



AUDIT COMMITTEE

January 12, 2011

Minutes

CALL TO ORDER / ROLL CALL

Chair Price called the Audit Committee meeting to order at 2:05 p.m. Committee members present were Chair Price, Vice Chair K. Williams, Directors McIntosh and H. Williams. At that time, there was a full quorum of the Committee. Staff present was Deputy General Manager Kerl, Deputy General Counsel Gallien, Director of Finance Sandler, Interim Controller Navaroli, and Accounting Supervisor Cerezo.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

There were no members of the public who wished to address the committee.

CHAIR'S REPORT

Chair Price requested Mr. Sandler to give a summary of the purpose of the Committee meeting.

Mr. Sandler explained that Mayer Hoffman McCann (MHM) had been selected to serve as the Water Authority's financial auditors for the next five years, but given the results of the State Controller's Office (SCO) financial statements audit review of MHM's audit of the City of Bell, the Water Authority would like to reconsider MHM and keep the current auditing firm of Lance, Soll and Lunghard on board for another year.

Mr. Sandler went on to explain on December 21, 2010 the SCO issued a final report with its Quality Control Review findings. The report concluded that though the Bell audits were performed in accordance with some standards, MHM did not comply, to varying degrees, with the majority of fieldwork auditing standards regarding audit documentation, audit evidence, risk of fraud, litigation, claims and assessments and subsequent events. MHM provided a detailed response to the SCO report acknowledging areas for improvement, but disagreeing with many of the SCO findings.

Mr. Sandler mentioned that every three years an audit firm is required to have the quality of its audit practice evaluated by an independent peer review firm. In response to the SCO report, MHM initiated its triennial review ahead of schedule. The firm retained Harold Monk, chair of the Auditing Standards Board, who is currently conducting the triennial review.

Mr. Sandler asked that given these recent developments, staff recommends that the Audit Committee recommend to the Board a one-year extension of Lance, Soll & Lunghard's existing contract to provide for the financial audit of the Water Authority and QSA JPA, and Agreed



Upon Procedures for FYE 2011. Mr. Sandler said after the conclusion of MHM's peer review, the Audit Committee would then make a recommendation to the Board for auditing services in subsequent fiscal years.

ACTION/DISCUSSION

Consideration of the pending contract with Mayor Hoffman McCann for financial statement auditing services for FY 2011-2015.

Audit Committee alternative considerations:

- 1-A Affirm the contract for the next five years with MHM for the auditing services, as previously recommended.
- 1-B Delay the affirmation of the contract for one year pending the outcome of MHM's peer review. (Action)

After the Committee discussed the staff recommendations, Director McIntosh moved the item, Vice Chair K. Williams seconded the motion, and the motion passed unanimously to take this item to the full board meeting on January 27, 2011.

ADJOURNMENT

There being no further business to come before the Audit Committee, Chair Price adjourned the meeting at 2:25 p.m.