

**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
An Equal Opportunity Employer and Provider



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

REVISED

**Monday, February 7, 2011
Folsom, CA**

A joint meeting of the California Walnut Board and California Walnut Commission Audit Committees was held on Monday, February 7, 2011, at the CWB/CWC offices in Folsom, CA. The meeting was called to order at 10:12 a.m. by CWB/CWC Treasurer and CWB/CWC Audit Committee Chairperson Martin Mariani. Ms. Steindorf called the roll and the following members were present:

CWB Audit Committee

Martin Mariani, Treasurer
Robert Lea
Donald Norene
Fred Spanfelner

CWC Audit Committee

Martin Mariani, Treasurer
William Crain
David Skinner
Pete Turner

Ms. Steindorf informed the Treasurer that a quorum was present for both Committees. Also in attendance were David Ljung, managing partner of Gilbert Associates; Jeff Smutney, USDA; 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 28, 2010. CWB Audit Committee member Mr. Norene made a motion to approve the minutes as mailed, Mr. Spanfelner seconded the motion and it carried unanimously. CWC Audit Committee member Mr. Skinner made a motion to approve the minutes as mailed and Mr. Turner seconded the motion. The motion carried unanimously.

Chairperson Mariani asked Mr. Ljung to give the review of the 2009/2010 financial audit report. Mr. Ljung reviewed the Board audit report, which includes statements of net assets, activities and cash flows as well as the management's discussion and analysis, supplemental schedules and a report on internal control. He indicated that Gilbert Associates issued an unqualified opinion for the financial statements for the Board, meaning that it is a clean audit opinion. The audit was performed within the scope outlined in the engagement letter from last year. There were no new accounting policies adopted and the application of existing policies was not changed during 2010.

Mr. Ljung stated that the CWB report on internal control disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. Mr. Ljung reported that there were no disagreements between Gilbert Associates and CWB management and no difficulties were encountered while performing the audit. Gilbert Associates is not aware of consultations with any other accountants.

Mr. Ljung stated that Gilbert Associates does perform a non-audit service for the Board and Commission in collecting and maintaining the walnut producer lists used for election and newsletter mailings. Finally for the Board, Mr. Ljung commented that there were no audit adjustments recommended to management.

Part of the review included a discussion of how the crop size is determined in calculating the assessment rate. Mr. Balint clarified that for the 2010/11 crop year, the CWB and CWC used a two-year average of crop sizes to calculate the assessment rate. He also stated that the Budget and Personnel Committee has the authority to determine how many years will be utilized to calculate the rate.

Mr. Balint commented that the Marketing Order allows the CWB to retain up to two years of budgeted expenses. There is a possibility that we will exceed that at the close of the current fiscal year, which will be audited in November 2011 and reported on in January or February 2012. Thus, we will not have audited financials at the time we set our assessment in June 2011. We have the option of revisiting the assessment rate in September 2011. Mr. Balint asked Mr. Smutny of USDA what our course of action would be if we set an assessment rate before we have financials and it turns out that we have exceeded two years of budgeted expenses. Mr. Balint stated that the Marketing Order now specifies that the CWB would reduce subsequent year's assessments, as it no longer provides for a handler refund. Mr. Smutny stated that he believes the reserve would carry over into the following year and then the CWB would reduce the assessment rate by an amount that would bring the reserve back to the two-year level. Mr. Balint requested a statement in writing from USDA on how to handle this issue should it arise. Mr. Smutny will follow up on the issue.

Mr. Ljung then reviewed the Commission audit report, which includes statements of net assets, activities and cash flows as well as the management's discussion and analysis, supplemental schedules, a report on internal control and compliance report for MAP (in accordance with OMB Circular A-133). Mr. Ljung reported that Gilbert Associates issued an unqualified opinion for the financial statements and that the audit was performed within the scope of the engagement letter. The CWC did not adopt any new accounting policies and there were no disagreements with management. Mr. Ljung stated that there was one item identified in regard to a foreign exchange loss of \$34,479. Management, with Gilbert Associates' concurrence, determined that the effect was immaterial to the financial statements as a whole.

Mr. Balint explained that, in this particular case, the CWC took a position on a Euro health research contract to protect the CWC from large currency fluctuations and to ensure the CWC does not exceed what was budgeted for the project.

Mr. Ljung stated that the CWC audit is more complicated than the CWB audit because of the federal Market Access Program (MAP) funding the Commission receives.

Mr. Ljung then reviewed the federal compliance portion of the CWC report, which is required due to MAP funding. Gilbert Associates reported there were no deficiencies in internal controls or material weaknesses identified. They also found no instances of non-compliance or other matters that must be reported under Government Auditing Standards. In the opinion of Gilbert Associates, the CWC complied, in all material respects, with the requirements that are applicable to the federal program. He stated that there was a finding from the prior year in regard to MAP program reconciliation. Gilbert's follow-up review shows that the recommended reconciliation process has been implemented, and the CWC is now reconciling MAP revenue to expense reimbursement invoices on a monthly basis.

