

Audit Committee
City of Newport/Newport Urban Renewal Agency
October 12, 2018 Minutes

I. CALL TO ORDER

Acting Chair, David Allen, Audit Committee Member, called the meeting to order at 10:32 a.m.

II. INTRODUCTIONS

In Attendance: Committee Member Acting Chair Councilor David Allen, Public Audit Committee Member Glenda Rhodes, City Manager Spencer Nebel, Finance Director Mike Murzynsky, Assistant Finance Director Steve Baugher, Capital Projects and Grant Accountant Linda Wertman, Boldt Carlisle +Smith CPA Account Manager Jessica Luther-Haynes, Boldt Carlisle +Smith Partner Bradley Bingenheimer attending via teleconference. Alternate Committee Member Councilor Mark Saelens joined the meeting just prior to the approval of the minutes.

Committee Member Allen requested a change in the order of the Agenda for item V. a. Conflict of Interest training. Member Allen requests this item be moved to the end of the Agenda to ensure sufficient time for discussion of the other items on the Agenda. Member Allen stated he has another commitment and would need to leave by 11:45 a.m. He spoke with the City Attorney Steve Rich, and he was fine with moving the training to the end of the meeting. With that, the conflict of interest training is moved to the end of the agenda and the meeting continued.

III. APPROVAL OF MINUTES

The committee noted that no corrections were needed to the draft Minutes of August 3, 2018. **MOTION:** Member Rhodes moved to approve the minutes and **SECONDED:** by Member Allen. The motion carried unanimously in a voice vote.

IV. AUDITOR UPDATE FROM ON-SITE AUDIT WORK

Auditor Haynes stated the audit team have almost completed their procedures and should be leaving early this afternoon. They have begun drafting the auditor's report in the financial statements. Journal Entries proposed so far relate to a few accounts payable items that should have been accrued back to the prior year. These items were discussed with Director Murzynsky and he agreed, so the accruals were posted. The other proposed Journal Entry is an accounts receivable item related to debt proceeds that should not have been accrued. Those are the most significant journal entries so far. Member Rhodes and City Manager Nebel asked about the debt service entry of over \$200,000. Auditor Haynes stated that debt proceeds were accrued back in accounts receivable, the proceeds were received in July but billed in the previous year; however, loan proceeds cannot be accrued so this accrual was reversed. Member Rhodes asked what the amount of the accounts payable accruals had been and Brad stated the Journal Entry (JEs) accruals were \$113,000 overall. Haynes stated that there was nothing else terribly significant found at this point and since we were not subject to a single audit this year, there is nothing to report there.

Auditor Haynes asked Auditor Bingenheimer if he had anything to add. Bingenheimer stated that as audits go this has been a pretty straightforward audit. The only thing of any real significance was something we talked about last year, which was the implementation of GASB 75. We needed a little extra work to get those numbers in which are based on actuarials. Other than that, it has been a routine type of audit with nothing jumping out as a significant problem. Member Rhodes asked if there were any reportable conditions or any internal control problems. Both Bingenheimer and Haynes stated they have seen no issues and that the city has worked very hard to resolve any past issues.

Member Allen asked if we were still planning to get everything submitted and filed by the end of the year. Haynes stated we should be on track for that because she is farther along than in previous years largely due to no single audit and receiving the data sooner, which allowed her to start earlier. Haynes stated she will start drafting the financial report in the next couple of weeks and will send the report back to Director Murzynsky for him to complete the Comprehensive Annual Financial Report (CAFR) portion. This will be the first year that we will be doing the CAFR report. There was some discussion about the timing of the next meeting and submittal of the audit. The auditors confirmed that they will issue the audit by the end of the year but it will not be filed until after the next Audit Committee meeting in January. There was discussion regarding the committee alternates and how to best recruit new alternate public members.

