



## **AUDIT COMMITTEE AGENDA**

Date: Thursday, January 23, 2020  
Time: 10 – 11:30 a.m.  
Place: San Diego Workforce Partnership  
9246 Lightwave Ave. #100, San Diego, CA 92123

### **Welcome**

Rick Vaccari – Chair

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

### **Action Items**

- Item #1: Minutes of the October 24, 2019 Audit Committee Meeting
- Item #2: Audit Committee Charter

### **Information Items**

- Item #3: FY2020 Insurance Summary
- Item #4: Fraud Update for Audit Committee
- Item #5: Enterprise-Wide Risk Assessment Status
- Item #6: Confirm Next Meeting

### **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.

**Next Meeting:** March 2020

## **Item #1: Minutes of the October 24, 2019 Audit Committee Meeting**

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### **Members Present**

Rick Vaccari (Chair), Rolando Charvel, Ky Lewis, Shandon Harbour

### **Staff Present**

Peter Callstrom, Ellen Class

**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 Rick Vaccari at 10:04am.

**Non-Agenda Public Comment:** None

### **Action Items**

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

Committee approves the meeting minutes.

*Moved (K. Lewis), Seconded (R. Charvel), Carried unanimously*

*Item 2: Audit Committee Charter*

The committee discussed the initial draft of the committee charter, originally proposed by R. Charvel and T. Sandoval. The draft charter has been updated and modified over the past year, but not voted on for adoption and implementation. Committee members requested that a marked-up version be sent out to all for input.

### **Information Items**

*Item 3: Co-Sourced Internal Audit – Procurement Audit Results*

Ellen M. Class, CFO, presented the results of the procurement audit, covering the period of July 1, 2018 through June 30, 2019, as performed by Sayva Solutions, via a co-sourcing agreement. This was the first audit since the implementation of Salesforce for SDWP's procurement process. E. Class advised of three (3) medium-level findings, all of which involve updating and clarifying the procurement policy. K. Lewis congratulated SDWP on a good audit. The committee asked when the recommendations of the auditor will be implemented and completed. E. Class will add the responsible parties and dates to the management action plan. Next internal audit will be of the Accounts Payable/payment process, to be followed by Expense

reports and payroll audit. These audits cover the major areas of risk and internal controls for SDWP.

SDWP will send out an annual reminder to all vendors on fraud, waste and abuse as well as where, how and to whom this should be reported. E. Class to send out this annual reminder prior to end of December 2019.

*Item 4: Significant Accounting Policies Annual Review*

The committee reviewed the summary of significant accounting policies that accompany SDWP's financial statements and several additional policies including a new lease accounting policy as well as a risk management statement. E. Class noted unearned revenues forthcoming change in treatment for non-profit and governmental organizations, which may impact the SDWP.

*Item 5: Enterprise-Wide Risk Assessment*

P. Callstrom requested an Enterprise-wide Risk Assessment (ERA), which began in September. P. Callstrom emphasized the importance of defining SDWP's operational risk profile and is open to both an internal ERA conducted by E. Class and the involvement of a third-party service. E Class to provide annual insurance summary and cost by category for July 1, 2019 through June 30, 2020.

*Item 6: Rogers, Anderson, Malody & Scott LLP Audit Engagement*

SDWP is in the second year of a three-year procurement with Rogers, Anderson, Malody & Scott LLP (RAMS) for audit services and tax preparation. R. Charvel noted the benefits to the current auditors, and the risks of not having a fresh pair of eyes on the organization. E. Class confirmed that this will be the final year that RAMS performs these services and that in early Spring a procurement will begin for the services beginning in July 2020.

*Item 7: GASB 87 Lease Accounting Update*

E. Class provided a lease accounting update based on the complete analysis of all possible SDWP leases in compliance with GASB 87, Government Accounting Standards. Impact of the change in accounting treatment is an increase for both operating and capital leases, which will now be recorded on the balance sheet.

**Adjournment:** The meeting was adjourned at 11:02 pm.

**Next Meeting:** January 2020

## **Item #2: Audit Committee Charter**

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### **ACTION ITEM – VOTE REQUIRED**

#### **AUDIT COMMITTEE CHARTER**

v.6 – Last Updated: 12.23.19

#### **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 SDWP governance 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 the following:

- At least three (3) members will be from the WDB (appointed by the WDB chair). Members may be a member of the committee for a maximum of three (3) 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 at least 51% of members.
- SDWP management will notify committee members in the event of a material non-compliance, any instance of fraud, or disallowance.
- 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 audit 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: FY2020 Insurance Coverage and Financial Summary**

**INFORMATION ITEM – NO VOTE REQUIRED**

Insurance update for the Workforce Partnership for FY2020 (July 1, 2019 through June 30, 2020).

