

MEMORANDUM

Date: September 6, 2022
To: Finance Committee
From: Tom Hennig, General Manager
Subject: Financial Consulting Services Agreement with The Pun Group

Recommended Action

This report is for the Finance Committee information only and requires no action by the Board of Directors.

Financial Consulting Services

This District has had significant turnover in its Finance Department which has created delays in accomplishing the accounting reconciliation processes and financial reporting. The District is behind on its financial reporting for FY 2021, 2022, and 2023. Based on direction from the Board of Directors, the General Manager sought proposals from accounting and consulting firms to provide financial accounting and consulting services to support the financial operations of the District and to augment internal staff to complete four immediate primary objectives. These include the completion of external audits for fiscal years 2020/21 and 2021/22, assistance with the monthly close for fiscal year 2021/22, budget to actual reporting for fiscal year 2022, and budget to actual reporting for fiscal year 2022/23 for the months of July and August. The District has received two proposals from certified public accounting firms in Northern California with deep experience in governmental accounting and auditing and has selected the Pun Group LLP for this scope of work. This work began on Tuesday, August 30.

Background

The District has received a significant number of findings identified through consultation with third party accounting firms, prior audits, and internal evaluation and assessment. This coupled with significant staff turnover in the Finance Department and a general lack of government accounting staff resources in the market due to the great resignation, has left a void in the finance department that has been very difficult to fill. The Department currently has two vacant positions, an accounting manager, and an accountant. There are approximately four temporary personnel working to keep the day-to-day operations functioning.

This turnover is further exacerbated by the District's accounting system, Great Plains. Great Plains, though a robust accounting system, was not implemented utilizing all the modules available to the District including pooled cash accounting, bank reconciliation module, fixed asset module and others. In addition, three subsidiary systems are used for areas such as utility billing, procurement, and payroll. To integrate this activity, a significant portion of the District's accounting activities are manual and reported via allocations and journal entries. This creates an environment that is highly complicated and prone to error absent a thorough knowledge transfer, reconciliation, and review process with sufficient segregation of duties. Essentially, the same person that records the entries, should not also authorize the entries and reconcile the bank accounts.

In response, the District sent out proposals in May 2022 and through that proposal process engaged the services of Eide Bailly, a top tier accounting firm, to complete the requisite services as outlined in the RFQ. Eide Bailly spent approximately one week at the District offices, and after evaluating the District's accounting records, recognized that they did not have sufficient resources and capabilities to complete the work timely but outlined a suggested plan of work for a successor and areas requiring immediate attention.

Current Situation

District staff sent out subsequent solicitation and received and evaluated two proposals from two firms with a vast array of local government experience, including Special Districts, in auditing, accounting and audit readiness services.

After review of the two proposals, the General Manager selected the Pun Group to complete the following mission critical scope of work under initial task orders during the first ninety (90) days with working progressing monthly thereafter:

1. Complete and/or review the required schedules for the Fiscal Year 2021 external auditors to validate the District's audit readiness.
2. Provide experienced staff in governmental accounting and auditing, that can work independently to review the work, and where necessary, reconcile financial statement amounts for the District
3. Prepare the budget versus actual reports for Fiscal Year 2023 to include July and August months.
4. Prepare the budget versus actual reports for Fiscal 2022 once the transactions have been entered and reconciled. Internal District staff resources may be utilized for these reconciliations. (Timing will depend on the closing of months for 2022)
5. Aid in the preparation of the day-to-day journal entry transactions that are not integrated to Great Plains (general ledger) which includes accrued payroll/payroll reconciliations and Utility Billing – Accounts Receivable/Revenue, Developer Deposit Billing – Accounts Receivable/Revenue, and Accounts Payable/Expenditures reconciliations for Fiscal Year 2022 and Fiscal Year 2023. (Timing will depend on the closing of months for 2022)
6. Assist with the Fund Balance roll forward and reconciliation for Fiscal Year 2021 and 2022.

The above areas represent the more significant areas discussed in our meetings with the third party accounting firms and staff. As work progresses, it is possible more gaps may be found during the closing process. We will report these to the Finance Committee as they are identified.

Other objectives that will benefit the District include the following:

- To offer beneficial observations and recommendations about policies and procedures for budget, accounting, and operating controls
- To identify opportunities to make District operations more efficient and reduce costs
- To perform the work efficiently, and as independently as possible, so disruption to office operations is kept to a minimum
- To provide continuing advisory services to implement recommendations The Engagement Team will perform the engagement abiding by the Firm's quality-control procedures, which emphasizes thoughtful and careful planning, open communication, and proper assignment of responsibilities.

Engagement Approach

The work be issued under a Master Services Agreement and issued in separate Task Orders due to the extensive scope and breadth of the requests. Tasks not included in the initial Task Orders No. 1-4 will be evaluate for additional task orders as work progresses at the satisfaction of the District and once the external audit for fiscal year June 30, 2021, is completed.

Project Timeline

	Aug		Sep		Oct		Nov		Dec	
	Mid	End	Mid	End	Mid	End	Mid	End	Mid	End
Task Order No. 1 - FY 21 Accounting Services & Audit Readiness		•	•	•						
Task Order No. 2 - FY 23 Budget and Actual Reports - July and August		•	•	•						
Task Order No. 3 - FY 22 Accounting Services & Audit Readiness				•	•	•	•		•	
Task Order No. 3 - FY 22 Budget and Actual Reports - YTD									•	•

FY 2020-21 Audit

District staff finalized the majority of the general ledger accounts and provided information to the auditors since the last meeting. We have begun engaging in conversation with the auditors and additional information and reconciliations were requested. Once the Pun Group LLP completes their review of the accounting schedule submitted to the auditor, the auditor will schedule fieldwork dates. We anticipate fieldwork to be fit in sometime in October due to the current government audit busy season. Updates will be provided at the next Finance Committee meeting in October 2022.

Deliverables

Upon completion of the engagement, the following will be provided to the **Error! Reference source not found.:**

- FY 21 Accounting Services and Audit Readiness – Electronic copies of our working papers and supporting documentation will be provided to the District via Suralink.
- FY 22 Accounting Services and Audit Readiness - Electronic copies of our working papers and supporting documentation will be provided to the District via Suralink.
- FY 23 Budget vs Actual – Electronic copies of our templates for the months of June and July – All Funds.
- FY 22 Budget vs Actual – For the year ending June 30, 2022 – All Funds.
- Copies of templates, instruction, calendars used during the engagement.
- Ongoing support to monitor the budget vs. actual reporting for two additional quarters.

Financial Impact

Salary savings from the two vacant positions will be used to offset the cost of the contract. Work will be billed as work progresses on a monthly basis at discounted standard rates based on time incurred for the prior month at the various levels of responsibility, plus actual out-of-pocket expenses for travel costs. The Firm will work to minimize travel costs by working remote when practical or by utilizing Northern California resources. However, travel will be at the Firm’s discretion based on the work to be performed, the skill level of staff required, and whether the District records permit offsite review and do not unnecessarily burden District staff to scan records. The Firm utilizes a secure portal Suralink to share District records when requested.

Status reports of work progress and costs incurred will be brought back to the Finance Committee for consideration and evaluation monthly.