



# OMFOA Update

November 2010

Oregon Municipal Finance Officers Association

## Inside...

2010 Northwest Government Finance Institute Recap ..... 3

Winners of the Second Annual OMFOA Photo Contest at the Northwest Government Finance Institute..... 4

How to Break Bad (or Good) News ... 5

Information from the Oregon State Treasury ..... 7

How an Audit Committee Can Help Your Organization ..... 8

Places & Faces ..... 10

## A Message From the President

Michelle Hawkins, 2010-11 OMFOA President



Winter is around the corner and may be here quicker than we are ready for. It feels like my life as President of

OMFOA is changing as quickly as the seasons. I started the season out with our second webinar on GASB 54 taught by Tonya Moffitt and then another one just this October for Outlook/Adobe given by Beth Wolf of the City of Wilsonville. I am excited to say that they have been well attended and very informational.

I am headed to Juneau, Alaska in a few weeks to represent OMFOA. I am very excited as I have never been to Alaska. With the weather change, it should be a fun time in the snow. I will tell you more about it when I return.

One of the tasks I have given myself as your president this year is to update our website and give it a new look. I have been working with Misty Slagle, our Association Manager, and Tom Misley, a website design

expert. We should be unveiling the website sometime in December. I look forward to your input on the new look. We are adding some new components to the OMFOA website and I would love for you to give us any comments you have on what you would like to see. You can send comments directly to me or to Misty Slagle. Our email addresses are: [mhawkins@co.linn.or.us](mailto:mhawkins@co.linn.or.us) and [misty@westernadvocates.com](mailto:misty@westernadvocates.com).

We will be posting the pictures that have been taken during the past 2 conferences on our new website for people to enjoy. We also would like to incorporate a "Retirees for Hire" section to serve as a resource for members and recently retired finance professionals looking for part time or contract work. We will add the Alaska, California and Washington Finance Associations links to our website also. Another section we are working on is a resource section where we can post examples of template RFP's and contract language. I am excited to see all

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# *How an Audit Committee Can Help Your Organization*

*By Richard Seals, CPA CMA CFM*

It happened at the City of West Linn in the early 2000s; and it can happen to your organization. Audits stopped occurring, the auditors disengaged, and the Finance Director commenced a monthly embezzlement scheme lasting five years. It wasn't until the auditing process was reinstated in 2006 that this embezzlement scheme was discovered. It wasn't until 2010, once the audits were all caught back up, that the City's credit ratings were restored and necessary bond refundings were completed. What should have the Elected Officials been aware of? How could an Audit Committee have helped?

In the State of Oregon, annual audits are due to the Secretary of State – Audits Division by December 31st. Audit responsibility starts with the Finance Director then trickles up first to the City Manager, then to the Audit Committee (if one exists), and finally rests with the Elected Officials. Annual audits exist for the purpose of financial accountability. The lack of audits or a poor auditing process, are accountability failures for which everyone is responsible.

## *Know what an Audit is and What it is Not*

There are all types of audits, but the bare minimum required by the State of Oregon, and the type that is the subject of this paper, is the financial audit. This type of audit is a detail review and testing of the city-prepared financial statements and notes to the financial statements with the express purpose of providing users such as citizens, bond holders, banks, and credit agencies with assurance that the financial statements are free from material misstatement. Information is material if its omission or misstatement could influence the economic decision of users. That's it. An audit does not guarantee that there are no financial problems, challenges, internal control weaknesses, fraud, policy breaches, performance issues, efficiency matters, or improvements to processes that need to occur to be good stewards of taxpayer's monies. In other words, an audit will not prove that fraud is not present or embezzlement schemes are not occurring; however, as the City of West Linn learned the hard way, when the auditors are disengaged, embezzlers can play.

## *Know Why Audits are Important*

Not only are financial audits required to be in

compliance with the State of Oregon, but financial audits offer a system of necessary checks and balances. Audits help to ensure that material misstatements (or frauds) are identified on a timely basis. In addition, independent auditors are experienced and knowledgeable, not only about auditing and municipal operations, but about financial disclosure and processes. Who else is qualified to review what the Finance Director is reporting? Who else is qualified to provide an independent opinion that the City's financial statements can be relied upon? Audits may not detect all embezzlement schemes and may not detect all fraud that may be present, but without auditors, who is guarding the hen house?