Overall cost declined year-over-year by (6.9%) or (\$5,830). For all types of insurance, coverage levels either increased or remained the same from prior year, while expense declined in Property and Directors/Officers insurance, partially offset by increase in General Liability insurance. There were no claims in the prior fiscal year against any of our insurance policies.

Coverage	FY19	FY20	Change	Description	Coverage	Industry Standard*
<b>Property</b>	13,744	11,929	(13.2%)	Property protection	\$2.8 million	Based on total asset value
<b>General Liability</b>	7,234	8,459	+16.9%	3 <sup>rd</sup> party property damage or personal injuries caused by SDWP	\$1 million per occurrence	\$1 million per occurrence
<b>Umbrella</b>	4,890	4,923	+ 0.7%	Additional liability coverage	\$5 million	\$4 million
<b>Directors/Officers</b>	38,285	32,562	(14.9%)	Protects Directors & Officers when operating on behalf of SDWP, from personal losses	\$7 million	\$4 million
<b>Cyber Liability</b>	20,830	20,830	0.0%	Protects against financial losses from data breaches and cyber events	\$2 million	\$2 million
<b>Total</b>	<b>84,533</b>	<b>78,703</b>	<b>( 6.9%)</b>			

\*Source: Marsh & McLennan, SDWP's current insurance brokers.

**Item #4: Fraud Events – FY2020 Q2**

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**INFORMATION ITEM – NO VOTE REQUIRED**

The Audit Committee will receive a report at each meeting about any fraudulent events in the last reporting period, defined as the time since the last Audit Committee meeting.

**Date(s) of event:** Two checks were submitted to our bank on 9/8/19 and the third check on 11/12/19

**Summary:** Three (3) fraudulent checks were presented for payment an individual. Two of the three checks presented in the amount of \$873.00 each and the third check amount was \$439.00. Two were at a check-cashing location and one was presented at Union Bank, all in El Cajon, CA. All three checks had been altered, containing a fraudulent payee, check numbers, amounts and signature. All three checks were stopped by Union Bank, via our “positive pay” file security feature which is transmitted with check details for each check run (transmitted to the bank for payroll, general checks and ACH payments). The positive pay file feature compares our issued checks and ACH payments against those presented for daily payment and reports any discrepancies to us. Positive pay prevents altered or fraudulent checks by looking for; duplicate check numbers and/or amounts; altered amount or payees; unauthorized or erroneous ACH entries. Our Union Bank Managing Director confirmed, they reported these fraudulent matters to the police department. They will provide us an update if any further information is available based on their investigation.

**Financial Impact:** None

**Process Improvements:** None recommended at this time. The positive pay file security feature worked as designed to stop payment.



## Item #5: Enterprise-Wide Risk Assessment Status

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### **INFORMATION ITEM – NO VOTE REQUIRED**

San Diego Workforce Partnership (SDWP) has engaged Sayva Solutions (Sayva) to perform an Enterprise Risk Assessment (ERA).

**Objective:** Provide an annual assessment of high-level internal and external factors that pose risks that could prevent SDWP from successfully achieving its five-year strategic goals. This assessment will serve the basis of a follow up risk-response plan.

**Scope:** Sayva will be conducting semi-structured interviews with SDWP executive leadership, management about key risk areas related to people, process, technology, external forces/funding, and other internal factors. Key questions include:

- In your opinion what are some main risks faced by SDWP that has prevented or will prevent you from meeting the current goals and objectives?
- What are the main challenges that could negatively impact your operation or team in achieving your goals and objectives?
- Do you have the right level of tools (in the form of systems, support, training, budget) to meet your goals and objectives?
- Based on your knowledge about other departments, do you see any risks in other areas?
- Have there been any changes to business, systems, key personnel that you think could impact the organization? Are there any changes that you suggest should happen to SDWP to empower the organization to achieve its goals and objectives?

### **Timeline:**

January/February 2020: Conduct interviews.

March 2020: ERA completed and results reported to audit committee, exec team and will be used at a leadership team offsite to develop a risk response plan.

**Item #6: Set Next Audit Committee Meeting**

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SDWP staff will provide options for the March 2020 Audit Committee meeting, which will include the results of the Single Audit from Rogers, Anderson, Malody & Scott LLP.