

**CITY OF NEWPORT BEACH
CITY COUNCIL FINANCE COMMITTEE
MINUTES**

The Finance Committee met at 2:00 p.m. on Monday, March 7, 2011, in the Council Chambers, 3300 Newport Blvd., Newport Beach, California 92663.

I. ROLL CALL

Present: Council Member Keith Curry (Chair), Council Member Leslie Daigle and Mayor Mike Henn

Staff present: City Manager Dave Kiff, Assistant City Manager Dana Smith, Administrative Services Director Tracy McCraner, Deputy Administrative Services Director Dan Matusiewicz, Revenue Manager Evelyn Tseng and Administrative Coordinator Tammie Frederickson

Outside entities: Ken Al-Imam and Matthew Lenton with Mayer Hoffman McCann

II. APPROVAL OF MINUTES

The minutes for the Finance Committee meeting of February 10, 2011, were approved as submitted.

III. PUBLIC COMMENTS

There were no public comments at this time.

IV. DISCUSSION/ACTION ITEMS

A. Discussion of the June 30, 2010 Audit Report

Ken Al-Imam with Mayer Hoffman McCann (MHM) presented the results of the annual audit for the year ended June 30, 2010. He began with a review of the annual audit objectives to confirm balances, perform tests of internal controls and evaluate risks. He pointed out the audit process only addresses accuracy of amounts reported in financial statements, is designed to address risk of *significant* misstatement and gives reasonable but not absolute assurance that financial statements are free of misstatement. He defined material misstatement to be an amount that would exceed 2-3% in opinion units of total assets or total revenue.

**All documents distributed for this meeting are available in the
administration office of the Administrative Services Department**

In response to a question by Council Member Daigle, Mr. Al-Imam said to draw conclusions about the adequacy over the expenditure process, a random sampling of contracts are reviewed for proper authorization and threshold controls that conform to the procurement policy.

Mr. Al-Imam explained that after the recent scandal in the City of Bell, MHM engaged an independent CPA firm to evaluate the audit quality of MHM's audit practice. He said the report that will be released next week shows no serious concerns were found whatsoever. Mr. Al-Imam responded to Council Member Curry's question about how to avoid the situation that occurred in Montebello where an unknown checking account was discovered. He said one of the limitations of the audit process is it is difficult for auditors to identify transactions that are not in the accounting records but the audit process looks at and evaluates internal controls to manage risk of material fraud or misstatement in the accounting records.

Mr. Al-Imam said there were no issues of concern found in the City of Newport Beach audit period needing to be reported as required by audit standards.

A new governmental accounting pronouncement called GASB Statement No. 54 was explained which will affect financial statements for fiscal year ending June 30, 2011, or later. New categories of fund balance breakdown will include nonspendable, restricted, committed, assigned and unassigned. He described the purpose of these categories is to communicate in a transparent manner the degrees of restriction or constraint that are relative to fund balance.

Deputy Administrative Services Director Dan Matusiewicz said two policy decisions for the Finance Committee and City Council to consider will govern who has the authority to create assignments to fund balance and designations of fund balance parameters as outlined in Council Policy F-2. Mr. Al-Imam interjected that most of their clients are delegating that authority to the City Manager. Administrative Services Director Tracy McCraner said a future Finance Committee agenda will include staff's recommendation to update and clarify Policy F-2 to identify specific commitments with tie-ins to GASB No. 54.

Council Member Curry commented the descriptions of the reserves should be clarified and simplified within the context of responding to GASB 54. He cautioned on the use of non-reserved contingency funds and maintaining adequate reserves as well as judicious use of reserves.

Mr. Al-Imam provided feedback on City procedures and recommended the use of an escheating process to clean up deposit accounts from contractors. Mr. Matusiewicz replied that accounting staff will work with the departments more frequently to make the best efforts to clean up the deposit accounts. Ms. McCraner noted staff is preparing an escheatment administrative policy.

A recommendation for enhanced communications between departments regarding grant funding was also suggested by Mr. Al-Imam. He said the process should include methods departments will use to keep the Finance Department fully aware of grant activity that needs to be reflected in the accounting records.

Mr. Al-Imam said the audit concluded that all accounting records were found to be in order and well maintained, all significant year end adjustments were booked, balances had appropriate supporting documentation and the financial statements were fairly stated in all material respects. He also recognized the achievement of the GFOA Award for Excellence in Financial Reporting.

In response to Mayor Henn's question, Mr. Matusiewicz explained the two outstanding comments from the previous audit were the development of a fraud/ethics policy and the calculation of the street maintenance of effort (MOE). He said the fraud/ethics policy has been drafted and is currently in review by the City Attorney's office and Human Resources. A hotline will then be set up to report fraud. He noted the next fee schedule update will include looking at the street MOE calculation.

Mayor Henn said a best practice would be to establish a policy and include on future agendas a closed session at the beginning and conclusion of annual audits. Staff was then excused and the Finance Committee met with the auditors in a closed executive session.

B. Debt, Fraud and Escheatment Policies Discussion

Ms. McCraner noted as previously stated, the fraud and escheatment policies have been drafted and are in review internally. She said in researching development of a more formal debt policy, Finance Committee input is needed on the way the Facilities Financing Plan (FFP) is accounted for in the General Fund and the 5% threshold constraining contributions to the FFP as outlined in Council Policy F-28, Facilities Replacement Program.

Mr. Matusiewicz spoke about the potential positive and negative impacts of moving the FFP reserve outside of the General Fund from the perspectives of rating agency comparisons and budget management. He reviewed two options contemplated and the pros and cons of each option were discussed.

Council Member Curry said the FFP is a measuring device designed to measure our affordability of facilities in relation to the General Fund. He expressed his opinion that explanations could be provided to rating agencies on future bond issues. He commented that how the FFP threshold is defined and its constraints should be addressed.

Ms. McCraner confirmed that the Committee supports continuing to separate the FFP reserve from the General Fund as the best option. She addressed the 5%

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cap on General Fund contributions to the FFP and confirmed the Committee supports revising Council Policy F-28 to better accommodate existing conditions and bringing the proposed revisions back as part of the debt policy

C. Parking RFQ Selection

Based on having the best overall references, and offering the most competitive pricing and revenue enhancement, Ms. McCraner said staff will be recommending to the City Council at its April 22nd meeting the selection of Central Parking to take over parking meter collections and enforcement. She said the contract will have a term of seven years and includes infrastructure replacement of approximately 1,000 single space parking meters with multi space credit card parking meters. She pointed out savings of \$500,000 from salaries and benefits combined with a conservative estimate of \$200,000 extra revenue will result in \$700,000 in the first year.

V. MATTERS WHICH A COMMITTEE MEMBER MAY WISH TO PLACE ON A FUTURE AGENDA

Update FFP

Total comprehensive insurance cost for Civic Center

The next meeting will be April 11, 2011.

VI. ADJOURNMENT

The Finance Committee adjourned at 3:30 p.m.

Filed with these minutes are copies of all material distributed at the meeting.

Attest:

Tracy M. McCraner
Administrative Services Director

Date