## *Know How an Audit Committee can Help*

Elected Officials are voted into public office by a majority of voters. These voters expect their Officials to represent their interests, and generally, Officials are not voted into office because of their financial expertise. Furthermore, local government councils (or board) meetings are not conducive to lengthy discussion and explanation, two necessary features for proper oversight of a thorough audit process. This is where a separate Audit Committee can really serve Elected Officials well. This committee provides the necessary focus on the internal control issues and provides the oversight that Elected Officials may not have the ability or resources to perform. They ask the hard financial questions of the independent auditors and keep the finance management in check.

An Audit Committee should be formally established by the Elected Officials, have a direct communication line with the auditors and the full Council, and should operate without any direct interference from city staff. Certainly, the Finance Director provides committee support and coordinates the meetings, but the role of the Audit Committee is to provide overall audit oversight.

An Audit Committee can be a safe place (relatively) for financial issues to be discussed and internal control improvements to be strategized over. Unlike board meetings which are often televised and more formally structured, Audit Committee meetings can be a smaller and provide a more effective venue in discussing any

financial challenges. This committee serves as a buffer for the Elected Officials in dealing with financial matters and can also be a helpful conduit for a Finance Director in selling a fund restructuring plan or implementing a new GASB pronouncement such as GASB 54.

### *Know the Preferred Make-up of Audit Committees*

Best of practice suggests that the Audit Committee for local governments consist of three Elected Officials. The Audit Committee is not a citizen committee, much like the Citizens' Budget Committee, instead, it is an extension of the council (or board), where overall audit responsibility remains with the Elected Officials. However, much may also be said for including one citizen member who is willing to serve their city in this capacity that possesses municipal accounting and auditing expertise.

### *Know that the Audit is a Process, not just a Document*

If an audit is simply a document received once a year and filed on a bookshelf, then its numerous advantages are not being realized. The audit should be a year long process with active tasks and goals of an engaged Audit Committee who embraces the concept of continuous improvement while searching to improve all financial processes. Every finance department has some weaknesses which can be improved upon. The Audit Committee, with the help of the auditors, serves the public as the committee consistently looking for areas of improvement.

Audit Committee meetings do not need to occur so often that they become another stressor for the Finance Director. There can be as little as two meetings per year. Every audit season should start off with a "kick-off" meeting (around April) with the auditors, end with a "wrap-up" meeting (around December), and have as many meetings in between as there are active issues. Monthly informational emails can be circulated around by the Finance Director to keep the committee engaged throughout the process.

### *Know Who is Responsible to your Community*

Elected Officials represent the community that elected them. They are responsible for financial stewardship of

the community's tax monies. As Harry S. Truman so eloquently stated, "the buck stops here". If your organization does not already have an Audit Committee however, then have one set up through a formal motion by the governing body (i.e., resolution, ordinance, or charter amendment) providing guidance to the Finance Director to coordinate it, staff it, and ensure that it stays active and engaged. If your organization does not have Elected Officials with financial expertise, then consider inviting a local citizen with CPA/municipal accounting expertise to serve along with two other Council/board members. Why? Because we are all responsible to ensure the good stewardship of taxpayer's monies.

### *Conclusion*

What if the West Linn Elected Officials had an active and engaged Audit Committee, what if they were aware of their financial responsibilities over taxpayers' monies, and what if the disengaged auditors were immediately replaced by Council? Would the \$1.4 million embezzlement scheme, at the time the largest in Oregon's history, have been discovered much earlier? Most certainly. Audits will not detect all embezzlement schemes, they will not find all fraud, they will not prevent an otherwise corrupt Finance Director's travel plans, but they sure help in rooting out the bad apples within public service. Audits will not detect everything because they are not designed too, they are designed solely to provide users assurance that the city-prepared financial statements can be relied upon.

Does your City have an active and engaged Audit Committee, does it have a Fraud Hotline, are the internal controls understood and documented, do you know if your Finance Director has access to prepare and approve journal entries which adjust general ledger account balances, do you know what happens to your voided check stock, do you know the internal control weaknesses in your financial operations? Having an Audit Committee can help with these questions.