

MINUTES

Detroit Employment Solutions Corporation (DESC) Board
Audit & Finance Committee Meeting
Thursday, December 17, 2015

Time: 1:00 p.m. – 2:30 p.m.
Location: 440 East Congress St., 3R Conference Room Detroit, Michigan 48226
Facilitator: David Carroll, Chairman

Members Present: David Carroll, Laura Hughes, Ric Preuss, Alice Thompson, Kevin Howley, Paul Huxley, Paul Trulik
DESC Staff Present: Pamela J. Moore, Alessia Baker-Giles, Kristin Bailey, Chauncey Samuel and Cristal Perry
Others Present: Thomas Diehl, CPA; Richard Briggs

Welcome and Introductions

The Meeting of the Detroit Employment Solutions Corporation Board's Audit and Finance Committee was called to order at 1:08 p.m. by Mr. David Carroll, Chair. A motion was made by Director Alice Thompson to approve the Draft Agenda for December 17, 2015, supported by Director Laura Hughes. Motion Carried Unanimously.

DESC Finance Updates

Chair Carroll recommended that the committee review the Detroit Employment Solutions Corporation (DESC) Board's By-laws in order to determine what the committee is specifically responsible for and the information needed from DESC staff. He recommended including a review of internal controls on the agenda for the next meeting. Committee member Paul Trulik requested a review of the organization in order to have a better understanding about DESC. He also asked about how DESC measures its own success. Pamela Moore, President/CEO DESC, provided a brief history about the agency and explained that all federal dollars that DESC receives come with metrics. She stated that DESC has either met or exceeded all federal performance metrics for the past three years. The number of people that come into a program and exit successfully are the metrics that are tracked with Workforce Innovation and Opportunity Act (WIOA) dollars. DESC also tracks placement numbers, hourly wage, and reports the numbers to the Mayor of the City of Detroit.

Director Laura Hughes asked Ms. Moore to share some points regarding DESC's restructuring. Ms. Moore explained that unlike past years, DESC did not have any carry-in dollars starting July 1, 2015 and a couple of grants were not awarded to DESC that had been counted on. DESC did receive a demonstration grant from the Department of Labor which plugged a portion of the budget shortfall. DESC laid off a certain number of FTEs and also decreased certain professional services. The One-Stop service provider was asked to look at its budget and it found \$182,000, which it returned to DESC. She also explained that some of the WIOA training dollars were moved to staff salaries and that the deficit was in WIOA and not in any other funding sources. Ms. Moore also stated that if possible, the \$260K in savings from DB Grant should be reinvested into training for customers. In addition, she reported that there has been conversation around DESC receiving community development block grant money to replace some of the training dollars. Ms. Moore also noted that looking forward, if the federal dollars continue to decrease, DESC has to do things differently.

Chair Carroll asked Alessia Baker-Giles, Director of Finance, DESC, to walk the committee through the DESC Finance Updates section of the agenda. Ms. Baker-Giles discussed the actual audited financial statements through June 30, 2015 prepared by Abraham & Gaffney. She explained that they are still in draft form. She will distribute the financial statements to the committee once the final package is received. Ms. Baker-Giles reported that there were two issues during the audit. One finding relates to fiscal monitoring, and the other issue relates to bank reconciliations and journal entries. As a result of the latter finding, DESC needs to consider hiring a senior level accountant in order to maintain proper separation of duties at the agency and to ensure adequate oversight. Committee member Paul Huxley asked if DESC could contract for that additional resource as opposed to hiring an individual. Ms. Baker-Giles responded in the affirmative, but noted that one of the issues is cost and whether it is more cost efficient to hire someone

verses procuring a contractor. Mr. Trulik asked if the auditors considered these findings as material weaknesses. Ms. Baker-Giles answered in the negative, explaining that the fiscal monitoring issue was immaterial and the other was a significant deficiency.

Tom Diehl, CPA, a DESC professional services contractor, stated that all of the grants received by DESC are cost reimbursement grants with no element of profit allowed.

