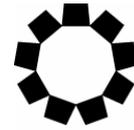


# ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area



ABAG

## AGENDA

### **FINANCE AND PERSONNEL COMMITTEE**

Thursday, March 19, 2015, 5:00 PM

Location:

Joseph P. Bort MetroCenter  
Association of Bay Area Governments  
101 8<sup>th</sup> Street, Conference Room B  
Oakland, California

*The ABAG Finance and Personnel Committee may take action on any item on this agenda.*

*Agenda and attachments available at [abag.ca.gov](http://abag.ca.gov)*

*For information, contact Susan Hsieh, Assistant Finance Director, at (510) 464-7960.*

#### **1. CALL TO ORDER**

#### **2. PUBLIC COMMENT**

Information.

#### **3. APPROVAL OF MINUTES OF JANUARY 15, 2015.**

ACTION.

*Minutes of January 15, 2015 meeting attached.*

#### **4. PRESENTATION AND REVIEW OF FINANCIAL REPORT FOR JANUARY 2015.**

Information/ACTION.

*Financial Report for January 2015 is attached.*

**ABAG Finance and Personnel Committee**

March 19, 2015

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**5. REQUEST FROM SAN FRANCISCO BAY RESTORATION AUTHORITY**

ACTION: SFBRA requests ABAG's assistance in raising funds needed to place a regional revenue measure on the ballot in 2016.

*Report will be sent under separate cover.*

**6. REPORT ON SCO AUDIT AND MTC'S AUDIT REQUEST**

Information.

*Staff report is attached.*

**7. CLOSED SESSION**

**A. Conference With Legal Counsel—Anticipated Litigation**  
**The City and County of San Francisco demand letter for return of**  
**proceeds of a bond issued in connection with Rincon Hill CFD.**

**B. Public Employee Performance Evaluation**

Title: Executive Director

**8. ADJOURNMENT**

The next meeting of the Finance and Personnel Committee will be on  
Thursday, May 21, 2015.

Submitted:

Susan Hsieh, Assistant Finance Director

Date: March 5, 2015

## ABAG FINANCE AND PERSONNEL COMMITTEE

### Summary Minutes

January 15, 2015

#### Members Present

Mayor Bill Harrison  
Supervisor Karen Mitchoff  
Councilmember Desley Brooks  
Supervisor David Cortese  
Supervisor Scott Haggerty  
Supervisor Mark Luce  
Councilmember Julie Pierce  
Supervisor David Rabbitt

#### Jurisdiction

City of Fremont  
County of Contra Costa  
City of Oakland  
County of Santa Clara  
County of Alameda  
County of Napa  
City of Clayton  
County of Sonoma

#### Members Absent

Supervisor John Gioia  
Supervisor Dave Pine

County of Contra Costa  
County of San Mateo

#### Officers and Staff Present

Ezra Rapport, Executive Director  
Bradford Paul, Asst. Exec. Director  
Kenneth Moy, Legal Counsel  
Brian Kirking, HR & IT Director  
Susan Hsieh, Asst. Finance Director

#### Guests

Councilmember Pat Eklund  
Ken Bukowski, Videographer

City of Novato

1. The meeting was called to order by Mayor Harrison, Committee Chair, at 5:04 pm.
2. There was no public comment.
3. Mayor Bill Harrison was re-elected Chair and Supervisor Karen Mitchoff was re-elected Vice-Chair of the Committee. By consensus of Cortese, Haggerty, Luce, Pierce, and Rabbitt, both candidates were elected.
4. Summary Minutes of the December 4, 2014 meeting were approved. /M/  
Luce/S/Pierce/C/approved unanimously.

5. Mr. Rapport presented the financial reports for November 2014.  
/M/Mitchoff/S/Luce/C/acceptance of the report unanimously.
6. Mr. Rapport presented the Proposed Work Program, Budget and Membership Dues for FY 2015-2016. The budget is projected to be \$26.7 million, an increase of \$3.1 million from the prior year. The membership dues are projected to be \$1.89 million, an increase of \$75 thousand from the prior year, or an average increase of 4.1 percent. /M/Rabbitt/S/Mitchoff/C/committee recommended Executive Board approval to forward to the full membership at the forthcoming General Assembly.
7. There was no reportable action from Closed Session.
8. Meeting was adjourned at approximately 6:02 pm.

