

**California Walnut Board /
California Walnut Commission**

101 Parkshore Drive, Suite 250

Folsom, CA 95630-4726

(916) 932-7070

(916) 932-7071 Fax

info@walnuts.org

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**CALIFORNIA WALNUT BOARD / CALIFORNIA WALNUT COMMISSION
AUDIT COMMITTEE MEETING MINUTES**

**Wednesday, February 4, 2009
Folsom, CA**

A joint meeting of the California Walnut Board and California Walnut Commission Audit Committees was held on Wednesday, February 4, 2009, at the CWB/CWC offices in Folsom, CA. The meeting was called to order at 10:07 a.m. by CWB/CWC Treasurer Martin Mariani. Ms. Donoho called the roll and the following members were present:

CWB Audit Committee

Martin Mariani, Treasurer

Robert Lea

Michael Petz

CWC Audit Committee

Martin Mariani, Treasurer

William Crain

David Skinner

Pete Turner

Mr. Donald Norene, CWB Audit Committee member, was absent. Ms. Donoho informed the Treasurer that a quorum was present for both Committees. Also in attendance were Mr. David Ljung of the CPA firm Gilbert Associates, Debbie Wray and Maureen Pello of USDA/AMS and CWB/CWC staff members Dennis Balint, Heather Donoho and Dana Steindorf.

The first order of business was the approval of the minutes from the last Joint Audit Committee meeting held on July 15, 2008. CWB Audit Committee member Mr. Lea made a motion to approve the minutes as mailed, Mr. Petz seconded the motion and it carried unanimously. CWC Audit Committee member Mr. Crain made a motion to approve the minutes as mailed and Mr. Skinner seconded the motion. The motion carried unanimously.

Mr. Mariani asked Mr. Ljung of Gilbert Associates of discuss the next agenda item, Reivew of 2007/2008 Financial Audit Report. Mr. Ljung stated that this year marked the third year that Gilbert Associates has audited the Board and Commission and it has been a process that has developed over the years with some areas previously identified as internal control weaknesses needing adjustments. He indicated that virtually all of the internal control issues have been addressed and there are no adjustments needed.

Mr. Ljung distributed a document entitled Communications with Those Charged with Governance . These are the required communications between the audit firm and the CWB/CWC. Mr. Ljung indicated that the results of both CWB and CWC audits were an unqualified, or clean, opinions for the thirteen months ending August 31, 2008. There were no new accounting policies adopted or changes required as a result of any new professional

standards in 2008. There were no disagreements with management during the course of the audits and no difficulties in dealing with staff or management in performing and completing the audits. There were no other findings or issues with management that needed attention. There were some immaterial adjustments made to the financial statements subsequent to the start of the audits (due to the early timing of the audits) , identified by CWB/CWC staff, but nothing of great significance.

Mr. Ljung then reviewed the Commission Audit Report. He stated that it is a standard unqualified opinion. There is a new section in the audit report for Management Discussion and Analysis (MD&A) that provides an overview of the financial statements. Mr. Skinner stated that he had trouble understanding the paragraph relating to MAP funding percentages in the MD&A. Ms. Donoho explained that the 10% minimum is what USDA/FAS requires if an organization wants to participate in MAP. Staff agreed to make that clarification in next year's report.

Mr. Ljung then reviewed the CWC Financial Statements with Independent Auditor's Report. He indicated that the Commission continues to be in a very strong financial position. The statement of activities indicates an operating loss, but investment income, primarily interest, resulted in an increase in net assets of \$131,608.

Notes to the financial statements describe the organization and its operations, the accounting policies, cash and investments, and the portion of deposits that were in excess of FDIC insured limits (however, all that cash held by the financial institution is fully collateralized).

A discussion ensued about collateralization. Mr. Mariani asked if we have an investment policy other than the general controls. Mr. Balint explained that the Commission follows the Board policy, because under the Board we are required to keep cash in fully collateralized accounts. Ms. Pello provided the committees with a copy of the AMS investment policy the Board follows that states "all funds received by marketing order committees must be deposited in financial institutions in short-term (less than 1 year), risk free interest bearing accounts which are either: fully insured by the FDIC, i.e., not more than \$250,000 (including any accrued interest) each in checking and savings funds for each institution; or, for investments exceeding the \$250,000 insurance coverage level, fully collateralized with Federal Securities by the financial institution."

