



## **AUDIT COMMITTEE AGENDA**

Date: September 17, 2020  
Time: 11 – 12:30 p.m.  
Place: <https://us02web.zoom.us/j/83539598224>  
**Passcode: 864371**

### **Welcome**

Rick Vaccari – Chair

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

### **Action Items**

- Item #1: Minutes of the January 23, 2020 Audit Committee Meeting
- Item #2: Minutes of the March 18, 2020 Audit Committee Meeting

### **Information Items**

- Item #3: Internal Audit – Accounts Payable
- Item #4 Enterprise-Wide Risk Assessment
- Item #5: Income Share Agreement Update
- Item #6: Set Next Audit Committee 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:** January 2021

## Item #1: Minutes of the January 23, 2020 Audit Committee Meeting

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### Members Present

Rick Vaccari (Chair), Rolando Charvel, Tracy Sandoval

### Staff Present

Chris Burlaka, Andy Hall

**Location:** 9246 Lightwave Avenue, Suite 100, 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 10:07am.

**Non-Agenda Public Comment:** None

### **Action Items**

*Item 1: Minutes of the October 23, 2019 Audit Committee Meeting*

Committee approves the meeting minutes.

*Moved (T. Sandoval), Seconded (R. Charvel), Carried unanimously.*

*Item 2: Audit Committee Charter*

The committee was presented with the final draft of the Audit Committee Charter, developed at the request of R. Charvel and T. Sandoval. R. Charvel and T. Sandoval have reviewed the charter and provided feedback between the October 2019 and January 2020 Audit Committee meetings. R. Vaccari noted that the committee can continue to update the Charter as needed.

Committee approved the Audit Committee Charter.

*Moved (T. Sandoval), Seconded (R. Charvel), Carried unanimously.*

### **Information Items**

*Item 3: FY2020 Insurance Summary*

C. Burlaka, Controller, provided an insurance update in which coverage levels increased or remained the same from FY2019 to FY2020. In addition, the analysis provided a snapshot of current

coverages compared to industry standards. C. Burlaka confirmed all coverages met or exceeded industry standards. C. Burlaka confirmed no claims were filed in FY2019 or FY2020 against SDWP's insurance policies. T. Sandoval requested C. Burlaka confirm the audit committee members are covered under the D&O policy. A. Hall, Chief Impact Officer, highlighted cyber security as a significant area of exposure for the organization, also an area of consideration for the enterprise-wide risk assessment. SDWP will continue to monitor the all risks to ensure SDWP has sufficient insurance coverages.

*Item 4: Fraud Update for Audit Committee*

C. Burlaka provided an update regarding the three fraudulent SDWP checks that were submitted in September and November of 2019 for payment to one individual. The checks had been altered, including a fraudulent payee, check numbers, amounts and signatures. C. Burlaka confirmed, the payee was not a SDWP current or former employee or a contractor. The positive pay security feature stopped payment, and Union Bank reported the matter to the police department.

*Item 5: Enterprise-Wide Risk Assessment Status*

The Enterprise-wide Risk Assessment (ERA) will be completed by the Audit Committee's next meeting, wherein the results will be presented. R. Vaccari emphasized the importance of defining the Income Share Agreement operational risk profile as it is a new program. A. Hall responded in the affirmative, addressing the development of an independent entity to manage the ISA fund and collections. The independent entity will be included in the ERA report as a mitigation strategy. The committee also discuss having a standing item related to the ISA project to keep the audit committee informed on developments.

*Item 6: Confirm Next Meeting*

The committee agreed upon March 18<sup>th</sup> 10—11:30am for the next Audit Committee meeting.

**Adjournment:** The meeting was adjourned at 10:40 am.

**Next Meeting:** March 18, 2020

**Item #2: Minutes of the March 18, 2020 Audit Committee Meeting**

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**ACTION ITEM – VOTE REQUIRED**

**Members Present**

Rick Vaccari (Chair), Shandon Harbour

**Staff Present**

Chris Burlaka, Andy Hall

**Location:** Via conference call

Per [Executive Order N-25-20](#), the requirement to which members of the public shall have the right to observe & offer public comment at the public meeting, consistent with the Brown Act, has been suspended.