Ms. Moore asked the committee about the financial documentation that they would like to review going forward. Committee member Kevin Howley noted that it would be helpful to have an unrestricted net asset position reconciliation at the end of every month. Mr. Huxley recommended having a conversation regarding unrestricted funds and asset position and how it could be changed, what it should be or what the target should be. Ms. Moore asked if it would be in the best interests for an organization like DESC to have private dollars for that purpose. Mr. Howley responded that, in theory, best practices call for about two million dollars so the agency does not have cash flow challenges like it does at the moment. Mr. Trulik stated that he prefers projections laid out for twelve (12) months to see where potential problems could be, and noted that such projections would provide this committee with some time to recommend certain actions. He also stated that he did not know if the cash cycle is relatively smooth. Ms. Moore responded that the dollars do not all come in at the same time, and instead arrive at different periods. Ms. Baker-Giles stated that the bulk of the youth money is spent during summer. Chair Carroll asked for a document that reports current cash, expected cash, expected expenditures and where the cash flow will be at the end of the month. Mr. Trulik recommended receiving that information on a monthly basis. Ms. Moore asked if Mr. Trulik would like to see it projected all the way out to June and then next month see the cash position. Mr. Trulik responded that it could be done on a quarterly basis.

Director Thompson stated that one of the roles that board/committee members play besides offering their talents is to give support to staff in terms of what connections or resources members may have or utilize their networks to find funding. Ms. Moore stated that she believes direction on this recommendation should ideally come from the Board before the committee takes action. Mr. Trulik noted that this recommendation is part of a strategy to get operating reserves. Mr. Huxley stated that he is always interested in metrics because if he has to advocate for something, he needs to be able to provide documentable and quantifiable information.

Chair Carroll asked about the best tools for the committee to receive periodically in order to effectively monitor the agency. He noted that the cash forecast is pretty straightforward and would like the committee to review that information. Ms. Baker-Giles provided the committee members with a document from the State of Michigan's website which lists all of DESC's programs that are funded by the state and explained that it lists the project end dates, the award amount, the amount drawn and the balance for each program and asked if it would be helpful for the committee to see this on a monthly basis. Director Thompson recommended that staff create a matrix that shows what the committee is responsible for reviewing and how frequently the committee should review those items. Ms. Baker-Giles reported that the State of Michigan visits the agency every year in January and does a Cycle 1 monitoring. She explained that is when the state monitors DESC, noting that the areas it looks at are allowable cost, cost allocation, cost classification, the single audit, single audit resolution, debt collection, budgeting system, internal controls and finance reporting. Ms. Moore recommended sharing all of the cycle audits and for Mr. Diehl to share the monitoring guidelines that DESC is working under. Ms. Baker-Giles reported that in addition to the three cycles (which are mandatory on a yearly basis) and the annual audit, there is going to be a federal audit in January by the Office of the Inspector General. Ms. Baker-Giles confirmed that the committee wanted to see a twelve-month projection and that she is going to create a report to show the cash flow. She noted that she will send that report to Chair Carroll for review. Chair Carroll asked Ms. Baker-Giles to send that information to all committee members.

Ms. Baker-Giles stated that she discussed the recent audit at the beginning of the meeting and a final version would be sent to all committee members. She also inquired if the committee would like Abraham & Gaffney to attend the January meeting and present on the findings. The committee responded in the affirmative.

Ms. Baker-Giles reported that she and Director Hughes met with Alice Antonelli from the Nonprofit Finance Fund.

Ms. Antonelli provided some options of services they could offer to DESC, including the development of a strategic plan and also assist with five-year forecasting for fundraising ideas. Ms. Baker-Giles noted that Nonprofit Finance Fund does not do fundraising but they do offer lines of credit. The Nonprofit Finance Fund would need to meet with DESC and have approximately a two to three-hour discussion to see if they are the best fit for the agency. Ms. Baker-Giles noted that the best time for that visit would likely be February.

Public Comment

Chair Carroll asked if there were any members of the public that would like to make a comment.

Richard Briggs explained that he is interested in a certain training program and certification but was notified that funds were not available. Ms. Moore thanked Mr. Briggs for attending the meeting. She provided further information regarding program funding and the training budget. Ms. Moore also provided information regarding certain upcoming job opportunities. Director Ric Preuss also provided information regarding training and opportunities. Director Thompson thanked Mr. Briggs for attending the meeting and noted that she would like Ms. Moore to update the committee on DESC's follow-up with him.

Adjournment

With no further business to come before the Audit and Finance committee, a motion to adjourn the December 17, 2015 meeting was made by Director Thompson, supported by Director Hughes. Motion Carried Unanimously. The meeting was adjourned at 2:33 p.m.

Prepared by: Cristal Perry