

**Audit Committee**  
**City of Newport/Newport Urban Renewal Agency**  
**January 29, 2019 Minutes**

**1. CALL TO ORDER**

Acting Chair, Councilor David Allen, called the meeting to order at 10:10 a.m.

**INTRODUCTIONS**

*In Attendance:* Committee Member and Acting Chair Councilor David Allen, Public Audit Committee Member Glenda Rhodes, Committee Member Councilor Dietmar Goebel, City Manager Spencer Nebel, Finance Director Mike Murzynsky, Assistant Finance Director Steve Baugher, Capital Projects and Grant Accountant Linda Wertman. *Attending via teleconference:* Boldt Carlisle +Smith CPA Assurance Manager Jessica Luther-Haynes, Boldt Carlisle +Smith Partner Bradley Bingenheimer.

**2. ELECTION OF COMMITTEE CHAIR**

MOTION: Member Rhodes nominated Councilor Allen as Committee Chair **SECONDED:** by Councilor Member Goebel. The motion carried in a voice vote with Councilor Member Allen abstaining.

**3. APPROVAL OF MINUTES**

The committee noted that no corrections were needed to the draft Minutes of October 12, 2018. **MOTION:** Member Rhodes moved to approve the minutes and **SECONDED:** by Chair Allen. The motion carried in a voice vote with Member Goebel abstaining.

**4. FINANCE REPORT ON AUDIT**

**A. Action Plan**

Murzynsky reported on the Action Plan staff report that will be going to City Council prior to submittal to the state. The Action Plan, identified areas where the City was out of compliance by over expended budget appropriations and two issues with reporting requirements one federal and one state. Murzynsky requested direction from the committee on when the report should be presented to Council, before or after the audit presentation. Nebel stated the Action Plan should be presented after the audit presentation and Member Allen suggested we add the Action Plan report review to the next meeting in February's agenda and we review it at that time.

**5. AUDIT PRESENTATION BY BOLDT, CARLISLE & SMITH**

**A. Newport Urban Renewal Agency (URA)**

Brad discussed highlights of the audit for the Urban Renewal. The auditors issued their opinion, which was an unmodified, and the financials were presented fairly. The Urban Renewal Agency ended the year in a deficit position of 4.6 million dollars, which was an

increase in the deficit of \$600 thousand dollars. Member Goebel asked what happened to cause this and Murzynsky explained the process of urban renewal and GASB 34 function. Nebel explained that this would be the balance if the Agency ended as of June 30, 2018. Member Rhodes asked Murzynsky what the Fair Market Value (FMV) was of the Property held by the Agency and he stated that the \$1.5 million was the carrying value and he was not sure what the current market value was at this time.

Brad stated that in a full accrual basis the Agency is in a deficit position which changed by \$600 thousand dollars. Page 10 of the report the statement shows a positive equity fund balance of \$2 million dollars, and as shown on page 11 that is not a \$1.8 million dollars because there was a \$2.8 million transfer out to the City from the Urban Renewal Agency. Last year the ending fund balance was \$3.9 million and this year it was only 2 million, so it is likely that transfer out was what caused that change. Murzynsky explained that the transfer out was for the 35<sup>th</sup> Street signal project down in South Beach, the funds were moved to the City's Capital Project fund.

Brad referred to page 20-footnote number 4, which shows the change in the long-term debt. It reflects the URA has paid down \$1.2 million in principle of long-term debt, paying off the 2008 bond entirely.

In the compliance section there were no issues identified.

Brad asked if there were any questions and there being none, Brad moved onto the City's audit.

## **B. City of Newport**

Brad discussed the opinion on the unmodified report. Allen requested that Brad go through the report and identify which sections of the audit report were added to make the report an actual Comprehensive Accounting Financial Report (CAFR).

Brad discussed the introductory section of the CAFR, which is comprised of the first 10 pages of the report (i – x). The introductory section discusses the governing body, significant city staff, city organization chart, and typically, you would see a certificate from Government Finance Officers Association (GFOA). Since this is our first CAFR we do not have that certificate in this CAFR, and lastly there is a transmittal letter, which is management discussing key factors or activities of the City. Auditors do not give an opinion on that information.

Chair Allen, stated that there was a slight correction that needs to be made to his time of service reported in the introduction section. It states that he has served for 13.5 years and he has actually served for 11.5 years. Staff noted that this would be corrected in the next financials.

