

Audit Committee
City of Newport/Newport Urban Renewal Agency
November 23, 2016

I. CALL TO ORDER

The meeting was called to order at 10:00 a.m.

In Attendance: Spencer Nebel, Councilor Laura Swanson, Councilor David Allen, Councilor Mark Saelens, and Mike Murzynsky. On Phone: Brad Bingenheimer & Jessica Luther-Haynes of Boldt, Carlisle and Smith.

II. INTRODUCTIONS

III. AUDIT COMMITTEE DISCUSSIONS & IV. COMMENTS AND QUESTIONS

A. June 23rd, 2016 Bold, Carlisle and Smith Preliminary Findings

Brad spoke to the need to increase internal controls surrounding the Finance Department. The fact that the Assistant Finance Director position had access to blank checks, vendor set ups and JE's was a very dangerous situation that could easily result in fraudulent behavior. He also stated that anyone that has check-writing ability should not also be authorized on Positive pay or their own check run. He went on to say there are steps the City could to improve the controls but ultimately the City will need to do a Cost/Benefit analysis to determine just how deep they want to go. He said he was happy that Mike had already taken the time to look at the findings and make suggestions as to best implement new controls.

Mike explained his solutions to the committee which included moving the blank stock to a secure environment that is locked up nightly. He said he has a key, Linda (Assistant Finance Manager) has key and another key was placed in a 'hidden' location known only to Mike. He stated the checks were now secure. He also said that, regarding User Rights, he agreed that the Department needs to keep an eye on who gets the rights within the system. That can be accomplished by telling IT to give each user a specific set of rights and then we can review it. He said that the Department had taken care of quite a bit of it but still need to move the setup of the rights outside. Mike was asked where the secure location was and he replied that it was in a locked cabinet outside of his office.

Mark spoke to the need of having documentation when communicating with IT to avoid collusion with IT and an employee. It was agreed that much scrutiny needed to occur when such requests/changes are initiated. Spencer asked if there was a list of Users and User Rights and if there was a log made when changes are made. Mike said yes on the former but wasn't sure about the latter. Spencer spoke of his concern about IT being able to create vendors and Brad replied saying that because IT wouldn't have access to check stock it shouldn't be a problem. He did say that if the City moves to electronic payments that would be something to look into

Minutes November 23, 2016, Cont'd

Brad brought up the check stock and said there was still a weakness if Linda still had access and said, again, it was a cost/benefit analysis situation.

A discussion ensued about the checks and how they are currently monitored. Mike said that there are compensating controls in that he maintains and reviews a check register and if he sees something out of sequence he investigates it. Mark Saelens asked Brad what he thought the process should be with the check stock and Brad replied that a second lock on the cabinet would be one answer so that Linda could only access it during normal working hours. Through discussion, it was suggested that a 2nd lock with a 2nd key that Mike holds is the answer. Finally, the consensus was that the 2nd key should be located somewhere in the City Manager's office with only Mike and Spencer knowing the location.

Brad asked who performed the bank reconciliations and Mike replied that Linda did. Brad stated that he did not think Linda should be the one doing that and Mike replied that the new accountant they are hiring soon would be doing that.

10:20 David Allen arrived – the committee brought him up to speed on what had transpired prior to his arrival.

Mike explained what the new re-organization of the Accounts Payable department entailed. He also said that all of the vendor set up will be done by Payroll. He further explained that the only people doing JE's would be himself, Linda and the new accountant. He said that the new accountant would be like the 'central link' or the 'watchdog' to ensure that procedural boundaries are met within the Department. The new person would also take over the bank reconciliations, review of JE's and review of write-offs to make sure the systems (AP, Payroll, UP, UB Billing, etc.) are matched to the GL. Brad stressed that the bank reconciliations needed to be done in a more timely manner and Mike agreed. He said the loss of a key person in the department created delays but that they were getting back on track.

Mike asked Brad about his recommendation regarding printing out reports from Caselle to review JE's and Write-Offs. He said he already does review the GL. Brad said he understood but also was concerned

about the possibility of someone doing a GL and not giving it to you? He said it would behoove Mike to create a report in Caselle that he can do monthly and review it to make sure nothing's going on that shouldn't be. Mike agreed and said he believed there was capability to produce such a report and he would look into it. He also stated that one person would handle all write-offs.

Mike then reported that Positive Pay will be split up – John in Payroll will do A/P Positive Pay and Kay in A/P will do Payroll Positive Pay. A discussion ensued about what Positive Pay is and how important it is

to have good controls implemented. Brad gave some examples of just how creative people can get in changing 'Payee's' and defrauding the banks and other entities.

All agreed that the new organization of the Finance Department would result in better controls and would be a positive change.

Laura asked if all present agreed that all of the solutions discussed in response to the issues brought up by the auditors were adequate. All agreed.

Mike asked the auditors if they felt the Financials would be done by the 15th. Brad replied that they were on track to meet that deadline and will be in contact if something changes. Mike then asked if they felt they would be done by the 31st and Brad said he couldn't imagine why they wouldn't be. Laura stressed the importance of making sure an extension wouldn't be needed and Brad assured her that an extension wouldn't be necessary.

V. SCHEDULE NEXT MEETING

David asked Brad his recommendation on when the next audit committee meeting should be given that it is contingent on the filing of the audit on a timely basis. There was a discussion with all parties about the best time and the date of January 12th, 2017 was agreed upon – time TBD – and the presentation to the City Council would occur in February. It was stated that emails would be sent out closer to the date.

David asked Laura if she would take over as Committee Chair for the Audit Committee since he's been on since 2011. Laura agreed.

No Public Comments.

Meeting Adjourned 11:11 a.m.