

MINUTES

Detroit Employment Solutions Corporation (DESC) Board
Audit & Finance Committee Meeting
Monday, January 25, 2016

Time: 8:30 a.m. – 10:00 a.m.
Location: 440 East Congress St., 3R Conference Room Detroit, Michigan 48226
Facilitator: David Carroll, Chairman

Members Present: David Carroll, Laura Hughes, Kevin Howley, Ric Preuss, Alice Thompson and Paul Trulik
Members Absent: Paul Huxley
DESC Staff Present: Pamela J. Moore, Jose Reyes, Alessia Baker-Giles, Lynnette Robinson, Cassandra Ricks, Kristin Bailey, Chauncey Samuel, and Cristal Perry
Guest Present: Alan Panter, CPA, Abraham and Gaffney

Welcome and Introductions

The Meeting of the Detroit Employment Solutions Corporation (DESC) Board's Audit and Finance Committee was called to order at 8:40 a.m. by Mr. David Carroll, Chair. A motion was made by Director Alice Thompson to approve the Draft Agenda for January 25, 2016, supported by Director Laura Hughes. Motion Carried Unanimously. A motion was made by Director Thompson to approve the minutes of December 17, 2015, supported by Director Hughes. Motion Carried Unanimously.

Presentation: DESC Audit Report

Mr. Alan Panter, CPA, Abraham and Gaffney, discussed DESC's 2015 annual audit, which was completed by Abraham and Gaffney. Mr. Panter explained that the purpose of an audit is to give an unmodified opinion of the organization's financial statements and not to detect fraud or give assurance on internal controls. Mr. Panter explained the context of the audit as well as the two findings. Chair Carroll inquired about the meaning of a negative unrestricted net asset and if it meant that there was a restriction. Mr. Panter explained that DESC is a grant-funded organization and that DESC technically does not have any of its own resources. Ms. Alessia Baker-Giles, Director of Finance, DESC, stated that the negative unrestricted asset balance is related to fiscal year-end payroll taxes. Payroll came in at \$64,000, which took DESC over at June 30th and DESC only had \$60,000 (payroll was done on July 2nd). Chair Carroll asked if assets were being taken from something else and Mr. Panter responded that the organization runs on a cash basis but the financial statements are presented on a credited accrual basis. Consequently, timing differences occur with payroll coming on July 2nd and other financial statements becoming available on the 30th.

Member Kevin Howley stated that considering what DESC has in fixed assets, there should be at least \$1 million in the unrestricted net asset position in order to be a solid organization. Director Thompson stated that part of the committee members' responsibility is to point out issues and offer solutions to solve the problems, and that hopefully the comments or concerns will help provide some good problem-solving recommendations for DESC staff. Ms. Baker-Giles explained that there are two areas, WIOA Administration and WIOA Youth, that are above benchmark. She explained that she needs to review those grants to see if there are any staff being charged to those grants that could be moved elsewhere; is there anything else that is budgeted that could possibly be held off until July; and are there any sub-contractors that are not going to spend all of their money so that DESC can de-obligate some of the money in their contract(s). Director Hughes asked what else could be done if DESC is not able to make use of either of those two options. Ms. Baker-Giles responded that with WIOA Administration, some staff would be moved to the PATH grant and re-assign their duties, but with the WIOA Youth, it is going to be more difficult because there is only one staff person left on WIOA Youth so a contract may need to be de-obligated. She also noted that DESC's contracts state that DESC has the right to de-obligate funds at any time.

Mr. Panter explained that there were two findings with the single audit. The first finding was bank reconciliations and journal entry review. While Ms. Baker-Giles was out of the office on leave, some of the key internal controls she is responsible for did not get picked up by another staff member, so the bank reconciliations were left undone until she returned to work along with some journal entries that were not reviewed. He also stated that the organization has to

make sure that key controls are handled when someone is unavailable for a period of time.

Director Hughes asked Ms. Pamela Moore, President/CEO, DESC, if an alternative process had been developed. Ms. Moore responded that there has been discussion about that and it is a capacity issue. Ms. Moore noted that she was not aware that there were some things not being done in this particular area while Ms. Baker-Giles was out of the office. Director Hughes questioned if her not being aware is addressed in the internal policy currently in development. Ms. Moore responded that the policy has not changed but it was discussed that she has to be informed that things are not getting done. Director Thompson recommended that a monthly checklist be developed, listing things that must be done which will help Ms. Moore in her management role.

Mr. Panter went on to explain the second finding was programmatic monitoring reviewer signature. The program monitoring reports are being prepared regularly but are not being signed by the person that prepared the report.

Member Howley made a motion that the committee recommend that the DESC Board approves the audit as presented, supported by Director Hughes. Motion Carried Unanimously.

