

City of Newport
Audit Committee Meeting
City Hall, Conference Room A
Tuesday, March 3, 2015

Audit Committee Members Present: David Allen, Laura Swanson & Fred Springsteen

Alternate Committee Member Excused: Mark Saelens

City Staff Present: Mike Murzynsky, Linda Brown, John Dubois & Randi Siller

I. CALL TO ORDER

The meeting was called to order at 9:30 AM by Allen.

II. INTRODUCTIONS

Introductions were made.

III. APPROVAL OF THE MINUTES OF FEBRUARY 5, 2015

Swanson made a motion to approve minutes of the February 24th, 2015 meeting. The motion was seconded by Springsteen, and carried 2-0. Allen abstained from the motion due to his absence from the February 24th meeting.

IV. AUDIT RFP – AUDITOR INTERVIEWS

Allen began by summarizing the meeting's agenda and noted that interviews would commence for the audit firms that had the top three scores on the proposals. He noted that the first firm would be Boldt Carlisle & Smith beginning at 10:00 AM, followed by Isler CPA, LLC at 1:00 PM, and finally Merina & Company at 2:30 PM. Murzynsky went over the fourteen questions that were to be utilized in the interviews. He explained that we want to hear them communicate to us and hear them describe in person some of the things that were outlined in their proposals. Murzynsky also explained that we are looking for somebody who can give us continuity and assure that we will have a dedicated "lead" auditor throughout the audit process. We do not want to be shifted around between several staff in the company throughout the audit process as we have seen with our previous auditor. There were questions about meeting deadlines, providing assistance with the CAFR (Comprehensive Annual Financial Report), and about ability to meet upcoming reporting requirement changes. The committee agreed that the questions would be split up and everybody around the table would take turns asking assigned questions to interviewees. Also, the firms being interviewed would be given the opportunity to ask questions of the staff and Committee. Murzynsky also noted that interviews should be kept down to an hour each and that there would be 50 points available to be awarded for interviews. Those points

would be added to RFP scores to determine the best score and choice of firm to recommend to Council on March 16th. The Committee discussed the importance of keeping the interview questions consistent from one firm to the next. If an additional question were to be asked in the first interview, then it must also be asked in the others. Consequently, if a question was not asked at the first interview it could not be brought up in the second or third.

The Committee adjourned for a break at 9:45 AM

The Committee returned at 10:00 AM and the first interview began. Bradley Bingenheimer, Partner, and Ann Kim, CPA, were present representing Boldt Carlisle & Smith. The firm has been operation since 1968 and has three office locations: Salem, Stayton & Albany. They specialize in municipal auditing and are a fairly large firm with nearly fifty employees. The Committee and staff asked questions and Bingenheimer provided comprehensive answers to each. The Committee thanked interviewees for their time and the first interview ended. The Committee determined that it would be best to wait until after all three interviews to have further discussion regarding the scoring and selection recommendation. The Committee adjourned at 11:00 AM for a break and lunch between interviews.

The Committee reconvened at 1:00 PM and the second interview began a bit after schedule, at about 1:10 PM. Paul Neilson, Member/Partner, was present representing Isler CPA, LLC. The firm has about 35 employees and specializes in tax and audit. They have worked with municipal, tribal, bank, commercial and non-profit audits. The staff and Committee asked the series of interview questions and Neilson provided answers to each. The Committee and staff thanked Nielson for his time. The Committee adjourned for another short break between interviews at 1:55 PM.

The Committee meeting resumed at 2:30 for the final interview with Merina & Company. Two CPAs were present to represent the firm: Kamala Austin, Partner, has been with the firm for 17 years, and Lyn Pope, Audit Manager, has been with the firm for 11 years. The firm has been in business for 35 years and specializes in municipal audits. The interview questions were asked, one by one, and the firm's representatives answered each question. The final interview concluded at about 4:00PM. The committee adjourned for another break prior to the final discussion on scoring and selection recommendation.

