

APPROVED Audit Commission Minutes
November 13, 2017
2:00 p.m.
Community Development Building, Siskiyou Room
51 Winburn Way

Call to Order

Meeting was called to order at 2:00 p.m. by Thomas Hepford.

Roll Call

Hepford	Present
Slattery	Present
Everson	Present
Huhtala	Present

Others:

John Karns	City Administrator
Mark Welch	Administrative Services and Finance Director
Cindy Hanks	Deputy Finance Director
Michael Black	Parks Director (Left at 2:34 p.m.)
Kenny Allen	CPA Pauly, Rogers and Co., P.C.
Shane Hunter	Public

Approval of Minutes from October 24, 2016

Dennis Slattery, City Councilor asked if it was assumed that requests for corrections that are made are in the October 24, 2016 minutes were corrected on the document. Cindy Hanks, Deputy Finance Director answered that all changes were made to the final document.

MOTION by Dee Anne Everson Audit Committee Member at Large, SECONDED by Slattery to approve the Minutes of the October 24, 2016 Audit Commission. Carried unanimously.

Presentation by Independent Auditors - Pauly, Rogers, and Co., P.C

Audit-Parks Comprehensive Annual Financial Report (CUFR)

1. Kenny Allen, CPA Pauly, Rogers and Co., P.C. started the presentation by directing the committee to the letter included under the agenda tab that summarizes the audit process. He noted that the commission would begin with the Parks Audit or CUFR, as it was smaller. He summarized what the purpose of the audit was. He went on to note that on page 21 of the CUFR is the overall final opinion, which he added was an unmodified, clean opinion with no reservations or qualifications on this opinion. Next he explained on page 96 was the Oregon Minimum Standards for Audit as to what is required. He added that there were no issues that required comment. On page 14 of the CUFR he highlighted the City's achievement in excellence in financial reporting, from GOFA.
 - a. Everson began by asking about the General Ledger conversion dates mentioned in the notes and having the internal controls up to date. Allen stated that this would be up to when the cities conversion was complete. Hanks went on to state the city was in the middle of a full financial software conversion, and that not all the modules have been converted. She added that the goal was to have all the modules up and running for the

- Allen's team to audit during the next interim audit, which is tentatively scheduled in May of 2018. At this time, she noted all the controls would be tested.
- b. Everson asked if the city would have updated internal controls within the fiscal year that was being mentioned. Hanks clarified that the report was for 2017 and Everson responded by stating that the notes stated that these would be tested with the 2017. Allen responded that it was the hope that the process will be done by both the city and the parks.
 - c. Everson asked regarding GASB 75 and that City has fully implemented it but parks has not and if this will be fully implemented with the conversion. Allen stated yes and that it would be required for Parks to do this and that the city had done early.
 - d. Everson then asked about questions surrounding PERS and the funded liability. Allen added that this could be done with the conversation regarding the City's CAFR. The committee agreed.
 - e. Everson asked if on municipal audits if contingent liability is included. Allen responded yes to which Everson asked if the Parks CUFR had any contingent liabilities. Both Allen and Hanks responded none that they know of.
 - f. Everson asked how long Allen had been the auditor, to which he responded about 15 years, he also added that the process to choose an auditor comes up every 3 to 5 years. Hepford added that this was reviewed and options were looked in relation to the auditor. Hanks added that a bid went out in 2011 and the Allen's contract was extended. She also noted that when bids have happened that Allen's firm was the only one to bid and that at other times there have been others, but the audit committee as recommend that Allen's firm. Everson then asked if Allen's firm ever puts different staff in charge. Allen stated that different people do work on the audits, but the firm likes to keep the same in charge person as they know the city well and they can do a better risk assessment but know this information.
2. Hepford went on to state that his questions regarding the Parks CUFR would be very much centered around the thought process of a citizen looking at the report. These changes were as follows:
- a. He started with page 4 on the on the management letter, under Federal Grant Compliance, a coma should be added after "In these standards" He also asked if the City Administrator was up to date on these standards. Mark Welch, Administrative Services Director went on to respond that he has checked in with the Public Works department that handle most of these grants and they are up to date on these standard.
 - b. Hepford went to note on page 24, under the net position that the totals be added.
 - c. On page 25 he added that under Governmental Activities that the wording "up by 3 times" needs to change to correctly reflect the totals.
 - d. On page 26 rewording the sentence that begins with, "This decrease" as Hepford noted he did not see a decrease.
 - e. Also on page 26 under General Fund Budgetary Highlights, starting with the sentence "the general fund's revenue" and after this was was due to stable charges from services" He also asked for the sentence after this beginning with "this was due" to be reworded.
 - f. On page 26 as well he added that the detail that was stated to be showed on page 45 was not shown, and that page 60 shows this information better. Slattery and Hepford agreed that a few page numbers references that were off and that they needed to be changed.
 - g. Hepford went on to page 47 and added the chart on the top of the page that explained deferred outflows, under "changes and assumptions" that there was no explanation as to what these were. Allen went on the explain that this information would be buried in the PERS CAFR, and that it would not be practical to add.