Bingenheimer stated that the auditors would need time to review the CAFR report when completed to ensure it agrees with the audit, which is a requirement of the CAFR. He stated that they will issue the financials by the end of the year to the City, and the City would have 30 days after that to submit to the Secretary of State.

The committee discussed various aspects of the CAFR. Member Allen asked Bingenheimer how many Cities of our size in Oregon actually submit CAFRs and Bingenheimer responded that for Newport's population we are the exception, and there was only a handful of cities Newport's size that actually submit a CAFR. Only about half of the Counties submit CAFRs. After the CAFR is submitted, Director Murzynsky will send it to the Government Finance Officers Association (GFOA), who will go through it and rate it to ensure it complies with everything they think, should be in the report. At this point, they will either issue a letter awarding it or not awarding it. They will additionally provide a letter, which includes feedback on ways you could improve or things to correct for your next submittal. You get a certificate and a plaque to put on the wall. Next year's CAFR will include the prior year's certificate in it.

Member Mark Saelens commented on his decision not to run for reelection and he conveyed to the group how much he will miss serving on this committee and what a tough decision it was for him. He said he was proud of the accomplishments and goals that were completed over the last few years.

V. AUDIT COMMITTEE GENERAL COMMENTS & QUESTIONS

a. Review of Revised Auditor Engagement Letter

A copy of the Revised Engagement Letter was provided to the Committee members. Murzynsky stated that he reviewed the Letter and it matches the budget numbers and Request for Proposals (RFP) submitted. Member Rhodes asked why the letter was revised and Murzynsky stated it was because no Schedule of Expenditures of Federal Awards (SEFA) was required this year. Member Allen discussed the annual engagement letter and the agreement the Council entered into and delegated to management staff to enter into the subsequent engagement letters through the

term of the contract. Member Rhodes had several questions regarding the engagement letter at the last meeting and Member Allen agreed that seeing these engagement letters annually is a good practice. There was discussion regarding the contract process.

b. Discussion of Additional Practices for the Audit Committee

1) Current Audit Committee Responsibilities Handout

Member Allen stated the discussion is, what is our role and oversight responsibility, and how is that related to the audit review of city management, finance department, and city council. Member Allen stated the committee was formed in 2011 by a resolution, and eventually by ordinance and made part of Newport Municipal Code 2.05.080. Member Allen asked if the responsibilities listed in the code were sufficient or if the committee would like to make any changes. The committee discussed potential changes. Nebel asked where we were with the auditors' contract, and Murzynsky stated that there is one additional one-year extension left on the current contract. The current contract is a three-year contract with two one-year extensions.

2) Best Practices for Audit Committee Handout

Spencer suggested a master calendar be drafted that covers the items annually that need to be reviewed by the committee. The committee asked that a draft schedule be prepared for the committee to review and discuss at the January meeting that would include statutory requirements for submittal to the state and governing body.

Bingenheimer stated he appreciated the presence of the Audit Committee because if an issue is discovered with top management the auditors need to have someone to report these items too. There was discussion regarding the professional standards requirements of contacting the governing body to poll them if they are aware of any issues.

VI. CONFLICT OF INTEREST TRAINING WITH STEVEN RICH, LEGAL COUNSEL FOR THE CITY OF NEWPORT

City Attorney Rich handed out conflict of interest information to the Members. Rich stated by definition, as a member of this committee, even volunteers are considered public officials. Rich noted that the handout material is a valuable resource, which lists the website of the ethics commission that can provide information and publications for your review. Rich discussed the difference between bias and conflicts, and potential and actual conflicts. Also discussed was the potential conflict with relationships of family members. Several scenarios were discussed with the committee. The disclosure of conflicts was discussed as well as reporting requirements. Rich told the committee members not to hesitate to call him if they have any questions. Acting Chair Councilor David Allen left the meeting at 11:45

VII. PUBLIC COMMENT

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

VIII. ADJOURNMENT

Committee Member Councilor Saelens adjourned the meeting, at 11:58 a.m.