

**California Walnut Board /
California Walnut Commission**

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

**Tuesday, July 15, 2008
Folsom, CA**

A joint meeting of the California Walnut Board and California Walnut Commission Audit Committees was held on Tuesday, July 15, 2008 at the CWB/CWC offices in Folsom, CA. The meeting was called to order at 9:25 a.m. by CWB/CWC Treasurer Martin Mariani. Ms. Steindorf called the roll and all members were present:

CWB Audit Committee

Martin Mariani, Treasurer

Robert Lea

Donald Norene

Michael Petz

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 Mr. David Ljung of the CPA firm Gilbert Associates and CWB/CWC staff members Dennis Balint, Heather Donoho and Dana Steindorf.

Mr. Mariani asked Mr. Ljung of Gilbert Associates to introduce himself and give a brief background and the audit services they perform. Mr. Ljung stated that he is a shareholder of Gilbert Associates and has managed the audit of the Board and Commission for the past couple of years. He also manages audits of several hundred tax exempt organizations, trade associations, and charitable organizations through Gilbert Associates. Other agricultural entities served include DFA, California Tomato Growers Association and the California Farm Bureau.

Mr. Ljung presented the next agenda item, Function of Audit Committee. He stated that most charitable non-profit organizations have an Audit Committee, however, organizations such as the Board and Commission are not required to, though it is strongly recommended. A starting point for an Audit Committee is to have a charter that outlines the responsibilities of the Committee. Ms. Donoho has put together a sample charter that the Committee will review later in the meeting. Typically, an Audit Committee will meet a couple of times per year; once prior to the annual audit to discuss any new issues such as audit standards and for the committee to ask the auditors questions or express any concerns that can be built into the audit; and once after the annual audit to present the conclusions to the audit.

Mr. Ljung mentioned that there are some new audit standards as a result of Sarbanes Oxley, a congressional act that created some new mandates for publicly held companies and

changed some of the rules for how CPAs go about conducting audits of publicly held companies by evaluating internal controls. Ms. Donoho stated that the Board did have an internal control audit conducted by USDA in the fall of 2006 and that is where the recommendations came from for the establishment of the Audit Committee and the appointment of a Treasurer.

Mr. Balint presented the Proposed CWB/CWC Audit Committee Function statement (copy attached). Ms. Donoho commented that the statement summarizes the charter, both of which the Committee received in the mail prior to the meeting, and provides information about the function of the Committee. She explained that the charter was based on an AICPA template.

A discussion ensued about the Audit Committee's responsibilities in reporting back to the Board / Commission. Mr. Norene commented that an organizational chart might be helpful to include in the charter. Mr. Ljung stated that the Committee, just like any committee of the Board and Commission, has a responsibility to the Board / Commission. Mr. Balint suggested that the Audit Committee recommend the Board and Commission delegate authority at the next meeting, so most decisions can be made at the Committee level.

The Committee reviewed the proposed CWB / CWC Audit Committee Function statement. Mr. Norene suggested adding the word "independent" to indicate independent oversight of the Committee.

Mr. Norene made a motion to recommend the approval of the CWB Audit Committee Function Statement, adding the word "independent", to the California Walnut Board. Mr. Petz seconded the motion and it carried unanimously.

Mr. Crain made motion to recommend the approval of the CWC Audit Committee Function Statement, adding the word "independent", to the California Walnut Commission. Mr. Turner seconded the motion and it carried unanimously.

The Committees recommended that all future Audit Committee agendas should include an Executive Session for each entity (California Walnut Board and California Walnut Commission).

Mr. Mariani moved on to the next agenda item, Establishment of Charter. He went through the document, Proposed CWB / CWC Audit Committee Charter for the Year Ending August 31, 2009. The Committees made some suggested changes (see red-line copy attached). These revisions included changing item 4.0 to meeting twice a year as opposed to three times per year, removing item 7.05, and removing 11.0, 14.0 and 18.0. Mr. Ljung suggested that the Committees meet in July or August of each year, as well as January or February.

