



AGENDA – AUDIT COMMITTEE

Date: Thursday, October 24, 2019
Time: 10 a.m. – 11:30 a.m.
Place: San Diego Workforce Partnership, 9246 Lightwave Ave. # 210, San Diego CA
Martin Luther King Meeting Room, 1st Floor

Welcome

Rick Vaccari – Chair

- Call the meeting to order
- Non-agenda public comments
- Introductions and greetings

Action Items

- Item #1: Minutes of the March 13, 2019 Audit Committee Meeting
- Item #2: Audit Committee Charter

Information Items

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- Item #3: Co-sourced Internal Audit – Procurement audit results
- Item #4: Significant Accounting Policies annual review
- Item #5: Enterprise-wide Risk Assessment
- Item #6: Rogers, Anderson, Malody & Scott LLP audit engagement
- Item #7: GASB 87 Lease Accounting update

Adjournment

PUBLIC COMMENT: Members of the public may address the Board on issues on the agenda (three minutes per subject) and/or other items within the Board's scope. To speak, submit a "Request to Speak" form prior to the meeting. The San Diego Workforce Partnership will provide accommodations to persons who require assistance. Questions: (619) 228-2900.



Item #1: Minutes of the March 13, 2019 Audit Committee Meeting

ACTION ITEM – VOTE REQUIRED

Members Present

Rolando Charvel (City of SD - CFO)
Ed Hidalgo (WDB member)
Rick Vaccari, Chair (WDB member)

Members Absent

Tracy Sandoval (County of SD - CFO)
Jamie Latiano Jacobs

Staff Present

Peter Callstrom, CEO
Andy Hall, COO
Chris Burlaka, CFO

Consultant Present

Ellen M. Class from Resources Global Professionals, Inc.

Location

9246 Lightwave Avenue, San Diego, CA 92123

All reports, memoranda and letters contained in the agenda or distributed at the meeting shall by this reference become part of the original minutes.

The meeting was called to order by R. Vaccari, at 11:04 a.m. with a quorum.

Non-Agenda Public Comment

None

Action Items

1-03/13/2019- Item 1 **Minutes of the December 3, 2018 Audit Committee Meeting**
Committee approves the meeting minutes.

Moved (R. Vaccari), Seconded (R. Chavel), Carried unanimously



2-03/13/2019- Item 2

FY 2017-2018 Financial Statements/Audit Report

B. Welebir, Partner with Rogers, Anderson, Malody & Scott, LLP (RAMS) provided a detailed review of the draft Audit Report and Audited financial statements for Fiscal Year 2017-2018. R. Vaccari asked about status and impact in the audit of the fraud issue that the SDWP discovered and resolved. Mr. Welebir discussed the favorable impact of the restructuring of the Accounts Payable processes, including the requirement that all invoices are remitted directly to SDWP Accounts Payable by vendors. The new processes and accounting controls have been successfully tested and implemented.

This is the 2nd consecutive year in which there were no findings or observations during the annual audit, the internal controls review, as well as the required Single Audit. Mr. Welebir indicated that they expect no changes to the draft report reviewed at this meeting, prior to final submission and issuance of the management letter.

Mr. Welebir advised the committee that there were no proposed accounting adjustments and no uncorrected misstatements in the financial statements. C. Burlaka provided a brief overview of the process to review and approve direct and indirect costs, with the applicable government cognizant agency.

As per questions from committee members, there was further discussion on several topics: the increase of unrestricted funds in recent years, impact of the facilities move and reduction in lease expense for new location, pension plan contributions, and the future implementation of the new lease accounting standards and the impact this will have on the financial statements

Committee approves the June 30, 2018 Basic Financial *Statements & Audit Report*.

Moved (R. Charvel), Seconded (R. Vaccari), Carried unanimously

Information Items

3-03/13/2019 - Item 3

Income Sharing Agreement (ISA) Accounting Method

A. Hall provided the committee with a high-level overview of the ISA program. SDWP will provide details and an in-depth discussion regarding ISAs at the April 2019 the WDB meeting.



E. Class presented the accounting method the SDWP will utilize to record the various ISA transactions. The proposed accounting treatment has been reviewed and agreed upon with the external auditors, Rogers, Anderson, Malody & Scott, LLP

4-03/13/2019 - Item 4

Finance & Accounting staffing changes

Effective May 1, 2019 E. Class will be SDWP's CFO. C. Burlaka will be the Controller. Committee members, P. Callstrom and A. Hall thanked C. Burlaka for his efforts and the progress he has made in his time with the SDWP.

