Call to Order
Roll Call

ORAL COMMUNICATIONS

SCHEDULED MATTERS

1. Approval of December 28, 2006 Minutes
2. Report on Status of 2005/06 FY Audit
3. Status of RFP for New Depository
4. SB 90
5. Review of Auditor Agreements
6. Items for Discussion

ADJOURNMENT

In compliance with the Americans with Disabilities Act and the California Ralph M. Brown Act, if you need special assistance to participate in this meeting, or to be able to access this agenda and documents in the agenda packet, please contact the Deputy City Clerk at (559) 782-7464. Notification 48 hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting and/or provision of an appropriate alternative format of the agenda and documents in the agenda packet.
Call to Order at 2:30 p.m.

Present: Members:  Pete McCracken, Council Member
                Charles Webber, Public Member
                John Longley, City Manager
                Julia Lew, City Attorney
                Maria Bemis, Acting Chief Financial Officer

                Staff:  Georgia Hawley, Chief Deputy City Clerk

                Public: None

ORAL COMMUNICATIONS

None

SCHEDULED MATTERS

1.  Introduction

City Manager John Longley briefly reviewed the purpose of the internal audit committee, created by Ordinance No. 1703, to conduct internal audits for the purpose of managing the City’s independent auditor, and reviewing the Annual Audit and the Comprehensive Annual Financial Report (CAFR) prior to the submission of these documents to the City Council. He reviewed the provisions of the Ordinance, and stated that a major function of the Audit Committee was to interact with the independent auditor. Mr. Longley stated that upon receipt of the initial draft audit, a meeting of the Audit Committee would be called to review the document with the independent auditor. He stated that the Audit Committee would also manage special studies assigned by the City Council, such as the waste collection issue. He stated that any member of the Council or Audit Committee can request a meeting to review any other financial matter of the City. The City Manager stated that the Committee could proceed on the bylaws when and as the Committee feels necessary.

2.  Review Ordinance

The City Manager stated that Ordinance 1703 had been reviewed, and if there were any questions, Julia Lew was the author.

Next the Committee acted to elect officers.
COMMITTEE ACTION
MOVED by Member Lew, SECONDED by Member Longley that Board Member Pete McCracken is nominated as Audit Committee Chair.

AYES: Bemis, Lew, Longley, Webber
NOES: McCracken
ABSTAIN: None
ABSENT: None

COMMITTEE ACTION
MOVED by Member Lew, SECONDED by Member Bemis that Board Member Charles Webber is nominated as Audit Committee Vice Chair. The motion carried unanimously.

COMMITTEE ACTION
MOVED by Member Longley, SECONDED by Member Lew that Chief Deputy City Clerk Georgia Hawley be appointed as Audit Committee Secretary. The motion carried unanimously.

Chairman McCracken clarified that the Committee would operate under Robert’s Rules of Order for small boards and committees.

3. Report on Status of 2005/06 FY Audit

Ms. Bemis stated that the field work for the audit was finished the first week in December, and nothing had been reported so far. She stated that they had decided to go for the CAFR Award again this year. A letter requesting an extension through February 15 had been sent, and they expected to have the CAFR finished by that date. Ms. Bemis stated that the Committee could review the document the last part of February.

Mr. Longley stated that a meeting of the Committee should be scheduled as soon as the CAFR was ready.

Ms. Bemis stated that they just finished the RDA Statements because it needed to be submitted by January 1 to the State Controller and that we received an unqualified opinion from the auditor. She stated that they had extensions for the CAFR, as requested by the auditor, for the last four years through January 31, but this year the extension was to February 15. The extension is granted by the GFOA.

Mr. Longley clarified that the auditor contract was coming up this year. Mr. Bemis stated that it did have a two-year extension clause. Mr. Longley stated that it should be discussed by the Committee, and he asked Ms. Hawley to provide the members of the Committee a copy of the auditor’s contract approved in 2004. Mr. Longley stated that he was not sure the agreement had been signed.
4. Discuss Possibility of RFP for New Depository

Mr. Longley stated that the City has had the current depository for some time, and they do an adequate job, but it’s sometimes good to look at changes periodically. He stated that online banking and credit card fees have been under discussion lately, and they could bid different types of services under the RFP.

Chairman McCracken stated that Bank of the Sierra felt that they could do better that the 2.5% return then the City was getting from Union Bank. They would like to meet with City representatives about their services.