The next section of the CAFR is the financial section. The section starts with the auditor's report, which states what they are and are not giving an opinion on. Brad discussed what this section is comprised of and stated that city management is responsible for these reports although the auditors may assist the city staff in drafting the reports. Brad explained the required supplementary information that consist of two required sections: the management discussion and analysis; and Accounting and financial reporting for

postemployment benefits, Statement No. 68 and 75. This is standard material and is not a specific CAFR requirement. The auditors do not give an opinion on the required supplemental information. However, they are required to include them with the financial statements. Brad discussed the section on "Other Information" he stated that if you read the report closely it states that the combined financial statements, individual fund schedules, and statistical section give an in-relation opinion which states that the reports are fairly stated, and consistent with the financial statements. The last paragraph of the report talks about the report that is issued under Oregon minimum standards.

Brad pointed out that the financial statements noted overall that revenues were down slightly about \$1.5 million dollars. Total expenses for the City was up \$1.8 million dollars. Overall, the city still had a positive change in the net position of the city of 4.1 million. He also mentioned that a new accounting standard was implemented this year, which is Governmental Accounting Statement No. 75 that changes how the city reports information for other post-employment benefits. Brad explained how this accounting standard worked with reporting health insurance benefits for PERs retirees. Oregon state law requires that retirees be allowed to continue participating in the city's health insurance plan until they are Medicare eligible. This creates a benefit because it causes the city's premium to be higher and the retiree's premium to be lower. Member Rhodes asked about last year's numbers compared to this year's numbers, and Brad stated that last year the numbers for this were based on GASB 45; a prior period adjustment of \$75 thousand dollars was made to bring in GASB 75 into compliance on the FY17-18 Audited financials. There was additional discussion on how this new standard affects the city.

Brad discussed the governmental funds of the city on page 17 of the report. He stated the General Fund ended the year with a fund balance of \$2.6 million, which is a decrease of \$735 thousand. The General Fund had substantial transfers out of \$3.3 million and that primarily went to either non-major funds or the capital projects fund. As noted earlier in the Urban Renewal Fund there was a transfer in of \$2.8 million from the urban renewal fund. Capital projects fund increased \$6.9 million and issued 6.9 million of debt. So essentially, after you deduct the 6.9 million in debt the capital projects fund is at a breakeven position. The other non-major funds had a slight increase of \$42 thousand dollars. Overall, governmental funds had an increase of \$4.4 million dollars.

Brad continued discussing the proprietary funds comprised of water and sewer fund located on page 23. Looking at the operating income, water had income of \$250 thousand and the wastewater fund had an operating loss of \$260 thousand. Before transfers, the proprietary transfers as a whole are primarily on a breakeven basis. Looking at transfers in and out, you have a negative change in net position of \$6 million dollars, but this consists of inter-fund transfers, which move funds to the fund where these funds are to be expended.

Brad said he would like to point out some other points of interest in the report as he moved into the Notes to the Financial Statements. He noted that on page 35, there is a detailed description of the prior period adjustment, and noted other aspects of GASB 75. Brad pointed out on page 46 and 47; it shows how the city is doing on its debt. This section shows the change in the long-term obligation. The city has paid down 1.745 million on governmental long-term debt obligations; it also states other changes in obligations such as post-employment benefit liability, net pension liability, premiums on

debt, and compensated absences. Page 47, talks about Long-term Activities for business-type activities it states \$7.2 million in long-term debt was issued, and 2.4 million in debt was paid down in business-type activities.

Chair Allen asked Brad if the statistical section on page 138 was new with the CAFR. Brad stated it was and would be discussing that further when he got to that point.

Brad then asked that everyone turn to page 91, Required Supplementary Information section, which has to do with the pension liability, and other post-employment benefit liabilities will provide you with some tenure type of tables. Brad stated that he feels that GASB 68 created some distortions of the City's net position as stated in the third column on page 91, the City's proportionate share of the net pension liability column. He discussed this briefly and said it has some large swings due largely to the Oregon PERS retirement liability. Brad then discussed the City's defined retirement plan, on page 93 of the report. Chair Allen stated the retirement fund at 78% to 89% (the high and low amounts) are much better positions than it was ten to fifteen years ago when it was at 53%. Brad stated the retirement fund is well funded, and he has no concern there. Brad stated he did want to point out, the change in the market value of the investments for the retirement fund and how it influenced the net position of the City as a whole. Nebel discussed the city's defined benefit and the general retirement fund, and what the City offers now. Chair Allen stated he is a liaison to the retirement board and suggested to Member Goebel if he was interested in learning more details he may want to attend the retirement board meeting that meets quarterly.