A discussion ensued about the non-audit services that Gilbert Associates provides for the California Walnut Board and California Walnut Commission, such as the gathering and maintaining of grower lists for election and special referendum purposes. The Committees also discussed the obligation of the Audit Committee to review legal responses requested by the auditors.

Mr. Petz made a motion to recommend to the California Walnut Board the CWB Audit Committee Charter for the Year Ending August 31, 2009 with the changes discussed. Mr. Norene seconded the motion and it carried unanimously.

Mr. Turner made a motion to recommend to the California Walnut Commission the CWC Audit Committee Charter for the Year Ending August 31, 2009 with the changes discussed. Mr. Skinner seconded the motion and it carried unanimously.

Mr. Mariani moved to the next agenda item, Review of Engagement Letter and MD&A Template for 2007/08 Audit. Ms. Donoho explained that the engagement letter is the contract received annually from Gilbert Associates and outlines services and fees to be provided to the CWB / CWC. The MD&A template is the Management's Discussion and Analysis which has been recommended by Gilbert Associates as part of government required audit standards and as suggested, but not required, by USDA. The MD&A accompanies the financial statements and provides the reader background on the financial statements in a text format. It outlines what the financials mean verses the previous year and highlights significant issues that took place during the year. The template is a condensed version of what was provided by Bob Connors of USDA.

Mr. Norene made a motion to recommend to the California Walnut Board the adoption of the Management's Discussion and Analysis and engage Gilbert Associates to conduct the annual CWB financial audit for marketing year 2007/2008 for \$20,000 as outlined in the engagement letter. Mr. Petz seconded the motion and it carried unanimously.

Mr. Skinner made a motion to recommend to the California Walnut Commission the adoption of the Management's Discussion and Analysis and engage Gilbert Associates to conduct the annual CWC financial audit for marketing year 2007/2008 for \$22,000 as outlined in the engagement letter. Mr. Crain seconded the motion and it carried unanimously.

The Committee moved on to agenda item F, Review of CWB and CWC Expenses, Bank Accounts, Authorized Signers & Miscellaneous Policies. Mr. Balint explained the process of check issuance. When an activity is approved and the activity results in an invoice from a vendor, the invoice is signed off by the staff member who initiated the activity. At that time a check requiring two signatures is cut. There are three staff members authorized to sign checks (Ms. Donoho, Ms. McNeil and Mr. Balint). Ms. Donoho mentioned that the separation of duties is good for an office so small. We have a new accounting staff member, Ms. Arsondi, who inputs invoices into the system. Ms. Donoho signs checks only when Ms. McNeil or Mr. Balint is unavailable. Ms. Donoho is also training Ms. Arsondi to input wire transfer payments for our foreign agencies into the system. Ms. Donoho provided a sample of the income statements as of May 31, 2008 showing the internal format for both entities.

Mr. Mariani mentioned that one of the functions of the Audit Committees is to provide oversight for internal controls. Going forward, he asked the Committees what they need to do to help define internal controls. Ms. Donoho stated that the Board and Commission do have policies and procedures as part of the internal control process. Mr. Balint stated that the employee manual includes some policies. Mr. Mariani asked staff to provide the Committees with the appropriate policies that they need to review prior to the next meeting. Mr. Balint stated that staff will work on policies on gifts from vendors for employees and members, position on exchange, wire transfers, whistleblower policy and conflict of interest. The Committees will also identify members of the respective committees with financial experience following the approval of the charter by the Board and Commission. Mr. Mariani also asked that item 9.0 of the charter be fulfilled by staff/independent auditors. He suggested a statement of significant risks and areas needing attention be prepared for discussion at the next Audit Committee meeting.

The next joint meeting of the CWB / CWC Audit Committees will be held in January or February after the audits are complete and financial statements are released. Hearing no further business to come before the group, Mr. Mariani adjourned the meeting at 11:35 a.m.