Audit/Finance/Facilities Committee

Meeting Notes
January 22, 2019

Members Attending:

George Spagna, Treasurer/Chair
Jim Holland
Pat O'Bannon
Canova Peterson

Staff Attending:

Martha Shickle
Julie Fry

Others Attending:

Jill Swinger, Warren Whitney

Chairman Spagna called the meeting to order at approximately 2:00 p.m. and thanked everyone for their time and attendance. He asked Ms. Shickle to review the meeting agenda.

Ms. Shickle said the agenda was divided into four parts which she and Ms. Swinger will take turns covering. She asked Ms. Swinger to begin with a review of the FY19 year-to-date financials.

Ms. Swinger provided a detailed review of the current, monthly balance sheet as of December 31, 2018. She pointed out there is a line for deferred revenue which indicates funds to be received. Ms. Swinger also provided information on the agency's profit and loss performance over the past six months. These amounts are compared with the year-to-date budget, variance, percentage of budget, and the annual budget amount.

She asked members of the committee if they thought the full Board should see the detailed balance and profit/loss spreadsheets or if they would be agreeable to a summary sheet with footnotes.

Mr. Holland said a summary sheet with footnotes and a narrative could be presented to the full Board. The other committee members concurred with Mr. Holland's recommendation.

Moving on to the revised FY19 budget, Ms. Swinger indicated that new staff and carryover funds were included in the proposed draft. Ms. Shickle added that each program area was included on the third page to help members see how the funds are being spent.

Dr. Spagna noted that some of the account numbers were out of sequence. Ms. Swinger said she will correct this on the reports provided to the full Board.

Ms. Swinger said staff members are being assigned to specific job tasks in order to build revenue. She said she and Ms. Shickle are confident that the revised budget will assist in correction of the current deficit. Ms. Swinger indicated that a narrative can be provided for the Board meeting.

Ms. Shickle said if members were in agreement with the revised budget, she'd ask for formal action to approve the revised FY19 budget and to recommend the budget to the full Board during the February meeting. Mr. Holland so moved and the motion was seconded by Ms. O'Bannon. The was no additional discussion and the motion carried unanimously.

Ms. Swinger said before moving ahead on the agenda to discuss strategies for addressing the designated fund balance gap, she'd like to review the events in FY18 that led to the gap.

1. $31,000 repayment to VDEM for indirect costs that were reimbursed in error; these costs had been previously approved when they should not have been approved.
2. $65,000 in payouts of accrued leave hours to three staff members when they left the agency.
3. $196,000 in associated revenue loss due to six staff vacancies and decreased productivity as staff work efforts declined prior to leaving the agency.
4. Pre-approved amount of approximately $48,000 for redesign of the website.
5. Miscellaneous expenses related to moving agency staff when Homeward became a subtenant.

Ms. Shickle said efforts have been made to address the shortfalls by ensuring that staff members are assigned to work on grant-related tasks. She indicated that a time tracking model is now in place that will provide better management tools to see how staff is charging their time to different work products. She said management will focus on adopting and implementing financial best management practices. Management will also develop and implement operating tools, procedures, and practices to manage expenses and generate revenue.

Ms. Swinger said in discussions with Ms. Seay (Hanover County), a three-month floor/ six-month ceiling strategy was entertained as it relates to the Unrestricted Fund Balance. Ms. Swinger said using the three-month floor/six-month ceiling, based on expense trends, the amounts needed would be $720 thousand as the floor and $1.4 million for the ceiling.

The committee discussed the concept of a reserve floor and ceiling and arrived at the conclusion that the goal would still be to achieve a $1,000,000 reserve which is in the middle of the floor and ceiling levels. Strategies to rebuild the fund balance can include a local member special assessment, calculated on population estimates (released in January 2019) over a three, four, or five-year period. The agency can also improve financial performance by setting aside a portion of member dues in the budget over a three, four, or five-year period. In addition, building in a small reserve fund as part of the annual budgeting process would be another option.

