

**Audit Committee Minutes  
October 25, 2010 2:00pm  
Council Chambers  
1175 East Main Street**

**Call to Order**

The Audit Committee Meeting was called to order at 2:03.

**Roll Call**

Audit Committee members Nutter, Slattery, Christensen, Lemhouse and Stebbins were present.

**Approval of Minutes**

Audit Committee Minutes of April 12, 2010

Stebbins/Lemhouse ms to approve minutes. All ayes.

**Presentation by the Auditors**

Kenny Allen presented the Parks and City letter (see attached). Mr. Allen stated the purpose of the audit. The results of the Audit on the City and Parks financial statements issued a clean opinion on both sets of financial statements which are the highest level possible. State minimum standards and found no exceptions that required comments.

The City had a federal single audit, which is when the City expends more than \$500,000 of federal money. The Auditors are required to go through and do a grant by grant risk assessment. The auditors found no issues of non-compliance and no questioned costs. A Management letter was issued for the City and not for Parks. This year the letter is a little different usually there is a separate management letter for City and Parks but because the City falls under the Federal Single Audit Act the Federal government requires that it gets put in the financial report along with the single audit opinions.

Mr. Allen stated that there were no difficulties in performing or completing the audit. There were also no disagreements with management. If there were then the auditors would have to disclose that information.

Mr. Allen discussed future accounting and auditing issues (see attached). He went over Governmental Accounting Standards Board (GASB) Statement NO 54, they set the accounting rules for the City and all local state governments. Fund balance reporting is required for GASB 54. GASB is to make sure that there are rules that are very specific that way it is easier to compare one City to the next. GASB inquired that the fund balances are detailed out in 5 categories which are non-spendable, restricted fund balance, committed, assigned and unassigned. All five are based on the strength of the constraints that control how specific amounts can be spent.

Ms. Stebbins questioned the wording on page VII regarding significant impacts changes in the economy as of June 30, 2010 reads as though it is the City's investment. Ms. Bennett stated that staff will work on the wording.

Mr. Allen stated that the Auditors noted that the City uses various third parties to process account information. The auditors recommend that the City looks at all third parties to ensure proper internal control and procedures in place at all places where information processing is outsourced. It is recommended to go through the process of SAS 70 service auditors report. In situations where a SAS 70 report it is important to get a management report, policies and procedures and whatever is needed to get a higher level of assurance that information is being processed correctly. This was recommended last year, in this year's audit it was checked and the City did go through the process correctly.

Mr. Allen went over the management comments (see attached). In the first comment the auditors noted that the Information Technology (IT) department does not have a cohesive written internal control document that details out their internal controls over their internally developed utility billing (UB) system. The UB system should also be modified to fully integrate into the Eden GL system, and should have a report written that “red flags” unusual or missing charges to individual accounts. The auditors recommend that the IT have an external review of process and controls from an outside entity.

Mr. Allen went over the criteria, cause and effect as well as the staff response to this comment (see attached).

Mr. Allen spoke to comment number 2. The City’s capital asset (and intangible policy) does not specifically state how the City determines cost on their internally generated assets. This came about because of GASB 51 which is intangible assets. The auditors found that the UB department had internally generated utility billing software and how to go through the process and calculate the worth. The auditors recommended clarification of the capital asset and intangible policy to get rid of any gray areas within the policy.

Mr. Allen spoke to comment number 3. All staff in the courts department can make changes in the court charges within the system. He discussed the criteria, cause and effect. In response the staff agrees with the audit comment and will take actions to correct the issue.

Ms. Bennett stated that to her this has been the easiest audit so far. Most of the issues that the City has dealt with in the last few years have been cleaned up by Ms. Hanks and the Accounting Department as well as City Recorder Barbara Christensen as well as others. Utility Billing (UB) is something that is difficult to work on. The problem is maintaining internal controls when the system is ran by internal software. It is something serious to the City and fixing this it is going to be difficult and expensive.

Mr. Nutter questioned of the 96 % from the \$15.6 million dollars in building permits how many of them are residential permits. How many were residential. Staff will research this question.

Ms. Stebbins questioned the receivables on page 46. She questioned if the \$2.6 million dollars is limited to 120 days receivable. Mr. Allen stated that everything over 60 days is fully deferred revenue so none of it is included in revenue over 60 days. Mr. Nutter questioned if someone owes money on meals tax and sign a note payable does the payment then get booked as a note receivable and is there any determination on its collectability if the person is insoluble. Ms. Bennett stated that the City tries to do that before signing agreements. Mr. Nutter questioned what the miscellaneous receivable represents. Ms. Hanks answered that would have to be looked up. Mr. Nutter questioned if there was any way to track the receivables on a year to year basis to see if items are being included that are not collectable and if the value is correct. Ms. Hanks answered that most of it is current. He questioned if the City has a system of tracking which receivable is going stale. Ms. Bennett answered that the way the Food and Beverage tax and Hotel Motel collection works is if you are late the Utilities Department does an estimate of what is owed and charge a penalty for delinquency. A letter is sent out, if these letters have to go out frequently a decision needs to be made on whether or not they get sent to collections or use Municipal Court to enforce.

