

Audit/Finance/Facilities Committee

Meeting Notes October 25, 2018

Members Attending:

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

Staff Attending:

Martha Shickle
Katherine Busser
Julie Fry

Others Attending:

Mark Rhodes, Dunham, Aukamp, and Rhodes
Jill Swinger, Warren Whitney

Chairman Spagna called the meeting to order at approximately 1:30 and thanked everyone for their time and attendance. He asked that introductions be made around the table. Chairman Spagna asked Ms. Shickle to provide an overview of today's meeting focus.

Ms. Shickle said that she will ask Mr. Rhodes to review the draft FY18 audit report and noted that he needs to leave at 2:00 p.m. She said following the report review, she will provide members with a high level overview of how she would like the committee to move forward to develop a financial strategy.

Mr. Rhodes said he will review the highlights of the report and will be glad to entertain questions as he moves through the report. He said based on the FY18 audit, RRPDC is receiving an unqualified opinion which indicates no major issues or concerns were raised during the audit process. Mr. Rhodes noted the correction of one error as indicated on page 33 – a transaction was not recorded and resulted in a restatement of the general fund balance as of July 1, 2017.

Mr. Rhodes pointed out that the majority of the report focuses on Virginia Retirement System (VRS) requirements and how the agency handles those requirements.

Mr. Rhodes noted that the audit is always completed on an accrual basis as opposed to the monthly cash basis reports that members see during Board meetings.

On pages 4 – 8, an overview of management discussion is provided along with an overview of the balance sheet and income statement.

Mr. Holland pointed out that Note 11 on page 33 provides more information on the deviation in the restated fund balance.

Mr. Rhodes said that overall, the audit shows the result of the lack of billable hours due to staff vacancies – low revenue and higher expenses.

Ms. O'Bannon said this is the main cause for the use of the designated fund balance. She said the fund balance, as indicated in the RRPDC Charter, was created in order to cover final expenses should the agency need to be dissolved.

Mr. Rhodes continued his review of the report, drawing members' attention to the statement of net position on page 9, which provides a summary of revenues, expenses, and funds used for work projects. Capital assets include such items as the audio equipment in the Board Room, furnishings, and website redesign. There is a \$1,000 cap on capital assets.

On page 16, there is a summary of changes in property and equipment.

Page 11 provides a summary of governmental funds use. He noted the GASB 68 adjustment. Liabilities have dropped by \$100,000.

Footnotes begin on page 13 and offer more detailed explanations of the report methodology. A review of VRS activity begins on page 17. Ms. Shickle noted that RRPDC has employees in two different retirement plans – VRS and ICMA. When the agency switched over to the VRS plan for new employees in 2004, those employees at the time were offered the option to remain covered under the ICMA plan. There are two employees currently who still participate in that plan. All other agency employees who are eligible participate in the VRS plans.

Mr. Rhodes said that the remainder of the notes, beginning on page 30, refer to the current lease and the fringe and indirect cost rates.

Ms. Swinger said that the agency would like to change how it charges indirect costs. She said the indirect rate is currently too high and the agency would like to begin charging more of the non-funded hours to fringe. Ms. Shickle added that many of the agency's funders recoup costs through fringe.

Ms. O'Bannon asked if there was any federal oversight on how these costs can be charged.

Ms. Shickle said the final audit is sent to the Federal Clearinghouse and to each of the agency's funding partners. RRPDC acts as the fiduciary agent for the RRTPO and must satisfy all federal requirements for TPOs.

Mr. Rhodes reviewed the schedule of expenditures of federal awards on page 34. Pages 36-37 provide additional information on compliance with federal regulations and internal controls. He indicated that the RRPDC attorney will also review the audit report.

Mr. Holland noted an error on page 32. The Total Indirect Costs do not match. Mr. Rhodes said that was an error on his part and he will make the correction before presentation of the report to the full Board on November 8.

Ms. Shickle said staff would also like to change information to show how indirect costs will be changed to fringe.

Mr. Rhodes said page 41 offers an overview of expenses and revenues as compared to the budget. Ms. Swinger added that any other revisions to expenses and revenues will be provided to members during the mid-year budget review in December. Ms. Shickle said the Charter states a preliminary budget for the upcoming fiscal year should also be provided to members in December. She noted this preliminary budget is submitted to the jurisdictions for their use in their own budgeting efforts with regard to planning for RRPDC member dues. She also noted that by changing to an accrual basis reporting, staff will be better able to monitor funds.

Ms. Gray asked if the current leave payout policy can be reviewed and/or adjusted to help prevent future large payouts when employees leave. She asked if there was a limit to how many benefit hours can be carried over.

Ms. Shickle said the current policy prohibits staff from being able to carryover 100 percent of accrued leave time. She said there is also a cap on the amount of compensatory time that can be accrued. She said she'd like to bring this discussion back to a future meeting.

Mr. Peterson asked when the recommended changes can be made and when a final audit report will be available.

Ms. Swinger said changes can be finalized quickly so that the committee can make a recommendation to the Board during the November 8 meeting. She said these are small changes that will not impact the bottom line. Ms. Shickle noted that the deadline to provide notice of the November 8 meeting is this coming Monday, October 29. Mr. Rhodes said if the changes are made on Friday, meeting the Monday deadline is not an issue.

Mr. Holland said he recommends that the report be accepted by the committee with the understanding that the recommended changes will be made.

Mr. Peterson asked if the audit raised any concerns or recommendations for changes in how staff handles financial operations.

