



EAST BAY REGIONAL PARK DISTRICT  
**BOARD FINANCE COMMITTEE**  
AGENDA STATEMENT  
MEETING DATE – February 25, 2015

**SUBJECT:** Earthquake Coverage for District Buildings  
Report Prepared by: Larry Moss, Risk Manager

**ATTACHMENTS:** Catastrophe Risk Summary

**RECOMMENDATION:** Support Risk Management’s recommendation to increase current earthquake coverage and direct staff to forward to the full Board of Directors as necessary. Also direct staff to research expanding earthquake coverage to additional buildings.

**DESCRIPTION:**

The District has fire insurance on all of its buildings but coverage for earthquake damage is limited to a small subset of the inventory of the \$170 million fire insured property. The Risk Manager recommends expanding that coverage.

The earthquake coverage initially only covered Peralta Oaks but was expanded 15 years ago to include the Temescal Boat House, the Trudeau Center, the Brazil Room, and the EEC, covering \$27,763,872 in values. These buildings, while retrofitted with earthquake mitigation engineering, are all of high value and very close to the Hayward fault. The coverage in place was simply expanded to use \$10,000,000 in coverage (less 5% of total per building, net \$100,000) but now applying to any of those five buildings. A study was done that indicated the maximum probable loss to those buildings is likely to be approximately \$3,342,066. Hence, it appears from a statistical point of view these high value buildings are adequately covered.

The District buildings and the Bay Area have yet to realize what the geological experts say is coming; a major earthquake on the Hayward Fault. That is not to say that one of the other faults within the District boundary such as the Greenville, Calaveras or Concord fault might also have a major shift. The Napa earthquake adds another dimension in that the Napa fault is unrecognized. Geologists acknowledge that there may be other yet unrecognized faults in the area. ABAG indicates there is a 66% probability of a major shift on the Hayward fault within the next 20 years and predictions for substantial damage within a swath along the fault line, which includes those five buildings and substantially more property.

The Tilden Equipment Shop fire, as well as the damage sustained by Napa County are examples of the potential costs associated with substantial damage. The value of repairing and rebuilding the Equipment Shop hovers close to \$5,000,000. There are substantial costs in many of the recovery facets, including cleanup, repairs, code upgrades, and other factors. Hence, despite the Maximum Probability Loss report, it is possible that \$10,000,000 may be short of what it may ultimately cost to repair or replace the covered buildings.

Risk Management solicited quotes for increased coverage on those buildings. The District's broker responded with the following;

- An additional \$19,000 (plus fees) will double the District's coverage (on those same buildings) to \$20,000,000. (The first \$10,000,000 is priced at \$15,637)
- An additional \$43,500 (plus fees) will fully cover the five buildings should all five be damaged beyond repair.

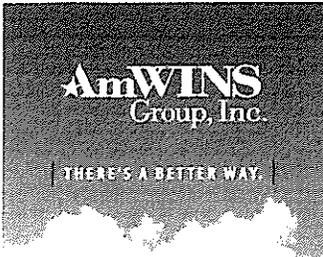
\$19,000 substantially increases the District's coverage, despite the statistical report indicating the existing coverage of \$10,000,000 should be adequate. If Peralta Oaks alone is damaged beyond repair, the existing coverage amount is inadequate to replace the building. For that reason alone it seems that increasing coverage is warranted.

Furthermore, it is suggested that the District consider broader earthquake coverage. This will be a substantial cost in premiums because of the age of the buildings (lack of earthquake mitigation features) and the classification of the East Bay as a high risk for earthquake damage. Staff will work with the District's broker to value the cost of an additional earthquake premium that will protect substantial buildings for this recognized risk. It is believed that additional premium may be absorbed within the existing Fund 555 (Risk).

#### **RECOMMENDATION:**

Accordingly, it is recommended that earthquake coverage for already covered buildings be increased up to \$20,000,000 in potential damage. There is sufficient funding in Risk Fund 555 to pay for the increase coverage in 2015.

It is also recommended that the District explore adding earthquake coverage for additional buildings valued at more than \$300,000 though it will add substantial additional cost (yet to be determined). There is some available funding in the Risk Fund 555 budget for covering additional buildings in the 2015 budget.



