

**Audit Committee**  
**City of Newport/Newport Urban Renewal Agency**  
**July 30, 2019 Minutes**

**1. CALL TO ORDER**

Chair, Councilor David Allen, called the meeting to order at 2:35 p.m.

**2. INTRODUCTIONS**

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

**3. APPROVAL OF MINUTES**

Chair Allen noted there were some minor corrections in numbering but nothing substantial, he will go over the numbering corrections with Recording Secretary Wertman at the end of the meeting. The committee chose to approve all minutes in one motion with the minor numbering corrections. **MOTION:** Member Rhodes moved to approve the draft minutes of January 29, 2019, February 12, 2019, and July 8, 2019 with the minor numbering corrections **SECONDED:** by Member Goebel. The motion carried in a voice vote.

**4. AUDITOR UPDATE FROM THE ON-SITE INTERIM AUDIT WORK**

CPA Audit Manager Jessica Luther-Haynes from Boldt Carlisle +Smith began the discussion stating that the audit team arrived at the city yesterday morning, and will stay through the end of today. The team is doing interim audit work at this time; although the numbers have not finalized yet. The focus is testing internal controls and documenting processes and procedures. A significant amount of time is being spend starting payroll and accounts payable disbursement testing. Haynes stated they have not found anything of note thus far, which is always good. They did start doing minimum standards work, which is budget testing last week back in the office, and she has almost completed that. Haynes stated she has spent significant time this morning and yesterday working on the single audit and looking at what your major programs are going to be. At this point, it looks like your CWSRF Loans will be the focus of the single audit.

Member Rhodes asked if there were any findings and Haynes stated there are no findings at this point. Rhodes asked if all the internal controls are documented at

this time and Haynes replied they were not. Director Murzynsky stated he is starting that process this week, the auditors sent a basic list, which has been updated and will be continually updated over the rest of the year. Chair Allen asked if we exceeded the federal threshold of \$750 thousand and if so how much was the total federal expenditures. Murzynsky mentioned the Agate Beach project and Haynes stated that project alone is at \$2.2 million. There was general discussion about the single audit and general information requested from finance staff from the audit team.

Member Rhodes asked Haynes if there was adequate staff to maintain separation of duties. Haynes stated she felt there was adequate staff at this time with the reorganization of duties previously implemented. There was some discussion regarding the audit process and testing as part of the process.

Director Murzynsky asked Brad Bingenheimer who was attending the meeting via telephone if he had anything to add to the report. Bingenheimer stated that he had a couple of things to comment on. The first was that this year was relatively a quiet year for new standards that have to be implemented. Bingenheimer stated that he has spoken to Mike and others about a new requirement called Certain Asset Retirement Obligations. Bingenheimer discussed this requirement and explained that if you have an asset in service, when you retire that asset there are costs that may be legally or contractually required to be incurred, and those costs must be recognized now. Bingenheimer used City Sewer Systems as an example. Member Rhodes asked if this cost would need to be recognized all in one year. Bingenheimer responded with a yes, but it would be expensed over the life cycle of the asset, this liability shows up on the balance sheet. His firm looked at this very closely to see if there was something that they needed to do and it turns out they did not. The other one was a disclosure requirement regarding debt. They are just changing some information on the debt disclosure.

Alternate Member Martin Desmond asked Haynes and Bingenheimer if they do any work to ensure that funds are being spent efficiently and effectively. Manager Nebel asked if the Auditors could give an overview on the audit process. Bingenheimer gave a brief summary. He explained a financial statement audit does not consider the best use of the funds or if they were used in the most efficient manner because it can be so subjective. There are performance audits but again these audits are very subjective. During the budget process, the community can weigh in on how funds are being spent by the City. Alternate Member Desmond asked Bingenheimer if his company has ever had a request to do a performance audit at other cities. Bingenheimer stated they have not. He said they would likely refer out to another auditor, to avoid any appearance of impairment or conflict.

Bingenheimer thanked the committee for their level of involvement and taking the time to meet with the auditors before and after the audit. Member Dietmar asked Bingenheimer how many cities they audit. He stated roughly a dozen cities, four counties, and several special fire and water districts as well as the League of

Oregon Cities. Boldt Carlisle +Smith currently audit approximately 48 governmental agencies at this time. The largest City they audit is the City of Albany. There was additional discussion regarding the specifics of the City of Newport.

The auditors left the meeting by phone and person at 3:00 p.m.

**5. AUDIT COMMITTEE FY19-20 DRAFT ANNUAL CALENDAR**

Chair Allen commented that the calendar was nice to have and has evolved over time. Allen commented that this calendar includes the schedule for the years that we need to go out with a Request for Proposal (RFP) for new auditor contract. Alternate Member Desmond stated he would not be able to attend the October 24, 2019 meeting.

Member Rhodes expressed concern about a March interview date and felt this was going to be too late, since Director Murzynsky said a firm would need to be on board by April. Chair Allen suggested we leave the calendar as it is for now, and put the calendar schedule on the October 24, 2019 meeting agenda to firm up the RFP schedule. Director Murzynsky said he would have a better idea of the RFP schedule in October. Chair Allen suggested we schedule the Pre-presentation Meeting for early February 2020, and the presentation to Council for the second Council meeting in February. Recording Secretary Wertman will make these changes and prepare a draft for further review at the October 24, 2019 meeting.

**6. REPORT ON POSSIBLE LANGUAGE CHANGES TO THE ROOM TAX ORDINANCE AND DRAFT OF AN AUDITING PROGRAM**

This item was continued to the October 24<sup>th</sup> committee meeting. Director Murzynsky said he would like to wait to report on this item until the Vacation Rental Dwelling (VRD) ordinance settles down before we start looking at the room tax ordinance. The City is just starting to implement the VRD ordinance and we need to see how the changes affect us. Member Dietmar asked what kind of timeline is there for resolving the VRD thing. Manager Nebel discussed issues the four Bread and Breakfast operators have, and a general discussion about the VRD process and new compliance contractor. Member Allen suggested that Steve Rich could do the rewrite of the audit portion of the room tax ordinance. Director Murzynsky and Manager Nebel stated finance needs to be involved in the process of rewriting the audit portion of the ordinance with the City Attorney. There was general discussion about the process involved in creating the ordinance. Chair Allen requested that review of the ordinance relating to the Room Tax Auditing Program be added to the Calendar for the January Audit Committee meeting.

**7. COMMITTEE GENERAL COMMENTS & QUESTIONS**

Alternate Member Desmond asked if the city checked with Lincoln City to see how they dealt with the VRD. Director Murzynsky stated that the City checked with many

of their counterparts. Manager Nebel stated that the VRD issue is treated so differently by every city. There was general discussion about how other cities deal with the VRD issues and what other communities are doing. Member Desmond asked if Lincoln City has a Room Tax Audit Ordinance. Murzynsky stated he was not sure if they had one or not. Manager Nebel stated we would put together a survey from other key cities for the January meeting, and have Director Murzynsky reach out to the finance directors to see who is doing what in other communities. Nebel said we would check if anyone has a formal process, or if the process is driven on a complaint basis.

8. **PUBLIC COMMENT**

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

9. **ADJOURNMENT**

Chair Allen adjourned the meeting, at 3:45 pm.