- h. Hepford added that on the page 47 under the deferred outflows and inflow chart in the middle of the page that in the previous year for the same chart had very different numbers including losses. Allen explained that this charts have a lot to do with the changes and assumptions that were previously noted and that they are changed from year to year so ultimately they will never line up. One of these assumptions was the discount rate. He pointed to the chart on the middle of page 50 to explain these rate. He added that this sometimes has to do with the investment liabilities that PERS is receiving. He added that the discount rate should be around 7.2% next year, and that this discount rate directly correlates with the net pension liability for the City CAFR and the Parks CUFR. He noted the numbers for the discount rates are statewide and do go through an audit process. The differences in discount rates that you see in the reports are a good indication of the range of the liability.
 - i. Hepford added that the chart on page 48 the chart on the top of the page under the "projected salary increase" he asked if 3.75% is assumed but the overall rate is 3.5% is this an example of attrition. Allen answered yes.
 - j. Hepford stated on page 55 on the sixth column on chart if all expenditures are added under "variance with final position" that the final number is not correct.
 - k. On page 59 he asked what funds that equipment fund generates. Hanks responded by stated that these are funds that the parks charges for services that the City charges the parks for operations.
 - l. On page 74 in the miscellaneous revenue line for 2017 it is stated as zero but that in last year's report it was stated as \$17,204 and that the total revenues should equal 7.3 million.
 - m. On page 88 in the first column there is an asterisk that notes that there were 28 accidents and that there were only 2 accidents the year before. Michael Black, Parks Director noted that this had to be a mistake. Hanks added that they will look into this.
 - n. Hepford also noted that that the asterisk needs to be moved to the next line to reflect the amount of seasonal employees.
 - o. On page 90 he added that 19 parks are listed. Black added that there was one park that is listed that should not be on the list.
 - p. Hepford added that last year's report noted 728 acres and that this year is 761 acres. Black confirmed that it is 761 acres.
 - q. Hepford went on to add that in the director's letter 48 miles of trails were listed but 47 were listed on this chart, and that the two should reflect each other.
 - r. On page 91 he added that numbers for 2015-2016 do not match. In the "Parks and Recreation" column last year's report listed 5.851 million and that the capital outlay \$592,000. Page 92 the amount for "Miscellaneous" was missing.
3. Slattery went on to ask about the donated capital assets from OSF listed on page 25 and the purpose of showing it. Allen explained that it was very large number this year and this is why it was broken down separately. Hanks also explained that they had a re-class this year and Allen added that these numbers are taken from their audited report. Hanks further reported that they miss calculated their fixed assets in the new rehearsal was not captured. Slattery asked if this information was being kept under parks. Black stated that it had to do with the lease of the land was under parks, and that all land was under parks. Slattery went on to ask if it was safe to assume that this is what OSF was valuing the buildings that are sitting on our properties or if the value was on the land. Hanks confirmed that this included the buildings. Allen confirmed that theoretically that these buildings are donated from OSF to Parks. Slattery added that this would mean that OSF was donating to Parks not the other way around. Slattery went on to confirm that the improvements were the value not the land. Allen also went on to confirm that the land is

still owned by the City and that rather than rent the city will receive capital improvements. If the lease was to end he added the city would keep the capital improvements.

