

**Audit Committee**  
**City of Newport/Newport Urban Renewal Agency**  
**January 17, 2020 Minutes**

**1. CALL TO ORDER**

Chair, Councilor David Allen, called the meeting to order at 9:35 a.m.

**2. INTRODUCTIONS**

*In Attendance:* Chair Councilor David Allen, Public Audit Committee Member Glenda Rhodes, Committee Member Councilor Dietmar Goebel, Spencer Nebel City Manager, Finance Director Mike Murzynsky, Assistant Finance Director Steve Baugher, Recording Secretary Capital Projects and Grant Accountant Linda Wertman, Alternate Public Member Martin Desmond, Boldt Carlisle +Smith Partner Brad Bingenheimer, and Boldt Carlisle +Smith CPA Assurance Manager Jessica Luther-Haynes. Also present was Newport resident and member of the Budget Committee and Finance Work Group Michael Sydow.

**3. ELECTION OF COMMITTEE CHAIR**

Chair Allen stated under municipal code 2.05.030 beginning every calendar year the committee should elect a chair and vice chair. Chair Allen discussed moving the chair election date to the spring of each year. Manager Nebel stated that the election of the chair coincides with the council terms on the calendar year. **MOTION:** Member Rhodes moved to elect current chair David Allen as Chair and Member Goebel as Vice Chair. **SECONDED:** by Chair Allen. The motion carried unanimously in a voice vote.

**4. APPROVAL OF MINUTES**

Chair Allen noted a correction to the spelling of Speer Hoyt on page two para 1. **MOTION:** Member Rhodes moved to approve the minutes with the noted correction of October 24, 2019. **SECONDED:** by Member Goebel. The motion carried unanimously in a voice vote.

**5. AUDITOR PRESENTATION OF FY18-19 AUDIT:**

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

Brad Bingenheimer partner from Boldt Carlisle+Smith began the discussion by handing out an audit summary for the Urban Renewal Agency that covered the highlights of the audit. He went on to explain the firm was hired to give an opinion on the Agency's financial statements. Boldt Carlisle+Smith has issued an unmodified report that states in their opinion, the financial statements present fairly in all material respects the financial position and results of

operations for the Urban Renewal Agency (URA) for the year ending June 30, 2019.

Bingenheimer stated two auditing standards were applied to the audit reports: General Accepted Operating Standards issued by the American Institute of Certified Public Accountants (AICPA), which apply to all audits; and the Oregon Minimum Standards for audits for municipal corporations, which are issued by the State Legislature and the Secretary of State.

Bingenheimer discussed the financial highlights and ending fund balances of the agency. Bingenheimer stated as of June 30, 2019, the URA had assets of \$4.9 million, total liabilities of \$7.1 million and a net position of negative (\$2.2 million) for the government wide statements. This is a change of a positive \$2.4 million from the previous year. Total Revenues were just over \$3 million. The general fund of the URA had an ending fund balance of \$3.2 million, which was an increase in the fund balance of \$1,166,000. Actual revenues were approximately \$453,000 more than anticipated in the budget. All expenditures were within appropriation categories.

Bingenheimer also noted that in six years, the agency would have its current debt repaid, and if there were no additional debt it could limit the agency's ability to levy taxes unless more debt is taken on. Murzynsky stated a new project in South Beach is scheduled, and will increase the debt within that time. Bingenheimer discussed the Oregon minimum standards and stated the auditors found the agency complied with Oregon law and there were no findings related to internal controls.

## **B. City of Newport**

Bingenheimer continued with the City's portion of the audit. He reiterated that the auditors were giving their opinion on the city's financial statements. They have issued an unmodified report that states the financial statements present fairly the financial position in all material respects the financial position and results of operations of the City for the year ending June 30, 2019.

Nebel asked Bingenheimer to explain the differences between other types of opinions such as modified, qualified and disclaimer reports. There was general discussions on the different opinions and when they are issued.

Brad discussed the four auditing standards that are applied to the city's audit. Like the urban renewal audit, the General Accepted Operating Standards and the Oregon Minimum Standards are applied. Because of the level of expenditures of federal awards, two other set of standards are applied to the city audit: the Government Auditing Standards issued by the Comptroller General of the government accounting office (GAO); and lastly the Standards of the Uniform Guidance issued by the office of Management and Budget that

deals with specific federal programs. Each of these standards requires a separate report be issued.