5-03/13/2019- Item 5

Board Membership Update

P. Callstrom, notified the committee that J. Jacobs, has resigned from the committee as she and her HR firm are bidding on an RFP with the SDWP. R. Vaccari will be the committee Chair.

6-03/13/2019- Item 6

Auditing Standard AU-C 240.21

Annually, the external auditors are required to make inquiries of the organization and governance about alleged fraud. The auditors advised that the audit committee will perform this function and advise the WDB and Policy Board as necessary as they are closest to the financial condition of the SDWP.

Adjournment

The meeting was adjourned at 12:22 p.m.

Next meeting

SDWP will establish the next meeting and notify the committee.



Item #2: Audit Committee Charter

ACTION ITEM – VOTE REQUIRED

AUDIT COMMITTEE CHARTER

PURPOSE OF AUDIT COMMITTEE (“Committee”)

To assist the San Diego Workforce Partnership (“SDWP”) governance in fulfilling its oversight responsibilities for the accounting and financial processes, systems of internal controls, the audit processes, and processes for monitoring compliance with laws and regulations.

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, determine compensation, and oversee the work of any registered public accounting firm employed by SDWP to engage as its independent external auditors or any firm working on related areas of responsibility for which the committee has oversight (e.g., single audit etc.).
- Resolve any disagreements between management and the external auditor(s) regarding financial reporting.
- Seek any information it requires from employees, all of whom are required to cooperate with the committee’s requests, or external parties.
- Meet with company officers, external auditors, or outside counsel, as necessary.
- Make recommendations to the Workforce Development Board (WDB) and/or Policy Board on any actions related to audits, internal controls, financial statements, and other matters related to the organization’s fiscal health.

COMPOSITION

The audit committee will consist of five members:

- Three (3) members will be from of the WDB members (appointed by the WDB chair). Each member will be authorized for a maximum of two (2) two-year terms.
- One (1) member will be an executive level finance professional from the City of San Diego.
- One (1) member will be an executive level finance professional from the County of San Diego.



MEETINGS

- The committee will meet a minimum of two times a year, with authority to convene additional meetings at the committee's discretion.
- Quorum of audit committee will be three or more members.
- SDWP management will notify the County and City audit committee members in the event of a material non-compliance, any instance of fraud, or disallowance in excess of \$10,000. Based on this information, the County and City members will review and recommend to the chair if a committee meeting with all members to determine action(s) to be taken.
- Audit committee meeting rules will be governed by the Brown Act.
- Minutes of each meeting of the committee shall be prepared by management and distributed to audit committee members at the following meeting for approval.

RESPONSIBILITIES

The committee shall be charged with the following functions and processes:

Financial Statements and Single Audit

- Approving all audit and non-audit services with the external auditors.
- Review the external auditors' proposed audit scope and approach.
- Review with management and the external auditors the results of the annual single audit and the annual financial statement audit, including any difficulties encountered.
- Prior to the release of the financial statements and single audit, review with management and the external auditors:
 - the reasonableness of the financial reporting process;
 - the methodology, fluctuations, and reasonableness of significant estimates;
 - appropriateness and quality of accounting principles and policies;
 - treatment of significant non-routine transactions;
 - recommendations and any significant issues or deficiencies required to be communicated to the committee under General Accepted Auditing Standards;
 - system of internal controls;
 - results of work performed.
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors.
- Meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.
- Resolve any dispute between management and the external auditors.



Internal Controls

- Review with management and the external auditors' policies and procedures utilized by management to ensure the effectiveness of the company's internal controls, including any significant deficiencies, material weaknesses and significant changes in internal controls.
- Understand the scope of external auditors' or funders' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- Ensure that significant deficiencies and material weaknesses identified have been or are in the process of being remediated, including obtaining an understanding of the remediation being implemented.
- Discuss with the external auditor their opinion and views of the company's fraud risks and controls.

Compliance

- Review the policies and procedures utilized by management to ensure the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.

Reporting Responsibilities

- Report to SDWP governance regarding committee activities, issues, and recommendations.
- Provide open communication between the external auditors and SDWP governance.

