



**CITY OF PLACENTIA
CITY COUNCIL AD HOC
FINANCIAL AUDIT OVERSIGHT COMMITTEE
SPECIAL MEETING AGENDA
APRIL 30, 2012
401 E CHAPMAN AVENUE
PLACENTIA, CA 92870**

CALL TO ORDER:

ROLL CALL: Committee Members Benuzzi, DeRose, Larson, McCallick, Mooberry
City Council AD HOC Members Nelson, Underhill

ORAL COMMUNICATIONS:

At this time the public is invited to address the Committee concerning any items on the agenda.

1. MINUTES

Financial Audit Committee Meeting

October 10, 2011, October 24, 2011, December 13, 2011, March 22, 2012

Recommended Action: Approve

2. REVIEW FISCAL YEAR 2010-11 CORRECTIVE ACTION PLAN

Recommended Action: Approve

COMMITTEE MEMBER REQUESTS:

FINANCE DIRECTOR REPORT:

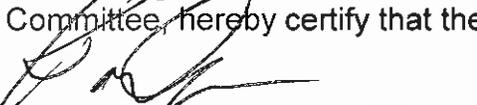
ADJOURNMENT:

The Financial Audit Oversight Committee will adjourn to City Council study session on May 7, 2012 at 6:00 P.M.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Finance Department at (714) 993-8237. Notification 48 hours prior to the meeting will generally enable City Staff to make reasonable arrangements to ensure accessibility.
(28 CFR 35.102.35.104 ADA Title II)

CERTIFICATION OF POSTING

I, Karen Ogawa, Finance Director for the City of Placentia and Secretary of the Financial Audit Committee, hereby certify that the Agenda for the meeting was posted on April 26, 2012.



Karen Ogawa, Finance Director

CITY OF PLACENTIA
FINANCIAL AUDIT OVERSIGHT COMMITTEE
REGULAR MEETING MINUTES
OCTOBER 10, 2011
7:00 P.M. - ADMINISTRATION CONFERENCE ROOM
401 E. CHAPMAN AVENUE, PLACENTIA, CA

CALL TO ORDER: Director of Finance Karen Ogawa called the meeting to order at 7:08 p.m.

ROLL CALL:

Present: Committee Members DeRose, Larson, Mooberry
Absent: Committee Members Benuzzi, McCallick

PUBLIC COMMENT:

Mayor Scott Nelson commented that as the Committee is aware the auditors are working on the audit and we are under time constraints due to the fact that the committee will not be selecting a Chairman and vice-chairman tonight and he urged the Committee to set a date for the next meeting very quickly; in a prior conversation with Mayor Nelson, Member Benuzzi stated that he would be available to meet on October 24th; we need to get the sub-committee formally set so that they can work with the auditors; technically our audit needs to be completed by November 28th. If, in fact, the Committee could decide on something sooner, but if not he urges the Committee to set the date of the next meeting to October 24th if that works for you and that's what Member Benuzzi had indicated would work for him.

Member DeRose inquired as to if we can do that now?

City Administrator Troy L. Butzlaff stated that the Committee can not choose a sub-committee because the item is not on the agenda and does not qualify for an urgency matter because we have already discussed this in the past, so we are going to have to have another meeting and formally agendize it for action to be taken.

Mayor Nelson commented that the Committee can do is, at the end of the meeting, request Staff to set the next meeting for October 24th, and he urged the Committee to do that so that we can get the sub-committee set and we can get it done properly.

Member Mooberry inquired as to whether the Committee should contact Member Benuzzi and have him request the meeting date.

City Administrator Butzlaff commented that yes Member Benuzzi has indicated that his earliest availability is October 24th.

Member Mooberry inquired as to whether he would be in violation of the Brown Act if he called Member Benuzzi and requested that he make October 24th the meeting date.

City Administrator Butzlaff commented that as long he does not discuss it with anybody in attendance tonight he would not be in violation. City Administrator Butzlaff then explained to Members DeRose and Larson that the prior sub-committee was to select our current auditors and now a sub-committee is required to review the detail of the audit, work through certain

comments, and present the findings back to the Financial Oversight Audit Committee, as a whole, for more discussion. We have had to do this because the sub-committee was never formalized or agenized by the Committee, so we had to disband it; this sub-committee would be the formal formation, by having it on the agenda, and having the Committee vote to its formation, and once it is formed then two members of the body will meet and will be subject to the Brown Act, just as the main body is. The sub-committee would have to have Minutes taken and Agendas posted; however, it provides for more flexibility because it is only two members, and they can meet as often as they need to, in order to go over the audit with the auditors and Staff. Again, because we are on a very tight time table, we need to take an action on this, in order to form a sub-committee as soon a possible, so that once the preliminary draft audit and financial statements are available, the sub-committee can review them and meet with the Financial Oversight Audit Committee, and then pass them back on to the auditors so that they can include them in their final audit report.

Mayor Nelson commented that it is easier to do it this way, because having the auditors present in front of a full Committee, all the time at an agendized meeting, is a little bit more difficult; this way the sub-committee can actually collect questions in a proper manner from the rest of the Committee and present them to the auditors. Then there will eventually be that last meeting with the auditors, where they will come in front of the full Committee.

Mayor Nelson commented that Member Mooberry has some points about the Brown Act, but we do want to err on the side of caution; if we are going to make an error let's make it so that nobody is going to get fined.

City Administrator Butzlaff informed the Members that now would be the appropriate time to select a temporary chairman to proceed over tonight's meeting.

MOTION by Member Larson to nominate Member Mooberry as the temporary Chairman to precede over the October 10, 2011 meeting of the Financial Audit Oversight Committee **SECOND** by Member DeRose, **MOTION CARRIED (3-0)**.

STAFF PRESENT: Director of Finance, Karen Ogawa; Finance Services Manager, Mike Nguyen; City Administrator, Troy L. Butzlaff; Mayor, Scott Nelson; Mayor Pro Tem, Jeremy Yamaguchi; Eric Hendrickson, Accountant; Teri Knutson, Accounting Technician.

COMMENTS –

1. Approval of Minutes of April 11, 2011 –

MOTION by Member DeRose to approve the amended minutes of April 11, 2011. **SECOND** by Member Larson **MOTIONED CARRIED (3-0)**.

2. Approval of Minutes of June 8, 2011 –

MOTION by Member DeRose to approve the amended minutes of June 8, 2011. **SECOND** by Member Mooberry **MOTIONED CARRIED (2-0)** (member Larson abstain).

3. Approval of Minutes of August 8, 2011 –

Member Mooberry informed those in attendance that in reading the minutes, there is a comment that states the Committee's responsibility is for the internal audit. The City does not have an internal audit function so that statement does not make any sense.

City Administrator Butzlaff explained that the Financial Oversight Audit Committee's responsibility, per the City Council approved mission statement, is for the City's independent annual audit. It does not address anything about external agency audits like the one performed by the State Controller's Office.

Member Mooberry commented that he has the mission statement in front of him and it states that "the City's compliance with legal regulatory requirements and the qualifications and independence of the City's internal and external auditors and also the performance of those auditors." It doesn't say, related to the City. It says external auditors, and also "the performance of those auditors, additionally in performing its duties, the Financial Audit Oversight Committee will maintain an effective working relationship with the City Council, Management, Staff and the internal and external auditors"; it does not really define internal and external auditors.

Mayor Nelson requested that Member Mooberry read that part of the mission statement again.

Member Mooberry read the section again and stated that he thinks that staff is talking about the auditors that are hired by the City; the City doesn't hire the State auditors.

Mayor Nelson responded that is correct.

