

City of Newport
Audit Committee Meeting
June 21, 2016

Meeting was called to order by David Allen, Chair at 9:05 am in Conference Room A.

In Attendance: Brad Bingenheimer, Jessica Luther-Haynes, Spencer Nebel, Mike Murzynsky, Linda Brown, David Allen, Don Huster, Laura Swanson, Karen Fitzgibbon

Approval of previous meeting minutes from February 18, 2016 will be approved at the next meeting along with the minutes from this meeting.

RE: Agenda-Audit Committee Discussion

Mike – A pre audit presentation was held last week by Brad on the Uniform Guidance for Federal Awards. Effective date of the Uniform Guidance for Federal Awards was December 26, 2014. Will need to review grants prior and after this date along with the rules required for documentation.

Brad – There's a new document, Uniform Guidance for Federal Awards. All prior circulars for Federal grants were contained into a single document. Two items that were paid most attention to:

A-87 Dealt with cost principles – what costs were allowable/not allowable for Federal award programs. Has been around for 20 years.

A-133 Audit requirements, geared towards auditors and what was required in an audit. Has been around since 1986.

The new Federal Award standards was issued December 26, 2013 with a one-year delay before implemented and effective on December 26, 2014. New Federal Awards after that date fall under new rules. Audit requirements were effective for the first year beginning after December 26, 2014, years starting July 1, 2015, with the FY 2015/2016 being the first. Old rules applied under A-87.

Subpart A applies to everybody. Parts D & E apply to finance internally and part F applies to auditors and auditee responsibilities. These requirements apply to the first dollar of Federal Awards where the funding was approved after December 26, 2014.

Terminology- Must = You have to do it.
Should = Really should do it
May = Really should do it.

First **Must**, financial management system needs to provide for identification of all Awards granted. CFDA – Catalog of Federal domestic assistance. Every program is given a 5-digit number and you can look up the CFDA website for information pertaining to requirements. YOU MUST provide for written procedures for determining the allowability of costs in accordance with subpart F-costs principles. You must have something in writing, failure to have written procedure will result in fines. The non-federal entity must establish and maintain effective internal control over the federal award. These controls should be in compliance with guidance in standards for internal control in the federal government.

There are five components:

1. Controlled environment - sound policies and procedures, sets the foundation for everything else.
2. Risk assessments – process to identify risk.
3. Control activities – adequate segregation of duties.
4. Information communication – capture and reporting.
5. Monitoring – internal process to ensure continual progression.

Procurement – must maintain records sufficient to detail the history of procurement.

Must maintain written standards of conduct covering conflicts of interest. Must maintain written records of all quotes/bids.

Oregon - anything less than \$10,000.00, do what you want

Federal - anything less than \$3,000.00, do what you want

\$3,000-\$150,000-must obtain documented quotes

Over \$150,000-must obtain competitive bids

Noncompetitive procurement – emergency, sole source-must document why needed, documentation is crucial to have.

Basic rule = all awards of any size or reason need to be completely documented from beginning to end.

Monitoring of pass-through grants is required with adequate documentation.

Subpart E – Cost Principles

Direct costs are easily identifiable.

In-direct costs may charge a de minimis rate of 10% (administration, public works, overhead, etc.- deducts from direct costs). Adequate documentation is required.

Compensation costs – compliancy. Budget estimates alone do not qualify as support; analysis of job duties is best support/documentation.

Subpart F – Deals with audit requirements.

If over \$750,000, must have a single or program-specific audit conducted for that year. Grants and loans are under the same requirements regarding spending.

Auditee – must arrange for audit, prepare financial statements, take corrective action plan and provide auditor access to everything. Corrective action plan must contain plan, person responsible, action and completion date.

The schedule of findings and questioned items from the auditor must include a summary of results. Whether financial statements were in accordance with GAAP. Two types of auditees - low risk auditees cover 20% of expenditures. High risk auditees cover 40% of expenditures.

Programs: Type A = \$750,000.00 and above and Type B = \$750,000.00 and below.

Important items – Obtain and keep written policies and procedures; and Maintenance of documentation.

There are lots of new re-writes of audit rules and regulations in regard to this Uniform Guidance for Federal Awards program. For more information review the booklet or visit the website <https://www.gpo.gov/fdsys/pkg/FR-2-13-12-26/pdf/2013-30465.pdf>

Break at 10:15, back at 10:25.

Brad – Discussion of audit.

Other standards to apply-general accepted auditing standards by AICPA and Oregon minimum standards for audits and municipal corporations. Requirements of specific Oregon laws regarding audits and government standard audits. These are the 4 different sets of standards regarding audits.

Financial statements and information will be drafted by Auditor and discussed with management.

Fraud issues can be addressed by the audit board if needed.

The audit team is here for three days, going over the books and will discuss with management any items or issues needed while here.

Next audit meeting is scheduled for October 4, 2016 at 9 am.

Meeting adjourned at 10:55 am.