Bingenheimer then summarized the city's financial statements at a very high level for the committee. He stated as of June 30, 2019, the City had total assets and deferred outflows of \$185 million, total liabilities and deferred inflows of \$70 million and a net position of \$115 million listed on page 13 of the financial statements. Of the \$115 million net position, \$77.6 million is in Government Activities and \$37 million is in business type activities. The net change is \$3.5 million since the previous year on total revenues of \$35 million listed on pages 14 and 15 of financial statements. The general fund of the city had an ending fund balance of \$2.5 million, which was a very small decrease of \$68K. Actual revenues of the general fund were \$104K more than anticipated in the budget. All expenditures of the general fund were within appropriation categories. There was some general discussion regarding the general fund and the other funds supported by the general fund.

Bingenheimer discussed the Proprietary fund that consist of water, wastewater, (and Storm water) funds. At the end of the year, the water fund had an ending fund balance of \$4.6 million, which was a small decrease of \$218K. The wastewater fund had an ending fund balance of \$28 million with a small increase of \$238K. The proprietary funds are operating as expected on a break-even basis.

There was general discussion about PERS, Retirement funding and liabilities for the city and state.

Bingenheimer reported on the Independent Auditors Report and looking at compliance regulations. On page 171, of the city financial statements, there is a list of appropriation categories that were over expended last year. In testing the public contracting law compliance under ORS 279, they noted that there was one contract that did not comply with the complete bidding requirements. Murzynsky noted he would be doing a corrective action plan to the Council and State to address the compliance issues.

The other area tested is internal controls. Bingenheimer discussed the five components of internal controls: control environment (tone of organization); risk assessment process; information and communication, control activities; monitoring.

On page 173, of the financial statements, the Independent Auditor Report based on Governmental auditing standards. These deal with internal controls, laws, and regulations. Bingenheimer discussed what is looked at, such as material weakness or significant deficiencies. He stated that there were no issues noted here.

The final report deals with Uniform Guidance because the city expended over \$750K in federal funds. The auditor look at compliance with specific programs. The fund that reviewed and tested was the Clean Water State Revolving fund which the City expended \$2.2 million dollars from this last year. There were no instances of noncompliance and no weakness in the internal controls over those compliance requirements. There was general discussion regarding the methodology of how programs are chosen to test. There was also discussion of who gets the reports and where the reports are submitted.

Bingenheimer also reviewed the requirements of the Uniform Guidance requirements and the \$750K limits of federal expenditure. Chair Allen asked where he could find some guidance or a checklist of sorts on federal requirements for federal funds. Bingenheimer stated Title 2 Part 200 is the federal law that pertains to the federal requirements; he went on to discuss various compliance requirements of federal audits.

Director Murzynsky discussed the CAFR portion of the financial statements. He informed the committee that we did not receive the award this year but we did reapply and the second year is free. The reason for not receiving the award was there was a loan at the end of the year for wastewater projects for roughly three or four million dollars. Of these funds, \$1.5 million were used last year and the other funds rolled forward. The funds were identified as an asset but we forgot to put the funds into a reserve account and instead put them into an investment of assets account. Although the bottom line numbers are all correct, there was a misclassification on the statement. This was part of the prior year adjustments. There was general discussion regarding the Comprehensive Annual Financial Report (CAFR) and the comments from the Government Finance Officers Association (GFOA). Murzynsky gave an overview of the CAFR section of the report. He went through each section and gave a brief overview. There was then general discussion on the CAFR section by the committee and Bingenheimer as well as more discussion on the PERS liability and the city retirement plan.

**C. Boldt, Carlisle & Smith – Letter to City of Newport**

The committee discussed the letter sent out to city council members and the audit committee by the auditors and why it was sent out to the group's personal address. Bingenheimer explained there is a professional responsibility to ensure the council and committee get this letter, it is Boldt Carlisle & Smith's preference to send it out to the personal addresses. Brad went on to explain why this letter although it could be considered a public record, is for the use of those individuals, which it is addressed. Bingenheimer explained why they prefer the letter not be posted, but if a copy of the letter is requested, the public can be given a copy.

**D. Oregon Secretary of State**

Director Murzynsky informed the committee of the requirement of the State reports for URA and the City that must be submitted by the end of the month (January 31, 2020). Murzynsky noted that he must pay \$150 for the URA submittal and \$350 for the City.