Submitted: Susan Hsieh, Assistant Finance Director

Date: February 20, 2015

TO: Finance and Personnel Committee

DT: March 5, 2015

FM: Susan Hsieh, Assistant Finance Director

Re: Financial Reports  
-- January 2015

The following are highlights of the financial reports for January 2015.

### **Overall Summary**

Revenues exceeded expenses by \$354 thousand as of January 31. Excess revenues are expected to reduce due to accruals and adjustments for vacation, payroll, benefits, and other outstanding commitments. In addition, excess revenues may be used to cover project cost overruns or costs not covered by funding agencies. A \$60 thousand surplus is expected at year end and \$50 thousand will be reserved to increase the designated contingency funds. Please refer to the **Table of Financial Report Data Elements** for actual and projected numbers.

### **Cash on Hand**

The cash balance was \$9.21 million at the end of January including \$2.18 million invested with the Local Agency Investment Fund (LAIF). There was an increase of \$2.05 million from the prior month and an increase of \$2.20 million from the prior year. Figure 1 depicts the actual cash balances for FY 14 and FY 15 and the projected balances for the remaining year. The high cash balance is primarily attributed to grant advances for SFEP projects and advances/payments for the BayREN/Energy project, which to be distributed to subrecipients in February. Phase one of the BayREN project was successfully wrapped up in December 2014. ABAG and the partners started phase two in January. Again, the energy program will benefit residents in the Bay Area through distribution of incentive rebates. Unspent funds of approximately \$5.42 million are recorded as unearned revenues. The cash balance is expected to be approximately \$6.0 million at the end of the fiscal year.

### **Receivables**

Receivables from grant and service programs amounted to \$6.24 million at the end of January comprised primarily of \$4.21 million in grants receivables and \$1.99 million in unbilled receivables. The total decreased by \$3.30 million from the prior month and increased by \$1.25 million from the prior year. The receivable balance in December was high due to the final billing for the BayREN project. Staff will continue to send out invoices in a timely manner and follow up on past due invoices to reduce the average age of outstanding receivables. Figure 2 depicts the actual receivable balances for FY 14 and FY 15 and the projected balances for the remaining year. Total receivable is expected to be approximately \$5.5 million at the end of the fiscal year.

### **Revenues and Expenses**

As of January 31, total revenues amounted to \$22.12 million, or 74 percent, of the adjusted budget revenues of \$30.06 million. Total expenses amounted to \$21.77 million, or 73 percent, of the adjusted budget expenses of \$30 million. Revenues and expenses are 16 percent and 15

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percent above the 58 percent normally expected through the seventh month of the fiscal year. Phase one of the BayREN project ended in December 2014. The final billing to PG&E amounted to \$6.1 million and significantly increased the year-to-date revenues and expenses. ABAG operations are expected to yield a net surplus of \$60 thousand as of June 30, 2015. Figure 3 presents a comparison of current month, year-to-date actual and budgeted revenues and expenses. Figure 4 shows year-to-date revenues by major category, and Figure 5 shows year-to-date expenses by major category.

#### **Net Position/Fund Equity**

Total fund equity was \$3.24 million as of January 31 including \$2.53 million in general fund equity and \$710 thousand in restricted fund equity. The restricted fund equity consists of capital, self-insurance, building maintenance and reserves. A surplus is projected at year end and will be reserved to increase funding contingency to reflect the commitment to increase restricted reserves by \$50 thousand per year. Figure 6 presents actual and projected general, restricted, and total fund equities for the current fiscal year.

#### **Indirect Overhead Rate**

The Agency's actual indirect cost (overhead) rate through January was 41.60 percent, or 3.35 percent below the budget estimate of 44.95 percent. This means that for the seven months through January, ABAG has charged more to grants for overhead expense than what was actually spent. The actual realized overhead rate is expected to approach the budgeted rate towards the end of the fiscal year. Figure 7 shows a comparison between the actual indirect cost rate and the approved rate.

