

County of Butte

Audit Committee

Butte County Administration Conference Room

25 County Center Drive, Oroville, CA

April 2, 2013

**Minutes**

**Call to Order**

The Butte County Audit Committee meeting was called to order by Maureen Kirk at 9:00 am.

**Committee Members Present:**

Supervisor Kirk; Paul Hahn, CAO; Greg Iturria, CFO; Linda Barnes, Treasurer and Tax Collector; Dave Houser, Auditor Controller

**Also Present:**

Thomas Limper, Deputy CFO; Susie Rees, Butte County Staff

Sandy Sup, Gallina LLP

Elba Zuniga, Partner, Gallina LLP

Grand Jury Members John Rhein, Roger Hart

**I. Review and Approve**

Minutes from October 30, 2012 meeting – Motion made to approve, motion seconded. Motion carried unanimously.

**II. Discussion**

- A. Elba Zuniga, Gallina, updated the Audit Committee stating that the audits, including the Single Audit, have been completed.
  - a. The Comprehensive Annual Financial Report (CAFR) has been submitted to the Government Finance Officers Association (GFOA) in consideration of the Excellence in Financial Reporting award which Butte County has been presented with several years in a row.
  - b. There were no findings on the Single Audit.

- c. Compliance in 4 major programs is required to ensure the County is spending properly
- d. There were a few findings on the Financial Statement side.
  - i. Two of the findings involved the Neal Road Recycling and Waste Facility.
    - 1. Some Accounts Receivables for the last period of the fiscal year were not booked into the Financial System.
    - 2. Gallina proposed a Journal Entry to correct the problem.
    - 3. The County is taking measures to ensure that the issue is not recurring.
    - 4. Maureen Kirk asked for clarification on the issue.
    - 5. Dave Houser reviewed the process of requesting departments to report Accounts Receivable to the Auditor's office and explained that there had been a miscommunication with the Neal Road Landfill and the Accounts Receivable in question were missed. The landfill has put procedures in place to avoid this issue in the future.
    - 6. Maureen Kirk questioned whether it had been entered into the wrong quarter.
    - 7. Dave Houser clarified that was not the case - it is an annual entry that had simply been missed and has been corrected.
    - 8. Greg Iturria stated that it was not a huge problem as the money was not missing. It had simply not been reported in the correct period.
    - 9. Sandy Sup stated that, while it was not a large amount of money, it was considered material for the "opinion unit." Had it been evaluated on a county basis, it would not have met materiality.
    - 10. Maureen Kirk questioned what constitutes materiality.
    - 11. Dave Houser explained that it is based on risk and dollar amount.
    - 12. Sandy Sup stated that it is around \$200,000.00 for the landfill.
    - 13. Greg Iturria explained that if the amount could affect an opinion, it is considered material. Those amounts are measured by certain criteria.
    - 14. Elba Zuniga added that there are calculations that determine materiality by fund and each opinion unit undergoes a different analysis.
    - 15. Elba Zuniga explained that the third finding was in regards to the Internal Service Fund in which a liability was understated.
    - 16. Greg Iturria indicated that a change in responsibility for that review resulted in a miscommunication about what numbers should be used in reporting. Procedures have been put in place to avoid this issue in the future.

- e. Elba Zuniga stated that other than the findings discussed, there were no issues. The audit went as planned. She explained that Gallina is required to let counties know in advance, through required communication, what their expectations are, of any significant changes in reporting, of any estimates that could differ and if there are any unreported issues. There were no significant changes in reporting and no disagreements regarding the adjustments made on the findings.
  - f. Elba Zuniga further stated that the bulk of the work on the audit is completed in December with the Single Audit being completed by mid-March.
  - g. Sandy Sup added that everything went smoothly this year and she appreciates all of the hard work on the part of the Auditor and Finance Offices.
  - h. Dave Houser mentioned that getting ready for the audit is the toughest part of the job and that it takes a lot of time, coordination and communication. He stated that all the background work can't be seen in the document.
  - i. Both Dave Houser and Paul Hahn indicated that, while the audit is difficult and requires a lot of work, we are happy to have the annual audit as it gives us the opportunity to correct errors in a timely fashion.
  - j. Linda Barnes added that the Treasury Oversight Committee audit by Gallina was a clean report.
  - k. Dave Houser mentioned that the State Property Tax Division used to do audits every three years. Since issues with the Redevelopment Agencies (RDAs) have come up, they are now going on 7 years between audits which could result in large penalties and additional costs.
  - l. Linda Barnes questioned whether or not it is a staffing issue that is causing the audits to be so far apart.
  - m. Dave Houser responded that 30 auditors have been removed from the Property Tax Division to deal with issues regarding the RDAs.
  - n. Paul Hahn added that cities and counties are subject to the interpretation of audits and that this is causing some problems for Chico and Oroville.
  - o. Elba Zuniga added that there are still issues with the RDAs such as property transfers.
  - p. Paul Hahn confirmed Dave Houser's comment about regularly scheduled audits being more manageable as well as commented that the penalties compound over the 7-8 years.
  - q. Maureen Kirk felt it was not fair for the penalties to compound if they were not being assessed regularly.
- B. Questions from Grand Jury attendees;
- a. Roger Hart asked if Gallina audits other counties.
    - i. Sandy Sup confirmed that Gallina audits about 20 counties.
    - ii. Roger Hart asked if the Butte County audit had results similar to other counties.
    - iii. Elba Zuniga explained that the opinion letters address whether or not the entity has presented its financial report fairly.

