

**Audit Subcommittee
Meeting Minutes
Thursday, August 23, 2007
City Hall Basement Conference Room
11:00 AM**

Members Present: Councilmember Kevin Wolff, *District 9, Chair*
Councilmember Delicia Herrera, *District 6*
Councilmember John Clamp, *District 10*

Members Absent:

Staff Present: Sheryl Sculley, *City Manager*; Pat DiGiovanni, *Deputy City Manager*; Sharon DeLaGarza, *Assistant to the City Manager*; Pete Gonzales, *City Auditor*; Leticia Vacek, *City Clerk*; Ben Gorzell, *Finance Director*; Krystal Strong, *Special Projects Manager*

Also Present: Robert Williams, Robert Carter and John Kennedy – *KPMG Auditors*

Chairman Wolff called the meeting to order.

I. Discussion of Audit Subcommittee Operating Procedures

Chairman Wolff gave a historical perspective on the position of the City Auditor. He noted that the City Auditor receives direction from the Mayor and City Council as does the City Manager and City Clerk. The first point was Purpose and Procedure. Discussion ensued regarding operating procedures to include: 5-signature memos, audit plan, process for audits outside plan, and committee meetings to provide a clearing house for the Auditor. The second point discussed was the primary role of an audit plan to help improve efficiency and controls. The third point of discussion was the manner in which the Auditor will provide an early warning component so that Council is not blind-sided.

Councilmember Herrera affirmed her support of an audit plan. She cited a lack of oversight and noted that the audit plan can be built on. Councilmember Clamp stated that the key to a successful Auditing Department will be how to act and react. He added that something will always be found but the value is to improve the process. Councilmember Clamp also said that the Auditor has a fine line to walk and must protect the value of the organization cautiously and prudently.

Sheryl Sculley stated that an audit function can insure performance and should be based on priorities. She noted that the function should focus on what has been done correctly rather than what has been done wrong. Ms. Sculley added that the Audit Plan would be included on the next Audit Subcommittee agenda for consideration.

Pete Gonzales stated that he liked the Audit Committee idea. He noted that he would work together with the City Manager on the Audit Plan she presented for consideration. He stated that he is working on having his staff complete certification designations and noted that 55% of his current staff hold Master's Degrees.

II. Discussion of possible action regarding the annual Internal Audit plan
Presented by Pete M. Gonzales, City Auditor

After receiving feedback from the City Manager, Mr. Gonzales established that he approach the Internal Audit Plan where value would be added to the City. He added that he would also like to be included as part of the New Employee Orientation so that employees realize the role of the City Auditor. Chairman Wolff encouraged a public relations campaign to be launched at the end of the year. He also requested a presentation on the role of the City Auditor for a future B Session.

III. Staff presentation of results of the FY 2006 Financial Audit and related reports

Presented by Ben Gorzell, Director, Finance

Ms. Sculley reported on the status of the 2006 Audit completed by KPMG. She noted that an unqualified opinion was received in the management letter and cited several issues that were repeat comments. She assured the Audit Committee that the items identified in KPMG's corrective action letter would be addressed.

Mr. John Kennedy, Robert Carter and Robert Williams (external auditors) highlighted several points of the Management Letter. It was noted that from 14 comments, staff has reduced to nine. He noted the first four comments of the Management Letter were the most significant. The four being:

- 1) Grant Accounting (\$12 million uncollected)
- 2) Construction Projects (Never took depreciation on Convention Project; \$30 million of depreciation – no budgetary effect)
- 3) Grant Reporting (Challenges getting State/Federal Awards recorded for close out)
- 4) IT Management System (Area of weakness – incompatible)

Mr. Gorzell distributed a memo outlining Material Weaknesses and Reportable Corrective Action Plans. Councilmember Clamp stated that reporting is of the utmost importance on upcoming bond projects.

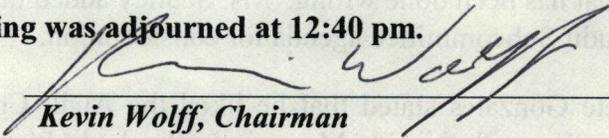
IV. Consideration of items for future meetings

Mr. Gonzales identified CPS/SAWS Auditing for future consideration.

Sheryl Sculley recommended a partner rotation for external auditing services. She noted that the City was limited as to who can complete the City's audits due to the size of our organization. She added that the City will engage other firms to work on that. She requested direction to issue an RFP in the next week for auditing services as described. Councilmember Clamp moved to approve the City Manager's recommendation to issue the RFP and Councilmember Herrera seconded the motion. The motion carried unanimously.

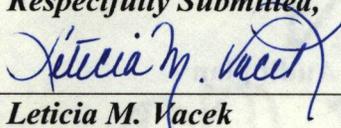
V. Adjournment

There being no further discussion, the meeting was adjourned at 12:40 pm.



Kevin Wolff, Chairman

Respectfully Submitted,



Leticia M. Vacek

City Clerk

August 23, 2007