Mr. Nutter congratulated Martha Bennett, Lee Tuneberg and staff for receiving the Government Finance officers Association (GFOA) awards. Mr. Nutter questioned Mr. Allen if he audits other cities the size of Ashland, OR and how do the Cities compare. Mr. Allen answered that based on risk areas for clients, the thing that sticks out to the auditors is the UB software issue, which causes a risk. Issues vary from city to city. He stated that the City of Ashland accounting staff is very good and gave the auditors all the information by email prior, which made the process go much easier.

Mr. Nutter questioned page 14-15 regarding sentence stating fluctuations in sales and in weather continue to make projections difficult. Rate adjustments were still not enough and the Water and Wastewater funds are examples where significant increases (8% or more) did not generate sufficient revenue increases to provide a surplus over expenditures. He questioned why this happened. Ms. Bennett answered that weather was mostly what happened. In 2009 the City had a curtailment another rate increase in April and then proceeded to have a cold spring which led to water sales being low in June. It is an odd paradox of wanting conservation but the consequence of conservation is in order to cover fixed cost you have to increase base rates. The good news is conservations will save capital in the long run the bad news is when people conserve you don't generate enough revenue to cover fixed cost. Mr. Nutter questioned if the factor of the weather was taken out and just put into effect the increases would that cause a lowering of usage and therefore effect the projections of what the revenue generated would be. Ms. Bennett answered that the City has never done a sensitivity study to how price sensitive people are to water rates. This fund is a problem because you can't continue to keep raising rates but you need to. Ms. Stebbins questioned the -37.4% on page 12 table C and wondered if it should be a positive. Ms. Hanks answered it should be a positive and staff will fix this.

Ms. Stebbins questioned if the incurred claims and unpaid claims would equal the exact same amount on page 57. Ms. Hanks stated that this is the first time ever that of current year to have no outstanding claims. The \$48,961 amount is still pending.

Ms. Christensen discussed credit risk deposits. It states that as of June 30, 2010, \$1,000,000 of the government's bank balance of \$2,015,054 was exposed to custodial credit risk because it was uninsured. She commented that as of the 30<sup>th</sup> of June, the City had a million dollar security that was called. Callable securities are very rarely purchased. Since this was called, a million went into the bank on the 30<sup>th</sup> of June. The other part of this is that because of the environment of investments these days there are not a whole lot of choices of where to put money. Diversity is important so that all the money isn't going to one place such as the pool or CD's. Mr. Nutter questioned if this is something the auditors are concerned about. Mr. Allen answered no.

Mr. Nutter questioned the reclamation on page 58 and if it was sufficient. Ms. Bennett answered that she will not answer yes or no on whether it is sufficient. The City's liability is capped by the Special Use Permit (SUP) in terms of what the Forest Service requires the City to do. Since the City holds the SUP the City leases the ski area to the Mount Ashland Association. Mr. Nutter questioned if someone leases something there may a cap for the use, but in the agreement I turn around and do something outside of the agreement then liability would be greater. For example if Mount Ashland Association did something that didn't follow the SUP wouldn't the City then as the holder of the ultimate liability be liable for more than the cap. Ms. Bennett answered she doesn't believe so because mount Ashland Association has to go directly to the Forest Service and get permits for everything that they do. Mr. Nutter asked if they didn't get a permit for something would the City have exposure because the City holds the actual SUP. Ms. Bennett stated she doesn't believe due to our special use permit. Mr. Nutter stated that maybe there should be a footnote or approach council to get a footnote to indicate the limitation of liability or have a legal opinion within the document. Ms. Bennett stated that she feels confident about the number.

Ms. Stebbins wanted clarification from the Mr. Allen that the City has no contingent liability in regards to the hospital. Mr. Allen stated that is correct.

Mr. Nutter questioned the statement on page 6; the actuarial assumptions include an 8% investment rate of return net of administrative expenses. He questioned what this figure was based on. Mr. Allen answered that it is based on actuarial assumptions. The projected wage increases of 4.25 are also based on the actuarial assumptions as well.

Mr. Nutter questioned what the change was in general revenues on page 5 of the Parks Comprehensive Annual Financial Report. Ms. Hanks answered that it was the School District paying Parks for the Youth Activity Contract.

**Public Input**

None.

**Committee Discussion**

The Committee Signed the Annual Letters.

Slattery/Stebbins m/s to recommend the Audit to Council. All Ayes.

**Review of Audit Contract**

Staff stated that the City's contract with Pauly Rogers is a 3 year contract with 2 one year extensions.

The City has the option to extend one more year with Pauly Rogers. Stebbins/Nutter m/s to extend the contract with Pauly Rogers for one year. All Ayes.

The Committee discussed that the Audit Committee would possibly meet next spring.

**Adjournment**

The Audit Meeting was adjourned at 3:20 p.m.

Respectfully Submitted,  
Melissa Huhtala  
Administrative Secretary