

Audit Committee
City of Newport/Newport Urban Renewal Agency
January 19, 2018 Minutes

I. CALL TO ORDER

Laura Swanson, Chair, called the meeting to order at 10:05 a.m.

In Attendance: Councilor Laura Swanson, Councilor David Allen, Audit Committee Member Glenda Rhodes, Alternate Audit Committee Member Councilor Mark Saelens, Finance Director Mike Murzynsky, Assistant Finance Director Steve Baugher, Capital Projects and Grant Accountant Linda Wertman

Attending meeting via Skype: Audit Manager Jessica Luther-Haynes and Brad Bingenheimer Partner, both with Boldt, Carlisle + Smith Certified Public Accountants

Absent: City Manager Spencer Nebel

II. APPROVAL OF MINUTES

David Allen had two minor corrections to the minutes of October 3, 2017. Page two, paragraph IV Committee Questions and Comments, first line, change finance to financial and second paragraph of that same section line four change filled to filed. **MOTION:** Glenda Rhodes moved to approve minutes with corrections and **SECONDED:** by David Allen. The motion carried unanimously in a voice vote.

III. FINANCE REPORT ON AUDIT

Mike Murzynsky discussed a report he did for Spencer Nebel, City Manager on December 27, 2017. The report was an overview of the FY 2016-17 audit results and findings. Findings consisted of the new GASB 77 implementation, which relates to tax abatement and identified in the notes area. Also listed in the notes area are findings with prior period adjustments. Two of these had to do with the water and sewer fund and unbilled receivables with an adjustment of \$1,500. The other prior period adjustment was due to unbilled receivables. This adjustment was much larger at \$1.5 million; it was associated with the deferred water bond issue that had not had interest accrued. The adjustment was necessary to rectify that lack of accrual. Mike also discussed the action plan presented to Council for the three funds or programs, which were over budget at year-end. The three funds were Parks Administration over by \$1,900; Swimming Pool Operations by \$1,600; and a debt program that was caused by the auditors add in (Brad) for \$4.00. Laura asked how the Parks and Recreation overages were covered. Mike stated that the Parks and Recreation have a healthy beginning fund balance, which will be used for coverage. The final finding, which was also noted in last year's audit, is in the area of Federal Grants and the requirement to implement new purchasing rules. Mike stated the policy is ready to go but will take some time to implement. Brad discussed the new requirements in federal grants that came into effect last year and it is a change in federal requirements. Mike stated the process of implementing this requirement has begun. There was discussion concerning the action plan filed with the secretary of state. Mike passed out Resolution #3795 Adopting a Corrective Plan of Action for findings related to the 2016-17 Fiscal Year Audit as well as the Summary of audit finding related to 2016-17 Fiscal Year Audit report dated December 27, 2017, submitted to Spencer Nebel, City Manager.

David Allen requested the City Council be sent a link to the Audited Financial Statements on the website to officially notify them that the financials are posted and available. The Council should also receive a copy of the December Summary Report, so the Council has the information well in advance. Glenna Rhodes expressed concern over the timing of the audited financials being posted to the website prior to the report to the Audit Committee. David explained some of the history of the committee formation, and the desire for transparency to make the audit available to the public as soon as it becomes public record once filed.

IV. PRESENTATIONS

A. Newport Urban Renewal Agency

Brad Bingenheimer reported on the Urban Renewal Agency. The Auditors stated the Financial Statement Report for the Agency is represented fairly. His presentation was a brief summary of what is reported in the Financial Statements. Debt service was discussed and a summary of long-term debt is located on page 20 of the report. Since the Agency is a separate entity under Oregon State Law, the Auditors have also issued the report under the requirements of the minimum standards, which talks about the Agency's compliance with Oregon state laws and regulations and internal controls. No comments or findings were made for the Agency Financial Statements. An upcoming project will utilize much of the Agency's current funds on hand. Brad stated the most important thing you want to see with the Urban Renewal Agency is that there is sufficient tax revenue to pay debt service, which the Agency does have, along with healthy reserves.

B. City of Newport

Brad Bingenheimer reported on the City of Newport's Financial Statements, he went through the financial statements with the committee. Brad stated there was positive financial development for the City, and there was generally good management within budgetary constraints. Brad stated the water fund is in a slight deficit position of negative \$1.9 million with the wastewater fund in a positive position of \$35.6 million. Part of the deficit in the water fund is due to the previously reported prior period adjustment to the water fund for the Water Bond interest accrual catch up of \$1.5 million. Other discussion concerned the footnotes, which included PERS and the City Pension Plan.

The State and Federal Compliance section was discussed. Other than budget law requirements, the auditors noted no failure in compliance with state and federal laws. They did not find any significant issues with internal controls that need to be identified to the Committee or Council. Government Reporting Standards were reviewed which look at the financial statements as a whole and expands to any other laws; regulations and contracts, there were no findings. Lastly, the Auditors reviewed the Uniform Guidance Standards, which cover Federally Funded Programs, looking at internal controls and compliance with those controls. The one finding made was the lack of written procedures over the determination of allowable cost charged to federal programs. As reported by Mike previously they are not yet in place.

David Allen asked Brad about the PERS Retirement liability and City Retirement liability. He noted that a few years ago the City Retirement plan was funded in the low 60% it is now at 87% funded which is good. There was more discussion regarding future PERS hits to small cities.

There was general discussion about Comprehensive Annual Financial Reports (CAFR), as well as the City's plan to issue a CAFR next year. Brad discussed possible changes in the schedule of the audit for next year

and stated the law requires the auditors must deliver the Audit Report to the City by December 31. The City has 30 days to file the audit to the Secretary of State. If we need more than 30 days, the City would need an extension from the Secretary of State. The discussion continued to next year's meeting schedule. The committee discussed meeting after the audit is received and within the 30 day period prior to filing with the Secretary of State. Brad stated that would be the optimal time for the committee to meet. The submittal to Council would occur at the first meeting in February.

Mark stated the CAFR might extend this timeline the first year, it may also require City department heads to have some tight deadlines. The history contained in the CAFR was discussed as well as the the cost of the Audit.

V. AUDIT COMMITTEE GOALS

Laura went over past goals for the finance department with Mike and the committee. Discussion by the committee set the following goals for the committee:

1. In order to provide the City of Newport the best financial statements available we will issue a CAFR for the FY2017-18 Audit
2. Document internal controls with continuous review
3. Implement a purchasing system
4. Schedule four timely meetings
 - a) Pre-audit meeting at end of May – June
 - b) The week of Auditors field work, at end of week
 - c) January prior to filing
 - d) Presentation of Audit to Council in FebruaryThree meeting with the Auditors and the February meeting without.

David Allen discussed our next meeting and suggested the presentation this year would be at the March 5, 2018, meeting but in the future, we should try to have presentation to council by the second meeting in February.

VI. COMMITTEE COMMENTS:

Mark Saelens said that he feels one of the most important things across all groups and all levels is good financial management. He feels the efforts made over the last few years has taken us from a typical standard small city who wasn't doing such a good job to the tops, considering the resources we have is really refreshing and comforting. He has not heard a lot of concern from the community lately about the city spending money wildly, but part of our goal is to inform our citizens just what a responsible process we have.

VII. PUBLIC COMMENT

No members of the public were present, and no comments provided.

Meeting adjourned at 11:40 p.m.