Other Responsibilities

- Perform other activities related to this charter as requested by SDWP governance.
- Direct and oversee special investigations as needed.
- Review and assess the adequacy of the committee charter annually
- Share updates with SDWP governance and ensure disclosure as required by law.



Item #3: Co-sourced Internal Audit – Procurement Audit Report

INFORMATION ITEM – NO VOTE REQUIRED



San Diego Workforce Partnership

Procurement Internal Audit Report

October 17, 2019

Distribution List:

Audit Committee Members

Peter Callstrom, President & Chief Executive Officer

Ellen M. Class, Chief Financial Officer

Andy Hall, Chief Operations Officer



Executive Summary

Salesforce (SF) is used by San Diego Workforce Partnership (SDWP) to create and track procurement activity. Our review of SDWP procurement activity during the audit scope period disclosed the following:

- The Delegation of Authority (DOA) document does not define dollar thresholds for approval of Service Agreements (SAs)/Purchase Orders (POs) for some employees.
- Modifications to SAs/POs are treated as standalone transactions for approval authority purposes, and not looked at cumulative to the originally approved SA/PO for approval.
- The Procurement Policy C-8 in combination with the DOA does not clearly explain how the Board of Directors (BOD) approval is documented or where the approval is housed.
- Procurement Policy C-8 not clear on what types of procurement transactions require Certificates of Insurance.



Background

SDWP is the region's Workforce Development Board, designated by the City and County of San Diego and funded by federal, state, county and city contracts, corporate support and philanthropy. SDWP governance is represented by a cross-section of leaders from the public, private and educational sectors. SDWP's mission is to empower job seekers to meet the current and future workforce needs of employers in San Diego County. This is accomplished by investing funds, incubating and implementing innovative ideas and aligning resources across sectors to provide programs for job seekers and employers.

To aid in its mission, SDWP implemented SF to control and document customer contracts, but later decided to use SF to record, route, approve and document purchases. Procurement Policy C-8 was developed to help define procedures and requirements for SDWP team to follow and creates the concept of the Procurement Lead; a SDWP team member responsible for the purchase and documenting a purchase in accordance with Procurement Policy C-8 requirements. Currently, the purchasing process is decentralized, and all employees have the authority to make purchases and as a result are Procurement Leads. All purchases flow through SF.

Scope

Sayva Solutions was engaged to evaluate the adequacy of the procurement process and validate if procurements were in accordance with the Procurement Policy C-8. The audit focused on purchases processed through SF from July 1, 2018 to June 30, 2019. The scope of the engagement included:

- Evaluating the process for updating the Procurement Procedures;
- Purchasing system and process; and
- Testing of purchasing samples for compliance with the Procurement Procedures.

The sample did not include subrecipient contracts.

The audit was conducted by Sayva Solutions from September 19 to October 15, 2019.



Things That are Working Well

In addition to identifying area for improvements, the audit was also able to confirm different aspects of the procurement process that are working well. These include the following:

- SDWP Management has implemented SF to streamline the procurement process;
- SF is responsive, has approval workflow built into it and is an accurate recordkeeper of the procurement process;
- Employees are trained and strive to do the right thing; and
- Compliance is reviewing and approving purchasing transactions and checking vendors against the System for Award Management (SAM).



High/Medium/Low	Description of Observations	Recommendation	Management Action Plan
DOA Documentation			
Medium	The DOA document does not define dollar thresholds for approval of SAs/POs for some employees.	SDWP Management should consider updating the DOA to include dollar limits for approval of SAs/POs for all employees.	Approval limits are not identified for all employees as they can start purchase requests, however they are not authorized to review or approve them for processing. Several non-purchasing related categories in the Delegation of Authority matrix do not contain approval limits, as they are not financial in nature; we will not be updating these to include dollar limits.
Approval of Modifications to SAs and POs			
Medium	Under the current Procurement Policy, modifications to SAs/POs are treated as standalone transactions for approval authority purposes and not looked at cumulative to the originally approved SA/PO for approval.	<p>Management should consider updating the process to approve modifications to SAs/POs to require the approval authority required for the cumulative amount of the transaction and not the standalone modification amount.</p> <p>Management should also evaluate if the</p>	SDWP will take the recommendation under advisement. For service agreement modifications, the Salesforce currently works as designed/intended by the Workforce Partnership.