Mr. Longley stated that other banking institutions would like to respond to a City RFP also. It was discussed by the Committee, and it was maintained that it would be best to advertise the RFP and give all interested parties a shot. Mr. Longley suggested that this matter be placed back on the Committee agenda in February and have Mr. Lollis and Ms. Bemis provide information on what is necessary for the RFP. That could be one of the first recommendations from the Committee to the Council.

Chairman McCracken stated that it was best to have a qualified RFP for input by the banks. Mr. Longley stated that perhaps they should have an outside person do an RFP that was state of the art, and who know all the factors involved, and have that as a choice, along with other options. The Committee could decide what we want and discuss it with other institutions.

Chairman McCracken stated that the Bank of the Sierra wanted to sit down and discuss what the City wanted.

Julia Lew stated that it could be done through the RFP process and give everyone a chance to explain their services. They could look at the whole picture.

Mr. Longley stated that they could put together a two-page proposal of what they need, and Ms. Lew stated that the banks could bid the items and then add what they could offer beyond that. She stated that there was flexibility and they were not bound by the lowest bidder.

Mr. Longley stated that they would do something in the Spring so they could start it in the new fiscal year.

Ms. Bemis stated that in case they changed their bank, they would also have to change software and that will affect the Finance Department.

Chairman McCracken asked if staff could have what was involved for the meeting in March—ball parks on time and cost.

Mr. Longley stated that it wasn’t the accounting documentation, it was the interrelation between interfund transfers.
Ms. Bemis stated that all transfers were set up with Union Bank. She explained that County and State funding was directly deposited into our Union Bank accounts.

M. Longley stated that part of the RFP could be that any new Bank would have to solve that problem.

Ms. Bemis explained sweep accounts, overage accounts versus checking accounts. She spoke about liquid investment account, which was where the LAIF transfers were.

The Committee briefly discussed the next meeting, and it was decided to have the meeting on February 8, 2007 at 2:30 p.m. in the La Barca Room. Ms. Lew clarified that they were a Brown Act Committee and appropriate public meeting notice would be given. It was noted that no one from the public was present.

5. Discussion by Members

Charles Webber stated that until the end of June he was on the Grand Jury. He stated that if anything came up regarding this Committee, he would recuse himself from the Grand Jury on that matter. Mr. Webber stated that he had spoken to the County Counsel regarding this matter.

Ms. Lew clarified that Mr. Webber would keep his participation on the Grand Jury completely separate from his participation on the Audit Committee.

ADJOURNMENT

The Committee adjourned at 3:04 p.m. until February 8, 2007 at 2:30 p.m. in the La Barca Room.

Georgia Hawley, Chief Deputy City Clerk
ITEM 5. AUDITOR AGREEMENTS

2004 Letter of Agreement - Attached
2005 Letter of Agreement - Attached
2006 Letter of Agreement - pending
June 30, 2004

Susan Slayton
Chief Finance Officer
City of Porterville
291 N. Main Street
Porterville, California 93258

I am pleased to confirm my understanding of the services I am to provide the City of Porterville for the year ended June 30, 2004. I will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the entity’s basic financial statements, of the City of Porterville as of and for the year ended June 30, 2004. Also, the document I submit to you will include the following additional information that will be subjected to the auditing procedures applied in my audit of the financial statements:

1. Managements discussion and analysis;
2. Schedule of expenditures of federal awards;
3. City of Porterville RDA financial statement;
4. Combining and individual fund statements of the CAFR.

Audit Objectives

The objective of my audit is the expression of an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the financial statements taken as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with laws, regulations, and provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with Government Auditing Standards.
Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profits Organizations.

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of the management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

My audit will be conducted in accordance with U.S. generally accepted auditing standards; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions OMB Circular A-133; and will include tests of the accounting records, a determination of major programs in accordance with Circular A-133, and other procedures I consider necessary to enable me to express such an opinion and to render the required reports. If my opinion on the financial statements or the Single Audit compliance opinion is other than unqualified, I will fully discuss the reasons with you in advance. If, for any reason, I am unable to complete the audit or am unable to form or have not formed an opinion, I may decline to express an opinion or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for establishing and maintaining an internal control and for compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of an internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's
authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal award programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to me. I understand that you will provide me with such information required for my audit and that you are responsible for the accuracy and completeness of that information. I will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, including the schedule of expenditures of federal awards, but the responsibility for the financial statements remains with you. As part of our engagement, I may propose standard, adjusting, or correcting journal entries to your financial statements. You are responsible for reviewing the entries and understanding the nature of any proposed entries and the impact they have on the financial statements. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to me in the representation letter that the effects of any uncorrected misstatements aggregated by me during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing me about all known or suspected fraud affecting the governmental involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. You are responsible for informing me of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be
Audit Procedures-General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, my audit will involve judgment about the number of transactions to be examined and the areas to be tested. I will plan and perform the audit to obtain reasonable assurance rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the entity or acts by management or employees acting on behalf of the entity. As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, my audit will include tests of transactions related to major federal award programs for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Because an audit is designed to provide reasonable, but not absolute assurance and because I will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by me. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, I will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that comes to my attention. I will also inform you of any violations of laws or governmental regulations that come to my attention, unless clearly inconsequential. I will include such matters in the reports required for a Single Audit. My responsibility as auditor is limited to the period covered my audit and does not extend to matters that might arise during any later periods for which I am not engaged as auditor.

My procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct communication of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. I will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of my audit, I will also require certain written representations from you about the financial statements and
related matters.

**Audit Procedures-Internal Controls**

In planning and performing my audit, I will consider the internal control sufficient to plan the audit in order to determine the nature, timing and extent of my auditing procedures for the purpose of expressing my opinions on the City of Porterville financial statements and on its compliance with requirements applicable to major programs.

I will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and I will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that I consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Tests of control relative to the financial statements are required only if control risk is assessed below the maximum level. My tests, if performed, will be less in scope than would be necessary to render an opinion on the internal control and, accordingly, no opinion will be expressed in my report on internal control issued pursuant to Government Auditing Standards.

As required by OMB Circular A-133, I will perform tests of controls, to evaluate the effectiveness of the design and operation of controls that I consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal awards program. However, my tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in my report on internal control pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, I will inform the governing body of any matters involving the internal control and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to
significant deficiencies in the design or operation of the internal control that, in my judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. I will also inform you of any nonreportable conditions or other matters involving the internal control, if any, as required by OMB Circular A-133.

Audit Procedures-Compliance

My audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I will perform tests of the City of Porterville compliance with applicable laws and regulations, and the provisions of contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and I will not express such an opinion in my report on compliance issued pursuant to Government Auditing Standards.

OMB Circular A-133 requires that I plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. My procedures will consist of the applicable procedures described in the OMB Circular A-133 Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of City of Porterville’s major programs. The purpose of these procedures will be to express an opinion on the City of Porterville’s compliance with requirements applicable to major programs in my report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees and Other

I understand that your employees will prepare all cash, accounts receivable, or other confirmations I request and will locate any invoices selected by me for testing.

At the conclusion of the engagement, I will complete the appropriate sections of and sign the Data Collection Form that summarizes my audit findings. I will provide copies of my reports to the City; however, it is management’s responsibility to submit the
reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor’s reports, and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after the receipt of the auditors’ reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits. At the conclusion of the engagement, I will provide information to management as to where the reporting packages should be submitted and the number to submit.

The audit documentation for this engagement are the property of J. Steven Pressley, C.P.A. and constitute confidential information. However, pursuant to authority given to it by law or regulation I may be requested to make certain audit documentation available to the oversight agency for this audit or its designee, a federal agency providing direct or indirect funding, or the U.S. General Accounting Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. If requested, access to such audit documentation will be provided under the supervision of J. Steven Pressley, C.P.A. Furthermore, upon request, I may provide photocopies of selected documentation to other parties. These other parties may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of three years after the date the auditor’s report is issued or for any additional period requested by the oversight agency, or a pass-through entity. If I am aware that a federal awarding agency, pass-through entity or auditee is contesting an audit finding I will contact the party contesting the audit finding for guidance prior to destroying the audit documentation.

My fees for these services will be based on the actual time spent at my standard hourly rates. My standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. I estimate the maximum fee to be $28,870 for the year ending June 30, 2004. This estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. Additional assistance for the implementation of the new reporting model will be billed at my regular hourly rates, an
estimate of this is not possible at this time. If significant additional time is necessary, for any other issue, I will discuss it with you and arrive at a new fee estimate before I incur the additional costs. Payments for services are due when rendered and interim billings will be submitted as work progresses.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and subsequent peer review reports and letters of comment received during the period of contract. Our 2002 peer review report accompanies this letter.

I appreciate the opportunity to be of service to the City of Porterville and believe this letter accurately summarizes the significant terms of my engagement. If you have any questions, please let me know. If you agree with the terms of my engagement as described by this letter, please sign the enclosed copy and return it to me.

Very truly yours,

J. Steven Pressley
Certified Public Accountant

RESPONSE:

This letter correctly sets forth the understanding of the City of Porterville.