#### **Financial Information by Program**

The **Report by Program of Net Surplus/(Deficit)** is included after the charts. This report presents revenue and expense information by program. It provides an overview of budgeted and year-to-date revenue and expense data for major programs such as the Planning Services, San Francisco Estuary Partnership, Bay Trail and POWER/Energy.

**Association of Bay Area Governments**  
**Table of Financial Report Data Elements**  
(thousands of dollars)

For the Month Ended January 2015

Projected percentage of budget is 58%.

Description	Adjusted Budget	Year-To-Date Actual	% of Budget	Budget Balance
<b>ASSETS</b>				
Cash	6,000	9,213	154%	(3,213)
Receivables	5,500	6,239	113%	(739)
<b>REVENUES</b>				
Membership Dues	1,821	1,060	58%	761
Grants	22,656	17,806	79%	4,850
Charges for Services and Other	5,583	3,257	58%	2,326
<b>Total Revenues</b>	<b>30,060</b>	<b>22,123</b>	<b>74%</b>	<b>7,937</b>
<b>EXPENSES</b>				
Salaries and Benefits	11,321	6,604	58%	4,717
Pass-through and Consultant Expenses	16,630	13,970	84%	2,660
Other Expenses	2,049	1,195	58%	854
<b>Total Expenses</b>	<b>30,000</b>	<b>21,769</b>	<b>73%</b>	<b>8,231</b>
Change in Net Position	60	354	590%	(294)
Beginning Net Position	2,887	2,887	100%	-
<b>Ending Net Position</b>	<b>2,947</b>	<b>3,241</b>	<b>110%</b>	<b>(294)</b>
<b>NET POSITION BREAKDOWNS</b>				
Unrestricted	2,177	2,531	116%	(354)
Restricted	760	710	93%	50
<b>Total Net Position</b>	<b>2,937</b>	<b>3,241</b>	<b>110%</b>	<b>(304)</b>
<b>INDIRECT OVERHEAD</b>				
Overhead Rate	44.95%	41.60%		

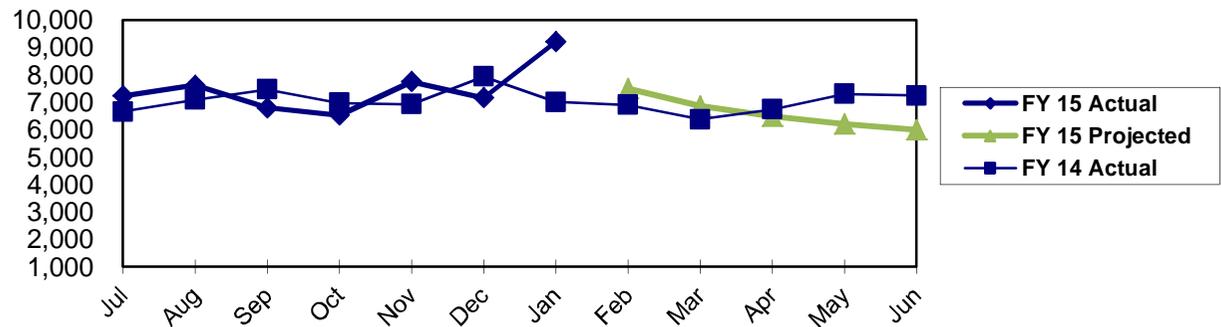
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## ABAG Financial Indices

Cash on Hand FY 14-FY 15 (\$'000)												
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 15 Actual	7,243	7,620	6,801	6,529	7,751	7,161	9,213					
FY 15 Projected								7,500	6,857	6,500	6,200	6,000
FY 14 Actual	6,667	7,091	7,472	6,974	6,933	7,943	7,017	6,907	6,385	6,741	7,306	7,248

**Represents** the sum total of cash deposited at our bank and the Local Agency Investment Fund. This chart shows fluctuation patterns of cash on hand for the current and prior fiscal years.