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 10:05 am without a quorum.

**Non-Agenda Public Comment:** None

**Action Items**

*Item 1: Minutes of the January 23, 2020 Audit Committee Meeting*

The minutes were reviewed but not approved due to lack of quorum.

*Item 2: FY 2018-19 Financial Statements & Audit Report*

The committee was reviewed the 2018-19 Financial Statements & Audit Report. Brad Welebir from Rogers, Anderson, Malody & Scott, LLP, Certified Public Accountants (RAMS), the independent auditors who completed the report, was on the line to review the report and answer questions.

B. Welebir explained the results of the unmodified opinion of the financial statements. An unmodified or "clean" opinion is the best type of report a business can get. An unmodified opinion provides a high level of assurance that a professional, independent examination of financial statements has not revealed any actual or possible material misstatements in those financial statements. Additionally, there were instances of non-compliance in audit per governmental standards.

R. Vaccari asked about underspending WIA/WIOA funds. A. Hall clarified those federal grants have a two-year life and are carried into the following fiscal year to be spent.

R. Vaccari expressed his confidence in the outcome of the statements, and A. Hall thanked C. Burlaka for his hard work.

**Adjournment:** The meeting was adjourned at 10:33 am.

**Next Meeting:** TBD

**Item #3: Internal Audit – Accounts Payable**

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**INFORMATION ITEM – NO VOTE REQUIRED**

San Diego Workforce Partnership (SDWP) has engaged Sayva Solutions (Sayva) to perform an internal audit of the accounts payable process.

**Objective:** To evaluate and validate that there are adequate internal controls around the accounts payable process to prevent inaccurate or inappropriate payments being processed.

**Scope:** The scope of the internal audit will include the following areas:

- Vendor set-up and maintenance
- System access
- Controls relating to appropriate processing of accounts payable transactions
- Controls around use of ghost cards
- Evaluate adequacy of fraud controls

Transactions in the time period of 1/1/2019 through 9/30/2019 is in scope for the engagement.

**Status:**

- Field work completed in February 2020
- Observations from the audit have been discussed with management
- Sayva to present report and management actions plan for recommendations

**Item #4: Enterprise-Wide Risk Assessment**

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**INFORMATION ITEM – NO VOTE REQUIRED**

An Enterprise Risk Assessment (ERA) was performed during February 2020 by interviewing 10 SDWP staff, including the Chief Executive Officer, the former Chief Operating Officer, the Vice President of Operations, the Strategy Officer, as well as the ranking Finance officer, as well as other SDWP leadership members.

April House (Chief Operating Officer) and Andy Hall (Chief Impact Officer) will present the results and discuss next steps.

## Item #5: Income Share Agreement Update

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

Andy Hall, Chief Impact Officer, will provide an update on income share agreement program performance to date, the impact of COVID-19 on our financial projections, and updates related to Workforce Ventures, the independent entity established to originate ISAs going forward.

**Figure 1: Workforce Partnership ISA Program Delivery (August 25 2020)**

Applied	ISAs signed*	Graduated	Placed	Over \$40K
460	153	27	22	10

\*ISA contracts for coursework in business intelligence (51), digital marketing (39), front end web development (44), and java programming (19) at UCSD Extension.

**Figure 2: Financial Summary (As of August 1, 2020)**

Philanthropic	Repayments	Total Revenue	Total Expenses	Balance	Cost Per ISA
\$3.298M	\$1,173	\$3.299M	\$850,725	\$2,448M	\$5,560*

\*not including start up, fundraising, legal, and set up costs.

- **The Workforce ISA Fund has underperformed this quarter compared to expectations.**

The Workforce Partnership's goal was for 60% of graduates to be placed 3 months after graduation and 90% of these 27 to be placed in jobs making over \$40K within 6 months of graduation. The current rate four months after graduation is 37%.