Member Paul Trulik asked Ms. Baker-Giles if the Form 990 will be submitted on time. Mr. Panter responded that the committee should be seeing it soon and he will be reviewing it later that day. Mr. Trulik stated that the Audit and Finance Committee should review the 990. The committee agreed that once received, the 990 is going to be emailed to the Audit and Finance Committee for review and a teleconference would be scheduled to review/approve it.

Finance Report Update

Ms. Baker-Giles began by stating that two documents were emailed to the committee, the first being the balance sheet through December 31, 2015, and the second was a monthly grant analysis report that DESC could issue every month to this committee. She also distributed a draft document of different reports and when they would be available and distributed to the committee (as requested by Director Thompson). Ms. Baker-Giles explained that she listed all of the audits and cycle reviews by the State of Michigan, noting that she tried to estimate when it would be complete and we would have an actual report. She stated that the committee would receive the audit in January/February for review and discussion every year. She also explained that Cycle I is a State of Michigan monitoring visit where they look at allotted cost, cost allocations, cost classification, internal controls and financial reporting and that report should be ready for the committee in March. Ms. Baker-Giles stated that with the Cycle II audit, the state looks at the service provider for the same topics and they usually start that one in May. Consequently, the committee would likely receive this report in August. Cycle III is a DESC audit that covers cash management, complaints and grievances, equipment procurement and service provider worksite monitoring which is usually started in October and usually completed in December. Chair Carroll questioned if the committee would receive these reports monthly and then having a meeting shortly after receiving them. Ms. Moore responded that they will be emailed ahead of time. Director Hughes stated that the Audit and Finance Committee will then formally have a report to share with the DESC Board. Chair Carroll asked if there was another cash forecast that encompasses every expense and every penny received in order to know if a potential problem might come up on a certain day. Ms. Baker-Giles responded that a cash analysis is performed weekly by grant and DESC sees the expenses that have been booked. DESC is able to see how much cash is available and payroll is projected as well as any invoices that the agency knows will be in the next cycle of checks, and then DESC does a draw from the state. Discussion ensued among the group regarding funding allocations for staff. Member Trulik also asked about restrictions on private funds like JP Morgan and DTE. Ms. Moore responded that they are very specific and restricted. She went on to explain that JP Morgan is only for training and DTE is only for youth working in recreation centers so that does not provide DESC with a lot of flexibility.

Chair Carroll asked the committee if there was anything else that it would like to see from DESC's finance department on a regular basis and if they felt that getting this type of information on a monthly basis would allow them to fulfill their monitoring duties. Member Trulik pointed out that in theory if there were unrestricted grants, the committee would not know in advance if a decision was made to lay off somebody and a grant was over extended. Ms. Moore stated that the committee would definitely be put on notice in advance.

Ms. Baker-Giles explained the State of Michigan's three-cycle monitoring process. She explained that the state emails a request for documents ahead of time and staff pulls as much of it as possible before the state arrives; however, the review of one item may trigger the need to view other documents. Director Thompson asked if DESC had the capacity to monitor sub-contractors as the state monitors DESC. Ms. Moore responded in the affirmative, stating that there are some things that would not be seen but Tom Diehl, CPA, has worked with DESC closely for many years and has designed a lot of the internal monitoring policies and worksheets. Director Thompson recommended that staff inform the Audit and Finance Committee about any known problems before the audit comes out.

Ms. Moore shared that the Office of the Inspector General is coming out to do an audit.

Member Howley asked for an update on banking relationship and potential lines of credit.

Ms. Baker-Giles reported that she had a phone conversation with the Nonprofit Finance Fund and proposed a date in February for them to come out to sift through all of DESC's records to see if this is a good fit. They offer other items that may be beneficial to DESC besides a line of credit.

Chair Carroll inquired if there had been any discussion or momentum at the workforce board meetings regarding fundraising. Ms. Moore responded not for DESC in general but there was conversation about the summer youth program and fundraising for Grow Detroit's Young Talent. Ms. Baker-Giles stated that DESC needs to staff up for the Grow Detroit's Young Talent (GDYT) Program and with DESC being federally-funded, DESC cannot pull a staff person off of a federally-funded grant to work on GDYT. Overhead needs to come in sooner rather than later.

Public Comment

Director Thompson asked for some follow-up on a member of the public who was present at the previous meeting. Ms. Moore stated that she called him twice and he has not returned the calls. Director Ric Preuss noted that the constituent could have reached out or applied for one of the programs, and offered to contact him to see if he needs any additional direction. In addition, Director Thompson requested that Ms. Moore send a letter to the public constituent.

Chair Carroll asked if there were any members of the public that wish to comment. No public comment was presented before the committee.

A motion to adjourn the January 25, 2016 meeting was made by Director Thompson, supported by Director Hughes.
Motion Carried Unanimously.

Adjournment

With no further business to come before the Audit and Finance committee, the meeting was adjourned at 9:54 a.m.

Prepared by: Cristal Perry