- a. Everson went on to explain that the organization that she works for is in donated space and that they record it as both income and an expense. And that any recorded improvements are most likely not recorded by the land holder as a donated asset. Hepford noted in a normal situation that would be correct, but that OSF has not added it to their asset schedule and as Slattery noted not depreciated it. Allen and Hanks noted that it was the intent to have this item stand out as the number was so large. Everson noted that this amount not be large enough. Allen noted that this was just the one year and that the rest of assets were already built in under the capital assets of the Parks CUFR.

City of Ashland Comprehensive Annual Financial Report (CAFR)

1. Allen then presented on City CAFR. On page 24 he noted that this was the overall opinion, clean and unmodified. On page 179 he added the Oregon Municipal Standards had no issues requiring comment. He added the Federal Single Audit Act opinions on page 184. This he added was when you expend more than \$750,000 in federal money the auditor has to look at certain programs. He added that there were no compliance areas or question costs with this. He added that there were new accounting standards added this year as noted on page 79. GASB Statement 77, this requires you to disclose your amount of Tax Abetments that are on your behalf or what your proportion is. He added that this something that comes from the county. He added that the city had an amount of \$159,785.
 - a. John Karns, Interim City Administrator asked if this includes the ecommerce. Allen stated yes that it does include this and that they usually take the top ten as it would take a long time if every abetment was included. He also noted that this does not include nonprofit abetments.
 - b. Slattery asked if it was known who this number was made up of. Hanks noted that she could ask for this information.
2. Allen next added the information on the GASB 73, which is a new actuarial standard which requires you to fully add the liability of your stipend programs. He noted in the past that it was allowable to put liabilities as an amortized liability over an amount of years. You would then not see the total liability, but the amount was spread out over the years. The allowance for the amortization was then taken away to show the total liability. He added that this aligns with what the Oregon PERS under GASB 68 did to put the full liability on the books. He added that GASB has been working to add all items to liability that can be added. This he added has put the net position down a bit. He also explained, pension programs, OPEB benefits that are not on the books can cause problems when funding goes down, such as in schools. GASB 68 on page 77 and the City's sensitivity analysis was also another change. He also added that any small change in the discount rate and mortality rate will push numbers down. The PERS board has estimated this rate will be at 7.2%. Unfortunately, he added that City cannot do anything about the rang or the liability. He went on to make a note about the internal documentation control, he added that Parks will need to add this information after the general ledger conversation. He added that this approach is done so that if staff leaves that the same controls are being used. He also noted that the City Purchasing Manager should be up to date on costs and purchasing standards. Lastly, he added that the GASB 75 will be added in the upcoming year. He added that this relates to OPEB items that are not related to cash, or medical like items. He noted that the major portion of this is when you allow retirees to buy back into health care, as stated in state law. He explained what this does in comparison to the open market. He noted this raises premiums. Lastly he noted that there were difficulties in performing the audits.