Member Mooberry commented that he now understood that portion of the mission statement, and that the Audit Committee is dealing with the auditors that are hired by the City.

Member Mooberry asked Director of Finance Ogawa when the Committee was going to get the financial statements, and that they were supposed to be receiving them quarterly.

Director of Finance Ogawa commented that the Committee was given the last quarter financial statements, but she would be glad to send them out again. She further indicated that when Staff submitted them to the City Council, copies were also sent to the Committee Members.

Member Larson stated that they had received the March 31st financials, but not the June financials.

Director of Finance Ogawa informed the Committee that there is no June financials because we are still in the audit and to present a preliminary document would not be

appropriate. She further indicated that if we had even one journal entry, it would change the whole presentation of the financials.

Member DeRose inquired as to when the Committee could expect the financials?

Director of Finance Ogawa commented that as soon as the audit is completed, or Staff believes it's near conclusion, and there will be no more changes by the auditors or Staff, City Staff will do a soft close and then Staff will be able to produce some financials.

MOTION by Member Larson to approve the amended minutes of August 8, 2011. **SECOND** by Member DeRose **MOTIONED CARRIED (3-0)**.

4. Selection of Chairman and Vice-Chairman for the Financial Audit Oversight Committee –

MOTION by Member DeRose to defer this item until the next meeting on October 24, 2011. **SECOND** by Member Larson **MOTIONED CARRIED (3-0)**.

5. Update on the Fiscal Year 2008-09 and 2009-10 Corrective Action Plans for the Redevelopment Agency Financial Statements, Single Audit report and Managements Reports – Director of Finance Ogawa reported that that there have been no changes from the last presented corrective plan. We do not have preliminary financials from Haskell & White and therefore Staff does not have a findings list to present or prepare for a corrective action plan.

6. Status of Fiscal Year 2010-2011 Audit – Director of Finance Ogawa reported that no changes have been discovered other than what was found in the preliminary review. The auditors have disclosed that we have a few items that will be part of the recommendations, we are beginning our third week of the field work and that should be the last week for the City's review. Nothing new has been brought to Staff's attention with regard to discoveries but, again, the field work has not been completed. After they conclude the City's review, they still need to audit the Redevelopment Agency, as well as conduct the Single Audit.

Member DeRose inquired as to if the audit was on schedule?

Director of Finance Ogawa reported that she believes that we are on schedule, per the Request for Proposal and agreement that the City entered into with Haskell & White. It states that the City was going to provide the audit schedule and our books would be closed on October 17th. Staff actually closed the books two to three weeks earlier, and began the audit on September 26th. Per the schedule of the contract, the Preliminary Financial Reports are due to the City for deliverables on November 14th, and then the final bound copy of the Financial Reports is November 28th.

Member Larson inquired as to if everything that Haskell & White needs to complete their field work has been given to them?

Director of Finance Ogawa commented that everything was given to them in electronic form so that Staff would not have to keep pulling the same documents for them and the auditors can attach the supporting documents to any of their findings.

COMMITTEE COMMENTS:

Member Mooberry commented that it looks like the audit is going a lot smoother than years' past, it remains to be seen until the end, but it looks like it is going on pretty good. Member Mooberry inquired as to if the Committee was going to receive a draft audit report.

Director of Finance Ogawa responded that the document Member Mooberry is referring to is the Management Letter that outlines some of our internal control weaknesses as well as the Single Audit report that will outline some other internal control issues, if there are any, as well as the Redevelopment Agency.

Member Larson inquired as to the status of last year's Management Letter. Have all the findings been satisfied.

Director of Finance Ogawa confirmed that all the findings have been satisfied.

Member DeRose requested that Staff schedule a new Financial Audit Oversight Committee meeting on October 24, 2011 to select a Chairman and Vice-Chairman for the Financial Audit Oversight Committee and to form a sub-committee to review audits so we can review the draft financials.

Member Larson inquired as to whether this was an additional meeting and does not take the place of the next meeting in January.

City Administrator Butzlaff commented that the Financial Oversight Audit Committee is only directed by City Council to meet on the second Monday at the start of every quarter; this is the formal schedule, however, if the committee needs to meet more frequently, that is up to the Committee Members.

Member Mooberry commented that the Committee is probably going to have to meet more frequently until the audit is complete.

City Administrator Butzlaff agreed and commented that the purpose of forming the sub-committee is to allow them to meet even more frequently than the normal Committee would meet so that they can go through this process relatively quickly, so that they can come back and meet with the full Committee, in order to keep on schedule with the audit. It is likely there will have to be a meeting in November, as a full Committee, again to go over the sub-committee's findings and recommendations.

Mayor Nelson commented that, more importantly, the City wants to try and retain that transparency that we have attempted to bring here and the sub-committee formation is needed, to make sure that they work with the external auditors. We don't want to circumvent that, however, we are on a very tight time schedule.

City Administrator Butzlaff informed the Committee that they have less than a month for overall review. The review period for when the draft financial statements are due, and when they are due back so that the auditors can do their final quality assurance/quality control before they produce the final Statements, is only one week. To maintain schedule in this relatively quick turnaround, Staff believes that having the sub-committee meet more frequently is necessary; to go through that will be very helpful in achieving those deadlines.

Mayor Nelson commented that if there is a date for the Management Letter to come out, which the external auditors do, and it goes past that date, you start to have an issue with credibility with the financials for the City; we want to get it out and done so that if there are issues, we can come back and look at them. We have come a long way in re-establishing the financial credibility of the City of Placentia, and we would like to keep it going, that's why there is urgency on this.

Member Larson inquired as to when the November City Council meeting was.

City Administrator Butzlaff commented that the City Council probably won't be able to meet the November meeting for adoption; it will most likely be the first meeting in December. However, if there is a need to have a second meeting to formally approve the audit so it is adopted prior to year end, it would tentatively be on the December 6th meeting. We estimate the City will receive the preliminary draft financial statements within the next two weeks so that falls within the next Financial Oversight Audit Committee meeting on October 24th. A sub-committee can be appointed and the sub-committee can meet within that same week or the following week, to review and approve the preliminary draft financial statements. It then goes back to the auditors, and the auditors then do their quality assurance/quality control and then they present their final draft. Staff would need the Financial Oversight Audit Committee to get together again around October 20th, when the City receives the final audit, and the first meeting in December when the City Council would potentially take action. If this committee completes its work by November 28th that would allow staff enough time to get it on the December 6 agenda for the City Council. Staff is working on a schedule with tentative meeting dates and that we need to take action on this, so we will add that to the list of dates.

Director of Finance Ogawa stated that she is trying to work with Haskell & White to give Staff some firm dates as to when the deliverables will be ready and when the draft financials will be completed; the draft financials are the final document before they are actually bound. We are hoping that it will be the week of November 21st or at the very latest November 28th. She further indicated that if possible, Staff will try and push it up a week due to the holiday.

Mayor Nelson advised the Committee to try and pick two members who have the ability to be on the sub-committee or that are a little bit flexible, Director of Finance Ogawa will try and get the anticipated dates to see if the sub-committee can work those in to their respective

schedules, and he encouraged the Committee to choose its sub-committee accordingly. It is his firm commitment to have the sub-committee involved.

City Administrator Butzlaff informed the Committee that in the past the sub-committee meets every so often with the auditors and Staff over the course of several weeks and then they refined their comments and questions to the audit firm. Ultimately, that was all channeled/funneled up to the entire Committee where it was discussed once again with the auditors and then recommendations are made to proceed; that probably took over about three weeks processing. He sees a need to shorten that considerably; we now need to crunch it down into a week's time or less.