Member Rhodes asked Brad if there had been a lot of changes in the rate of return (ROR) used by the actuaries for the trust plan. Brad asked that we turn to page 94, where the assumed investment rate of return is listed over the last ten years. There was discussion regarding evaluations and the timing of report data and previous year's investment situations.

Brad noted that beginning on Page 99 and continuing through page 137, is information on all the other funds of the city. He briefly discussed what comprised this section of the report.

Brad directed everyone to page 138, the Statistical Section. Murzynsky stated that this section is new and is part of the CAFR requirement. Brad explained that the first part is historical trend information where you can see how things have developed over time in the City's net position. The net position has grown from 70 million to now almost \$110 million. There was discussion on the report and where GASB 68 affected the City's financial. Brad explained that GASB 68 was bringing on the net pension liability. Brad encouraged everyone to look at this information, and noted that the statistical section continues through page 158.

Next Brad moved to page 168, which is the Independent Auditor's Report Required by Oregon State Regulations which talks about two things compliance and internal controls. Brad stated the State of Oregon requires that test be done to determine if there is compliance with regulations. Brad stated that there were three items that were noted where the city was not in full compliance.

The first one had to do with public funds. There is a requirement to notify the State Treasury of where the City has its deposits. That is an annual requirement. There was some miscommunication between the City Staff and auditors. Murzynsky explained that last year the treasury changed the way they handled the investments. Steve, our new Assistant Finance Director, had just come on, and they knew the treasurer got the information, but when the auditors asked the question about the report, City Staff was not sure what information the auditors were asking for at that time. Since this time, City Staff has communicated with the State Treasury department and the City is now in good standing.

Brad stated they also look at compliance to local budget law, they noticed there was quite a few small over expenditures of different appropriation categories. Those are all listed in the report on page 169.

The final item is programs funded by outside sources. The city for the year ending June 30, 2018, was not subject to the requirements of the single audit act, but the city still had compliance requirements. Chair Allen asked what the Single audit threshold was and Brad stated it was \$750 thousand dollars of federal expenditures. One of the compliance requirements is that the federal government states you must have written procedures in place on how you determine allowable cost charged to a federal program. Brad noted that he has spoken to Murzynsky the last couple of years about this and the city has developed written procedures but has not implemented the procedures yet. Brad stated because of this, they felt they needed to have this comment. Chair Allen asked Brad if the procedures could be adopted internally at the staff level or a more formal adoption at the Council level. Brad stated that approval can be done at the City Manager level; he said of course we always recommend city council be involved or made aware of these things, but it can be an internal thing because management is responsible for establishing internal controls and these type of policies. Chair Allen suggested that at the next meeting if the staff has these policies' ready the audit committee could review them and approve them as an audit committee. No formal approval by council, but at least the audit committee will have approved them. Murzynsky stated that he would put that item on the next meeting agenda. Chair Allen went on to discuss the review of documents such as the auditor engagement letter that the committee now is reviewing.

Brad noted the report does discuss internal controls and as part of every audit, they gain an understanding of those controls, which are used to determine where the risk areas are. Brad said they do not give an opinion on the internal controls because that would be a different engagement. However, the internal controls have been considered and tested and they did not find any deficiencies they need to bring to the attention of city council.

Brad stated that was the end of his report.

Murzynsky stated that the deposits, budgets, and programs funded section are covered in his staff report. This information was included in the staff report handed out today and will be reviewed at the next audit committee meeting.

Chair Allen had a question for Brad about last year's audit report and he noted that there was the same report, except in the compliance section, there were some information regarding federal audits, but you had a separate letter that dealt with internal controls.

Brad stated that report was not required because the single audit was not required this audit year. He went on to explain when those reports are required only when the City receives federal grants that total over \$750,000.

Chair Allen asked if there were any questions for Brad or Jessica regarding the audit. Brad thanked City staff for all there help and cooperation.

