

**CITY OF NEWPORT BEACH  
CITY COUNCIL FINANCE COMMITTEE  
FEBRUARY 26, 2015 MEETING MINUTES**

**I. CALL MEETING TO ORDER**

The meeting was called to order at 6:00 p.m. in the City Council Chamber, 100 Civic Center Drive, Newport Beach, California 92660.

**II. ROLL CALL**

PRESENT: Council Member Keith Curry (Chair); Mayor Pro Tem Diane Dixon; Council Member Tony Petros; Committee Member Larry Tucker; Committee Member John Warner; and Committee Member Jack Wu

ABSENT: Committee Member Bill McCullough

STAFF PRESENT: Finance Director, Dan Matusiewicz; Deputy Finance Director, Steve Montano; Budget Manager, Susan Giangrande; Revenue Manager, Evelyn Tseng; IT Manager Rob Houston; and Administrative Specialist to the Finance Director Marlene Burns

MEMBERS OF THE PUBLIC: Jim Mosher and Carl Cassidy

OUTSIDE ENTITIES: Auditor Nitin Patel of White Nelson Diehl Evans LLP

**III. PUBLIC COMMENTS**

Jim Mosher suggested, and Carl Cassidy agreed, that the three new public members of the committee may have been illegally appointed as the City did not publicly advertise the opportunity to serve to the community as a whole. He referenced the Brown Act as it relates to the Finance Committee.

**IV. APPROVAL OF MINUTES**

Approval of the November 17, 2014, Finance Committee meeting minutes.

Chair Curry opened public comments.

Chair Curry closed public comments.

The minutes of the Finance Committee meeting of November 17, 2014, were received and filed by consensus with Committee Member McCullough, absent.

**V. CURRENT BUSINESS**

- A. Fiscal Year 2013-14 Audit Results: In connection with the City's financial statement audit and the Single Audit for federally assisted grant programs, the auditors have certain obligations to communicate the audit results with both City Council and management.

Finance Director Dan Matusiewicz clarified terms and indicated that the objective of the audit was to understand internal control structures and report significant control deficiencies. Mr.

Matusiewicz reported that there were no reportable conditions or management letter comments this year. With respect to a compliance audit of Federal grants (done through a single audit), he reported that he failed to disclose an unusual occurrence in this year's audit regarding an adjustment that resulted in a restatement of fund balance. He provided elaboration.

Auditor Nitin Patel with White Nelson Diehl Evans LLP, presented a brief PowerPoint presentation regarding the audit results including the scope of services, the auditor's opinion, results of the single audit and communications with those in charge of governance. He reported new standards for this year will include a requirement for the City to record its pension liabilities on a Government Wide Statement of Net Position.

In reply to Chair Curry's question, Mr. Patel reported that this is a clean audit. He added there were no other issues that the Finance Committee should be aware of, related to the audit.

In response to Committee Member Warner's question, Finance Director Matusiewicz reported the cost of the audit was approximately \$40,000.

Chair Curry asked whether anyone had the need to ask questions of the auditor in the absence of staff and there was no response.

Chair Curry opened public comments.

Jim Mosher spoke regarding the importance of discussing the substance of the report rather than the audit letter, the single audit, the City's commitment to rotating auditors and noted corrections to the staff report.

Carl Cassidy suggested the Finance Committee ask regarding the kind of analysis done, and findings in terms of contingent liabilities and legal costs. He suggested that the committee look at capitalization of cost that is or is not being charged to projects that are being developed and the development of reserves for legal settlement costs.

Chair Curry stated that legal costs are speculative and that the City is insured. In terms of capitalizing staff time, he reported that the audit must be done in accordance with the Government Accounting Standards Board, which has detailed rules about how things must be portrayed.

Finance Director Matusiewicz reported that staff records General Liabilities on a current basis, each fiscal year.

Chair Curry closed public comments.

Mayor Pro Tem Dixon moved, and Chair Curry seconded to receive and file the Fiscal Year 2013-14 Audit Results. The Committee voted 6 ayes and 0 noes to receive and file the Fiscal Year 2013-14 Audit Results with Committee Member McCullough, absent.

- B. ERP Update: ERP (Enterprise Resource Planning) software is a business management software system that integrates all of the City's core functional requirements for financials, human capital management, citizen services, and revenues. The ERP implementation is scheduled to take between 25 and 30 months and will consist of four major phases. The City is currently in Phase 1 (Financials) and began the implementation of Phase 2 (HR/Payroll) in January 2015. The software provider of the City's ERP is Tyler Technologies Inc. and this project is titled "eSAIL," short for ERP System Administration and Implementation Lineup.

Deputy Finance Director Steve Montano provided a brief PowerPoint presentation regarding an update on the City's ERP implementation including major benefits of the system, phases, and work cycle within each phase, modules, validation, and training.