Mayor Nelson reminded the Members that there were fifteen material weakness findings last year, the interim audit has indicated that we are down to three and those might not even be findings, but recommendations as part of the Management Letter. We are hoping that it's smoother this year and that all those questions can be answered prior to that, but we certainly want the questions; Council is expecting the Committee to find things that it might not see.

City Administrator Butzlaff reminded the Committee that, because there is a requirement to follow the Brown Act with regards to the sub-committee, it will likely add time because of the requirement to have printed agendas posted 72 hours in advance of the meeting. Lead time is necessary to schedule meetings, unless they continue the meeting to the following day. The Committee would basically need to have the meeting and decide that same day that they are going to continue into the next day at a time certain. In that situation, Staff can post a special notice to inform the public that the sub-committee is meeting again. He further indicated that while we need to move quickly, we must work within the provisions of the Brown Act.

Member Larson inquired as to whether the sub-committee could just block out a number of meeting dates? He further inquired whether it is easier to cancel a meeting than to add a meeting within the 72 hour time frame.

City Administrator Butzlaff commented that, yes, it is because if you provide adequate notice, you can have those meetings and that may be a smart tactic.

STAFF COMMENTS: None

ADJOURNMENT: MOTION by Member Mooberry to adjourn to a special meeting on Monday, October 24, 2011 at 7:00 p.m., **SECONDED** by Member Larson **MOTION CARRIED (3-0)**.

CITY OF PLACENTIA
FINANCIAL AUDIT OVERSIGHT COMMITTEE
SPECIAL MEETING MINUTES
OCTOBER 24, 2011
7:00 P.M. - ADMINISTRATION CONFERENCE ROOM
401 E. CHAPMAN AVENUE, PLACENTIA, CA

CALL TO ORDER: Chairman Member Benuzzi called the meeting to order at 7:09 p.m.

ROLL CALL:

Present: Chairman Benuzzi, Committee Members DeRose, McCallick, Mooberry
Absent: Committee Members Larson

PUBLIC PRESENT: Greg Sowards

PUBLIC COMMENT: None

STAFF PRESENT: Director of Finance, Karen Ogawa; Finance Services Manager, Mike Nguyen; City Administrator, Troy L. Butzlaff; Mayor Pro Tem, Jeremy Yamaguchi; Councilmember Constance Underhill; Eric Hendrickson, Accountant; Teri Knutson, Accounting Technician.

COMMENTS –

1. Approval of Minutes of October 10, 2011 –

Approval of minutes deferred to the next Financial Oversight Audit Committee Meeting.

2. Selection of Chairman and Vice-Chairman for the Financial Audit Oversight Committee –

Chairman Benuzzi inquired as to if any Member would not like to serve as the Chair or Vice-Chair of the Financial Audit Oversight Committee.

Member McCallick stated that he would not like to serve.

Chairman Benuzzi opened up nominations for Chairman.

Member Mooberry nominated Chairman Benuzzi.

Member McCallick commented that he has served as Chair and Vice-Chair and believes that it is good to get new members to serve provided that they want to and have the time.

Member McCallick nominated Member Mooberry for Chairman.

Member Mooberry declined the nomination, but stated that he would be interested in serving as Vice-Chair.

Member McCallick second the nomination for Chairman Benuzzi as Chairman.

Chairman Benuzzi called for a roll call vote.

Member DeRose: NO; Member McCallick: YES; Member Mooberry: YES;
Chairman Benuzzi: YES; Member Larson: Absent.

Chairman Benuzzi opened up nominations for Vice-Chairman.

Member DeRose nominated Member Mooberry for Vice-Chairman.

Member McCallick second the nomination for Member Mooberry as Vice-Chairman.

Member Benuzzi called for a roll call vote.

Member DeRose: YES; Member McCallick: YES; Member Mooberry: YES;
Chairman Benuzzi: YES; Member Larson: Absent.

3. Selection of Ad-Hoc Committee to review Preliminary Fiscal Year 2010 Audit –

Chairman Benuzzi request that Member DeRose and Vice-Chair Mooberry explain why items 3 and 4 need to be discussed as both he and Member McCallick were not at the last meeting.

Vice-Chair Mooberry stated that the reason for this meeting is in part to review and complete the preliminary fiscal audit due to the deadline fast approaching. He stated that Director of Finance, Karen Ogawa could better explain the audit timetable.

Director of Finance, Karen Ogawa informed the Committee that per the cities agreement with Haskell & White that was approved by City Council there are certain deliverables that are due. Haskell & White must deliver their financial report finalized and bound on November 28, 2011. Which means that Haskell & White needs to deliver their draft financial report to City staff on or before November 14, 2011. In order to accomplish this Haskell & White have informed staff that they will need a one week turn around on the preliminary, we will have one week to review, return it back to Haskell & White and they will make any revisions, then we will have the final. In order to accomplish that short time frame we need an Ad-Hoc Committee to go over the discussions of the preliminary review and report back to the Committee as a whole.

Director Ogawa stated that at the last meeting members inquired as to if the auditors could be at the Ad-Hoc meetings. Haskell & White has informed staff that they would be available to meet with them; however they would need to know the dates in advance. Director Ogawa stated that the partner in the firm will meet with the full Committee for the delivery of the final financials.

Vice-Chair Mooberry commented that at the last meeting it was discussed that there would be a number of meetings set up and posted so that the Ad-Hoc Committee could meet. Chairman Benuzzi inquired as to why the Ad-Hoc Committee meeting would be public, why would it be in a formal setting. Sometimes there are facts that are in those meetings that have been discussed one on one or discussed in a previous meeting.

Vice-Chair Mooberry stated that an Ad-Hoc Committee meeting is not a public meeting.

City Administrator Troy L. Butzlaff informed the Committee that the Ad-Hoc Committee meeting would be subject to the Brown Act. This is a discussion we had at a previous meeting regarding the formation of the last Audit Sub-Committee.

Chairman Benuzzi stated that it's a temporary Committee.

City Administrator Butzlaff stated that this is a standing Committee and it's going to go on for a period of time, it's not a single subject like the Ad-Hoc Committee to select the audit firm which had a limited life. Foreseeable the Ad-Hoc Committee for the audit will go on every audit year and because it's working with the current year audit it does not give it a limited life, it gives it a continuation and it is likely that that Ad-Hoc Committee will continue every audit year.

Vice-Chair Mooberry ask if Chairman Benuzzi was worried that the public would show up to the meetings.

Chairman Benuzzi stated that he was worried because sometimes there's things talked about in those meetings and the previous City Attorney informed them that they did not have to meet in a non-public setting where facts were not correct; things were discussed before things come out, talking about going concern issues, potential fraud that maybe we don't want to come out in a public meeting because if something's wrong or something's proven not to be true than things are already out in the open and it's incorrect and misconstrued and it causes all kinds of confusion.

Member DeRose stated that the Ad-Hoc Committee could be a temporary Committee for this audit only, and we select a new Committee next year.

Chairman Benuzzi stated that he is correct and we could very well do that.

City Administrator Butzlaff stated that as the Committee will remember the City Attorney was very implicit about this discussion and he is not going to counter what he said. The City Attorney simply said that because this has a duration of time beyond the current audit year it will continue to go on although it may have other members being made up of the sub-committee it's still dealing with that same subject matter and thus subject to the Brown Act. Reselection of new members does not necessarily change the requirements of the Brown Act.

Vice-Chair Mooberry stated that he doesn't think there should be much worry about the public showing up.

Chairman Benuzzi stated that he was not however; if it's a public meeting there could be some things that all of the sudden they are hearing about for the first time that may not be true.