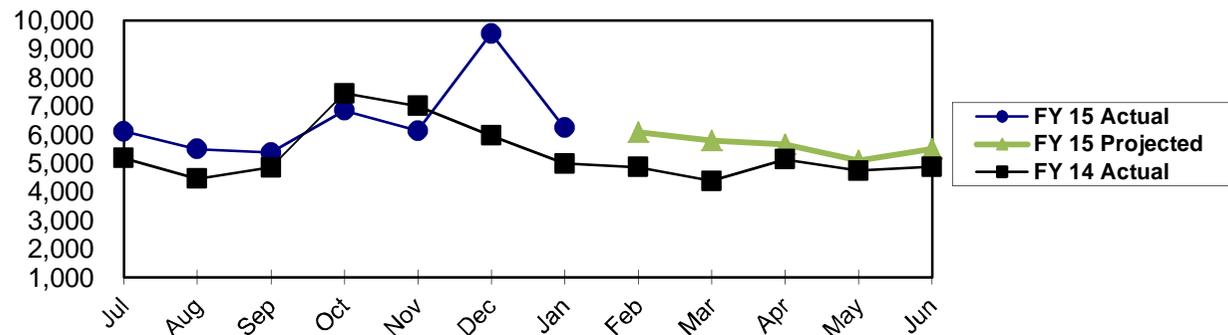
**Figure 1--Cash on Hand--FY 14 and FY 15 (\$'000)**



Accounts Receivable FY 14-FY 15 (\$'000)												
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 15 Actual	6,116	5,495	5,377	6,846	6,141	9,544	6,239					
FY 15 Projected								6,091	5,800	5,652	5,100	5,500
FY 14 Actual	5,182	4,463	4,851	7,445	7,006	5,973	4,985	4,862	4,379	5,132	4,742	4,874

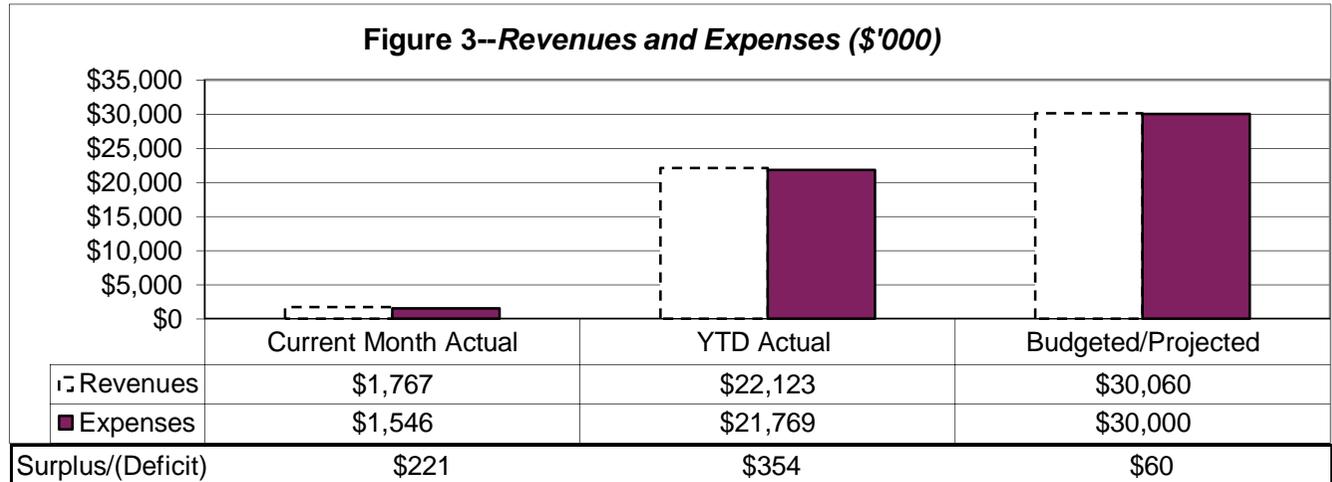
**Accounts** receivable include receivables generated by grants and service programs over two fiscal years. Reflects the reasonableness of our receivable levels; usually have about six weeks' worth of annual revenues in receivables.