**CSAC East Bay Regional Parks  
CATASTROPHE RISK SUMMARY**

**July 1, 2013**

Analysis Performed by:  
AmWINS Group, Inc.  
4725 Piedmont Row Drive, Suite 600  
Charlotte, NC 28210

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**Executive Summary**

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AmWINS Group, Inc. performed a California earthquake analysis to calculate the potential loss for CSAC East Bay Regional Parks based on Risk Management Solutions (RMS) RiskLink Version 11.0 software. The analysis was performed to include the primary peril of Earthquake Shaking and the secondary perils of Fire Following, Earthquake Sprinkler Leakage (EQSL), and Loss Amplification using the RMS Stochastic Event Rate Set. The data for this analysis was provided by CSAC East Bay Regional Parks and represents the most recent exposure for this account. AmWINS Group, Inc. reviewed and formatted the data for use in the RMS model based on the original data received.

**Exposure Summary**

The CSAC East Bay Regional Parks account has 6 locations with a total insured value (TIV) of \$27,763,872. Building Values account for 91.9% of the TIV while Contents accounts for 8.1% of the TIV and Business Interruption accounts for 0.0% of the TIV.

For further exposure details see the Exposure Analysis section of the report which starts on page 12.

**Analysis Summary**

The analysis was performed with a deductible structure of 5% per unit with a 100k minimum and with no limits.

**Loss Summary**

Based on RMS RiskLink Version 11.0 there is a 0.4% annual chance of one earthquake event causing \$3,342,066 or more in loss net of the deductible structure and within the coverage layers being analyzed. This corresponds to a 250 year return period.

The Average Annual Loss (AAL), which corresponds to a pure premium number, for the CSAC East Bay Regional Parks account based on RMS RiskLink version 11.0 is \$39,987 net of the deductible structure and within the coverage layers being analyzed. This means that on a long-term average annual basis, the CSAC East Bay Regional Parks account is expected to sustain \$39,987 in earthquake losses to the insurance carrier.

**\*\*Note:** loss amounts stated above are for the peril of Earthquake Shaking including Fire Following, Earthquake Sprinkler Leakage (EQSL), and Loss Amplification using the RMS Stochastic Event Rate Set

For further loss details see the Detailed Loss Analysis section of the report on pages 4 - 5.

For a breakdown of the locations that contribute the most to the AAL see the AAL by Location section of the report on page 6.

The Loss Estimates produced will help the CSAC East Bay Regional Parks account to:

- Identify areas of exposure concentration
- Identify locations that contribute the most to modeled loss estimates
- Understand earthquake loss potential

EAST BAY REGIONAL PARK DISTRICT  
**BOARD FINANCE COMMITTEE**  
AGENDA STATEMENT  
MEETING DATE – February 25, 2015

**SUBJECT:** Renewal of Athens Administrators Contract for Third Party Workers' Compensation Claims Administration Services

Report prepared by: Anna Fong, Administrative Analyst II

**ATTACHMENT:** Athens Administrators Pricing Proposal

**RECOMMENDATION:** Recommend renewal of Athens Administrators contract for a three year term to the full Board of Directors: July 1, 2015 – June 30, 2018

**DESCRIPTION:**

The District is self-insured but not self-administered for workers' compensation claims arising out of work-related injuries/illnesses. Athens Administrators has been the District's third party administrator for workers' compensation claims administration services since July 1, 2012. Their three year service contract ends on June 30, 2015.

Athens has provided exceptional services over the last three years; the District's caseload has decreased by 25% under their administration. This translates to good claims handling and employees getting back to work sooner.

A Request for Proposal was conducted in 2012 and Athens' bid was competitive. In negotiating the current contract renewal, Athens took in consideration the decrease in caseload and the District was able to secure a 2% decrease in the contract price for the first year of the renewal, July 1, 2015 through June 30, 2016. For the second and third years of the contract renewal, the District was able to secure a 2% increase for each year. This allows for a modest increase over the current rate of inflation (1.6% average in 2014) and compensates Athens for a job well done.

**RECOMMENDATION:**

It is recommended that the Finance Committee recommend to the full Board of Directors the renewal of the existing contract with Athens Administrators for a three year term for the period July 1, 2015 through June 30, 2018 in the amount of \$734,496. Breakdown of the costs by year is as follows:

- July 1, 2015 – June 30, 2016: \$240,000
- July 1, 2016 – June 30, 2017: \$244,800
- July 1, 2017 – June 30, 2018: \$249,696

**EAST BAY REGIONAL PARK DISTRICT**

Pricing Proposal for:  
**WORKERS' COMPENSATION CLAIM ADMINISTRATION SERVICES**  
 Prepared by:  
**Athens Administrators**