Mr. Ljung stated that notes in the financial statement also show details of the CWC certificate of deposits, details of property and equipment, details of receivables, and related party transactions (relationship with the Board). Other notes outline MAP funds and vendors that represent a significant portion of the CWC total expenses. The rest of the financial statement report is the federally mandated portion of the audit that goes beyond the financial components of the CWC and deals with other internal control and compliance requirements in accordance with Government Auditing Standards and as described in OMB Circular A-133. The findings indicate that no material weaknesses or significant deficiencies were identified.

Mr. Ljung moved on to a review of the CWC Management Letter which outlines Gilbert Associates review of the Commission's operating procedures and system of internal control. He commented that there are no new matters to report, so the report includes status of issues from the 2007 audit. The issues being addressed by the Commission include: The development of an Accounting/Finance Procedural Manual which is in the works; the agreement between the Board and the Commission which will now include a specific description of the percentage of expenses that the Commission will be required to pay; the formation of an Audit Committee which has been addressed; and a process for a non-subordinate individual to review and authorize the Executive Director's expenses which has been addressed by the creation of the

Audit Committee and the position of Treasurer who will review the Executive Director's expenses.

The management letter also addresses the investment policy, however, the CWC will not have a formal investment policy as it consistently follows the California Walnut Board's investment policy. This will be noted in the Accounting/Financial Procedure Manual being developed. Other items being developed and implemented that represent best business practices are an anti-fraud policy which may include a "whistle blower policy", an office policies and procedures manual, and the review and approval of all bank accounts and check signers by the CWC Board on an annual basis.

Mr. Ljung moved on to the California Walnut Board's Financial Statements with Independent Auditor's Report. Again, he stated that it is very similar in nature to the CWC report with a clean unqualified opinion. The statements of net assets indicate a decrease in cash compared to a year ago largely due to some additional expenses for research programs that were incurred this year. Mr. Balint clarified that the CWB cannot operate at a loss. Ms. Donoho stated that it is a loss on the books as we report it; part of that loss is the refund paid out to the handlers for the prior year crop. That is classified as a current expense and is what brought us to a loss this year. A discussion ensued about the procedures for collection of assessments on the Board and handler refunds.

Mr. Ljung then reviewed the CWB statements of activities, cash flows and the notes to financial statements. The notes include details on accounting policies, property and equipment, lease obligations and employee pension plan. Mr. Ljung stated that the summary of the audit results and the internal controls indicate that there were no material weaknesses or significant deficiencies identified.

Mr. Ljung then moved on to the CWB Management Letter. He stated that several of the issues mentioned in the CWC management letter are repeated here, however, he touched on several that are unique to the CWB. These included documentation and approval of journal entries; internal controls over payroll; net assets in relation to the handler refunds; and a vacation policy requiring mandatory vacation for financial personnel.

Mr. Petz made a motion on behalf of the CWB Audit Committee to institute a mandatory vacation policy for financial personnel. Mr. Lea seconded the motion and it carried unanimously. Mr. Crain made a motion on behalf of the CWC Audit Committee to institute a mandatory vacation policy for financial personnel. Mr. Turner seconded the motion and it carried unanimously.

The next item on the agenda was the Review and Consideration of Engagement Letters for 2008/2009 Audits. Mr. Mariani asked if there is any requirement from USDA to get competitive bids on the financial audits periodically. Ms. Pello stated that there is no written policy. Mr. Balint stated that we follow FAS policy for bidding and RFPs which requires an RFP process for any activity \$25,000 or more. The financial audits fall under that amount. Mr. Mariani asked how often the audit firm rotates their audit partners between their clients. Mr. Ljung stated that the firm does not have a set policy, however, several of their clients have adopted a policy of rotating the audit partner every five or seven years.

Mr. Skinner made a motion on behalf of the CWC Audit Committee to recommend to the full Commission to accept the engagement of Gilbert Associates as the financial audit firm for the 2008/2009 audits. Mr. Crain seconded the motion and it carried unanimously. Mr. Petz made a motion on behalf of the CWB Audit Committee to recommend to the full Board to accept

the engagement of Gilbert Associates as the financial audit firm for the 2008/2009 audits. Mr. Lea seconded the motion and it carried unanimously.

Mr. Petz made a motion on behalf of the CWB Audit Committee to accept the financial audit reports as presented by Mr. Ljung and Gilbert Associates. Mr. Lea seconded the motion and it carried unanimously. Mr. Skinner made a motion on behalf of the CWC Audit Committee to accept the financial audit reports as presented by Mr. Ljung and Gilbert Associates. Mr. Crain seconded the motion and it carried unanimously.