Chairperson Mariani asked if there were any questions for Mr. Ljung. Hearing none, Mr. Balint took the opportunity to discuss the future of MAP. He stated that there is a battle on-going in Washington D.C. over the budget. Our lobbyist in Washington, Dan Haley, is nervously optimistic that MAP will survive the budget cuts. In the event MAP is cut, having a large Commission reserve is a good thing. A discussion ensued about what would happen should the CWC not receive MAP funding in 2012. Mr. Balint stated that option one would be to have a referendum to raise the assessment cap; option two would be to have a continuation hearing in 2012 to override the sunset clause in the CWC law; option three would be to have the Board make up the difference because the Board does not have an assessment cap.

Chairperson Mariani moved on to the next agenda item, Review and Consideration of Engagement Letters for 2010/2011 Audits. Ms. Donoho stated that the fees to Gilbert Associates for the upcoming 2010/11 CWB and CWC audits include a 2% increase for the standard part of the audits. The new state required portion of the CWC audit will cost \$5,200 above the standard fees.

On behalf of the CWB, Mr. Norene made a motion to approve the engagement letter for Gilbert Associates to perform the audit services for 2010/2011 (total cost \$21,500). Mr. Spanfelner seconded the motion and it carried unanimously. On behalf of the CWC, Mr. Crain made a motion to approve the engagement letter for Gilbert Associates to perform the audit for 2010/2011, including the state required portion of the audit (\$23,700 plus \$5,200 for state required portion). Mr. Turner seconded the motion and it carried unanimously.

Chairperson Mariani moved on to the next agenda item, Review Charter Items Pertaining to Financial Audit. Ms. Donoho stated that the Committee normally reviews the charter in the summer, however, there are several items that she thought appropriate to review after the financial audit. She explained that nothing in the charter has changed for the current year, but several items need review and documentation in the minutes.

Ms. Donoho stated that the first three items in section 7 of the charter have already been reviewed today by the Committee. The fourth item (7.04) is a review and evaluation of the independent auditor's performance. Ms. Donoho commented that she is very happy with the staff of Gilbert Associates and that this year's audit was the most efficient that they have conducted for us. Chairperson Mariani and the Committee members agreed with the assessment by CWB/CWC staff.

Ms. Donoho stated that the next charter sections for review - (10.0 – review of prior year audit) and (11.0 – review of internal controls) have already been covered by the Committee today and documented in the minutes. Ms. Donoho moved on to the next charter section for review: Item 12.0 – critical accounting policies, including any legal inquiries, review of financial statements, difficulties with management during audit. She asked the Committees if they had any questions or concerns about issues in this section.

Hearing no questions for Ms. Donoho, Chairperson Mariani also asked the Committees and staff to review sections 9.0 (significant risks) and 15.0 (review audit committee's effectiveness). Regarding section 9.0, Mr. Balint stated that, though it will probably not pose a significant financial risk or obligation, both the CWB and CWC have been subpoenaed in a class-action lawsuit to provide information in the case. Ms. Donoho commented that it could cost between \$15,000 to \$20,000 in staff time to respond to the requests for information. Mr. Balint stated that the total cost could be about \$420,000 in legal fees, staff time, etc., for which we will be reimbursed by the plaintiff.

Chairperson Mariani moved on to item 15.0 of the charter, annual review of audit committee's effectiveness. Mr. Balint commented that he believes the Committee has provided a valuable link between Gilbert Associates, staff and the industry. He is pleased with the level of review and oversight the Committee provides. Ms. Donoho concurred that the Committee has been very effective. Mr. Ljung stated that this Committee works well as a whole and there are members who provide financial and legal expertise, as well as an understanding of the industry.

Chairperson Mariani moved on to the next agenda item, Review Proposed Revised CWB/CWC Cost-Sharing Agreement. Ms. Donoho stated that the cost/information sharing memo of understanding is in the policies and procedures document. It was suggested by Mr. Ljung that we should include some verbiage in the memo of understanding to better distinguish between the two entities (Board and Commission) which Ms. Donoho incorporated into the document that was mailed to the Committee prior to the meeting. Mr. Skinner asked if it would be possible for staff to track the percentage of administrative versus program costs annually. As it stands right now, 90% of the funding goes to programs. Chairperson Mariani stated that could be an internal review, but not something that needs to be in the charter. Ms. Donoho commented that she can track annually and report to the Committee the percentage of administrative versus program costs.

On behalf of the CWB, Mr. Lea made a motion to approve the CWB/CWC Cost/Information Sharing Memo of Understanding as presented. Mr. Norene seconded the motion and it carried unanimously. On behalf of the CWC, Mr. Skinner made a motion to approve the CWB/CWC Cost/Information Sharing Memo of Understanding as presented. Mr. Turner seconded the motion and it carried unanimously.

Under other business, Mr. Balint mentioned that CDFA will be holding a Continuation Hearing for the California Walnut Commission on April 19, 2011 at the California Farm Bureau Federation. If there is no substantial objection, the Secretary will continue the Commission for six years. Mr. Balint will be contacting Commission members and growers who can testify on the record at the hearing. Mr. Lea asked if written comments can be provided and Mr. Balint said that written comments are welcome and details of how to get those comments to CDFA will be included in the hearing notice mailing that will be going to all walnut handlers and growers in a few weeks.

The Committees then held an Executive/Closed Session where they asked Mr. Ljung about any possible concerns with management. No action was taken during the closed session. The time and place of other business will be left to the discretion of the Treasurer and staff. There being no other business to come before the Committees, Mr. Mariani adjourned the meeting at 12:05 p.m.