Signature: [Signature]
Title: [CFO]
Date: 8/11/04
June 30, 2005

Susan Slayton
Chief Finance Officer
City of Porterville
291 N. Main Street
Porterville, California 93258

I am pleased to confirm my understanding of the services I am to provide the City of Porterville for the year ended June 30, 2005. I will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the entity’s basic financial statements, of the City of Porterville as of and for the year ended June 30, 2005. Also, the document I submit to you will include the following additional information that will be subjected to the auditing procedures applied in my audit of the financial statements:

1. Managements discussion and analysis;
2. Schedule of expenditures of federal awards;
3. City of Porterville RDA financial statement;
4. Combining and individual fund statements of the CAFR.

Audit Objectives

The objective of my audit is the expression of an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the financial statements taken as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with laws, regulations, and provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with Government Auditing Standards.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profits Organizations.

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of the management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

My audit will be conducted in accordance with U.S. generally accepted auditing standards; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions OMB Circular A-133; and will include tests of the accounting records, a determination of major programs in accordance with Circular A-133, and other procedures I consider necessary to enable me to express such an opinion and to render the required reports. If my opinion on the financial statements or the Single Audit compliance opinion is other than unqualified, I will fully discuss the reasons with you in advance. If, for any reason, I am unable to complete the audit or am unable to form or have not formed an opinion, I may decline to express an opinion or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for establishing and maintaining an internal control and for compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of an internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management’s authorizations and recorded properly to permit the preparation of financial statements in
accordance with generally accepted accounting principles, and that federal award programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to me. I understand that you will provide me with such information required for my audit and that you are responsible for the accuracy and completeness of that information. I will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, including the schedule of expenditures of federal awards, but the responsibility for the financial statements remains with you. As part of our engagement, I may propose standard, adjusting, or correcting journal entries to your financial statements. You are responsible for reviewing the entries and understanding the nature of any proposed entries and the impact they have on the financial statements. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to me in the representation letter that the effects of any uncorrected misstatements aggregated by me during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing me about all known or suspected fraud affecting the governmental involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. You are responsible for informing me of you knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations. Additionally, as required by OMB Circular A-133, it is management’s responsibility to follow up and take corrective action on reported audit findings and to prepare a summary of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for my review on July 1, 2005.
Audit Procedures-General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, my audit will involve judgment about the number of transactions to be examined and the areas to be tested. I will plan and perform the audit to obtain reasonable assurance rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the entity or acts by management or employees acting on behalf of the entity. As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, my audit will include tests of transactions related to major federal award programs for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Because an audit is designed to provide reasonable, but not absolute assurance and because I will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by me. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, I will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that comes to my attention. I will also inform you of any violations of laws or governmental regulations that come to my attention, unless clearly inconsequential. I will include such matters in the reports required for a Single Audit. My responsibility as auditor is limited to the period covered my audit and does not extend to matters that might arise during any later periods for which I am not engaged as auditor.

My procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct communication of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. I will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of my audit, I will also require certain written representations from you about the financial statements and related matters.
Audit Procedures-Internal Controls

In planning and performing my audit, I will consider the internal control sufficient to plan the audit in order to determine the nature, timing and extent of my auditing procedures for the purpose of expressing my opinions on the City of Porterville financial statements and on its compliance with requirements applicable to major programs.

I will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and I will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that I consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Tests of control relative to the financial statements are required only if control risk is assessed below the maximum level. My tests, if performed, will be less in scope than would be necessary to render an opinion on the internal control and, accordingly, no opinion will be expressed in my report on internal control issued pursuant to Government Auditing Standards.

As required by OMB Circular A-133, I will perform tests of controls, to evaluate the effectiveness of the design and operation of controls that I consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal awards program. However, my tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in my report on internal control pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, I will inform the governing body of any matters involving the internal control and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control that, in my
judgment, could adversely affect the entity’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. I will also inform you of any nonreportable conditions or other matters involving the internal control, if any, as required by OMB Circular A-133.

Audit Procedures-Compliance

My audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I will perform tests of the City of Porterville compliance with applicable laws and regulations, and the provisions of contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and I will not express such an opinion in my report on compliance issued pursuant to Government Auditing Standards.