<b>FLAT ANNUAL FEE - includes takeover claims + new occurrences</b>	<b>Flat Annual Fee</b>
July 1, 2015 - June 30, 2016	\$240,000
July 1, 2016 - June 30, 2017	\$244,800
July 1, 2017 - June 30, 2018	\$249,696
<b>TOTAL THREE YEAR COST</b>	<b>\$734,496</b>

<b>Staffing</b>	<b># of Personnel</b>
Division Manager	1 Designated
Supervisor	1 Designated
Senior Claim Examiner	1 Fully Dedicated
Future Medical Claim Examiner	1 Designated
Assistant Claim Examiner	1 Designated

**Pricing Notes**

1) Pricing contemplates Athens providing both claim administration and managed care services.

**Additional Services**

Annual Administration Fee* (Included in Flat Annual Fee Noted Above)	\$7,500
<i>Administration - includes mgmt. of (1) bank account, addtl. accounts at \$400 per month</i>	Included
<i>Data Management</i>	Included
<i>Account Management</i>	Included
<i>Claim Reporting (web, fax, telephonic)</i>	Included
<i>Dash Board Risk Management Web Site</i>	Included
<i>Web Site Access (2 Users)</i>	Included
<i>Annual Stewardship Report</i>	Included
<i>Electronic Delivery of Monthly Loss Runs</i>	Included





EAST BAY REGIONAL PARK DISTRICT  
**BOARD FINANCE COMMITTEE**  
AGENDA STATEMENT  
MEETING DATE – February 25, 2015

**SUBJECT:** 2015 Internal Audit Plan, Final 2014 Internal Audit Results, and 2014 Quality Assurance and Improvement Program Report.  
Report by: David Sumner, CIA, CFE, CGFM, Audit Manager

**ATTACHMENT:** 2015 Internal Audit Plan, 2014 Quality Assurance and Improvement Program Report

**RECOMMENDATION:** Review the information and direct staff to provide the 2015 Internal Audit Plan for acceptance by the Board of Directors.

**INTRODUCTION:**

This is the final, year-end 2014 Internal Audit report. It includes both a recap of mid-year update items, as previously presented at the October 22, 2014 Finance Committee meeting, and the status of items subsequently completed by year-end. The topics previously presented to the Committee are shown *in italics, for the Committee's convenience*, and the new materials generally begin on the seventh page of this report. The presentation will also focus on the more recently completed project reports.

**DESCRIPTION:**

Auditing is defined as the systematic accumulation of evidence about information, to determine and report on the degree of correspondence between the information and established criteria.

The Internal Audit Unit performs an appraisal function that assists management in monitoring whether financial activities are carried out as planned and whether established internal controls are functioning properly. The audit function alerts management of any potential issues that arise so that preventive or remedial actions may be taken.

Internal controls represent the policies, procedures, systems, and practices that District management establishes and enforces, to ensure accomplishment of objectives and safeguarding of assets.

Internal audit staff assists management in design, implementation, and modification of internal controls through monitoring and evaluating the District's system of internal control in conjunction with the audit of the District activities and related operations. Staff reviews financial transactions, cash handling practices, District-funded grants, concession agreements, contracts, RFPs, assists with the development of the District's Comprehensive Annual Financial Report (CAFR), and performs other duties as assigned.

Staffing: The Internal Audit Unit is comprised of an Audit Manager and one Accountant. The Accountant position was vacant during the first 5 months of the year 2014, since the incumbent was reassigned to report to the Finance Department Accounting Manager. She voluntarily returned to the Internal Audit Unit effective May 31, 2014, and the Internal Audit Unit has had adequate staffing thereafter.

Projects: During the year 2014, Internal; Audit Unit staff completed 35 audit projects. A briefing of those projects is as follows.

## 2014 Internal Audit Plan Projects' Results

- 1. Review of Ardenwood Cash Handling Procedures:** *Ardenwood is a fully functioning farm, owned by City of Fremont and operated by East Bay Regional Park District since 1985. It generates approximately \$278,000 in revenue per year for the District.*

*The audit examined Ardenwood Historic Farm's cash collection procedures, to assess safeguarding and accountability of cash on-hand and daily collections, verified functionality of internal controls, and reviewed compliance with the District's policies and procedures.*

*Occasionally Ardenwood cashiers had directly refunded admission fees to patrons, without retaining adequate documentation to substantiate refunds made. As such, they were non-compliant with the established procedures. Insufficient documentation of refunds hampers safeguarding of assets, and may prevent timely detection of potential misappropriation of daily collections. Park Supervisor was advised to require and verify retention of original admission tickets and preparation of Paid out/Refund/Overring Voucher, for direct refunds, and enforce compliance with cash handling procedures.*