- iv. Sandy Sup added that the audit does not offer opinions on procedures or internal controls.
  - v. Elba Zuniga commented that, based on the financial condition of Butte County, the County is doing well compared to counties of similar size.
  - vi. Roger Hart said that he has heard of many cities going bankrupt.
  - vii. Paul Hahn added that there are several ways to compare counties. Butte County's operations stack up well next to similar organizations. Our credit rating is one of the highest. From an operational standpoint, this is the third year in a row that there have been no cuts and the budget has been stable. Revenue is in balance with expenditures. While there is no extra money, relative to its peers, Butte County is better off than many cities and some counties. There are still some issues to which we will have to react:
    - 1. PERS increases
    - 2. Unfunded liabilities
      - a. These are manageable but the county still has them. A plan is in place for the future handling of these unfunded liabilities.
    - 3. Pension unfunded liability
      - a. The County is working on strategies for this issue
  - viii. Paul Hahn reiterated that when everything is added up, Butte County is in pretty good shape. We are coming out of the worst of times and re-investment is scheduled to be discussed at the next Board Meeting.
- b. Roger Hart asked about the \$50 million in unfunded liabilities. He asked if there are changes in the accounting procedures on the horizon and if these monies are reflected on the balance sheet.
- i. Dave Houser responded that prior to the coming year, the Governmental Accounting Standards Board (GASB) required unfunded liabilities to be commented on in the footnotes only. Going forward, they will be reported on the balance sheet and will cause some funds to reflect a negative fund balance. GASB believes that this change truly reflects the entity's financial statements.
  - ii. Roger Hart asked if the liabilities could be broken down into current and long term categories.
  - iii. Sandy Sup said it will show current position and long term position. The change will be implemented in two years.
  - iv. Paul Hahn said that everyone will see the hit on the books but feels it's manageable. The stock market has an effect on these numbers as well and the liabilities can vary depending on the retirement pool and interest rate earned on investment by CalPERS.

- v. Roger Hart stated that CalPERs uses a projection of return on investment that includes an assumption of interest rate. He asked if they are using an inflated interest rate.
  - vi. Paul Hahn explained that CalPERs has made adjustments downward in their assumed earnings rate (currently 7.5%), that increases annual payment from the County.
  - vii. Roger Hart questioned whether the actual rate should be closer to 1%.
  - viii. Paul Hahn explained that they use a 30 year average.
  - ix. Greg Iturria added that CalPERs invests in higher risk activities so the 1% is not accurate. The returns are volatile so they have to use the 30 average for their estimate.
  - x. Paul Hahn further explained that in 2003, many entities enhanced their benefits due to higher returns.
  - xi. Greg Iturria added that, at that time, Butte County enhanced its benefits for law enforcement personnel only. Some cities that offered greatly enhanced benefits are now hurting, including the city of Chico. Butte County is faring better due to the decision not to offer additional enhancements.
- C. John Rhein asked if there were any recommendations from the prior year that did not get corrected.
- a. Sandy Sup indicated that the three findings discussed earlier were the only ones. All the comments from the previous year have been implemented. The current books are clean and the CAFR was prepared accurately and in a timely fashion.
- D. Maureen Kirk closed the meeting at 10:00 am. The next meeting will take place in October, 2013.