City Administrator Butzlaff stated that if there is an issue of fraud or malfeasance the Auditors already have a protocol as to how they are suppose to deal with that and that is that they go to their client, the City Council to inform them and the City Council will take whatever action necessary to deal with that. With respect as to if there is an issue regarding staff in the last few meetings it was discussed with the Committee that staff would excuse themselves if the Committee wanted to have a private discussion with the auditors, it will still be a public meeting and members of the public can still participate in that because it is a public meeting under the Brown Act, that is the only nuance that you may not be aware of.

Member McCallick stated that in his experience the protocol was to go to the Audit Committee first then the client at a certain level where you're sure the fraud is not involved. If this was a fraud with one of your staff he might come to the City Administrator but he would go to the Audit Committee that is why we are seated. We go through this over and over but the reason we sit is to give the Auditors a way to go to an Independent Committee when it's appropriate, and in those cases if there was a fraud they would come to the Committee Mr. McCallick stated that he hopes the Auditors understand that, and it is standard operating procedure in the big firms and probably in the smaller firms as well that if there's a sitting Audit Committee you have to address the sitting Audit Committee with any type of a fraud and above the level of Management in which you believe the fraud to be perpetrated. Member McCallick stated that he wanted to make this clear because City Administrator Butzlaff did not mention the Audit Committee in his previous statement.

City Administrator Butzlaff stated that Director Ogawa would be able to clarify the protocol due to the fact that he is not that well versed. However, he knows that the Auditors have a duty to the client and their client is the City Council.

Director of Finance, Karen Ogawa stated that City Administrator Butzlaff is correct the Auditors would go to the City Council, City Administrator and the Audit Committee.

City Administrator Butzlaff stated that the one dilemma that we are trying to balance is the public's right to know under the Brown Act and the need for openness and transparency versus the Auditors being able to meet with Audit Committees in private or semi private. To have those kinds of discussions and there really is no vehicle for that to occur; until that's resolved at the State level with some sort of legislation that allows for Auditors to have those kinds of one on one or private meetings with Audit Committees to discuss issues that may not be generally something you want to talk about in the public we are going to have a problem dealing with this. So the compromise we have made is that staff would excuse

themselves if the Committee wanted to have those kinds of meetings, they would still be open to the public and they will be recorded.

Councilmember Underhill commented that because we also have personnel to consider, if there is a case of fraud or malfeasance, as Committee Members you would not be in a position to where you can even hear the name of the person who may be suspected and it could not be mentioned, perhaps in a closed session so City Council could discuss it; the Auditors would need to make the Committee aware of it, but they need to make Council aware of it in a closed session and give them the names in particular.

Chairman Benuzzi stated that do we want the Auditors announcing for the first time in a public session that there is a fraud.

Member McCallick commented that that is an extreme example.

Councilmember Underhill commented that in your agenda it could state to discuss irregularities or clarify some points about the audit, it doesn't need to say personnel matters because your agenda could not have personnel matters.

Member McCallick commented that when Auditors speak to Committees about issues, certain things can be misconstrued by the public and that they are not well versed in these kinds of things and can be taken out of context, but I guess that's the risk we take.

Member Benuzzi stated that in the past we have never had to take that risk because we always had things worked out in other meetings and we brought everything forward to the Audit Committee, open and transparent and then we forward it on to the City Council. He continued by stated that he was always told that he could speak to the Audit Committee anytime he wanted as the chairman or any single Member of this Committee.

City Administrator Butzlaff stated that Member Benuzzi could but just not in groups more than two and you cannot have serial meetings where a Member meets with another Member, than call another Member to inform them what took place. That's where the Brown Act can be a hindrance in doing certain things but also an aide to making sure that the public is completely informed on everything that is going on.

Member DeRose inquired as to if this Ad-Hoc Committee could be set up within a specific timeframe.

City Administrator Butzlaff stated that the problem is that we know this Committee is going to be needed next year and the City Attorney has said that gives it a permanency, a standing over and beyond just one time audit.

Member McCallick inquired as to if we could defeat that by coming up with new Committees that only sit for five months.

City Administrator Butzlaff stated that he never does anything that tries to defeat the Brown Act.

Member Benuzzi stated that in order for them to accomplish what they need to accomplish, they should appoint one Member to meet with the Auditors so the meeting will not be subject to the Brown Act. And then we bring it back to the full Committee like we have always done. Then there are no issues. Everything will be brought forward at the Public Meeting and we will still have some special meetings to go through everything. The Sub-Committee will be a person of one.

Member McCallick commented that we haven't done that in the past he thought it needed to be two Members.

Member Benuzzi stated that the Committee kind of has done it in the past, when we got pushed back he just met as Chairman a direct one on one with the Auditors; so there has been precedence for that.

Member DeRose stated that he thought having two Members on a Sub-Committee is a good idea and we should get a ruling on setting up this Ad-Hoc Committee; to see if it's possible to have it formed for five months.

Member Benuzzi commented that City Administrator Butzlaff said they could not do that.

Member McCallick inquired as to what City Administrator Butzlaff's opinion on this approach was.

City Administrator Butzlaff stated that we have never approached it from that angle but he can anticipate what the City Attorney's opinion is going to be, you're just calling it something different and it's still going to be the same thing next year. City Administrator Butzlaff's belief is that City Council appointed the Financial Audit Oversight Committee to provide not only independents but transparency in the process, if we go to a single Member meeting with the Auditors you are losing that transparency. He doesn't think there is anything to hide and does not see why a Sub-Committee could not meet with the Auditors, and if there is something sensitive that the Sub-Committee needs to talk about with the Auditors with staff excluded, just exclude the staff. That will fulfill your mission, provides transparency and quite frankly if there is anything to be disclosed by the Auditors it should be heard not only by the Sub-Committee but also by the Public because ultimately the Public has a right to know, and if there is anything of a confidential nature or something that is going on like fraud or malfeasance there is a protocol for that and there are rules to be followed and that's not going to include a public disclosure of that, they are not going to talk about that publically to the Sub-Committee or to the Audit Committee as a whole, they are going to ask that this information be contained and they are going to talk to their client.

The structure that you have used successfully in the past is that your Sub-Committee has really expedited the review process and it is a good structure because it doesn't mean that all five Members need to come to multiple meetings to review the preliminary draft audit

and agree to something, you have Sub-Committee that will bring a recommendation to you and then you will ultimately approve it and it goes on. That works out well if your concerned about information and how it's going to be made public that is your reasonability as an independent body that the City Council has put together to make sure that that information is made Public, he is not certain what the problem is.

Member Benuzzi stated that staff could check with the previous Auditors that anything that was discussed privately was also discussed publically; there was nothing hidden or not transparent. What we did was ferreted out the superfluous detail or inaccuracies to bring forward and those meetings sometimes lasted five to six hours.

Member DeRose commented that if the Audit Committee can feel assured that the Sub-Committee discussions with the public present that anything of a sensitive nature will be excluded from it. He further stated that he knows that the public has a right to know.

Greg Sowards commented that as a former Councilmember when the City Council met in closed session two things popped to the surface with him, personnel and pending litigation, both of those two areas have to be discussed in closed session before it's revealed to the Public and if you are talking about potential fraud that is a personnel and litigation matter and that has to remain private.

City Administrator Butzlaff stated that Mr. Sowards is correct however, that only pertains to legislative bodies i.e. the City Council; the Audit Committee is an advisory body you don't have the same privileges that a City Council would have so because of that you are precluded from having the ability to have closed sessions, there is no accommodations in the Brown Act for the Financial Oversight Audit Committee to have a closed session. The State of California has not caught up with nuances of auditing with regards to the Brown Act because they don't have the same appreciation of what auditors have to go through, some auditors require private meetings where the public is excluded for the purpose of talking about certain sensitive things that they don't want to disclose publically, there is no accommodation for that unless they go to the Council and talk about it under personnel or threat of litigation.

