INTERNAL CITY AUDIT COMMITTEE AGENDA
CITY OF PORTERVILLE, CALIFORNIA
LA BARCA CONFERENCE ROOM, CITY HALL
OCTOBER 23, 2007 - 3:00 PM

Call to Order
Roll Call

Committee Members: Pete McCracken, Chair
Charles Webber, Member
Maria Bemis, Member
Julia Lew, Member
John Longley, Member

Staff Member: John Lollis, Deputy City Manager
Patrice Hildreth, Committee Secretary

ORAL COMMUNICATIONS

SCHEDULED MATTERS

1. Approval of Minutes of October 1, 2007
2. Status Report on RFP for Merchant Services/State Board of Equalization & ABC
3. Status Report on Swap Meet Audit
4. Administrative Policy on Supplanting Measure H Funds

OTHER MATTERS

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 3:00 p.m.
Roll Call

Committee Members: Pete McCracken, Chair
Charles Webber, Member
Maria Bemis, Member
Julia Lew, Member
John Longley, Member

Staff Members: John Lollis, Deputy City Manager
Patrice Hildreth, Acting Secretary

ORAL COMMUNICATIONS

• Greg Shelton, 888 North Williford Drive, inquired as to Item No. 4 and requested that he have the opportunity to speak on that item once he heard more of what the item entailed.

Committee Member Longley indicated that he would prefer that a draft administrative rule first be drafted then brought to the Committee. He stated that the Committee would not be discussing the supplanting of Measure H Funds that day.

SCHEDULED MATTERS

1. APPROVAL OF MINUTES OF AUGUST 27, 2007

The Minutes of August 27, 2007 were approved, as amended, to correct a typographical error on page 2, line 3, specifically adding “hoc” between “ad” and “committee.”

2. STATUS REPORT ON BANKING RFP/INTERVIEWS

Deputy City Manager Lollis provided the Committee with a status report on the Banking RFP and interviews. He indicated that as of that date, all of the responding banks had been interviewed by the Sub-Committee. He stated that all of the banks appeared to understand the City’s dilemma with regard to the merchant services aspect of the RFP, and the City’s particular needs as a public entity. Mr. Lollis advised that all of the responding banks were competitive, with most waiving the set-up fees, yet all had limitations with regard to merchant services. He then informed the Committee that Bank of the Sierra had more clearly defined its proposal. As to a recommendation of the Sub-Committee, he stated that the merchant services portion still remained unresolved, and as to the banking services portion, all responding banks were fairly equal.
Chairman McCracken inquired as to whether it would be beneficial to meet once more with the responding banks to again address merchant services. Mr. Lollis indicated that he believed that the City had received the banks’ last, best, and final proposals. He then spoke of some of the information staff gleaned out of the process, such as the benefits of owning the City’s own equipment, and doing the PIN processing. A discussion then ensued as to debit card processing versus credit card processing, and the costs associated with each.

The Committee then discussed the options available with regard to merchant services. The Committee determined its options to be: 1) stay with the City’s current merchant services provider, Fifth Third Bank; 2) abandon that contract; or 3) go with the selected bank’s provider.

Committee Member Longley noted for the record that he held an account with one of the responding banks, and inquired whether a conflict of interest existed.

Chairman McCracken advised that he too held accounts with two of the responding banks.

Committee Member Lew stated that a conflict of interest did not exist with either Committee Member Longley or Chairman McCracken.

Committee Member Longley suggested that the Committee recommend proceeding with the bank that proposed the lowest charges. He then spoke of his prior motion to proceed with Union Bank and disqualify the counter proposal submitted by Bank of the Sierra, which he made at the Audit Committee Meeting of July 16, 2007. He pointed out that he had made that motion taking into consideration both the benefits of continuity, and the concerns raised by Committee Member Maria Bemis with regard to the deficiencies in Bank of the Sierra’s proposal. He noted that his suggestion to now recommend that the contract be awarded to the bank with the lowest cost was based on new information.

Committee Member Lew pointed out that the Committee’s decision should be based on information currently available to the Committee.

In response to questions posed with regard to Bank of the Sierra’s additional information provided, Committee Member Bemis indicated that an issue remained with regard to the bundling of deposits. She stated that Bank of the Sierra required smaller deposit bundles, which Ms. Bemis contended would impact staff time. A discussion ensued as to the special needs of the City as a public entity, and the City’s current relationship with Union Bank. Committee Member Longley pointed out that continuity alone did not justify remaining with Union Bank, yet a specific detrimental impact on staff time might be justification. He stated that the Committee might need more information to make that determination. Committee Member Bemis estimated that approximately hundreds to thousands of checks might be deposited on any given Tuesday, and suggested that Bank of the Sierra’s requirement for smaller bundles might require an additional few extra hours of staff time. Committee Member Lew suggested that the City could negotiate that issue with Bank of the Sierra. Deputy City Manager Lollis agreed, and stated that the Bank might waive that requirement. Mr. Lollis then inquired whether the Committee would like staff to prepare an analysis as to staff time for preparing deposits, to

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which Chairman McCracken responded that an analysis would not be necessary.

A discussion then ensued as to the banks’ responses. Chairman McCracken spoke of the need for the banks to understand the particular needs of the City and to be professional. He commented that he did not feel comfortable with the proposal submitted by Bank of the Sierra and suggested that it was not handled appropriately. He voiced concern with moving forward, questioning how the City would be assured that it was dealing with the appropriate representative. The Committee went on to discuss the various rates quoted by the responding banks. Chairman McCracken recommended that the blended rate quotes be kept on file for future use.

