

September 22, 2015
10:00 A.M.
Newport, Oregon

CALL TO ORDER

David Allen called the September 22, 2015 meeting of the Audit Committee to order at 9:05 A.M.

ROLL CALL AND INTRODUCTIONS

Those in attendance were David Allen, Laura Swanson, Mark Saelens, City Manager Spencer Nebel, City Recorder/Special Projects Director Peggy Hawker, Finance Director Mike Murzynsky, Assistant Finance Director Linda Brown, and Brad Bingenheimer and Jessica Luther from the auditing firm of Boldt, Carlisle, and Smith.

Allen reported that Don Huster had been appointed at last night's City Council meeting to replace Fred Springsteen who had resigned.

APPROVAL OF MINUTES FROM THE MEETINGS OF MARCH 3, 2015 AND MARCH 10, 2015

Allen made the following changes to the minutes of March 3, 2015: deleted the word "comprehensive" regarding comments, and changed the word "confronted" to the words "directly asked." He added that the minutes should note that he abstained from the general consensus for the reasons noted earlier in the meeting.

Having no additional changes, MOTION was made by Swanson, seconded by Allen, to approve the minutes with the changes as noted. The motion carried unanimously in a voice vote.

UPDATE FROM THE AUDITOR ON THE ON-SITE AUDIT WORK

Murzynsky and Brown left the meeting, so that the auditors could have a conversation with the Audit Committee without Finance Department staff.

Bingenheimer reported that in looking at past audited financial statements, it appears that the defined benefit and contribution plans are overseen by a committee when the City Council has control of these plans. He noted that investments should be part of the reporting entity of the city, rather than showing up in the financial statements as in the past. He stated that not including this is a violation of generally accepted accounting practices. His recommendation was to bring this information into the reporting entity.

Allen asked how this will change the actuarial analysis and audit report. Bingenheimer stated that this is nothing that the actuary is doing, and added that the city has to comply

with GASB68 this year. He noted that this looks at the city's net pension liability, and there is a similar requirement for PERS.

Allen asked whether there are other scenarios where the Retirement Board is not appointed by the City Council. It was reiterated that the City Council has oversight authority over the defined benefit plan. Bingenheimer reported that this should have been included in the financial statements for years, and that GASB67 should have been implemented last year.

Bingenheimer reported that the previous auditor had to make a correction as it missed a significant federal financial assistance program, and the city was out of compliance with federal regulations. Nebel asked whether the correction will appear as a separate statement in the audit. Bingenheimer noted that the contributions, payments, and expense will be listed from the beginning to the end of the year before the beginning of the notes.

Luther reported that another issue noted is that there are outstanding checks on closed accounts. She cited a closed Bank of the West account that has \$7,000 in outstanding checks. She stated that these need to be turned over to the state causing a reduction of the cash position.

Luther stated that there is no record of Public Works inventory in the July assets which should be reflected.

Bingenheimer stated that Murzynsky is drafting the financial statements, and noted that his firm can do that, or the city can draft them. He stated that there is a lot that is still in flux, and that his firm is working with adjusted trial balance numbers which creates difficult work. Allen asked whether this is something that Murzynsky wants to do. Nebel noted that with the reorganization of the Finance Department, some responsibilities are still in transition.

Bingenheimer asked whether the Audit Committee had specific concerns. Allen stated that it would be beneficial for the Audit Committee to have a clear understanding of what the audit report says before the presentation to the City Council. Swanson agreed. Saelens noted that the processes are better and still improving.

Allen asked about the meeting schedule. Bingenheimer stated that there would be two additional meetings: one after his firm has complete financial statements and before the report is issued; and one after the report has been issued to review what it says. Allen suggested a meeting in early November with a second meeting in December or January.

Nebel asked whether Council is required to accept the report. Bingenheimer stated that there is no requirement for Council to accept the report, but that it is a good practice. Bingenheimer noted that his firm will finalize the report and date the opinion on the financial statements, and the city has 30 days to submit it to the Secretary of State with the filing fee.

Nebel reported that the Finance Department is working diligently to disperse work responsibilities. He added that a concern is the segregation of duties, and the accessibility to make changes in the system. He noted that this needs to be reviewed with an eye toward best practices. Luther stated that, in July, computer controls were not in place. Bingenheimer addressed the issue of cost versus benefit noting that the benefit should be equal to or greater than the cost.

A discussion ensued regarding contacts at the firm. Bingenheimer noted that Luther is the point person for the auditing work, but that he is typically involved in meetings, particularly the first meeting with a client. It was noted that after the financial reports are complete, meetings dates could be scheduled.

A discussion ensued regarding software for financial statements. It was recommended that Murzynsky have someone in the department who can prepare the financial statements, if necessary. Swanson reported that the city's software system, Caselle, cannot produce financial statements, and asked whether there is any other reporting program that could work with Caselle.

Bingenheimer asked whether there were any concerns related to fraud. Allen noted that he prefers the confidential surveys that Council, and others, have been receiving, as it promotes candidness.

ADJOURNMENT

Having no further business, the meeting adjourned at 10:10 A.M.