- a. Everson went on to ask about the liquidity requirements that she noted were hitting in the for profit and non-profit world and if this would be hitting in the municipal world. Allen noted that not necessarily, as governments cannot declare bankruptcy and that based on this there is not requirements as everything would revert to the state. He added that the report would note if the City would not be able to pay its bills.
3. Hepford asked that a changes be made:
 - a. On page 27 under changes net position that the word increase be changed to increased. Slattery asked for clarification on the same page regarding the difference in the 3% and 2.7% listed. Hanks agreed to match the two numbers to 2.7%. Hepford also asked the same page that that on the last sentence after “3%” that the word “then” be removed.
 - b. He then asked for a change on page 28 under “Governmental Funds” that the first sentence be changed to read something like “a \$429,146 increase from the prior year.”
 - c. He also added that that the page number references need to be changed to on page 28 and 29.
 - d. In addition he noted on page 29 last sentence of the first paragraph that clarification was needed. Hanks, added that this is a shared fund between City and Parks. This she added was meant that there was only so much property tax to be shared between the general fund and the parks fund. Hepford added that the sentence be reworded to state “there is competition form parks for revenues.”
 - e. He added on page 29 second paragraph remove “ - -“from the sentence before parks. He then asked in the same sentence what was meant by the completed renovation of Garfield Park. Page 30 paragraph four change the word “exciding” to “exceeding”.
4. Slattery asked that the following changes be made:
 - a. On page 29, third paragraph asked regarding the stabilization policy being adopted by council and if this is something that needs to be taken to council. Allen explained that if you have fund that is dependent on transfers in and transfers out that according to GASB that this really is not a fund, so that when it is reported it is combined with the general fund unless you have a stabilization policy in effect that notes the triggers that will allow for money to be released. Slattery noted that a conversation has been had regarding reserve funds, and that if the city was to establish these funds this would be a prerequisite. Allen noted that the view as seeing it separately it would be more transparent. He added that it is shown in the back of the book but that in the front it does look as if it disappears as it is rolled up in the general fund.
 - b. Slattery noted the water fund on page 29 states that the project would be completed in 2019, which he believes hangs in the balance. Hanks responded by noting that this is what makes it hard with these reports as things change. Allen noted that this change can take place as this part is unaudited. Hanks added that this can be omitted.

Report From Staff: None

Public Input: None

Discussion:

Questions and Answers

1. Everson asked what happens to all the changes prior to the motion. Hanks responded that they will go item by item to correct changes. Everson said that the motion then would include the acceptance with the changes. Hepford noted that they also could wait to review the document a second time.

- a. Hanks added that once all corrections have been made that the report would be emailed back out to the committee. These changes would be made prior to the report going to council.

Motion to accept the Parks Comprehensive Annual Financial Report as presented or amended through Commission discussion.

MOTION by Everson, SECONDED by Slattery to accept the Parks Comprehensive Annual Financial Report as amended through Commission discussion. Carried unanimously.

Motion to accept the City Comprehensive Annual Financial Report as presented or amended through Commission discussion.

MOTION by Everson, SECONDED by Slattery to accept the City Comprehensive Annual Financial Report as amended through Commission discussion. Carried unanimously.

Extension of the Audit Contract

1. Hanks then explained that the extension of the audit contract was extended through the software conversion last year.
 - a. Welch noted that the recommendation would be for an extension of one year, as he is newer and the expertise that Allen brings is very helpful, after that time he noted that it could go out for bid.
 - b. Everson noted her concern over having the same partner in charge for the last 15 years. She added that she sees the value as Welch is new, but that it would be hard for him to have fresh eyes and that she would encourage Welch to seriously consider other people take a look at things. She added it is unusual to have partner in charge for 15 years, but that she understood the challenges in finding an auditor and that sometimes you need to go out the area. Ultimately, she supports having for Welch what he needs to do his job and that she would support extending the audit for another year, but that she would support a bid in the future.
 - c. Hepford asked Hanks why she thought they only received one bid previously. She noted that out of the three that did bid it came down to the cost and the in the past it had been a matter of the transition audit. The committee added that what they are getting it is the external view and opinion. Hepford also noted that he was alarm as the number of the corrections that were not caught by the auditor in this year's audit and that one of the jobs of the auditor is to catch mistakes made in the finical report.

MOTION by Everson, SECONDED by Huhtala to extended the contract for CPA Pauly, Rogers and Co., P.C. for one-year, contingent on the agreement that a bid will take place in one year. Carried unanimously.

Adjournment

Meeting was called to a close at 3:11 p.m.

Respectfully Submitted By: Natalie Thomason