With regard to a question posed by Chairman McCracken, Committee Member Lew indicated that adjusting fees to recoup costs could be problematic.

The Committee next discussed merchant services, during which it was agreed that the Committee had no recommendation for this aspect of the RFP. Committee Member Longley suggested that the Committee move towards the issuance of a subsequent RFP for merchant services which would allow for responses from a broader pool of providers. He recommended that the City remove the merchant services aspect from the banking services RFP.

**COMMITTEE ACTION:** MOVED by Committee Member Longley, SECONDED by Committee Member Webber that the Committee recommend that the City remove the merchant services aspect from the banking RFP, and move toward the preparation of a subsequent RFP for merchant services.

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

Chairman McCracken requested that a status report on the matter be brought to the Committee at its next meeting.

The Committee returned to its discussion of the banking services aspect of the RFP. It was noted that with regard to proposed fees and which fees would be the most advantageous to the City, the banks ranked as follows:

1. Bank of the Sierra
2. Union Bank of California
3. Citizen’s Business Bank
In response to Committee Member Longley’s suggestion that the Sub-Committee make a motion, Chairman McCracken pointed out that the Sub-Committee had not met and discussed the proposals. It was pointed out that all of the proposals were within approximately $250 per month from each other. Committee Member Lew suggested that the top two, Bank of the Sierra and Union Bank of California, be presented to the City Council, with a caveat that the bundling issue with Bank of the Sierra first be resolved to meet the City’s requirements. The Committee then discussed the pros and cons of moving forward with either of the top two. It was noted that one of the benefits in proceeding with Bank of the Sierra was that the bank was local, and thereby provided a good opportunity for direct access. Continuity was a noted benefit for proceeding with Union Bank of California. Committee Member Bemis voiced reservations with proceeding with Bank of the Sierra, noting that in addition to the bundling issue, the bank had never provided sample reports as the City had requested. She indicated that Bank of the Sierra had been the City’s banking services provider in the past, prior to her joining the City’s staff, and that the City had switched banks due to costs and services.

Deputy City Manager Lollis advised the Committee that Union Bank had already initiated a fee reduction for the City, which he stated was prompted by the RFP process. He spoke of the fee structure prior to the process and of complacency in the relationship between the City and Union Bank with regard to the fees. Committee Member Bemis indicated that Union Bank had reduced its fees by approximately $15,000 per year.

Committee Member Lew recommended that the Committee present both Bank of the Sierra and Union Bank, along with the pros and cons of each, to the Council.

The Audit Committee adjourned to a meeting of the Sub-Committee, comprised of Mr. McCracken, Ms. Bemis, and Mr. Lollis.

Ms. Bemis suggested that the Committee recommend the top two ranked banks, Bank of the Sierra and Union Bank of California, to the Council. She indicated that her preference was to move forward with Union Bank.

Mr. Lollis spoke in favor of the Committee recommending all three banks, the top two plus the third-ranked Citizen’s Business Bank, to the Council.

The meeting of the Sub-Committee adjourned, and the meeting of the Internal Audit Committee reconvened.

Committee Member Longley spoke of the need for a method. He suggested that the Committee evaluate all of the banks and rank them based on the criteria of cost, responsiveness to the RFP, and commitment to local community. With Mr. Lollis facilitating the voting, each Committee Member ranked the three responding banks, on a scale of one to three, with one being the most favorable, and three being the least favorable. The voting went as follows:
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<tr>
<th>Committee Member</th>
<th>Bank of the Sierra</th>
<th>Union Bank</th>
<th>Citizens Bank</th>
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<tr>
<td>McCracken</td>
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<td>Bemis</td>
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<td>Webber</td>
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Totals: 10 7 13

Based on the Committee Members’ ranking, Union Bank of California ranked first, Bank of the Sierra ranked second, and Citizen’s Business Bank ranked third.

COMMITTEE ACTION: MOVED by Committee Member Webber, SECONDED by Committee Member Lew that the Committee submit its recommended ranking to the City Council.

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

3. PORTERVILLE COLLEGE SWAP MEET AUDIT STATUS REPORT

Committee Member Bemis provided a brief update on the status of the audit, indicating that she had spoken with two local CPAs, as well as the City’s Auditor Steve Pressley. She stated that she would have more information for the Committee at the next meeting.

4. SUPPLANTING MEASURE H FUNDS

Committee Member Longley spoke of the need to draft an administrative rule with regard to policy related to supplanting Measure H Funds. He stated that the Charter provided the authority to the City Manager to draft administrative rules, and that one would be brought back to the Audit Committee on the matter, hopefully by the next meeting.

Chairman McCracken requested that he be provided with copies of the draft in advance, so as to allow him time to review the document prior to the meeting. He suggested receiving the draft via email or on a CD.

OTHER MATTERS

- Mr. Lollis indicated that information from the Department of Alcohol Beverage Control and the State Board of Equalization with regard to any possible exemptions on credit card fees would be provided to the Committee at its next meeting.
Committee Member McCracken inquired whether Committee Member Lew could research commercial fees. A discussion ensued as to remedies and actions businesses were taking to recoup costs associated with credit cards.

The Committee Members then reviewed their calendars and scheduled the next meeting for October 23, 2007 at 3:00 p.m.

ADJOURNMENT
The Committee adjourned at 4:21 p.m.

Patrice Hildreth, Committee Secretary

SEAL

Pete McCracken, Chairman