Ms. Shickle provided a chart to show how a special assessment could be levied on the local jurisdictions over the designated time periods. She also provided information on how funds could be set aside.

Mr. Peterson asked if an analysis had been completed to determine if the $1 million amount was still the best amount to hold. Ms. O'Bannon added that if the General Assembly ordered PDCs to disband, there should be enough reserve to cover the remaining lease period, salaries, etc.

Dr. Spagna recommended setting a goal of reaching $1 million and then continuing to add funds to reach $1.4 million.

Mr. Peterson said if a floor amount is set, it needs to be absolute in order to meet any unexpected expenses. He said he'd also like to see a 2-year scenario for the special assessment. The goal would be to achieve the total $1 million reserve balance over two years.

Dr. Spagna recommended use of a hybrid plan – a special assessment with a budget set-aside amount.

Ms. Swinger said two percent of the annual budget could be set aside each year for a reserve. If this is not used over the fiscal year, it can be rolled into the unrestricted reserve fund.

Ms. Shickle said in switching the agency's accounting to an accrual basis, more accurate information is now available. She said she would like to continue the use of the fractional CFO for the remainder of FY19. Creation of the new standing committee to assist with budget preparation has been a good resource for staff. Ms. Swinger has been working to update the account chart to ensure funds are being coded correctly. Action has also been taken to shift staff benefit hours (leave) to the fringe rate instead of including them in the indirect rate. Staff has also created a model to better track staff work hours. Other efforts have included bringing in a subtenant, identifying alternatives to capital investments, consolidation of jobs through attrition, and seeking out creative partnerships (FOLAR, AmeriCorps) to boost staff with no outlay. Ms. Shickle said efforts to create revenue will be ongoing.

Going forward, Ms. Shickle said she will focus on developing financial best management practices in the following ways:

- improve format of financial statements for Board members
- provide additional detail to CAOs/Managers for review
- incorporate annual set-aside for contingency/reserves in FY20 budget

Ms. Shickle said attention will also be given to improving operating tools, procedures, and practices. Staff assignments will be prioritized to grant funded programs and gaps in staffing will be identified and addressed. An effort will be made to monitor the indirect rate and reduce associated staff time and other expenses as needed to reach the management target of 50 percent. Ms. Shickle said she would like to reach out to the HR Roundtable to ensure that current agency employee benefits are in line with local policies. She said staff will also consider using investment tools to improve agency efficiency and to save money over time.

Staff is moving forward to complete the technology conversion. Additionally, staff has requested bids for insurance coverage. Evaluations of other fees and leases will be undertaken to ensure the agency is not paying for services that are not needed.

Ms. Shickle said staff will also reach out to the small jurisdictions to see if there is interest for paid technical assistance opportunities. Searching for grant opportunities that offer a management fee is another option.
Ms. Shickle said she would like for the committee to either take action or to agree by consensus that she can move ahead with the following policy recommendations:

- amend the Personnel Policy to align with local jurisdictions with regard to Retiree Health Insurance coverage (with HR Roundtable)
- form a subcommittee to evaluate office and meeting space needs beyond current lease period

Ms. O'Bannon said she understands that the agency's current lease cannot be broken without an additional financial burden. She recommended that thought be given to preparing for relocation to a site with a lower per square footage rate. Ms. Shickle said she would suggest that either a subcommittee be formed to take on this effort or the Audit/Finance/Facilities Committee could act in this role. She said staff can research exactly how much space the agency requires, including meeting space. While the office is required to be located within the limits of the City of Richmond, there is no such requirement that meetings need to take place within the City. Members of the committee said they would be agreeable to take on this role. Ms. Shickle said Mr. Nolan Blackwood, who is the City of Richmond's alternate voting member on the Board, has volunteered to help find new office space. He is in the commercial real estate business.

Members of the committee agreed by consensus that Ms. Shickle should move forward with both of the above recommendations.

As there was no additional business to discuss, Dr. Spagna adjourned the meeting at approximately 3:50 p.m.