- **Covid-19 and the related economic contraction has played a large role in underperformance, as it has with all of our programs with job placement goals.**

Unemployment is at 13.9%, up from 3.2% in February 2020. Job postings decreased by 33% in Q2 of this year compared to the first three months of the year and by 21% when compared to Q2 of 2019. While technology jobs have been perceived as safer than others during the lockdown, the industry suffered a greater slowdown in job postings than the average. Our Digital Marketing graduates entered a job market where postings for marketing related positions were on average 50% lower than they were in Q1 of this year. While the decline was less for our Business Intelligence graduates, they still saw 35% less postings in this quarter. 32% of job applications submitted by program participants were unsuccessful because job postings were taken down due to company hiring freezes. A further 26% of these job applications were never responded to by the business.

Job postings have once again dropped in July as a result of the second lockdown and while tech careers remain more stable due to their remote capability, the market remains sluggish.

- **The ISA financial tool is working as designed in an unprecedented time.**

The philanthropic fund, not the students, is bearing the immediate risk and downside created by the covid-19 pandemic. With a \$2.448M balance, the fund has the cash on hand to survive this 'black swan' event that has triggered a global economic crisis and local slow down in the job market.

- **We remain confident in the long-term performance of the fund.**

Four months after the first 27 graduates have hit the job market during an unpredictable time, we remain confident in our program design. We will stay close to all graduates for several years, helping them land, retain, and grow into high paying jobs that lead financial results for them (higher earnings) and the fund (higher repayments) over the 3-5 year repayment window. We have updated short and medium term cashflow projection based on placement and repayment rates to date, plus revised economic outlooks for the local job market

**Figure 3: Break Even Analysis**

Scenario	Front End Web Dev.	Business Intelligence	Digital Marketing	Java	Total
Original Projections	~1.01x*	~0.95x	~0.87x	~1.28x	~1.02x*
Covid-19 Projections	~0.81x	~0.76x	~0.68x	~1.12x	~0.84x

\*1x is breakeven

Our original model suggested the ISA fund would be self-sustaining around 2024. While the updated model with placement and Covid-19 data now suggests otherwise, increased enrollment in future cohorts, improvement in graduation rates, and overall improved economic conditions could put us back on track.

### **Workforce Ventures**

In December 2019, the [Policy Board approved](#) the use of a separate entity to support financial management aspects of the ISA program. Workforce Ventures was launched in March 2020 to serve this purpose. Startup of the Workforce Ventures entity was funded by a generous gift from The James Irvine Foundation. Both Rockefeller and Lumina, organizations currently funding research and incubation of new ISA models through grants to the Workforce Partnership, have also expressed their excitement and support for the creation of the Workforce Ventures entity.

Workforce Ventures is a missionally-aligned but legally separate 501(c)(3) entity. As such, Workforce Ventures has a separate governance structure from the Workforce Partnership. Key staff and board include the following:

- CEO: Brooke Valle (Current Workforce Partnership Strategy and Innovation Officer)

- Chair: Ky Lewis (Retired Sharp Health Care Executive and Corporate/Finance Lawyer, former WDB member)

Additional Board Members:

- Kristin Carroll (San Diego Tech Leader / CEO of Rescue Agency, current WDB member)
- Kurling Robinson (Tech Entrepreneur and CEO of Fokcus)
- Dr. Hei-ock Kim (Founder and Executive Director of Kim Center for Social Balance)
- Erica Bouris (Senior Technical Advisor, Economic Empowerment at International Rescue Committee)

Workforce Ventures was created to provide maximum protection and flexibility to the Workforce Partnership as we continue to explore new and innovative ways to finance the education and supportive services necessary to serve our community. The ability to leverage a separate entity enables the Workforce Partnership to focus on its core programmatic functions while still taking advantage of opportunities as they arise.

Beginning in 2021, Workforce Ventures will be:

- Receiving repayments from successful ISA students on Workforce Partnership's behalf and deploying funds to future students – this reduces the direct/indirect costs associated with ISAs enabling more money to be deployed to the community. Through a service agreement, the Workforce Partnership will transfer the cash inflows to Workforce Ventures for financial management purposes
- Originating ISAs (**figure 4**) on Workforce Partnership's behalf and managing the servicing partner – this reduces risk to the Workforce Partnership entity and assets in the event of legal proceeding or need to pursue student for nonpayment; this also allows Workforce Partnership staff to focus time on high quality program delivery vs. financial processes
- Pursuing Community Development Financial Institution status (CDFI) in order to enable Workforce Partnership to tap into CRA designated funds to support our work with businesses.
- Raising additional grant funds from philanthropies interested in organizations dedicated to innovative financing mechanism through outreach and reputation for eminence building activities (e.g. writing, technical assistance fee for service, speaking engagements)
- Supporting other workforce boards seeking to launch ISA funds in order to generate revenue streams that can flow back to support the Workforce Partnership. Leverage of the Workforce Ventures entity has been fully supported and encouraged by our funders as a mechanism to expand impact and lower transaction costs. Work is being done in partnership with Jobs for the Future (JFF) and the Jain Family Institute (JFI).
- Able to accept return seeking capital and braid it with federal and philanthropic streams to produce diverse capital stacks in support of Workforce Partnership ISA programs, while protecting the existing entity, resources, and board.

Figure 4: Sample ISA Contract Originated by SD Workforce



**INCOME SHARE AGREEMENT (ISA)**

<b>PARTICIPANT:</b> Java Programming 123 Never Rains Drive Sunny, California 12345	<b>ORIGINATOR:</b> San Diego Workforce Partnership, Inc. 9246 Lightwave Ave., Suite 210 San Diego, CA 92123	<b>*** THIS IS NOT A LOAN OR CREDIT ***</b>
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**PARTICIPATION DISCLOSURE**

ISA Amount	Income Share	Maximum Number of Payments	Payment Cap
\$6,500.00	6.00%	36 payments	\$11,700.00
The cost of the educational services you will receive through this ISA	The percent of your gross monthly earned income that you will pay	The maximum number of monthly payments you may have to make	The maximum amount you could pay regardless of your income

**ITEMIZED TOTAL ISA AMOUNT**

Amount paid to you	\$0.00
Amount credited to others on your behalf • University of California—San Diego Extension	+ \$6,500.00
<b>ISA Amount</b>	<b>= \$6,500.00</b>

**ABOUT YOUR CONTRACT TERMS**

- **Your Income Share is a fixed percentage of your future earned income you will owe in return for the ISA Amount** credited to your account. It is not an interest rate or annual percentage rate.
- **Your payments will vary based on your earned income.** As a result, the total amount you will pay may be **more or less than** your ISA Amount, but will never exceed your Payment Cap.
- **Your minimum income threshold is \$3,333.33/month** (equivalent to \$40,000/year). You will not make monthly payments in months during which your earned income is less than this amount.

**FULFILLING YOUR OBLIGATION:** Your payment obligation under your ISA ends upon the *earliest* to occur of the following—(a) you make the Maximum Number of Payments; (b) the total of your payments (not including fees) reaches the Payment Cap; or (c) more than 60 months elapse after your Grace Period ends.

**FEES:** **Late Fee**—The lesser of \$5 and 5% of the payment amount due. **Returned Payment Fee**—\$25.

**Payment Illustration**

An ISA is different from a loan (which has principal and interest payments) or a conventional tuition payment plan (which requires payment in full and may include interest charges). An ISA requires you to make a payment calculated based upon your earned income each month for a fixed period of time. The table below compares illustrative monthly and total ISA payments for different levels of earned income.

Annual Earned Income	\$6,500.00 ISA 6.00% income share, Up to 36 monthly payments		
	Monthly Payment	Number of Payments	Total Payment
<\$40,000	\$0	0	\$0
\$40,000	\$200	36	\$7,200
\$60,000	\$300	36	\$10,800
\$80,000	\$400	30	\$11,700
\$100,000	\$500	24	\$11,700

- This illustration assumes that you make up to 36 monthly payments tied to gross earned income and that your income is constant.
- When you return to school or when your monthly earned income is less than \$3,333.33 (equivalent to \$40,000/year), your account will be placed in a deferment status, and you will not make payments for every month your income is below this threshold.
- If your cumulative payments reach the Payment Cap, then you will make no further payments, and your account will be closed in good standing.
- Since your earnings may change over time, your actual payments may also vary over time, so this illustration may not apply to your specific circumstances.
- All payments have been rounded to the nearest dollar.

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

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Audit Committee to set date for the October 2020 meeting.