*When Ardenwood's electronic cash registers were down, visitors were admitted without collection of admission fees and issuance of manual receipts. After electric power was restored patrons were expected to pay applicable admission fees on their way out. This had fostered good public relations, by reducing waiting time; but was an overt breach of internal controls. Visitors' virtue and honesty were relied upon instead of enforcing established policies and procedures that are designed to promote safeguarding of the District's assets. Park Supervisor was advised to enforce and enhance compliance with established policy and procedures, and have staff issue manual receipts whenever the system is down.*

*Public Safety personnel are responsible for transporting collected cash from this park to the bank, on a regular schedule. However, they had not observed the cash bag pick-up schedule some 40% of the time, leaving excessive amounts of cash in custody of the Ardenwood staff. Cash collections that were not picked-up and were not deposited into the bank timely had to be safeguarded while remaining idle and not earning any interest. We recommended that the Operations Division communicate with Public Safety, and reinforce compliance with the current cash bag pick-up schedule or a modified version of it, to enhance safeguarding and expedite timely pick-up and deposit of cash collections.*

Discussion Draft was issued on March 4, 2014. Response from Operations Division is pending.

2. **Review of MLK Tidewater Capital Improvement Project:** Tidewater Boating Center (formerly known as Tidewater Aquatic Center) is located on the Oakland estuary. The project comprised of design and construction of facilities for boat storage, restroom/shower, office, security residence, a floating dock system, and a paved connection to the Bay Trail. It was financed by grants from California Department of Parks and Recreation, and funds allocated from Measure CC Property Tax funds. The project with a final budget of \$5,880,689 was completed on February 22, 2011.

The audit examined financial records relating to this project from commencement through May 31, 2013; reviewed grants awarded by grantor agencies, and interviewed staff involved to report on functionality of internal controls, compliance with administrative requirements, and safeguarding of assets.

Audit denoted that a 10% Construction Retention, refundable to the contractor upon satisfactory completion of the project, was not withheld from three initial payments to the project contractor in 2009. As a result, total amount deposited to and withdrawn from the retention account in the District Finance System were not equal, adversely affecting accurate reporting of the District's liabilities. Although, overall the contractor was not overpaid, discrepancy revealed an internal control weakness. We recommended that staff calculate and code amounts retained properly, and suggested the Finance Department staff continue to review and reconcile remaining balance of the Construction Retention account to applicable projects balance, and resolve potential discrepancies as soon as possible.

Discussion Draft was issued on July 1, 2014. Response from Planning, Stewardship and Development Division is pending.

3. **Review of Land Acquisition Black Diamond – Vogt et al. (Barron) Property:** The Vogt et al. (Barron) property is a 798 acres lot, located east of the City of Clayton. Its acquisition has enabled the District to develop trails connecting Clayton Ranch and Diamond Mines Regional Preserve in the future. Acquisition of this property was made possible and financed through a partnership with East Contra Costa County Habitat Conservancy, and use of Federal and State grants and proceeds of Measure WW.

The audit examined financial records, reviewed grants awarded by grantor agencies, and disbursements from Measure WW Bonds, and verified supporting documents to ensure propriety of accounting transactions and functionality of internal controls.

Measure WW Bonds proceeds are used to fund the District's land and trail acquisitions. Union Bank is custodian of the Measure WW funds, administering and disbursing requested funds to the District on a cost reimbursement basis. Audit denoted that Measure WW reimbursement requests related to this project, that were compiled and submitted by Finance Department staff

to Union Bank, were not documented clearly in order to determine accuracy and timeliness. We recommended staff exercise greater due diligence when documenting adjustments to projects funding status, and continue to file accurate and timely quarterly reimbursement requests.

Audit report was issued on October 14, 2014. Finance Department agreed with the audit recommendations, and committed to preparing the project quarterly reimbursement requests for review by the CFO/Controller within 60 days of the quarter end.

4. **Review of Dumbarton Quarry Project Tipping Fee Payments:** Dumbarton Quarry is approximately 90 acres, belongs to Dumbarton Quarry Associates (DQA), and is dedicated to the East Bay Regional Park District for public park purposes, as a condition of approval for an extension of its use permit that was issued by City of Fremont. Reclamation activities are being performed on the site, which among other things includes filling the pit with acceptable fill materials through June 2029. During 2013 DQA charged a \$200 per truck-load fee, and paid a \$10 tipping fee per truck to the District for materials that were dumped into the pit. From commencement through May 31, 2014 the District has received a total of \$2,068,469.18 in cash and in-kind services from DQA.