Member Benuzzi inquired as to what Members would like to be on the Ad-Hoc Committee.

Member Mooberry nominated Member DeRose. Second by Member McCallick.

Member McCallick inquired as to if Member Larson indicated that he would be interested in serving on the Ad-Hoc Committee; Member Larson has an extensive background with non-profit organizations and they are similar to municipalities.

Member DeRose stated that Member Larson did show an interest in being a part of the Sub-Committee. However, he had not heard from him lately.

Member Benuzzi stated that Member Larson can let the Committee know if he is nominated and does not wish to serve; the Committee can choose another Member.

City Administrator Butzlaff commented that the Committee can also appoint an alternate. Member Benuzzi called for a vote for the appointment of Member DeRose as part of the Ad-Hoc Committee to review the preliminary audit.

Member DeRose: YES; Member McCallick: YES; Member Mooberry: YES; Member Benuzzi: YES; Member Larson: absent.

Member McCallick wished to discuss if Member Benuzzi wanted to continue being on Sub-Committees due to the fact that it is so time consuming and he has done it before.

Member Benuzzi stated that he would be willing to continue if he was nominated.

Member McCallick nominated Member Benuzzi. Second by Member DeRose.

Member Benuzzi called for a vote for the appointment of Member Benuzzi as part of the Ad-Hoc Committee to review the preliminary audit.

Member DeRose: YES; Member McCallick: YES; Member Mooberry: YES; Member Benuzzi: YES; Member Larson: absent.

Member DeRose nominated Member Larson as an alternate for the Ad-Hoc Committee. Second by Member McCallick

Member Benuzzi called for a vote for the appointment of Member Larson as an alternate of the Ad-Hoc Committee to review the preliminary audit

Member DeRose: YES; Member McCallick: YES; Member Mooberry: YES; Member Benuzzi: YES; Member Larson: absent.

4. Selection of public meeting dates for Ad-Hoc Committee –

Member DeRose inquired as to when the Ad-Hoc Committee would start meeting; would the process start on November 14th or before.

City Administrator Butzlaff stated that the Ad-Hoc Committee would get the draft preliminary financial and management letter on November 14th.

Director Ogawa stated that the preliminary was scheduled for November 14th. Haskell & White did a preliminary review and were on-site on September 28th for the first day of field work.

City Administrator Butzlaff stated that the Committee has a week to review the preliminary and then it will go to final.

Member Benuzzi commented that November 16th would be the best day because the Committee needs a couple of days to look at it.

Director Ogawa stated that November 16th, 17th and 21st (if needed) are the only days that the Committee has to review because she will have to submit all the requests to Haskell & White within the week; on November 21st in the morning staff will have to submit all of our questions and comments in order for them to meet their deadline.

Member Benuzzi stated that he would like the auditors to attend the Sub-Committee meetings.

Director Ogawa commented that she will schedule the meetings with Haskell & White.

City Administrator Butzlaff reviewed the dates and times for the Ad-Hoc Committee meetings they are as follows: Wednesday, November 16, 2011 at 5:00 p.m.; Thursday, November 17, 2011 at 5:00 p.m. (if needed) Monday, November 21, 2011 at 5:00 p.m. (if needed)

Director Ogawa stated that she will contact the Auditors and make sure that they are available on November 16th and 17th.

City Administrator Butzlaff stated that as soon as staff gets the draft preliminaries we will send it off to the Ad-Hoc Committee so that they can start reviewing prior to the meeting on November 16th. Staff will post a Sub-Committee agenda for the dates discussed.

Member Benuzzi inquired as to if minutes will be taken for the Sub-Committee Meeting.

City Administrator Butzlaff stated that the Sub-Committees sole focus is to review the draft preliminaries, they will not be approving minutes; the meeting is held exactly like a regular committee meeting with the exception of approving the minutes of the full committee.

COMMITTEE COMMENTS: None

STAFF COMMENTS: City Administrator Butzlaff commented that what is driving the pace of this are the City Councils meeting dates; we are trying to complete the audit in this calendar year and in order to do that the Financial Oversight Audit Committee needs to have their review and recommendations submitted to City Council presumably by the first meeting in December. Based on this meeting today we are on track to meet that deadline however, there is a very tight timetable and we have to adhere to the schedule; our goal is to make sure that City Council has the Audit Committee recommendations on the final document for the first meeting in December.

Member McCallick inquired as to what was the date for City Council submittal.

City Administrator Butzlaff stated that it is December 6th. And if that date doesn't happen he only has the meeting of December 20th as a last resort or a special meeting can be scheduled, but with the holidays it is difficult.

ADJOURNMENT: MOTION by Member Mooberry to adjourn to a special meeting on Tuesday, November 29, 2011 at 7:00 p.m., **SECONDED** by Member Benuzzi **MOTION CARRIED (4-0-1)**.

Karen Ogawa
Director of Finance

CITY OF PLACENTIA
FINANCIAL AUDIT OVERSIGHT COMMITTEE
CITY COUNCIL AD HOC FINANCIAL AUDIT OVERSIGHT COMMITTEE
MEETING MINUTES
DECEMBER 13, 2011
7:00 P.M. - ADMINISTRATION CONFERENCE ROOM
401 E. CHAPMAN AVENUE, PLACENTIA, CA

CALL TO ORDER: Chairman Member Benuzzi called the meeting to order at 7:10 p.m.

ROLL CALL:

City Council Ad Hoc Financial Audit Oversight Committee

Present: Councilmembers Nelson, Underhill

Absent: None

Financial Audit Oversight Committee

Present: Chairman Benuzzi, Committee Members DeRose, Larson, McCallick, Mooberry

Absent: None

STAFF PRESENT: City Administrator, Troy L. Butzlaff; Director of Finance, Karen Ogawa; Finance Services Manager, Mike Nguyen; Eric Hendrickson, Accountant.

AUDITORS PRESENT: Kenneth Gundersen, Principal and Mark McGeady, Manager of Haskell & White, LLP. (Audit Firm)

PUBLIC COMMENTS – None

1. Approval of Minutes of October 24, 2011 –

Approval of minutes of the October 24, 2011 meeting postponed to the next meeting of the Financial Audit Oversight Committee.

2. Discussion on the Draft Financial Reports –

Chairman Benuzzi asked the Auditors, Kenneth Gundersen and Mark McGeady to go over the Draft Financial Reports with the Committee and afterwards answer questions. Mr. McGeady reviewed the Financial Statements with the Committee. Discussion was held on net assets, fixed assets and current debt. Mr. McGeady pointed out that the City has done a great job with increasing cash balances. Mr. McGeady pointed out that the City has conducted an audit of its fixed assets and has updated the fixed asset listing and brought it current. Finance Director Ogawa told the Committee that an outside firm was hired to complete a physical inventory of all fixed assets and that all current fixed assets have been tagged with a number. A new listing was provided by the vendor that will allow the City to keep the list current as fixed assets are added or deleted. Mr. McGeady told the Committee that their firm has recommended new policies and procedures for the City to follow so that

going forward the fixed asset listing can remain current. Member McCallick asked if the auditors were satisfied with the work performed by the outside vendor and if the auditors felt that all assets were now properly accounted for. Mr. Gundersen responded that they were, and told the Committee that bringing in an outside firm to complete a physical inventory assisted them in their first year auditing the City in that they had an accurate starting place for fixed assets. Mr. Gundersen stated they relied on the work of the outside vendor but also did their own testing of the fixed asset listing and were satisfied.