**Figure 2--Accounts Receivable--FY 14 and FY 15 (\$'000)**



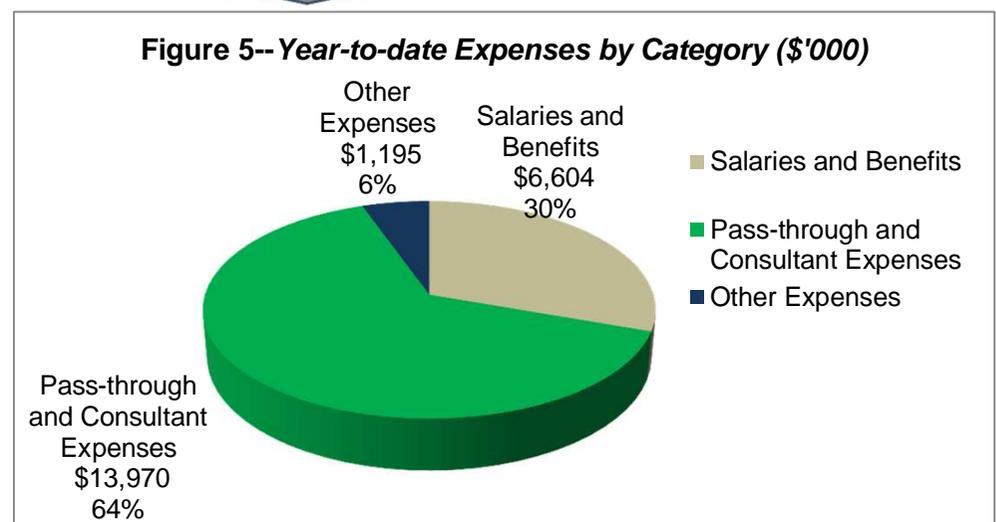
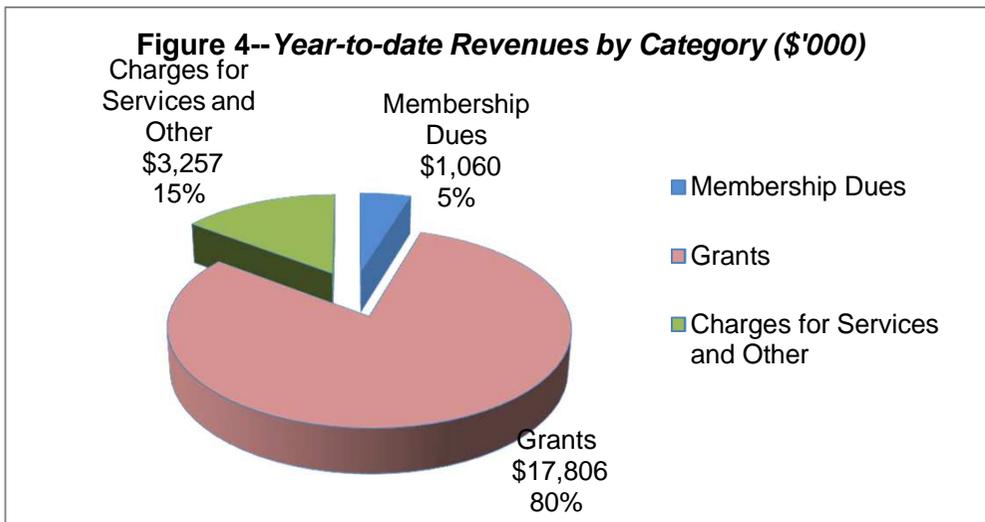
## ABAG Financial Indices

**Presents** a comparison of current month actual, year-to-date actual, and adopted/projected revenues and expenses.



**Shows** year-to-date revenues by major category including membership dues, grants, and charges for services and other.

**Shows** year-to-date expenses by major category including salaries and benefits, pass-through and consultant expenses, and other expenses.