The Committee skipped to agenda item G, Review and Approval of Internal Control Policies and Procedures. Mr. Skinner asked about the item on page 4 regarding voided checks and whether or not the checks are retained for bank reconciliation. Ms. Donoho stated that voided checks are kept in a separate file along with all other vendor files. Mr. Skinner asked if under Monthly Bank Statements, there should be a review to confirm no checks were issued to unauthorized vendors. Mr. Ljung stated that is a good practice. Mr. Balint stated he reviews the checks when he signs them and again when the cancelled checks are returned with the bank statements.

Mr. Skinner asked about the computerized accounting system that the CWB/CWC uses, MAS 90. Ms. Donoho stated that with MAS 90, unlike other systems such as QuickBooks, any entries put into the system cannot be reversed without leaving a record. There is always traceability with MAS 90.

Mr. Skinner asked about the internal control checklist mentioned on page 14 of the policy. Ms. Donoho stated that her understanding was that the internal control policy is the checklist and will be reviewed on an annual basis. The Committee asked that the word "checklist" be changed to "policies".

Mr. Skinner asked about the payroll procedures. Ms. Donoho stated that the CWB uses an outside payroll service out of Fresno that is very inexpensive. The accounting assistant, Pamela Arsondi, submits the payroll information electronically on a semi-monthly basis and Ms. Donoho reviews the entries. Mr. Balint reviews the payroll tax returns quarterly.

Mr. Skinner asked about the two main CWC vendors that have been consistent from year to year. Ms. Donoho stated that they are two of our foreign agencies. Mr. Skinner asked if there should be added review on the contracts for the vendors. Mr. Balint explained how the contracts are awarded through a request for proposal (RFP) process.

Mr. Turner made a motion on behalf of the CWC Audit Committee to recommend to the Commission the approval of the Internal Control Policy with the minor changes as discussed by the Committee and several small typographical errors to be corrected. Mr. Crain seconded the motion and it carried unanimously.

Mr. Lea made a motion on behalf of the CWB Audit Committee to recommend to the Board the approval of the Internal Control Policy with the minor changes as discussed by the Committee and several typographical errors to be corrected. Mr. Petz seconded the motion and it carried unanimously.

The Committee moved to item F, Revision to the CWB Employee Handbook. Ms. Donoho stated that the handbook revisions include updates to the harassment section and the discrimination training. Mr. Balint stated that all of the changes fall into two categories; housekeeping and conformation to changes in the law since the last handbook revision. He indicated that staff has been delegated authority by the Board to make changes to the

handbook. The CWB consulted with an HR firm and a personnel attorney in the revision of the handbook.

Mr. Lea asked if an arbitration clause could be added to the handbook. Mr. Balint and Ms. Donoho will look into having an arbitration clause and a more thorough whistleblower/anti-fraud policy added to the handbook.

Mr. Mariani moved on to the next agenda item, Review and Approval of Risk Assessment for Foreign Exchange. He stated that Mr. Balint is advising that, for the time being, we have no policy regarding taking positions on foreign exchange.

The Committee then addressed the next agenda item, Results of Recent MAP Audit. Ms. Donoho stated that the CWC had an FAS compliance review in December 2008. The compliance specialist visited the CWC for three days and reviewed program expenditures for almost three MAP years, contracts, our system of tracking budgets, controls on our agencies and our industry contributions. The specialist was pleased with how our system is set up and there were no findings or issues.

Mr. Skinner asked if the MAP audit review is part of the Internal Control Policy. Ms. Donoho stated that it would not be a problem to add it to the checks and balances as part of the internal control policy.

Under other business, Mr. Balint stated that the CWB is going to experience about a \$1 million shortfall this year. There are about \$925,000 worth of domestic programs currently on hold. The good news is that the Commission is not experiencing the same shortfall and could possibly pick up some more of the domestic programs from the Board. This would keep the Board from having to retroactively raise the assessment to handlers and the reserves could be restored. This will be presented to the Board and Commission at the Annual Winter Meeting on February 27th.

Mr. Balint also commented that one issue to be presented at the upcoming joint CWB/CWC Market Development Committee meeting on March 12th is the need for a hard-hitting marketing program to get the market moving. A discussion ensued about the state of the walnut industry and market place.

The next joint meeting of the CWB / CWC Audit Committees will be in July or August.

The Committees went into Executive Session and excused Ms. Donoho and Ms. Steindorf. Hearing no further business to come before the Committees, Mr. Mariani adjourned the meeting at 12:55 p.m.