



CITY OF MILWAUKIE

AUDIT COMMITTEE MEETING AGENDA –

January 22, 2024 at 5:30 p.m. – Milwaukie City Hall

This is a in Person Meeting: The Audit Committee will hold this meeting at Milwaukie City Hall in the Council Chambers. The public is invited to join, **but there will NOT be a Zoom or virtual option. This meeting will not be broadcast or recorded.**

Written comments may be submitted by email to finance@milwaukieoregon.gov.

1. Call to order and introductions – Chair Dake
2. Approval of the August 10, 2023 minutes – Chair Dake
3. Community comments
4. Discuss 12.19.2023 audit committee memo
5. Discuss audit timetable and firm selection
6. Adjourn – Chair Dake

AUDIT COMMITTEE

Video via Zoom
www.milwaukieoregon.gov

MINUTES

AUGUST 10, 2023

Osborne called the Audit Committee meeting to order at 5:32 p.m.

Present: Matt Dake, Mack Golos, Robert Massey, and Mary Rowe

Absent: Mona Henry

Guest: Jessica Haynes-Luther, CPA, Aldrich CPAs

Staff: Assistant Finance Director Michael Osborne
Accountant Judy Serio
Finance Director Toby LaFrance

1. CALL TO ORDER AND INTRODUCTIONS

2. APPROVAL OF THE MINUTES

Rowe made a motion to approve the April 13, 2023, minutes as written. Massey seconded the motion.

Motion passed with the following vote: Golos, Massey, Rowe voting “aye.” (3:0)
Dake abstained.

3. COMMUNITY COMMENTS

None

4. ELECT COMMITTEE CHAIR

Osborne explained a chair will need to be elected.

Dake made a motion to be chair. Massey seconded.

Motion passed with the following vote: Dake, Golos, Massey, Rowe voting “aye.” (4:0)

5. CONTRACTING DISCUSSION

LaFrance disclosed two inconsistencies in the adherence to city contracting rules.

Osborne summarized the two contracting violations. The first occurred in January 2022 where the city engineer exceeded the City Council authorization for the contract value with Kerr Contractors. The second violation by the city engineer was a lack of a contract with BlackLine for slurry seal repairs. Both these violations will be presented to the City Council on August 15th.

Massey asked what discussion was opened in April.

Osborne responded that a work discussion was started.

Massey asked how finance was made aware of the violations.

Osborne responded that finance had received a few citizen claims for property damage which prompted research by Finance.

Rowe asked if Finance was made aware of the occurrences at the same time, or if each was revealed separately. What is being done to avoid this happening again.

Osborne stated there will be mandatory city-wide training happening soon. The first occurrence was noticed early last year, the second one was discovered as staff were investigating the first one. All contracts are now going through the assistant city engineer. The city engineer is retiring on September 8th.

Dake asked if the reassignment of contract review is permanently with that position or will it move back to the city engineer once someone is hired.

Osborne responded it will move back to the city engineer position.

6. REVIEW OF FY 2023 AUDIT RISK ASSESSMENT AND SCOPE

Osborne introduced Haynes-Luther to the committee.

Haynes-Luther will oversee this year's audit, with results due to the Secretary of State by December 31st. The independent auditor report includes GAAP financial statements, Oregon state regulations and compliance with state laws. Items under review will be local budget law, compliance with public purchasing, deposits and investments. The interim audit took place July 13-14th and focused on understanding the entity, policies and procedures, and internal controls; no deficiencies were found. During this time, the audit firm looks to identify if there are any risks in the form of management override of internal controls, non-compliance with Oregon law, improper revenue recognition, and asset misappropriation.

Haynes-Luther continued with the fieldwork audit that will take place the week of November 13th. During this audit, requested items from the city will be reviewed along with balance sheet accounts. The financial statements and Annual Comprehensive Financial Report will be reviewed. At the end, the auditors will issue an opinion. This year there are three new accounting standards to implement, GASB 91, 94, and 96; currently the city is reviewing to see what qualifies under those pronouncements.

Osborne added the city goal is to issue in December.

7. DISCUSSION BETWEEN COMMITTEE AND AUDITORS

City staff logged out of the Zoom meeting.

8. ADJOURN

Rowe made a motion to adjourn the meeting and Massey seconded.

Motion passed with the following vote: Dake, Golos, Massey, and Rowe voting "aye." (4:0)

The meeting was adjourned at 6:22 p.m.