Mr. McGeady talked about an increase in total liabilities of approximately eight million dollars. This is primarily due to the 2011 Certificate of Participation (COP) Gas Tax debt in the amount of six million dollars, as well as an approximate increase of two million dollars in post employment benefits. City Administrator Butzlaff explained that in 2009 the City had a post employment benefits obligation actuarial study completed and each year the study is updated with current figures. Member Mooberry asked what the total obligation was and City Administrator Butzlaff said it was approximately 20 million dollars, but it's spread out over time since we are on a pay-as-you-go schedule for this obligation. He explained that this cost is for medical benefits for retired City employees.

Mr. McGeady talked about net assets and pointed out an increase of three million dollars from the prior year, much of that is attributed capital assets and to paying down debt.

Mr. McGeady discussed changes in the Statement of Activities. He talked about changes in various grants. Business type activities increased by approximately \$600,000 and charges for services decreased about \$600,000. Member McCallick asked about changes in the Refuse Fund and the Sewer Maintenance Fund. Mr. Gundersen explained that they had working papers that would show the detail for those items but they were not prepared to talk about those tonight. Member McCallick inquired if this information would be presented when the final financial statements were brought to the Committee. Councilmember Underhill advised that information could be presented when the Comprehensive Annual Financial Report (CAFR) was presented to City Council for approval. Councilmember Nelson informed the Committee that City Council was already aware of the reasons for the increases and decreases in various funds. City Administrator Butzlaff added that these items had already been brought to City Council for action during the previous fiscal year.

Chairman Benuzzi stated that if the Committee could have had an opportunity to meet with the auditors, the auditors would know what the Committee's expectations were. Member McCallick stated if the Committee was only going to be given financial reports without any explanations, then it appears this would just be a rubber stamp approval. Councilmember Nelson said he disagreed with that.

Chairman Benuzzi asked if the auditors had any significant issues that came out of the audit, if there were any issues with reconciliation. Mr. Gundersen stated one issue they discovered was a parcel of property that was purchased with Redevelopment Agency funds in the amount of five million dollars, but the property is listed on the City's books. The City's prior CPA firm asked this be recorded as a payable between the two funds and an agreement was prepared, however it appears that is no longer the City Council's intention

to repay the money to the RDA. City Administrator Butzlaff told the Committee that was the acquisition of property, per the purchase agreement with the seller, was purchased by the City because the property needed friendly condemnation terms, which the RDA did not have the authority to issue.

The second issue Mr. Gundersen addressed has to do with deferred revenue and revenue, in their opinion the balance sheet is overstated in these two items. He stated that management was still working on this issue. Chairman Benuzzi asked what the amount was that Mr. Gundersen felt was overstated and he replied approximately \$350,000. He also added that this item needs to be looked at more by City management and this could be corrected with some journal entries that still need to take place and that his firm would look at this matter again after that had occurred.

Mr. McGeady also brought up a prior period adjustment from the Refuse Fund to the General Fund; there is a prior period adjustment of \$3.6 million. City Administrator Butzlaff explained to the Committee that the Refuse Fund is reimbursing the City \$360,000 per year for ten years in a reimbursement agreement; it's not a \$3.6 million windfall to the General Fund this year. Finance Director Ogawa referred the Committee to page 68 of the Draft Financial Report, note 26 explained this prior year adjustment. Member McCallick asked if this issue would have to be restated in prior years. Mr. Gundersen replied that it did not.

Mr. McGeady noted a prior period adjustment related to accumulated depreciation on equipment. This adjustment agrees the detailed ledger to the general ledger. Chairman Benuzzi asked if this was a material weakness. Mr. Gundersen explained that on a fund level, no it was not.

A third prior period adjustment was related to reclassification of a construction project that was listed as construction in progress, but should have been listed as a completed project.

Chairman Benuzzi asked if there were any subsequent events. Mr. McGeady replied there were not. Chairman Benuzzi asked if that would be stated in the financial statements. Mr. McGeady stated that it was listed on page 70. This concluded the auditor's verbal report, Chairman Benuzzi stated that he had some questions and then he would open the meeting to other Committee members for their questions.

Chairman Benuzzi asked about transfers in and out, under business type activity in the amount of \$831,212. He asked if there was a listing of what those transfers were. Mr. McGeady replied that in the financial statements on page 23 there is a table listing the actual transfers in and out. Chairman Benuzzi asked if this was from one item or from several items totaling \$831,212. Mr. McGeady stated it was for several items. Chairman Benuzzi asked if there was no listing how did they know this figure was correct. Mr. McGeady explained that if the transfers in and out all balance, the figures are correct. There are working papers as back up but those are typically not part of the financial report. Member Larson asked what would a transfer in and out typically be used for. Finance Director Ogawa and Member McCallick explained how and why government accounting uses transfers in and out between funds. Discussion was held on restricted funds and if

City Council approves the transfer of funds. City Administrator Butzlaff explained that transfers in and out are approved at the time the City Budget is approved. Member McCallick stated it has been a concern of the Committee in the past regarding restricted funds. City Administrator Butzlaff stated that past auditors had that concern regarding transfer of restricted funds to the General Fund to cover deficits in funds, but that City Council had approved a working capital bond last year that corrected any issues. Councilmember Nelson stated that to his knowledge the auditors had not encountered any issues nor had the State Controller's Office had any issues in the area of transfers between funds. Councilmember Nelson requested that the Finance Department send the Committee and City Council a schedule of the interfund transfers so that we didn't incur additional charges from the auditors for them to compile a schedule.

Chairman Benuzzi asked if the cash investments with fiscal agents were up to date, Mr. McGeady stated they were up to date.

Member DeRose inquired about the amount due from other governments, \$344,000, and what was that amount for. Mr. McGeady stated he didn't have the working papers for that, but that it was a receivable. Member DeRose asked where that would be due from. Mr. McGeady stated it was funds due from the Orange County Transit Authority that had not been received as of June 30, 2011. Member DeRose asked if the auditors had discovered any big and notable changes from the previous year. Mr. Gundersen stated the new bond that was issued in the amount of \$5 million and that there were also changes to other fund balances. Finance Director Ogawa explained a significant change in how fund balances are presented. There are now four categories: non-spendable, restricted, assigned and unassigned. She asked Mr. McGeady to explain the change in how balances are presented. Mr. McGeady explained the new changes and the reason for them.

Finance Director Ogawa also pointed out that this year the City was able to eliminate the Orangethrope Corridor cash deficit. This deficit has been on the books for years and now has been eliminated with operating transfers and excess surplus.

Chairman Benuzzi asked if any appropriations were made that were not authorized by City Council. Mr. Gundersen replied that none were located.

Member Larson asked about the receivable from other government agencies, he inquired about the duration of the receivable. Finance Director Ogawa explained they are less than a year old. Member Larson asked if there is ever a time when receivables from other government agencies are written off as non-collectable. City Administrator Butzlaff explained that on occasion that happens and has occurred with Cal-Trans on some disputed reimbursements.

Chairman Benuzzi asked if there were any further questions regarding the City financial statements, and hearing none he moved on to the Redevelopment Agency Financial Statements.

Chairman Benuzzi stated he noticed a note on page 12 regarding government mandated and voluntary non exchange transactions and he asked if there were any transactions in this year's financial statements regarding this. Mr. McGeady replied this item relates to the revenue recognition policy. He also stated there were no transactions this year related to this issue.