		cumulative approval can be factored into SF.	
High/Medium/Low	Description of Observations	Recommendation	Management Action Plan
Documentation of Board Approval in SF			
Medium	<p>Procurement Policy C-8 in combination with the DOA does not clearly explain how the BOD approval is documented or where the approval is housed. The general understanding is that SF is the procurement documentation repository.</p> <p>Procurement Policy C-8, states "Verify board approval document for purchases above \$100,000, if applicable. Attach documentation under the "Files" tab of the agreement." Also, the DOA states that all purchases above \$100,000 require BOD approval.</p> <p>Our review of 85 purchases totaling \$4.11 million</p>	<p>SDWP management should consider updating Procurement Policy C-8 and the DOA to better represent the BOD approval process.</p> <p>Management should also clarify in the Procurement Policy C-8 how the BOD approval verification will be documented in SF.</p>	<p>SDWP agrees with this recommendation and will update the C-8 Procurement Policy and DOA to better reflect the Board of Directors approval process and documentation.</p>



	<p>disclosed that none of the seven purchases over \$100,000 and totaling \$1.49 million had BOD approval attached to SF files. Approval of the purchases occurs annually via the BOD approval of the annual budget in the June BOD budget meeting.</p>		
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DOA Documentation			
Medium	<p>The DOA document does not define dollar thresholds for approval of SAs/POs for some employees.</p>	<p>SDWP Management should consider updating the DOA to include dollar limits for approval of SAs/POs for all employees.</p>	<p>Approval limits are not identified for all employees as they can start purchase requests, however they are not authorized to review or approve them for processing. Several non-purchasing related categories in the Delegation of Authority matrix do not contain approval limits, as they are not financial in nature; we will not be updating these to include dollar limits.</p>

Approval of Modifications to SAs and POs			
Medium	Under the current Procurement Policy, modifications to SAs/POs are treated as standalone transactions for approval authority purposes and not looked at cumulative to the originally approved SA/PO for approval.	<p>Management should consider updating the process to approve modifications to SAs/POs to require the approval authority required for the cumulative amount of the transaction and not the standalone modification amount.</p> <p>Management should also evaluate if the cumulative approval can be factored into SF.</p>	SDWP will take the recommendation under advisement. For service agreement modifications, the Salesforce currently works as designed/intended by the Workforce Partnership.
High/Medium/Low	Description of Observations	Recommendation	Management Action Plan
Documentation of Board Approval in SF			
Medium	<p>Procurement Policy C-8 in combination with the DOA does not clearly explain how the BOD approval is documented or where the approval is housed. The general understanding is that SF is the procurement documentation repository.</p> <p>Procurement Policy C-8, states "Verify board</p>	<p>SDWP management should consider updating Procurement Policy C-8 and the DOA to better represent the BOD approval process.</p> <p>Management should also clarify in the Procurement Policy C-8 how the BOD approval verification will be documented in SF.</p>	SDWP agrees with this recommendation and will update the C-8 Procurement Policy and DOA to better reflect the Board of Directors approval process and documentation.



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Item #4: Significant Accounting Policies – Annual Review

INFORMATION ITEM – NO VOTE REQUIRED

A. Cash and Cash Equivalents

SDWP's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

B. Capital Assets

Capital assets (including infrastructure) are reported in the governmental activities of the Government-Wide Financial Statements. SDWP defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Assets acquired through grant resources are considered to be owned by SDWP while such assets are in use under the funded program, or while they are being used for a similar program; however, the various funding sources have a reversionary interest in such assets.

Any disposition of restricted assets or any funds derived there from are subject to grant regulations. No capital assets were acquired through grant resources for the year ended June 30, 2018.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro-rata share of the cost of capital assets. Depreciation is provided using the straight-line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. Capital assets are depreciated over the estimated useful lives of 1 to 15 years

C. Compensated Absences

Compensated absences are comprised of unused vacation leave and certain compensated time off, which are accrued as earned. The liability for compensated absences is determined annually. Vacation balances do not normally require the use of financial resources; therefore, the liability is recorded in the Government-Wide Statement of Net Position. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities.



D. Unearned Revenue

In the Government-Wide Financial Statements, unearned revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues in the Government-Wide Financial Statements are prepaid charges for services.

In the fund financial statements, unearned revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. Typical transactions in which unearned revenue is recorded are grants received but not yet earned. SDWP records unearned revenue for transactions for which revenues have not been earned.

E. Net Position and Fund Balance

Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.