Respectfully submitted,

Judy Serio, Secretary / Accountant



CITY OF MILWAUKIE

Memorandum

Date: December 19, 2023

To: Ann Ober, City Manager
Emma Sagor, Assistant City Manager
Milwaukie Audit Committee

From: Toby LaFrance, Finance Director

Subject: Timing to Finalize and File the Annual Comprehensive Financial Report

I regret to inform city management and the Audit Committee that Milwaukie will not achieve its goal of filing the FY 2023 Annual Comprehensive Financial Report (ACFR) prior to December 31, 2023 and that an extension will be filed with the Secretary of State by our auditors, Aldrich.

Originally, I had targeted Monday December 4, 2023 to deliver the draft ACFR for audit review. I failed to meet this timeframe. I now expect to deliver the draft ACFR to the auditors by Friday December 22, 2023. Due to pre-existing obligations, Aldrich will not have time to start their review of the document until Tuesday January 16, 2024. To provide sufficient time for their review and any potential revisions that they deem necessary, Aldrich is recommending that we file an extension to February 15, 2024.

With this extension in mind, I will be rescheduling the Audit Committee meeting currently scheduled for January 22, 2024 and the presentation of the ACFR to Council currently scheduled for February 6, 2024.

Background

The prior FY 2022 ACFR was not filed until March 28, 2023. From that process, staff put together a three-part action plan intended to shorten the time to file the ACFR with the goal of filing by December 31, 2023. That plan included:

1. Improving familiarity of finance and audit staff with the organization. Key Milwaukie finance staff and the city's auditors were new to the organization in late 2022/early 2023. It was anticipated that an additional year of experience would support a faster turnaround in ACFR preparation.
2. Updating our financial and written ACFR files and work papers.
3. Purchasing software to assist with new accounting standards regarding leases and subscriptions.

Finance was able to implement all three of these plan elements.

- Staff does have more familiarity with the organization.
- Files were updated to match Aldrich's requirements.

- Software was purchased to assist with accounting standards regarding leases and subscriptions. While the software did save time, it did result in integration issues with other software systems and existing processes that caused delay and the need to correct entries from Aldrich during their fieldwork.

Unfortunately, this was not sufficient to meet our December 31, 2023, goal.

Lessons learned and corrections proposed for 2024

During this year's audit process, a couple key events added to the delay in filing the ACFR. I have learned from these events and plan to implement changes to ensure that the ACFR is filed prior to December 31, 2024.

1. Auditor's field work needs to be performed in early October, or sooner. Field work is where the auditors are onsite, reviewing workpapers, testing controls, reviewing financials, and suggesting corrections. This is where the auditors are ensuring that the finances of the city have been handled properly throughout the fiscal year. During this year's audit, Aldrich performed field work from November 13 to November 17. This time was chosen to accommodate the move to new City Hall and Aldrich's availability. With Thanksgiving the following week, this left eight business days to assemble the financial schedules and produce the ACFR document. Scheduling such a tight turnaround was a mistake on my part and more time is needed for staff to prepare the financial tables and schedules that go into the audit.
2. Further assistance is needed in preparing the financial tables and schedules that go into the ACFR. Where field work ensures that the finances of the city have been handled properly throughout the fiscal year, the financials summarize and categorize those financials. Examples include statements of revenues, expenditures, and changes in fund balance, reconciliations, notes, statement of net position, combining balance sheet, and budget to actual fund summaries. Assembling these is highly technical work that frequently changes with new accounting standards. I am exploring a combination of three options to provide this assistance. They are listed in the order that will be the most likely to ensure completion of the ACFR prior to December 31, 2024:
 - a. Contract with an audit firm to prepare the financial statements. The city would still prepare the ACFR; however, the technical work of the statements could be contracted to a firm with CPAs with more expertise in financial statement preparation.
 - b. Contract with a separate financial firm to guide and review staff preparation of the financial statements. With this option, staff will still be spending significant time preparing the financial statements; however, trained CPAs will review the work prior to entering them into the ACFR document and submitting the document to the auditors.
 - c. Seek additional in-depth training on how to prepare financial statements. This is offered by the Government Finance Officers Association in multi-day training sessions.

I did not meet my commitment to the city to have the ACFR filed with the Secretary of State by December 31, 2023. While progress was made, I needed to provide more support to finance staff and make better decisions regarding the scheduling of the audit process.