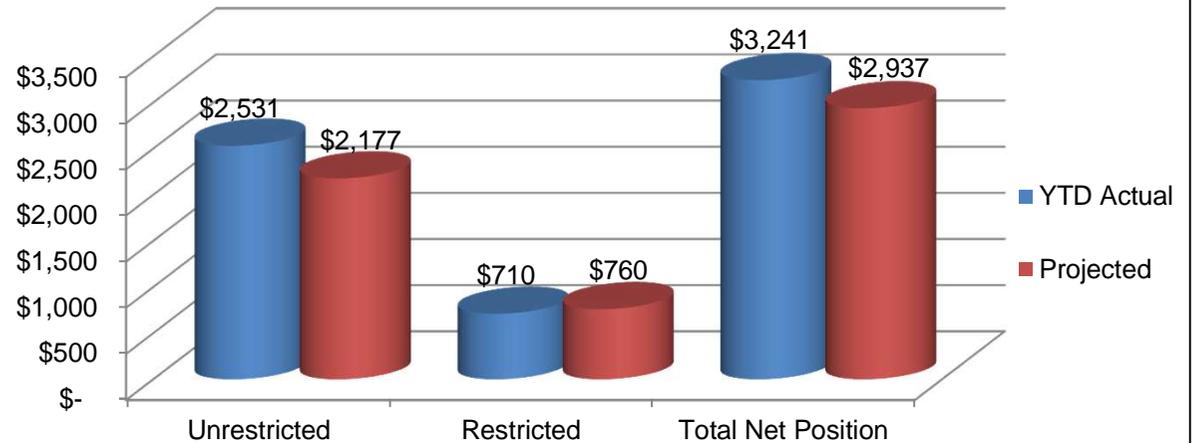


## ABAG Financial Indices

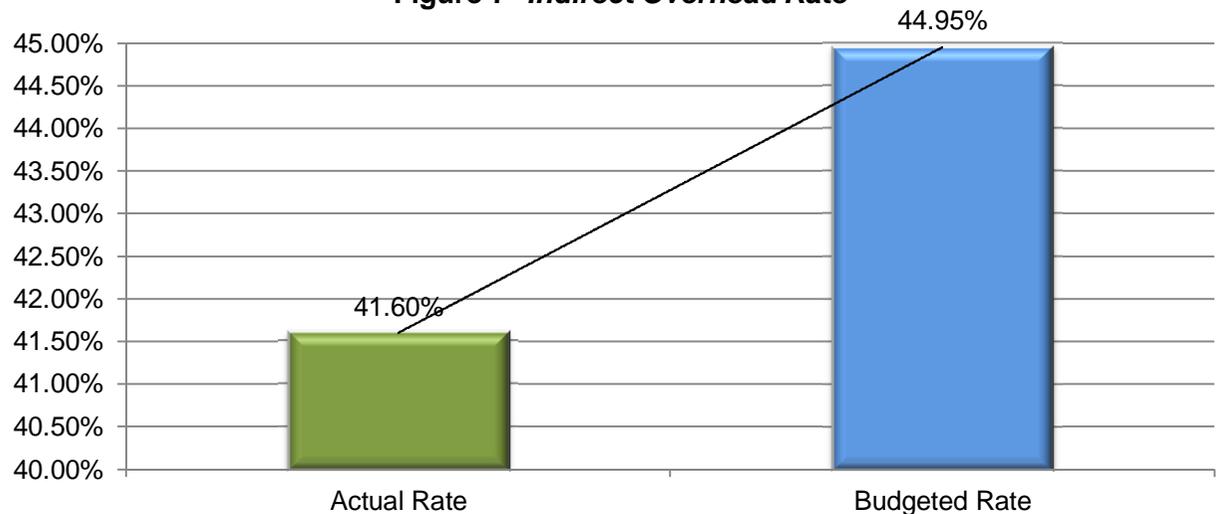
**Presents** actual and adopted/projected general, restricted and total fund equities for the current fiscal year. General fund equity represents unrestricted equity. Restricted equities include building improvement interest, building maintenance, self-insurance, capital and contingency reserve. These restricted equities represent the Association's equities set aside for specific purposes. Total equity is the sum total of general and restricted equities.