**6. DISCUSS ROOM TAX AUDITS**

Murzynsky explained that he handed out the pertinent portion of the room tax ordinance. He further explained that he wanted to know if the audit committee would be interested in auditing some of the hotels in Newport. Murzynsky said he would like to look at one area to start, which would include four hotels: Hallmark, Elizabeth Street, and Shilo. Murzynsky stated we see their tax returns, but have never gone in and reviewed the numbers/records to see if they match up with their room tax numbers. The ordinance allows for examination of records as stated on page 69 of the room tax ordinance. Murzynsky stated that Brad and his staff have done these type of audits for other municipalities. There was discussion with regard to who would carry out the audit. Murzynsky asked the committee if they would support hiring the auditors to audit room tax on the hotels. Chair Allen asked if simply asking for an audit would give the perception that there was something wrong. Chair Allen stated the City just needs to carry out their oversight responsibility and ensure that the whole room tax was tracking well. This would be the beginning of an overall program to ensure the system is working well. Next year the audit would move to hotels in another area like Nye Beach. Brad discussed how other municipality's audit sales tax; their findings; and how the language in the ordinances can be unclear. Member Rhodes asked if these audits produce any increase in revenues. Brad stated they usually do not because in some cases hotels may be overpaying, some hotels are calculating correctly, while others are under reporting. Chair Allen asked what the cost was for this type of service. The committee said they would start with four hotels and Brad estimated the cost at around \$10,000. Chair Allen stated the Council would need to consider the cost, the benefit, and the actual purpose of the audits. It would be more about oversight responsibility and not increasing revenues. Chair Allen asked Murzynsky to put together an overall cost for the auditing program with Brad including the initial \$10,000, for the first four hotels. He would like to add an agenda item to the next committee meeting to discuss how the committee would like to approach to the council with this program. The committee discussed doing a rotation of hotels. Chair Allen requested Murzynsky provide the committee with a draft recommendation for the committee to consider whether they want to forward the program on to the council for approval at the next meeting. Brad also noted that the records for some hotels are located off site or even out of state.

Brad stated that was he had to go to another so he and Jessica left the meeting (by phone) at 11:40.

**7. GOALS**

**A. 2040 Goals**

The committee will update their committee goals to be added to the 2040 Goals as needed.

**B. Audit Committee Goals**

The committee reviewed the existing goals from last year. Murzynsky stated we have accomplished item one on the list, which was issuance of a CAFR. Number four on the list is the next item on the Agenda listed as item eight A., the draft master calendar. Member Rhodes asked Murzynsky if he had written internal controls. Murzynsky stated that a Finance department goal was to develop written internal controls and implementing the purchasing system. Chair Allen asked what the timeline was on implementing a purchasing system. Murzynsky stated it could take some time, perhaps a year because the policy's must be put into place first then Caselle the software system would need to be brought in. There was discussion regarding the purchasing system and what the current goal should be. It was agreed the goal should state begin with developing a purchasing policy/system and the next goal would be implementing the purchasing system. Nebel explained how the current system is working. The committee discussed the completion schedule and agreed the documentation of internal controls should be completed in one year and the purchasing system development should be finalized by the end of the next fiscal year. The next goal for the purchasing system will be the implementation after the system is developed. Member Rhodes clarified that internal controls does not just cover monies it covers every single part of the operation, citywide. Chair Allen clarified that the written controls would be one master document that covered the entire city. Chair Allen stated when this document is completed he would like the committee to review it, and approval it, sometime next year.

**8. MASTER CALENDAR**

**A. AUDIT COMMITTEE DRAFT MASTER CALENDAR**

Chair Allen suggested that the Master Calendar be finalized at the next meeting.

**9. AUDIT COMMITTEE GENERAL COMMENTS & QUESTIONS**

Chair Allen went over the items he would like on the next committee meeting agenda as follows:

1. Audit allocation to committee members for the audit presentation to council.
2. Review the Resolution for the Corrective Action Plan for compliance submitted with the annual audit report.
3. Review the developed written procedures on Federal Grant Policy.
4. Recommendation and cost report on the room tax-auditing program from Murzynsky and the auditors (Brad).
5. Approval of Master Calendar
6. Approval of Goals - Chair Allen asked that the goals be revised to breakdown the goals into what has been completed and what is in process so we can track what has been completed. Nebel suggested the Federal Grant Policy be added to the list of goals.

Member Rhodes asked if the budget overages were just because there was not an amendment to the budget to include the expenditures prior to the end of the year. Murzynsky explained that the overages were just missed because of having the time plus the addition of the new Assistant Finance Director, Steve Baugher. He now provides the council with a monthly financial report and he and the Finance Director review these numbers continually. Murzynsky also stated that he is having the Directors review these numbers on a continual basis so this situation does not reoccur.

**10. PUBLIC COMMENT**

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

**11. ADJOURNMENT**

Committee Member adjourned the meeting, at 11:55 a.m., to the next meeting scheduled for February 12, 2019, at 10:30 a.m.