V. AUDIT COMMITTEE DISCUSSION, COMMENTS & QUESTIONS

The Committee returned from a short break at 4:10 PM. The Committee members and staff present shared their thoughts on the interviews and much discussion occurred regarding which firm should be recommended to council for contracted audit services. Murzynsky provided the Committee with the updated price schedule so that the cost could be discussed and included for consideration in the decision making process. Murzynsky explained that Pauly, Rogers & Co. had not included the cost of the Urban Renewal audit in the original price for services. The issue was clarified and the price schedule was updated with the accurate cost for audit services from Pauly, Rogers & Co. Murzynsky pointed out that Merina & Company comes in very low on the price schedule while Boldt Carlisle & Smith would cost about \$20,000 more for the total cost of the

audit of five fiscal years. The cost of audit for five years by Isler CPA, LLC fell in the middle of the other two firms that were interviewed. Murzynsky stated that the process could come down to a “best and final offer” if that is what the Committee wanted to do. That would mean that each firm could make their final offer on cost of audit and the recommendation to council be made based on the lowest priced services.

Swanson voiced some concern for what sounded like a lack of work-life balance based on the interview with Isler CPA, LLC. The group discussed the issue and agreed. Murzynsky pointed out that Nielson was late for the interview and that he could have planned better and left Eugene earlier to make a timely appearance. The group agreed that the lack punctuality does not align with the qualities the city is looking for in an audit firm.

Allen asked for some clarification from the other members as to what they had gotten out of a specific question and answer with Merina & Company. The firm’s representatives had indicated that the firm has never had a situation where they had a disagreement with a client. The committee confirmed that everyone had interpreted the answer in the same way. Allen stated that, based on that one answer and some confidential knowledge that he has acquired elsewhere, he felt the need to abstain from participating further in the discussion and choice of which firm to recommend to council.

DuBois and Springsteen both brought up some positive observations regarding Merina & Company’s answers to the interview questions. DuBois noticed that when asked about the benefit of continuity, their answer addressed the benefits to the city, while the other firms answered with the benefits it brings to their firms. Springsteen pointed out that Merina & Company’s representatives had asked probing question regarding the city and our issues, while the other firms did not show much interest or concern for the issues unique to our city. Brown stated that she appreciated that Merina & Company would switch up some areas of audit after a couple of years to test and audit areas that may not be looked at in detail with every annual audit. Brown explained that in her experience, after a couple of years with the same audit firm, it becomes easy to predict which materials will be audited in detail and also which one’s will not be looked at. Murzynsky stated that the downside of Merina & Company is their small size and the basic systems they are using for the audit process. The efficiency of their audit could be weakened by the lack of technological software for information processing.

The group had discussion about Boldt Carlisle & Smith as well. Everybody seemed impressed with the answers that were provided by representatives Bingenhimer and Kim. Although Bingenhimer was the one primarily answering the questions, when confronted Kim was able to speak up with appropriate answers for the questions as well. The Committee noted that Kim was not real comfortable or experienced in the interview setting, but she was able to step out of her comfort zone and provide answers when confronted.

Allen reminded the group that we have the base scoring that was determined based on the proposals, and that there are 50 additional points to be allocated for interviews. The points can

be split between the firms or all 50 can be given to a single firm. Swanson voiced that she feels that it is important to have a firm that Finance staff is comfortable working with. The staff members indicated that they would be comfortable working with any of the firms. Springsteen voiced that based on interviews being fairly equal with between Merina & Company and Boldt Carlisle & Smith, he would like to see the recommendation fall back on the price difference. \$20,000 over five years seems quite significant if the value of the audit is equal from either firm.

Allen requested one final break before the group comes to a decision for a recommendation. The Committee returned from break at 4:30 PM. Murzynsky explained that points have already been given for the price factor in the main proposal scoring and there are 50 points to award for the interviews. The group seemed to all agree that Isler CPA, LLC is last place for interviews and will not receive any points. The group had some conflicting opinions regarding whether the 50 points should be split between Boldt Carlisle & Smith and Merina & Company, or if all points should be awarded to Merina & Company which would push the process into best and final offer situation. After further discussion the group came to a general consensus that the points will be split in half with 25 awarded to Boldt Carlisle & Smith and 25 to Merina & Company, placing Boldt Carlisle & Smith as the firm to be recommended to Council at the March 16th, 2015 meeting.

VI. SCHEDULE NEXT MEETING

The date and time of the next Audit Committee meeting will be determined at a later date.

VII. ADJOURNMENT

With no further business to discuss, the meeting was adjourned at 4:45 PM.