



Report From Audit Committee

FINANCIAL REPORTS AND AUDIT RECOMMENDATIONS, JUNE 30, 2008.

Honorable Mayor and Council Members:

Summary

The Audit Committee has met with staff and Mr. Cory Biggs, Maze and Associates to review the Comprehensive Annual Financial Report prepared by staff and the results of the annual audit performed by the auditors for the fiscal year ended June 30, 2008.

After discussing those documents and results, the Audit Committee took action to receive the reports and recommendations of the auditor. The Audit Committee further recommended the drafting of this report by its Chair and the transmission to the Council and Finance Commission as prescribed by policy.

Approval of this motion will make these reports public for the year ended June 30, 2008. These reports include:

- Comprehensive Annual Financial Report (CAFR)
- Measure A Special Revenue Fund Report
- Agreed Upon Procedures Report on Compliance with Proposition 111 (City)
- Memorandum on Internal Control Structure

Background

The Audit Committee is a practical means for Council to provide independent review and oversight of the City of Belmont's financial reporting processes, internal controls, and independent auditors. The Audit Committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, the Audit Committee helps to ensure that staff properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the City's financial reporting practices.

The Audit Committee is directly responsible for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services. All accountants thus engaged report directly to the Audit Committee.

All members of the Audit Committee have been educated regarding both the role of the Audit Committee and their personal responsibility as members, including their duty to exercise an appropriate degree of professional skepticism. That role requires the Audit Committee to provide independent review and oversight of the City's financial reporting processes, internal controls and independent auditors.

The Audit Committee presents annually to the Council a written report of how it has discharged its duties and met its responsibilities. In its report to City Council, the Audit Committee states that it has discussed the financial statements with management, the Finance Commission, the independent auditors in private, and privately among committee members, and believes that they are fairly presented, to the extent such a determination can be made solely on the basis of such conversations. It also determines if the report should be made public.

The Audit Committee establishes procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters. Such procedures provide for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Finally, the Audit Committee is to be adequately funded and authorized to engage the services of financial experts, legal counsel, and other appropriate specialist, as necessary to fulfill its responsibilities.

Discussion

The CAFR is a complex document containing a tremendous amount of information. From an oversight stand point, the Audit Committee has been able to provide an independent review of the City's financial reporting processes and internal controls and finds the City is in good financial health and is maintaining control over budgeted activities. The City's General Fund ends with a fund balance of \$4.4 million down modestly from expectations set during last June's budget deliberations of \$4.6 million. An Executive Summary and Management Discussion and Analysis have been prepared that further highlights the City's financial performance.

The CAFR prepared by the staff has been subject to a state-required audit by an independent, certified and licensed auditor. As discussed above, the auditor reported directly to the Audit Committee. Earlier this month, the Audit Committee received the auditor's opinion, management letter and annual financial reports prepared by staff. Understanding the Audit Committee's personal responsibility as members and the duty to exercise an appropriate degree of professional skepticism, the Audit Committee meet with the auditor and discussed the financial

results with City management. The Audit Committee satisfied itself that the reports and related information were fairly presented, to the extent such a determination can be made solely on the basis of such conversations. The Audit Committee also determined the reports were comprehensive and adequately disclosed the financial position and results of operations for the City.

In addition, the Audit Committee formally received the reports and recommendations of the auditor which are embodied in the Memorandum of Internal Control. The City's Management has prepared a formal response to those recommendations. While the Audit Committee had the opportunity to discuss the audit and recommendations with the independent auditors in private, as well as privately amongst its members, it did not believe such action was necessary.

As prescribed by policy, the Audit Committee directed the Chair to transmit this report to the Council and Finance Commission. By doing so, it is recommending that the financial reports and recommendations of the auditor be made public. Furthermore, in performing this function, the Audit Committee has discharged its duties and met its responsibilities.

As for discharging its other responsibilities, the Audit Committee makes the following comments:

1. With regard to the establishment of procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters, the Audit Committee has tasked the City Attorney's Office with the handling of any confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters. None have been received.
2. The Audit Committee has reviewed its provision of funding. No changes are proposed.
3. The Audit Committee has retained a financial expert to assist in fulfilling its responsibilities. That individual was present during the auditor's report.

The Audit Committee wishes to express its appreciation to the City's Management, and in particular, Deputy Finance Director Michelle Tu, for the information they have provided for us to compile this report.

Lastly, the Audit Committee members stand ready to answer any questions in regard to this report.

General Plan/Vision Statement

No impact.

Fiscal Impact

Sufficient funding exists for the Audit Committee to adequately perform and discharge its duties.

Public Contact

1. Audit Committee meeting was posted and held on October 8, 2008

2. Posting of City Council agenda

Recommendation

The Audit Committee recommends accepting the financial reports and recommendations of the auditor.

Alternatives

1. Take no action.
2. Refer to staff with direction.

Attachments

- A. CAFR
- B. Executive Summary
- C. Memorandum on Internal Control Structure

On file and available in the Finance Department:

1. Measure A Special Revenue Report
2. Agreed Upon Procedures Report on Compliance with Proposition 111 (City)
3. Independent Auditor's Report on Management's Assertion (Measure A)

Respectfully submitted,

John Violet
Audit Committee Chair

Staff Contact:

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