In reply to Committee Member Tucker, Deputy Finance Director Montano reported that managers oversee the system implementation to make sure that existing internal controls are in place in the new system. The same processes that are currently in place will continue and a regular review of the system will take place.

Finance Director Matusiewicz added that the City invested in a business process analysis and that a review of the system will be an ongoing process. He added that the City has outside assistance in implementing best practices.

Committee Member Tucker asked if there will be an opportunity to lower the head count and Deputy Finance Director Montano reported there will be a number of efficiencies but it is difficult to determine how these will play out. He commented on the number of accounts in the City's Chart of Accounts.

Council Member Petros inquired whether the City will eventually move to a programmatic budget and Deputy Finance Director Montano responded that it will have such capability. Council Member Petros expressed interest in discussing the budget in discrete processes and programs so that the public can better understand it and it will be more accessible to the public. He would like to see measurable efficiencies to the public and a measurable reduction in overall costs.

In response to Mayor Pro Tem Dixon's questions, Deputy Finance Director Montano provided information regarding the total project budget and reported that it is tracking within budget. He addressed savings that could be applied toward other areas of the project budget if necessary.

Mayor Pro Tem Dixon commented on how the new system would better facilitate the invoicing process from the City's vendors. Budget Manager Susan Giangrande stated that a small percentage of vendors provide electronic invoicing and addressed outreach to vendors to help them know that the City is changing to electronic invoicing. The vendor portal for them to access the City's data will open in June.

Deputy Finance Director Montano addressed the features of the software that will allow public access.

Mayor Pro Tem Dixon stressed the importance the public accessing the City's public financial information in a way that is easy to understand.

In reply to Committee Member Wu's questions, Deputy Finance Director Montano reported that the system is turn-key, that this vendor has a big and growing presence in California, and addressed maintenance and upgrade costs as well as the annual maintenance fee. He added that it is expected that IT costs will decrease as there will be less support in customization needed in order to make the system work. There will be a parallel in the operation of both the legacy and new finance systems for a short time to ensure validity.

Committee Member Warner asked regarding requiring electronic invoicing and Budget Manager Susan Giangrande stated that is still a ways off.

Chair Curry commented on the merits of program and performance budgeting.

Chair Curry opened public comments.

Jim Mosher spoke in support of increased visibility of the budget and transparency.

Carl Cassidy commented on other cities using the system and commended staff and the City for implementing it.

Chair Curry closed public comments.

Committee Member Wu moved, and Committee Member Tucker seconded to receive and file the report. The Committee voted 6 ayes and 0 noes to receive and file the report with Committee Member McCullough, absent.

- C. Finance Committee 2015 Work Plan: Staff will present and seek approval of the tentative Finance Committee agenda topics scheduled for the year. The work plan represents the planned topics of discussion; however, is subject to change based on the availability of information and the need to schedule other topics as they arise.

Chair Curry announced a joint Finance Committee and City Council meeting on March 10, 2015, with a study session beginning at 3:30 p.m.

Finance Director Matusiewicz reported there will be a significant time commitment on the part of Finance staff in preparation of the ERP going live. He noted that the Finance Committee 2015 Work Plan is an aggressive plan and provided details of same. He recommended going dark in July and August so that staff can focus on the ERP launch and stated that no meeting will be held in October.

In response to Committee Member Tucker's question, Finance Director Matusiewicz reported that the work plan comports with the Finance Committee's duties. Although the Finance Committee is to meet monthly, this is a unique year with implementation of the ERP.

Chair Curry added that the committee has also met "on call" as issues have arisen, over the past several years. He noted that members have an opportunity to hear the information as it is presented, ask questions, and provide comments to Council.

Council Member Petros suggested returning to a typical meeting room, after March and April, where it will be more intimate and informal.

Mayor Pro Tem Dixon agreed with Council Member Petros's comments.

Chair Curry opened public comments.

Jim Mosher commented on the swearing in of the new committee members. He reported there is a requirement in the resolution for the Finance Committee to make a written recommendation to Council, as a whole, regarding the budget. He commented on the Finance Committee's role and spoke regarding increasing the public's awareness of the City's financial situation.

Carl Cassidy commented positively about meeting in a more collegiate setting, and asked that a memorandum be generated containing an investment review and moving important items forward.

Chair Curry closed public comments.

Committee Member Warner moved, and Committee Member Wu seconded to receive and file the report. The Committee voted 6 ayes and 0 noes to receive and file the report with Committee Member McCullough, absent.

**VI. ADJOURNMENT**

The Finance Committee adjourned at 7:13 p.m.

The agenda for the Regular Meeting was posted on February 23, 2015, at 2:54 p.m., in the binder and on the City Hall Electronic Board located in the entrance of the Council Chambers at 100 Civic Center Drive.

Attest:

  
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Keith Curry, Chair  
Finance Committee Chair

  
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Date