizations. This is driving the demand for more advanced technical work to be carried out by consultants who are also in short supply.

Fraud Discussion

At this time, Tonya transitioned to the Fraud Discussion. She asked those present if there were any concerns regarding fraud within the organization. Councilor Menke stated that MCO had looked into the Committee's one area of concern in the June 30, 2018 audit and stated that there were no other issues of which the Committee was aware.

Tonya explained the Committee's oversight of fraud risks, assessments and controls. She then explained that, with the change at the finance director position, it may be a good time to review internal controls and procedures. Tonya stated that MCO did not have any areas of concern at this time and that the Committee or Council members should contact them at any time with questions or concerns.

New GASB Statements/Standards

Regarding new GASB standards, Tonya stated that new GASB standards and statements are coming out at a very high rate in recent years. New electronic versions of the standards allow for easier access to the new standards and also allow implementation guidance to be released much sooner than in the past.

Tonya explained that there are two new GASB statements that are effective with the fiscal year ending June 30, 2019. The first is GASB 83 - Certain Asset Retirement Obligations. GASB 83 establishes new criteria for determining the timing and methods for organizations to account for and report an Asset Retirement Obligation (ARO). Tonya does not foresee this GASB standard impacting the City in any material way.

The second GASB statement effective with the fiscal year ended June 30, 2019 is GASB 88 – Certain Disclosures of Debt, Including Direct Borrowings and Direct Placements. Tonya explained that the intent of GASB 88 is to require more transparency by clarifying which liabilities will require disclosure in the notes. These disclosures include lines of credit, even if they carry a zero balance, and collateralized pledges against debt.

Tonya continued by touching on GASB statements that are effective in future years. GASB 84 - Fiduciary Activities is effective for fiscal year ended June 30, 2020 and clarifies definitions of Fiduciary Activities. There is a second GASB statement effective for the 2020 fiscal year, GASB 90 - Majority Equity Interests. This GASB statement includes new reporting requirements for not-for-profit and for profit companies and component units. The statement would not typically include a discretely reported component unit such as McMinnville Water & Light.

GASB 90 includes new definitions of a "majority equity interest" and clarification on calculations of a "majority equity interest". Jeff Towery enquired about the possibility of the McMinnville Economic Development Partnership (MEDP) falling under the "majority equity interest" definition. Tonya said she will take a look at the agreement the City has with MEDP, but did not think that it would be covered by this GASB standard.

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Other GASB statements effective fiscal year ended June 30, 2021, include GASB 89 - Accounting for Interest Cost Incurred before the End of a Construction Period. The purpose of GASB 89 is to improve comparability and it eliminates capitalization of interest costs incurred before the end of a construction period, addressing the current difference in reporting between governmental and proprietary funds under GASB 62. The City should consider early implementation, if applicable.

Tonya explained that the final standard, GASB 87 – Leases, is causing the most talk amongst professionals. GASB 87 is changing the way leases are recorded and reported. Previously there were two types of leases, capital leases and operating leases and organizations were only required to report capital leases. GASB's intent is to increase transparency for financial statement users by improving the accounting and reporting of leases.

Tonya mentioned that MCO had just presented a training session on GASB 87 which the City's Accountant II, Dewey Burchell, attended. She stressed that even though this statement isn't effective until fiscal year ending June 30, 2022, there is a significant amount of work to be done and the City should begin that work now. All contracts will need to be examined to determine if they meet the definition of a lease under GASB 87, even if the contract does not specify "lease contract" or "lease agreement" in the text of the contract. Tonya stated that someone in the organization should be designated to move forward with implementation of this GASB statement so the City will not be caught off guard when it is time to implement. Marcia Baragary mentioned that Dewey Burchell was such person at this time.

Marcia mentioned the Emergency Communications lease that the City has recently executed and enquired about early implementation due to this lease. If the City decides that it will be too much work to early implement this year due to the transition in finance directors, she would like guidance on accounting for and reporting this lease for the fiscal year ending June 30, 2019. Tonya said that she will work with Finance Department staff on this lease agreement and determine whether early implementation is an option.

Jeff enquired about cloud space and other similar items that may look like a lease of an intangible asset, wondering if those items would be included in the GASB 87 definition of a lease. Tonya responded that GASB is currently working on a project that will address cloud space, software agreements and other similar items and these might be capitalized in the future even if there was a month-to-month subscription. Tonya disagrees with GASB on capitalizing an agreement that either party can terminate on a month-to-month basis. At this time, such agreements are not included under GASB 87.

Jeff enquired about the deployment of 5G and if it might be included under GASB 87. Tonya responded that the 5G contracts she has seen were leases and that they will have to be recorded and amortized under GASB 87 standards. Tonya suggested that the City should document any contracts or leases going forward and determine the discount rate on those contracts. Most organizations will use their borrowing rate in the amortization schedules or use the present value calculations required by GASB 87. The lessor is required under this standard to provide that rate to the lessee.

Tonya mentioned that with all GASB statements there is a materiality factor that should be taken into consideration. She used the example of a printer or copier lease and mentioned that these would not typically be reported in an organization the size of the City. Tonya also mentioned \$1.00 leases, specifically addressed by GASB, that are not to be reported. She mentioned that one of her clients has a lease with a balloon payment many years in the future. The lessee is making \$1.00 payments every year until the end of the lease when the balloon payment is required. These are examples of contracts that GASB will be addressing with the implementation guidance released in August 2019.

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Tonya also pointed out that there was an exception under GASB 87 for “short-term” leases that are held for a period of less than twelve months. This allows organizations to lease space for events that last less than twelve months. She also mentioned that if there is an option to extend these contracts, and it is reasonably certain that the lessee will exercise the option to extend the lease over a twelve month period, this would become a reportable lease under the new standard.

Other Items for Discussion

Jeff mentioned the City has hired a consultant to conduct an organizational assessment (review) due to the Finance Director’s retirement. Tonya agreed that such changes are great times to perform organizational reviews. Jeff is hoping to have the results of the review by July 15, 2019 and have an implementation strategy in place shortly thereafter. Jeff mentioned that Marcia is currently working on a scope of work for an interim finance director in order to minimize issues that may arise in the time between Marcia’s retirement on August 31, 2019 and hiring of a new finance director.

Jeff mentioned that the City was contacted by Moody’s Investors Service. Jeff and Marcia participated in a rating call with Moody’s and are expecting a notification later in the week with the results. Tonya mentioned that there is a recent push from the SEC for rating agencies to follow up on their 18 month periodic reviews and she is reasonably certain that was the nature of the call. Jeff mentioned that he had spoken with the City’s municipal advisor, Duncan Brown, after the call with Moody’s and Duncan had the same opinion as Tonya in regards to the nature of the call from Moody’s.

There being no further business to come before the Committee, the meeting was adjourned at 5:13 PM.