Restricted Net Position - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*

Fund Balance

Non-spendable fund balance includes amounts that are not in a spendable form, such as prepaid items or supplies inventories, or that are legally or contractually required to remain intact, such as principal endowments.

Restricted fund balance includes amounts that are subject to externally enforceable legal restrictions imposed by outside parties (i.e., creditors, grantors, contributors) or that are imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts whose use is constrained by specific limitations that the government imposes upon itself, as determined by a formal action of the highest level of decision-making authority. The Board of Directors serves as SDWP's highest level of decision-making authority and has the authority to establish, modify or rescind a fund balance commitment via minutes action.



Assigned fund balance includes amounts intended to be used by SDWP for specific purposes, subject to change, as established either directly by the Board of Directors or by management officials to whom assignment authority has been delegated by the Board of Directors.

Unassigned fund balance is the residual classification that includes spendable amounts in the General Fund that are available for any purpose.

When expenses are incurred for purposes for which both restricted and unrestricted fund balances are available, SDWP specifies that restricted net position will be applied first. When expenditures are incurred for purposes for which committed, assigned or unassigned fund balances are available, SDWP's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

F. Budgets

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund. Budgeted revenue and expenditures represent the originally adopted budget modified by amendment during the year.

G. Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles, and as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

H. Allowance for Doubtful Accounts

Management believes its accounts receivable to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary.

I. Risk Management

SDWP is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which SDWP carries commercial insurance.

J. Lease Accounting

The Workforce Partnership adopted a Lease Accounting Policy as of August 2019, in compliance with GASB 87 Lease Accounting Requirements. Please see item # 7 below for additional details.



Item #5: Enterprise-Wide Risk Assessment

INFORMATION ITEM – NO VOTE REQUIRED

Peter Callstrom requested an Enterprise-wide Risk Assessment (ERA) for the San Diego Workforce Partnership. Request reviewed and concurred by Rick Vaccari, Chair of the Audit Committee. Ellen M. Class is credentialed and certified to conduct an ERA and has completed for multiple clients/employers. Initial planning began in September 2019.

Item #6: Rogers, Anderson, Malody and Scott LLP Annual Engagement

INFORMATION ITEM – NO VOTE REQUIRED

The San Diego Workforce Partnership is in the second year of a three-year procurement for the annual audit services, tax return preparation and completion of the federally mandated single audit. Rogers, Anderson, Malody & Scott LLP (RAMS) was the successful bidder for the procurement and an engagement letter for 2019 was signed in August 2019. In September RAMS provided the listing of audit requests, with our delivery of documents to be complete by end of October. RAMS will be conducting the on-site portion of the audit from December 2nd through 12th. Preliminary audit results are anticipated to be to SDWP by end of January 2020.



Item #7: GASB 87 Lease Accounting Update

INFORMATION ITEM – NO VOTE REQUIRED

The Governmental Accounting Standards Board issued GASB Statement 87 (GASB 87) Lease Accounting Requirements which updated lease recognition, measurement and disclosures for both lessees and lessors. A detailed review of all possible SDWP leases was complete as of July 1, 2019, including not only traditional leases for buildings and facilities, but also software as a service (SaaS), shared service server support, copiers, embedded asserts and office machines. In total, thirty-three (33) potential leases were identified, of these nine (9) meet the criteria to be considered a lease, there are five in which we are the lessee, three where SDWP is the lessor and one for a piece of equipment.

The impact to the Workforce Partnership financial statements is an increase to Lease Assets of \$17,881,879 for operating leases previously treated as off-balance sheet obligations, an increase to Lease Receivable of \$ 4,847,491 for subleases, previously treated as rental income, offset by changes to Lease Liability of \$17,881,879 and unearned revenue of \$4,847,491. Accrued expenses will now include the accrued interest on lease liabilities in which the Workforce Partnership is the lessee. Subleases, in which SDWP is the lessor, previously recognized as rental income as payments were received, are now recognized as lease receivables with the corresponding deferred revenues.

The Workforce Partnership adopted a Lease Accounting Policy effective August 20, 2019, in compliance with GASB 87. All workbooks, calculations, assessments and the new policy were provided to our external auditor on August 22, 2019. Since the measurement date of July 1, 2019, there has been one additional lease entered in which SDWP is the lessor, for which the signed documents arrived the week of October 7th for analysis and inclusion.