

City of Oakland Office of the City Auditor



City Auditor
Courtney A. Ruby, CPA

Comments made to the CEDA Committee 05/11/10

"Good Afternoon Chair De La Fuente and members of the Committee:

I am Courtney Ruby the City Auditor of Oakland.

Today I want to speak to several concerns with the request being made today for a \$150,000 loan to Mckinney Griff, Inc. after reviewing the Merritt Restaurant and Bakery Business Plan for Expansion prepared by Fare Resources, and Appendix B the Iryna Accountancy Report.

The Fare Resources Report summarized Merritt Bakery's debt to lenders as \$823,840. With the additional \$46,000 provided by the City in March 2010, the revised debt is at least \$869,840. The additional loan to McKinney Griff in this proposed resolution will increase the debt load to \$1,019,840.

On page 23 the report states "At this time there are seemingly insurmountable inhibitors facing the company and we do not foresee the company being able to reimburse any lenders besides Wachovia/Wells Fargo, which was the original lender to the Company."

The Fare Resources Report encourages the adoption of the Iryna Accountancy Corporation recommendations which were based on 17 findings:

I would like to highlight several significant findings from the Iryna Accountancy Corporation report for you and the public:

Finding #4	Bank statements are not reconciled. <ul style="list-style-type: none"> o Ending cash balance not known o Expenses made outside accounting department are not recorded such as wire transfers
Finding #5	Bank accounts for the business are opened on the name of Merritt Bakery Café LLC. (not McKinney Griff, Inc.) <ul style="list-style-type: none"> o Cash recorded in these accounts do not legally belong to client (separate entities can not commingle funds)
Finding #6	There is no document retention policy and procedure; currently some documents (older than 1 year) are being discarded. (financial/accounting information should be retained for 5 years for tax purposes-- As an example the current financial statements in the report are estimates)
Finding #7	Personal and corporate funds are commingled. Business purchases are paid by personal credit cards and personal expenses are paid by the corporation.
Finding #8	Credit card charges are not systematically recorded in the accounting system. Credit card charges are not itemized, but rather recorded as a lump sum. (credit card statements are not reviewed and reconciled)
Finding #9	Expenses paid by two petty cash funds (\$500 and \$5,000) are not recorded in the accounting system. Funds are replenished with cash from check registers; therefore revenue is underreported.

2010 MAY 14 PM 1:14

FILED
OFFICE OF THE CITY CLERK
OAKLAND

Finding #10	No adequate segregation of duties in cash handling exists.
Finding #11	Management does not perform periodic review of the financial information.
Finding #12	Payroll information is not recorded in the system on the timely basis.
Finding #13	The company cuts and signs checks without intention to mail them due to insufficient funds.
Finding #14	The business owner is treated as an independent contractor. (which according to IRS tax law could have significant implications)
Finding #16	Loan from the shareholder in the amount of \$500,000 is not properly documented.
Finding #17	<u>There is no payment schedule established to pay lenders (the City of Oakland is 4th in line for \$162,000 current loan and responsible for \$13,500 guaranty on One Cal loan).</u>

TO MOVE FORWARD I WOULD REQUEST EACH COMMITTEE MEMBER REVIEW ACCOUNTANCY REPORT AND HAVE THE FOLLOWING QUESTIONS ANSWERED:

1) The Fare Resources report and the Iryna Accountancy Corporation report were issued in January 2010. What steps have the owners taken to implement the recommendations relative to operations and most importantly to address the accountant's findings and recommendations?

2) Have the lenders, all of which are in line ahead of the City/Agency, been approached with a specific repayment plan or otherwise renegotiate the repayment terms? Have they agreed?

3) What commitments has the staff made to Merritt Bakery given the statements in Fare Resources that the city has proposed up to \$800,000 in funding to the company (P.23)

Finally the staff reports that this funding falls under the new business recruitment/ retention initiatives because this funding would save 55 jobs.

As the City Auditor, I request the City Council clearly define criteria for company's granted city funding to include the organizations have solid fiscal policies and procedures in place.

This concludes my remarks."