Council Member Nelson stated that he felt at this time it would not be productive to discuss the Redevelopment Agency financial statements due to the fact that pending court decisions could totally eliminate the Redevelopment Agency. He stated he didn't think it was necessary to have this discussion at this time and he suggested that the Committee table this item until January.

Member McCallick asked the auditors how they were going to handle the pending litigation and that this could be a going concern in the audit. Finance Director Ogawa explained that the auditors had placed a note on page 67, note 25 addressing the issue. Mr. Gundersen further stated that auditors were looking at what other cities were doing and this is consistent in what other cities are presenting in their audits.

Chairman Benuzzi asked if the auditors were still going to issue the State Controllers Report by December 31, 2011. Mr. Gundersen replied that they would be, since that was still the current regulation.

Mr. Gundersen explained that his firm is still working on the Single Audit and he anticipated that should be done sometime in January of 2012.

Chairman Benuzzi asked for a motion to approve the Financial Statements and send them to the City Council for approval. Member De Rose motioned seconded by Member Mooberry. Motion passed 5-0.

Chairman Benuzzi asked that if any changes are made to the draft reports before they are submitted to City Council that they Committee be made aware of those changes.

Council Member Benuzzi asked if the Committee would like to take a break to review the minutes of the October 24, 2011 meeting. Councilmember Nelson stated that he was short on time and asked if the Committee could move to City Council Ad Hoc Financial Audit Oversight Committee comments, Chairman Benuzzi agreed.

Councilmember Underhill stated she was one of the original Council Members in 2002 who wanted to form the Financial Audit Oversight Committee, and she felt that some of the Committee members have an idea of a scope of the Committee that is outside of the original intended scope of the Committee. She felt the Committee needs to get back to the original scope. The Committee had a vote in selection the auditors and they need to have a level of trust in the firm you as a Committee selected. The function of the Committee is not to delay or be a substitute City Council and challenge the auditors. The Committee needs to look at the Management Letter and the corrections and notices that need to be implemented and not get caught up in the small details. That is the job of the Staff and the

auditors and then Council. She reminded the Committee in terms of setting meetings; they don't have the right to take an action that would incur additional expense. Council alone has that right. She explained the cost of the past couple year's audits expanded in part due to requested from the Committee. She explained she appreciates what the Committee is doing, that a tremendous amount of work was done in the past to improve the City's financial statements. She asked that the Committee not overstep their role. Member DeRose asked if there was an added cost if the Committee met with the auditors. Councilmember Underhill replied yes, there were only a certain amount of meetings with the auditors included in the scope of the RFP for auditors and additional meetings added cost. She also stated that if a Committee meeting has been set, she does not want to show up for the meeting and find out that Committee members didn't show up or decided at the last minute to cancel the meeting. That is a function of Staff to keep City Council apprised of, or to cancel meetings to keep in compliance with the Brown Act. She stated she had showed up for two meetings just to find out they had been cancelled at the last minute.

Councilmember Nelson stated that he would like to bring up the Brown Act. He stated that City Council is following the direction of the City Attorney. Some might agree, some might not agree with the City Attorney's opinion, but they are asking that all Committees follow those guidelines. He is concerned that the City Council and all Committees be transparent and all meetings need to be agenized according to Brown Act rules. Councilmember Nelson agreed that in the past the Committee has cleaned up huge issues in the past and there still is a need for a Committee. He also reiterated that deadlines are very important to the City Council; he doesn't want to see the City listed in the Orange County Register because we missed a deadline, and also added the City can be sanctioned by various State agencies for missing deadlines. From the City Council point of view, transparency is a high issue as is meeting deadlines. He stated that everyone needs to work together transparently, Committee members, Staff and City Council.

Member McCallick asked for clarification on the mission of the Committee. He thought that either Staff or auditors or Council could meet with the Committee separately if they felt there was a need. He asked for a clarification of the scope of the Committee and has it changed. Councilmember Nelson said the original intent has not changed; the Committee examines the Financial Statements, the Management Letter that the auditors issue and address the internal controls. City Administrator Butzlaff stressed that the Brown Act requires that these items be done in an open public meeting.

Chairman Benuzzi asked for clarification, if the audit partner called him and wanted to meet regarding an issue was he not allowed to talk with them? Councilmember Underhill said no and in fact if there was a concern like that, the auditors should be bringing that to the City Council's attention since the Council is the client. If there is an issue of fraud discovered by the auditors it should be brought to the Council's attention not the Committee. Member McCallick asked what if there was a situation similar to the City of Bell where the Council Members and upper level staff were the ones committing fraud. Councilmember Underhill stated that in that case the auditors should bring that to the attention of the District Attorney or the State Attorney General. Member McCallick stated that the Audit Committee is suppose to be an independent body. City Administrator Butzlaff explained that in the private

sector that may be true, but in the public sector the Committee serves at the pleasure of the City Council as an advisory board. The Council relies on the Committee and their expertise in reviewing financial reports and internal controls. They also can report to Council if they see that internal controls are not being adhered to.

Discussion was held on the need for the Committee, Member McCallick asked what other cities are doing, and inquired of the auditors what they see in their other government clients. Mr. Gundersen stated that although these issues were not present here, they were not sure who they were suppose to contact should they find fraud or should there be delays on the part of the City Staff that was holding up their work. Council Member Nelson stated those comments and inquires need to come to City Council Ad Hoc Committee members.

Mr. Gundersen asked if there were issues that could not be straightened out with staff or serious issues such as fraud; he needed to bring those to the attention of the Ad Hoc City Council Committee. Councilmember Nelson responded yes that was correct.

Councilmember Nelson asked Chairman Benuzzi to submit a list of questions regarding the scope and role of the Committee and he would be bringing those to the attention of the full City Council.

COMMITTEE COMMENTS: Member McCallick asked if there was still an issue with sub-ledgers tying to the general ledger as he thought those issues were already fixed. Finance Director Ogawa stated that the issue was with Excel spreadsheets not linking properly, not with the Bi-Tech Financial Software but those issues have been corrected. He also inquired about the financial software and was the product something that staff wanted. City Administrator Butzlaff stated we had probably one of the premier financial software systems that is available, but lack of funding prevents us from purchasing all the modules of the software that we would like to have. Mr. Gundersen stated that one of the things the auditors look at is does the City staff have adequate staffing and resources available to them.

Member Mooberry asked about getting a copy of the audit program from the auditors. Mr. Gundersen stated the procedures they use in setting up a program for each audit they perform. Each audit is a little different and there is not really a template that they use and could give out. They have work papers for their audits but normally don't share that information unless a problem is discovered. Member Mooberry asked if the Committee could get a copy of the engagement letter. City Administrator Butzlaff stated that Staff would make that available to the Committee. He further stated that next year a monthly progress report should be provided to the Committee so they can keep current on the status of the audit. Chairman Benuzzi stated he thought when the auditors were interviewed they were going to provide weekly status reports, but none were received. Mr. Gundersen stated that since no meetings were scheduled they were not able to provide that for this audit. Mr. Butzlaff stated that perhaps during the time the audit is on-going the Committee should meet monthly and not quarterly to keep this information current. Mr. Gundersen stated that at the next meeting, the auditors would provide the Committee with copies of the management letter with internal control findings, copies of journal entries that were booked and the findings and a full report of everything that was discovered.

Member Larson asked if were still on track to finish the audit next month. Mr. Gundersen stated they were still working on the Single Audit and it should be finished in January. Chairman Benuzzi stated that a special meeting would probably have to be called to approve the Single Audit.

Member DeRose inquired of the auditors if they felt they were able to complete this audit with total independence. Mr. Gundersen stated absolutely, without a doubt they were. Nothing transpired that would have impaired their independence. He stated that the Brown Act prohibited some communications with the Committee that he would have liked to have but it didn't preclude them from their work and interfere at all in the independence of the audit.