OMB Circular A-133 requires that I plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. My procedures will consist of the applicable procedures described in the OMB Circular A-133 Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of City of Porterville’s major programs. The purpose of these procedures will be to express an opinion on the City of Porterville’s compliance with requirements applicable to major programs in my report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees and Other

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At the conclusion of the engagement, I will complete the appropriate sections of and sign the Data Collection Form that summarizes my audit findings. I will provide copies of my reports to the City; however, it is management’s responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal
awards, summary schedule of prior audit findings, auditor’s reports, and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after the receipt of the auditors’ reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits. At the conclusion of the engagement, I will provide information to management as to where the reporting packages should be submitted and the number to submit.

The audit documentation for this engagement are the property of J. Steven Pressley, C.P.A. and constitute confidential information. However, pursuant to authority given to it by law or regulation I may be requested to make certain audit documentation available to the oversight agency for this audit or its designee, a federal agency providing direct or indirect funding, or the U.S. General Accounting Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. If requested, access to such audit documentation will be provided under the supervision of J. Steven Pressley, C.P.A. Furthermore, upon request, I may provide photocopies of selected documentation to other parties. These other parties may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of three years after the date the auditor’s report is issued or for any additional period requested by the oversight agency, or a pass-through entity. If I am aware that a federal awarding agency, pass-through entity or auditee is contesting an audit finding I will contact the party contesting the audit finding for guidance prior to destroying the audit documentation.

My fees for these services will be based on the actual time spent at my standard hourly rates. My standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. I estimate the maximum fee to be $28,870 for the year ending June 30, 2005. This estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. Additional assistance for the implementation of the new reporting model will be billed at my regular hourly rates, an estimate of this is not possible at this time. If significant additional time is necessary,
for any other issue, I will discuss it with you and arrive at a new fee estimate before I incur the additional costs. Payments for services are due when rendered and interim billings will be submitted as work progresses.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and subsequent peer review reports and letters of comment received during the period of contract. Our 2002 peer review report accompanies this letter.

I appreciate the opportunity to be of service to the City of Porterville and believe this letter accurately summarizes the significant terms of my engagement. If you have any questions, please let me know. If you agree with the terms of my engagement as described by this letter, please sign the enclosed copy and return it to me.

Very truly yours,

J. Steven Pressley
Certified Public Accountant

**RESPONSE:**

This letter correctly sets forth the understanding of the City of Porterville.

Signature: 

Title: *Chief Financial Officer*

Date: *July 7, 2004*
ITEM 6. ITEMS FOR DISCUSSION

Memo Attached
John Longley

From: Pete McCracken-City Council Member [PeteForCouncil@ocsnet.net]
Sent: Monday, January 22, 2007 10:42 AM
To: John Longley
Subject: Internal Audit Committee meeting Thursday, Feb 8th

John,

While mulling over the purpose and intent of the Internal Audit Committee, some thoughts came to mind that might be appropriate for Committee discussion. When you have some time, perhaps we can discuss these further before placing them on the agenda or devoting any staff time to analysis?

- Business licenses for non-resident vendors, i.e.
  - Food vendors such as Schwan's (frozen foods), Catering trucks, etc.
  - Peddlers, door-to-door sales, etc.
  - Remote service providers, such as ISPs, alarm monitoring services, etc.
- Business licenses for home-based businesses
  - Avon, Amway, Mary Kay, Pampered Chef, other franchised or multi-level sales businesses
  - Independent consultants, such as bookkeepers, tax preparers, business advisors, etc.
  - Other businesses, writers, artists, musicians, computer services, etc.
- Business types (SIC) in the City,
  - do we have an analysis that shows how many or what types of businesses are currently licensed in the City?
  - Is a list of business licences by business type available, excluding any revenue, sales, or other proprietary information?
  - Do we currently capture business type (SIC) information for business licenses?
  - Would such information be of value in planning for economic development activities?
- Is there any potential for increasing revenues or reducing costs in examining the above or modifying procedures and policies?

Perhaps the above can be simply addressed by means of a memo discussing existing procedures and policies. The basis for raising the issue is are we enforcing a "level playing field" or do our existing procedures ignore loopholes that allow unfair business competition?

- Special purpose permit/fees, i.e. OHV fees, that require action on the City's part, are we applying for and obtaining our "fair-share"?

Again, perhaps this can be simply addressed by means of a memo and noted in the Committee minutes as being looked into?

- Special districts, i.e. Landscape & Lighting Districts, are we adequately addressing such "self-funding" districts or are we inadvertently subsidizing them and are there feasible alternatives that might be implemented to correct or eliminate any such subsidies?

Let me reiterate, placing these items on the agenda may be premature at this time, especially if existing procedures and policies adequately address them.

Pete V. McCracken
Member of City Council of Porterville

1/22/2007