**Shows** a comparison between the actual indirect cost rate and the budgeted/approved rate. The approved indirect cost rate is computed by dividing total estimated overhead expenses by total projected direct labor cost for a fiscal year. This rate is used as a standard overhead cost rate to allocate indirect costs to all projects. This process is performed in accordance with an indirect cost plan, which is prepared annually in accordance with federal guidelines.

**Figure 6--Net Position/Fund Equity (\$'000)**



**Figure 7--Indirect Overhead Rate**



## Association of Bay Area Governments

### Report by Program of Net Surplus/(Deficit) Through January 2015 / 58% of Year Elapsed

Program Description	Adjusted Budget Expenses	Year-To-Date Revenues	Year-To-Date Expenses	YTD Surplus/(Deficit)	% of Expense Budget	Explanations for Variances over 5%
	A	B	C	D = B - C	E = C/A	
Planning Services	3,936,262	2,412,820	2,412,820	-	61%	
San Francisco Estuary Partnership	4,737,224	2,796,206	2,864,278	(68,072)	60%	
Disaster Recovery	422,801	247,236	246,634	602	58%	
Bay Trail	765,185	444,430	446,358	(1,928)	58%	
Green Business	70,000	37,321	37,321	-	53%	
Training Center, Web Hosting and Publications	535,741	372,119	312,516	59,604	58%	
POWER/Energy	14,232,207	12,570,669	12,598,720	(28,051)	89%	Phase one of the BayREN project was successfully wrapped up in December. ABAG and the subrecipients spent \$12.1M from July to December 2014. The team started phase two of the project in January.
Finance Authority	1,300,000	881,732	672,847	208,884	52%	Expect expense to go up during the last quarter of the fiscal year due to the forensic audit.
Plan Corporation - Property & Liability Insurance Pool	2,100,000	1,205,211	1,205,211	-	57%	
SHARP - Worker's Comp Pool	110,000	63,439	63,439	-	58%	
Fiscal Agent Services	110,000	59,899	71,919	(12,021)	65%	Accounting staff spent more time on contracted services due to increased activities.
Communications/Legislative	492,293	276,915	276,915	-	56%	
Agency Administration	1,188,287	753,203	634,834	118,369	53%	

## Association of Bay Area Governments

Report by Program of Net Surplus/(Deficit)  
Through January 2015 / 58% of Year Elapsed

Program Description	Adjusted Budget Expenses	Year-To-Date Revenues	Year-To-Date Expenses	YTD Surplus/ (Deficit)	% of Expense Budget	Explanations for Variances over 5%
	A	B	C	D = B - C	E = C/A	
Payroll Clearing		-	61,095	(61,095)	N/A	Low billable hours from November to January resulted in a deficit. Low billable hours are expected during the holiday season.
Central Overhead	3,229,454	1,862,553	1,724,648	137,905	53%	
<b>Totals</b>	<b>33,229,454</b>	<b>23,983,754</b>	<b>23,629,557</b>	<b>354,197</b>	<b>71%</b>	

**DATE:** March 6, 2015  
**TO:** Finance & Personnel Committee  
**FROM:** Ezra Rapport, Executive Director  
**SUBJECT:** Status of the SCO Audit and MTC's Audit Request

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**Status of the SCO Audit**

The State Controller's Office (SCO) sent ABAG a letter on February 12, 2015 informing us that the SCO will be conducting a review of ABAG's administrative and internal accounting controls. In light of the FAN embezzlement, SCO will evaluate ABAG's system of administrative and internal accounting controls to identify weaknesses and provide recommendations. The review will focus on Fiscal Years 2012-13 and 2013-14 but may expand to prior and/or current periods. The review will be conducted under the authority of Government Code section 12410, which authorizes the SCO to audit State funds and other funds passed through the State to ABAG.

