



MINUTES

HERCULES AD-HOC CITIZENS FINANCE ADVISORY COMMITTEE (CFAC)

August 23, 2012

City Hall Council Chambers Room
111 Civic Drive, Hercules, CA 94547-1771

Members Present

John Delgado, Vice-Mayor, William Wilkins, Council Member
Hector Rubio, Chair, Virgilio de la Vega, Vice-Chair
Gabriel Naguit, Bill Shea (Absent), Stanley Tom, Committee Members

Staff Present

Nicki Mastay, Finance Director

Guests Present

Ken Morrison, Chris Kelley, Gerard Boulanger

Meeting Called to Order: 6:37 PM

1. Review Findings of Department of Transportation Pre-Award Audit (Mastay)

The City received a pre-award audit report from Caltrans in preparation for funding the ITC project, and out of concerns raised in the State Controller's Office report. Caltrans looked at gas tax items over \$500 thousand, the City's job costing system, invoices and how records are retained.

Caltrans found the City's financial management system is adequate to allocate project costs, but it found several deficiencies which are easily correctable. Findings include:

- Labor costs should be allocated by project and not by time as currently performed.
- Project numbers used for tracking costs by Public Works and Finance do not match, making it difficult to reconcile the two systems. In certain instances, project numbers were not used to track costs. Caltrans recommends that project numbers be given to all projects and that all departments use the same number.
- The City's purchasing guidelines are not restrictive enough to meet Federal requirements. Caltrans recommends that policy and procedures be amended to comply with the Office and Management and Budget (OMB) procedures and cost principles.
- Retention of records policy must be amended to provide for a minimum of three (3) years from the date of final payment. The present policy states from two (2) to

seven (7) years. Also, to revise the policy to meet other requirements in the master agreement between the City and Caltrans.

2. Status of County Review of Procedures (Mastay)

Contra Costa County performed an audit of the City through 10/15/12; the review is part of a countywide review of audit controls and procedures for all cities within the county. The review includes the procedures for expenditures and the documents used for backup data. The review is still in process and the City will respond when the list of open items is received.

3. Status of IRS Audit of 2007 RDA Bond (Mastay)

The IRS audit is reviewing transactions using the proceeds of the Bonds, and to determine if the \$20 million used to purchase vacant lands, and expenditures towards the Sycamore North project are allowable costs. IRS is reviewing documentation for draw requests of bond funds.

Mastay is awaiting an open item list from the IRS which is not yet ready. No timetable was given by the auditor.

4. Status of State Controller's Office Asset Transfer Review (Mastay)

Ms. Mastay announced that the auditor from the State Controller's Office had reviewed all assets of the RDA and its Affordable Housing program. Today's report is based on meetings and conversations between the auditor and Mastay; the final written report will be completed and sent to the City shortly.

The auditor stated that all transactions occurring after 1/31/11 will be disallowed, or "clawed back", by the State and transferred to the RDA Successor Agency. The auditor acknowledged that the tax increment generated within the Redevelopment Area was insufficient to pay all the debts held by the RDA.

Mastay explained to the auditor that the City had paid the shortfall out of its General Fund, and that is why RDA owed over \$30 million to the City of Hercules. The properties to be "clawed back" include Yellow Freight, Victoria Crescent, Sycamore Crossings and Parcel C.

The proceeds from the Yellow Freight sale were used to repay debts of the RDA owed to the City's Development Impact Fee (DIF) funds, and may be allowed to remain.

5. Discuss New Audit Firm Gallina LLP (Mastay)

Nicki Mastey introduced the new auditor Ms. Elba Zaniga of Gallina LLP who presented an aggressive schedule to complete the FY 2010-2011 audit by December 2012, and the FY2011-2012 audit by March 2013. Gallina had met with

the City of Hercules in August 2012 to discuss timelines for completion of the audits. Gallina, LLP primarily performs government audits and recently completed the audit for the City of Merced.

Mastey explained that the previous auditor, OUM, was last on site in January 2012 and they would continue working on the audit from their offices in San Francisco. Thereafter, OUM announced that they were unable to complete the audit by March 2012 as originally scheduled. Citing schedule conflicts with their corporate clients and the start of tax season, OUM resigned as auditor. The firm began, but did not finish the CAFR and RDA audits.

Stanley Tom asked if the City had any recourse to recover the funds already paid to OUM for the incomplete audit. Mastey replied that there was none.

Gallina LLC will provide a team of 2 or 3 accountants with a minimum of 3 years of experience. Mastay added additional scope of work to include the findings of the State auditor's reports. In addition, Gallina will include recommendations on internal controls and operations based on the best practices from other cities that they audit.

6. Discuss State Controller's Review of the Administrative and Internal Accounting Controls (Mastay)

Mastay discussed both reports from the State Controller's office regarding the RDA and the Affordable Housing program. The State Controller's Office reviewed 5 years of RDA records from 7/2005 through 6/2010. Findings include:

- Non-payment of SERAF fees
- City Manager's conflict of interest in awarding contracts
- Lack of policy and procedures in internal accounting controls
City is required to respond to findings and rectify shortcomings.

Meeting adjourned at 8:15 pm

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