STAFF COMMENTS:

None.

ADJOURNMENT: MOTION by Chairman Benuzzi to adjourn to the next regular meeting on January 9, 2012 at 7:00 p.m., **SECONDED** by Member DeRose. **MOTION CARRIED (5-0).**

Karen Ogawa
Director of Finance

**CITY OF PLACENTIA
FINANCIAL AUDIT OVERSIGHT COMMITTEE
REGULAR MEETING MINUTES
March 22, 2012
7:00 P.M. – City Community Room
401 E. Chapman Avenue, Placentia, CA**

CALL TO ORDER: Chairman Member Benuzzi called the meeting to order at 7:01 p.m.

ROLL CALL:

Present: Committee Members Benuzzi, DeRose, Larson, McCallick, Mooberry
Absent: None

PUBLIC PRESENT: None

PUBLIC COMMENT: None

STAFF PRESENT:

Director of Finance, Karen Ogawa; Finance Services Manager, Mike Nguyen; City Administrator, Troy L. Butzlaff; Councilmember Nelson; Councilmember Constance Underhill; City Treasurer Craig Green; Eric Hendrickson, Accountant; Teri Knutson, Accounting Technician.

AUDITORS PRESENT: Kenneth Gundersen, Principal and Mark McGready, Manager of Haskell & White, LLP.

ORAL COMMUNICATIONS: None

1. Approval of Minutes of October 10, 2011, October 24, 2011, and December 13, 2011

Financial Impact: None

Recommended Action: Approve

(DEFERRED TO THE NEXT MEETING)

Chairman Benuzzi requested to pull the approval of minutes until the next meeting.

2. Discussion on the Draft Single Audit Report and Draft Management Letter for Fiscal Year 2010-11

Financial Impact: None

Recommended Action: It is recommended that the Financial Audit Oversight Committee:

1) Submit to City Council for receive and file.

(APPROVED 5 – 0, as recommended)

Auditor Kenneth Gundersen provided a report on item 2. He noted that there is only one significant change to the Cities Financial Statements from the last meeting and that is that the City has adopted GASB 54 which changed the reporting of the fund information and the way it is broken out.

Discussion ensued between Committee Members, Auditors and Staff. Auditors reviewed material weaknesses within the Draft Single Audit Report.

A motion was made by Committee Member Larson, seconded by Committee Member DeRose, was carried (5 – 0) to submit to City Council the Single Audit Report and Management Letter for receive and file.

COMMITTEE MEMBER REQUESTS:

Chairman Benuzzi requested that Staff prepare a Corrective Action Plan with regards to correcting material weaknesses within the Single Audit Report that will be submitted to City Council. The format of the Corrective Action Plan should be in the same format as previous years.

FINANCE DIRECTOR REPORT:

Finance Director Ogawa announced that an RFP for bank services has been awarded to Bank of America. Staff is now able to scan customer's checks immediately alleviating the amount of money transported by Staff on a daily basis. She reminded the Committee that all Form 700 are due to the City Clerk's office by April 2nd.

ADJOURNMENT:

The Financial Audit Oversight Committee adjourned at 9:40 p.m. to a joint City Council AD HOC/Financial Audit Oversight Committee meeting on Monday, April 30, 2012 at 7:00 p.m.

ATTEST:

Karen Ogawa, Director of Finance

DRAFT

SINGLE AUDIT FINDINGS	DESCRIPTION	PROJECTED DATE OF COMPLETION	DATE OF COMPLETION
<p>Finding 2011-1: Oversight by those charged with governance and management</p>	<p>Summary: City should continue to work to develop a plan to address the findings</p>	<p>The FY 2009-10 audit was completed on March 11, 2011 and control deficiencies noted by the audit firm were reported to the City on March 11, 2011. The Finance staff developed a plan to address each control deficiency. Due to the limited amount of time from March 11, 2011 until June 30, 2011, not all control deficiencies were remediated. The Finance Director also plans to hire an independent consulting firm to develop additional checklists and internal control procedures to reduce the number of internal control deficiencies.</p>	<p>June 2012</p>
<p>Finding 2011-2: Timely Submittal of Cash and Investment Reports to the City Council</p>	<p>Summary: City should provide financial information, cash, and investment reports to the City Council in a timely manner.</p>	<p>Monthly cash and investment reports will be certified by the both the City Treasurer and Finance Director in a timely manner. Finance Director/Finance Services Manager will meet with the City Treasurer on a monthly basis to review the Cash and Investment Reports so that it can be certified and presented to City Council on a timely basis.</p>	<p>May 2012</p>

*The date listed is an "estimate" and is not the actual date of implementation

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SINGLE AUDIT FINDINGS	DESCRIPTION	PROJECTED DATE OF COMPLETION	DATE OF COMPLETION
Finding 2011-3: Supporting Documentation was not provided for various accounts	Summary: During the audit it was noted that the City could not provide supporting documentation for certain accounts in the City's general ledger.	The Accountant will review account balances whose activity have been inactive for several consecutive years and take the proper steps and procedures to close them out. Finance Director will approve all accounts that are deemed inactive and to be closed.	June 2012
Finding 2011-4: Year-end close process	Summary: City should have adequate staffing, policies, and procedures in place to ensure the year-end closing process is performed within a timely manner to allow for the preparation of financial statements and other management reports.	In December 2010, the Finance Department increased staffing levels by hiring an Accountant and a Management Analyst. These additions are critical to continuing enhancements of the internal controls. The Finance Director will be hiring an independent consulting firm to review our internal control procedures and year-end audit process. This will improve and enhance our year-end closing process thereby reducing internal control deficiencies.	June 2012
Finding 2011-5: Capital Assets	Summary: Process and controls have not been implemented to maintain the capital asset list. The capital asset and inventory list was not properly reconciled.	Finance Services Manager and Accountant will integrate the manual fixed asset list into the new upgraded accounting software to reduce internal control deficiencies with the City's capital asset system. Finance Director will oversee and verify accuracy.	December 2012

*The date listed is an "estimate" and is not the actual date of implementation

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SINGLE AUDIT FINDINGS	DESCRIPTION	PROJECTED DATE OF COMPLETION	DATE OF COMPLETION
Finding 2011-6: Schedule of Federal Expenditures	Summary: City did not ensure that all expenditures for federal awards were reported correctly on the SEFA.	Finance Director will hire an independent consulting firm to assist Finance Services Manager in monitoring and implementing procedures to ensure that all expenditures in the SEFA are accurately reported.	June 2012
Finding 2011-7: Deferred Revenue	Summary: Deferred revenue and accounts receivable were overstated in the Miscellaneous Grants Fund.	Finance Director will hire an independent consulting firm to assist Finance Services Manager in implementing internal control procedures to ensure that all deferred revenue and accounts receivable are accurately reported.	June 2012
Finding 2011-8: Long Term Debt	Summary: City should use debt official statements to identify all costs of issuance, debt discounts, and that the City reconcile net cash proceeds to the amount of debt issued.	The City will use Official Statements from debt issue(s) to properly identify all costs of issuance, debt discounts, and other reportable items needed to reconcile net cash proceeds to the amount of debt issued.	June 2012
Finding 2011-9: Safe-guarding of Cash	Summary: There are insufficient controls in place to ensure the safe-guarding of all City cash on hand.	Finance Director and Finance Services Manager will conduct periodic surprise cash counts to ensure the cash drawers are secured.	June 2012

*The date listed is an "estimate" and is not the actual date of implementation