A team of four SCO auditors including the Division Chief arrived on Monday, February 23, and met with the Executive Director and the Assistant Finance Director for the entrance conference. On the first day, accounting staff provided the auditors with agency administrative policies, personnel policies, organization/department charts, overview of accounting processes, accounting cycle flow charts, key desk procedures, chart of accounts, trial balances, project income statements, audited financial statements, minutes, etc. The auditors indicated they had enough information to start the audit, and confirmed that ABAG is not liable for the costs of this audit.

During the first week, the Assistant Finance Director and the Interim Financial Services Director for FAN met with the auditors to help them understand ABAG and FAN's operations and accounting cycles. As part of the evaluation for internal controls, the auditors inquired about structures of the governing bodies, management, and departments/service programs. They gained an insight about ABAG's various grant funded and service programs. The auditors became aware that ABAG has several enterprise funds and receives many state and federal grants. Program and accounting procedures may be modified to manage each program effectively and to ensure compliance with grant requirements. The auditors collected enough information to develop the scope for their audit after many meetings with the staff.

During the second week, the auditors interviewed accounting staff and the grants administrator from the San Francisco Estuary Partnership (SFEP). Next the auditors are planning to interview the HR director and others as necessary. The auditors documented the processes for various accounting

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and administrative cycles including grant billing, cash receipts, accounts payable, payroll, procurement, payroll cost allocation, bank reconciliation, fixed assets, indirect overhead, accounting systems, agency/department training, etc. The auditors selected grants for testing and requested information such as grant agreements, contracts, general ledgers, and invoices.

The auditors are planning to be here until the end of March. They indicated that it will take about a month to issue the recommendations after leaving ABAG. ABAG will have an opportunity to respond to the comments before the report is issued. ABAG looks forward to receiving the report and will implement feasible recommendations in a timely manner to enhance internal controls.

### **MTC's Audit Request**

ABAG received an engagement letter on Wednesday, March 4, 2015 for the proposed audit of ABAG's use of funds transmitted by MTC. The audit will cover Fiscal Years 12-13, 13-14, and 14-15 (from July 2014 to February 2015). ABAG encourages this audit to assuage MTC's concerns. However, ABAG does not have sufficient staff to simultaneously accommodate multiple audits. ABAG respectfully requested MTC to postpone the audit until sometime in the months of July-August due to the reasons stated below.

- ABAG is presently being audited by the SCO. The SCO has stated they will remain on-site until the end of March or later. Besides handling the day-to-day activities, accounting staff needs to provide supporting documentation and respond to inquiries from the auditors. Therefore, ABAG cannot accommodate the MTC audit during this period.
- At the direction of the FAN Executive Committee and the ABAG Administrative Committee, ABAG has issued RFQs for an auditor and attorney team to conduct a forensic audit in connection with the embezzlement. The Statements of Qualifications are due the week of March 9th. Assuming a 1-2 week period to review the SOQs, conduct interviews and make a final selection, ABAG expects to begin the forensic audit at the beginning of April.

ABAG cannot accommodate the MTC audit during the forensic audit. The forensic audit must be given priority for the following reasons:

- It is an important part of the criminal investigation.
- It is essential to ABAG/FAN efforts to restore funds and settle civil damage claims.
- ABAG/FAN will need to complete the audit in order to effectively resume FAN business operations.
- ABAG/FAN will be offering the results of the published audit to the State Senate Governance and Finance Committee.

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The forensic audit will take at least 3-4 months, taking up the months of April, May, and June. Therefore, the MTC audit can begin at the conclusion of the forensic audit. At that time, the results of the prior audits will be known, and that may facilitate a more efficient audit for MTC.

ABAG's Accounting Department has a small number of staff and is a busy department. Currently, the Finance Director is on medical leave and an accounts payable temp, here for about two months, still needs additional training and specific instructions. Every member of the Accounting Department has a heavy workload.

ABAG staff understands it is important for auditors to produce high quality, accurate, and efficient workpapers that are required by accounting standards. Staff is committed to creating a smooth process for every audit. This can only be accomplished by concentrating on one audit at a time.