Mr. Rhodes indicated that some changes as recommended have already been made. He said no major concerns were raised during the audit process. He said the current controls in place work well.

Chairman Spagna asked if there was a motion to accept the draft FY18 audit report, noting the recommended changes, and to recommend the report to the Executive Committee during its meeting on November 8. Mr. Peterson so moved and the motion was seconded by Ms. Gray. There was no additional discussion and the motion carried unanimously.

Chairman Spagna thanked Mr. Rhodes and Ms. Swinger for their work.

Chairman Spagna asked Ms. Shickle if she'd like to move ahead on the agenda. She said Ms. Swinger will provide a summary of the current financial statement.

Ms. Swinger indicated she will change the column labeled \$ Over Budget to show *Variance* instead, as previously suggested by Mr. Holland. She said she believes looking at the year-to-date information is important when reviewing a budget. She noted the gap in Transportation billing due to employee vacancies.

Ms. O'Bannon asked if the former staff finance director is still paying restitution. Ms. Shickle said that was correct. He pays \$500 per month.

Mr. Peterson said he'd like to see a column on the report that shows percentage of the budget used.

Ms. Swinger said she bills quarterly for grant reimbursement and noted that she is spreading large revenues that are received at the first of the fiscal year across the entire fiscal year.

Ms. Shickle asked members of the committee if they found this new format helpful.

Mr. Peterson said he thought there was value in knowing what revenue has not been already earned.

Ms. Shickle said the cash flow statement is for the committee's information.

Ms. Gray asked if there was a plan to rebuild the reserve fund balance. Ms. Shickle said the plan is to get to the even point by the end of this fiscal year. She said she'd like feedback from members on how aggressively staff should work to rebuild the fund. She said staff will begin work by cutting expenses where possible and begin to identify additional ways to rebuild the reserve. She said she'd like to establish a five-year plan to restore \$50,000 per year.

Ms. Gray asked if this can be done without a membership dues increase. Mr. Holland suggested that cost structure needs to be addressed first. Ms. Shickle provided information on an analysis of designated fund use since FY05.

Ms. O'Bannon asked if thought had been given to the possibility of separating the TPO from the PDC with regard to grant funded projects. Ms. Shickle said many of the contracts are made with the RRPDC. She said too many staff members are working on non-funded tasks. Changes are already underway to ensure that as many staff members as possible are reassigned to grant-funded tasks. The TPO work program is developed each year to determine how funding is going to be used. Once that work program is in place and approved, priorities are set and staff is assigned to the projects. Planning funds received are less than other types of federal funding.

Mr. Holland asked when the dues rate was last adjusted. Ms. O'Bannon said dues are charged based on population, which varies from year to year. Ms. Shickle said currently members dues are set at 55 cents per capita, with 5 cents of that going to TPO projects. Ms. Shickle indicated that the population increases are not keeping pace with the amount of funding needed for the TPO match funds. RRPDC is having to make up the difference in TPO funding.

Ms. O'Bannon said there has been a large increase in the amount of rent being paid since RRPDC moved into its current location in 2007. She said the rent rate was renegotiated a few years ago and that realized a small savings. Ms. Shickle pointed out that there is a 3 percent escalator per year.

Mr. Holland said he'd like to see the fund balance trends in an Excel spreadsheet. He said the agency should also practice due diligence and look at the dues amount as well.

Ms. Swinger said the three largest expense areas for the agency are staff salaries/benefits, rent, and technology. These three areas comprise about 80 percent of the budget.

Mr. Holland suggested a three-year analysis of expenses and revenues.

Ms. Gray asked if there was an option to lease space to the TPO.

Ms. Shickle said most PDCs either rent or own space, with a minority of PDCs occupying space within another agency.

Ms. Gray said an effort should be made to see if there is space available within a City of Richmond owned building. She said there may be incentives to move into one of those types of buildings.

Additional discussion focused on the need to look at the lease expenses long term, to ensure the agency is right-sized, and to see an analysis of expenses. Generally, members of the committee thought the financial report sheets looked good.

Ms. Swinger asked if members had any comments on the budget report sheets that will be included in the November agenda packet. She said the third column assumes retaining Mr. Lysy on a part time basis through March and bringing on a new Director of Transportation effective January 1. She said the fourth column assumes hiring three additional planners and making sure the highest salary earners are working on more grant-funded tasks.

Ms. Busser pointed out that a requests for proposal (RFP) for managed technology services has just concluded and once that new contract has been finalized, an RFP for insurance coverage will be released.

Ms. Shickle reminded committee members that as a result of the new sublease with Homeward, the agency is seeing an additional \$30,000 in revenue.

Members suggested additional ideas for reducing expenses:

- revised leave accrual policy for new hires
- review of printing costs
- review of agenda mailing costs
- review of staff time assignments

Mr. Peterson said he thought members should concentrate on the big picture first and then begin to identify specific items to review. Ms. Shickle said she'd like for the committee to review all categories at a future meeting.

Ms. Shickle said she'd like to suggest that the Audit/Finance/Facilities Committee meet on a quarterly basis to review financial reports. She asked if members would be able to meet prior to November 16 in order to review the preliminary FY20 budget prior to the December Board meeting. She said once the quarterly meetings are set, these can be followed going forward.

There was some discussion on whether there will be time to meet prior to the December meeting. Ms. Shickle said information can be sent electronically to members for feedback if a date cannot be identified. She said staff will work to identify some dates and send out Doodle polls.

Chairman Spagna asked if there was any additional business for discussion. No other discussion items were identified and Chairman Spagna adjourned the meeting at approximately 3:05 p.m.