**6. REVIEW REQUEST FOR PROPOSAL (RFP) FOR AUDITOR SERVICES:**

Director Murzynsky asked that the committee review the RFP that he plans to send out by the end of the month. He asked the committee to provide any comments by next Friday. There was discussion about where the RFP should be published and Chair Allen suggested we advertise with the League of Oregon Cities (LOC) and Manager Nebel suggested Oregon Procurement Information Network (ORPIN) publishing options as well. Murzynsky asked the committee who was interested in the scoring of the applicants. Member Goebel, Member Rhodes, and alternate member Desmond indicated they would be willing to score the responses. Chair Allen stated he would ask Alternate Member CM Hall if she would like to participate in scoring or interviewing. There was discussion on the process and timing of the scoring and interview of the applicants. The scoring was scheduled for February 27 and 28<sup>th</sup>, and the interviews are scheduled for March 5<sup>th</sup>.

**7. AUDIT COMMITTEE GOALS**

**A. FY19-20 Goals**

The committee reviewed and discussed the existing goals, which goals have been completed thus far, and which goals should continue, on the list. Murzynsky noted that he is having difficulty-completing goal number two (development and document of internal controls with continuous review) due to time constraints. Member Rhodes suggested the city might need to hire out that task. The development of a purchasing system will be on going and is in process.

Alternate Member Desmond suggested a goal of the committee should be more outreach and education to the public concerning the City's financial condition. The committee felt this was not a roll of the audit committee, and felt it was more the roll of the Council and finance committee. There was some discussion regarding developing a Popular Annual Financial Report (PAFR) as a future goal. There was some review of the Albany PAFR document. The committee would like to see this type of report as a goal at some time in the future, taking into consideration staff time and staff availability. The development of a PAFR will be added to the list of goals for FY20-21 and beyond. Chair Allen asked Assistant Director Baugher to send the link to the committee members of the PAFR of the City of Albany. Murzynsky noted that the goals would be submitted to Manager Nebel to include in his goal report to council. Chair Allen asked if the committee has any other goals to add to

the committee goals, there were no other goals noted except the PAFR. **MOTION:** Member Rhodes made a motion to approve the FY20-21 Audit Committee Goals with the Addition of the PAFR as a future goal. **SECONDED:** by Member Goebel. The motion carried in a unanimous voice vote.

**8. REPORT ON POSSIBLE LANGUAGE CHANGES TO THE ROOM TAX ORDINANCE (Continued from October 24, 2019):**

Director Murzynsky discussed his research with other cities and their approach to room tax compliance. He reported that when he asked about an audit program for hotels, they have all come back to him saying they have authoritative language in their ordinance. The city currently has this language. Murzynsky stated he is looking for more of a policy. He has talked with City of Portland, Corvallis, and Cannon Beach, which have given him some ideas and he has copied some of their policies. Sounds like no one wants to put their policy into an ordinance, they want to keep it as an administration policy. Murzynsky went on to explain his idea of small, medium and large hotels and would audit every three or four years, unless they found major problems. There was discussion on including vacation rentals. Manager Nebel and Chair Allen suggested they begin working on a framework with the city attorney review of the ordinance.

Bingenheimer talked about the City of Bandon, who was trying to put something together to project room tax and they were given a \$50K quote for auditing of the room tax. Nebel discussed the new company hired MuniRevs Inc to look at advertisements in an attempt to monitor Air BnB's.

**9. COMMITTEE COMMENTS:**

There were no additional comments from the committee.

**10. PUBLIC COMMENT**

Michael Sydow commented on the water fund, which ended the year at a negative \$-218K. He stated it would be interesting to see how that tracks in the coming year with 4% of the revenue coming out of that fund. Director Murzynsky explained that this happened because the rate increase were implemented late this year and now the city is playing catch up. His other comment was related to spending beyond appropriations and is that tied to a goal. Chair Allen said that the goals were an audit committee decision; he stated it would be better suited for the budget committee to look at that as a goal.

Bingenheimer had some positive feedback with working with finance staff and pulling all the information required for the audit together. Chair Allen stated that he felt Boldt, Carlisle & Smith did a great job auditing and is very thorough in the audits.

**9. ADJOURNMENT**

Chair Allen adjourned the meeting, at 12:40 pm.