The audit examined records prepared by DQA to assess accuracy and timeliness of tipping fees paid to the District, and verified compliance with the financial terms of the agreement. Overall, DQA was compliant and tipping fee calculations and payments were timely and substantiated. However, there were a few issues.

A total of 129 loads of fill materials hauled to Dumbarton Quarry were not reported to the District. DQA staff indicated that those activities predated their agreement with District representatives, but could not provide us any written proof. We recommended collection of \$967.50 for unpaid Tipping Fees.

Temporary stockpiling of hauled materials not used as quarry pit fill, and their subsequent removal from the site is allowed per current agreement. However, those activities had adversely affected verifiability of reported tipping fees to the District. DQA staff used their discretion to determine number of truck-loads of stockpiled incoming clean reusable materials, and had exempted them from payment of Tipping Fees to the District. This practice is a control risk that has exposed the District to potential loss of revenue, since DQA's downward adjustments of total number of incoming loads due to temporary stockpiling, could not be independently verified at this time. We recommended that District negotiates with DQA allowable quantity, procedural controls, required documentation, and accounting treatment of the truck-loads of clean reusable materials that may be temporarily stockpiled at the Disposal site to reach an agreement.

Audit report was issued on October 7, 2014. Legal Division agreed with the audit comments and recommendations and plans to take appropriate remedial action to rectify issues of concern.

5. **Review of Willow Park Golf Course:** For nearly 50 years, East Bay Regional Park District has sub-leased an approximately 150 acres parcel, located in Lake Chabot area, to the concessionaire that operates Willow Park Golf Course. Willow Park Golf Course Concessionaire pays approximately \$89,000 a year in concession fees to the District. In turn, East Bay Regional Park District remits 37.5% of total concession fees collected from the concessionaire, to East Bay Municipal Utility District which is owner and original lessor of the land. The current concession agreement expires at the end of 2014 and the process is underway to select a new concessionaire.

The audit examined functionality of the concessionaire's internal controls, and compliance with financial provisions of their agreement with the East Bay Regional Park District, to verify accuracy and timeliness of the concession fees received.

We concluded that although concessionaire's internal controls were generally functional, amount of concession fees paid to the District was lower than required.

The concessionaire had bartered a portion of their daily receipts with a data-processing service provider, and had offered complementary play time to third parties without prior consent and knowledge of the District. We recommended pursuing collection of unpaid concession fees, estimated from \$8,722.50 to \$12,211.50, and clarifying how bartered and complementary play time offers should be treated, in the future contracts.

The concessionaire had not reported to the District total amount of rent received from one of their sub-lessees, miscellaneous revenues, and reimbursements for the shared costs, as a part of their gross receipts, by misinterpreting term of the agreement. We recommended collection of \$5,177.23 in unpaid concession fees, and preventing subjective interpretation of the terms of the agreements, by defining components of gross receipts in the future contracts.

Also, the restaurant and banquet facility total sales were deliberately understated, through exclusion of collected gratuities, amounts charged for labor, and amounts that were paid out of their daily collections. We suggested that District management considers these issues and decides how to proceed with their disclosure to the Willow Park Golf Course partnership that has sub-leased the restaurant and banquet facility to a third party operator, to recover applicable unpaid concession fees.

Discussion Draft was issued on Aug. 27, 2014. Concession Agreement was terminated. Response from Operations Division is pending.

6. **Review of McLaughlin Eastshore State Park Concession – Seabreeze Café & Market:** Eastshore property was acquired jointly by State of California Department of Park and Recreation and East Bay Regional Park District on January 9, 1990. Consequently, the District as Trustee for the benefit of State and itself, became responsible for the oversight and administrative control of Seabreeze Café & Market which operates a fish and produce market,

bicycle rental facility, Christmas tree, pumpkin, and firewood lot under a License Agreement that is currently extended until June 30, 2015.

The audit examined concessionaire's compliance with the financial provisions of the License Agreement, during January 1, 2011 through July 31, 2014.

We concluded that the concessionaire was not fully compliant with the financial provisions of the License Agreement. Although concessionaire had paid rent regularly every month, remittances were not always timely and for required amount. Out of 31 months reviewed, on 13 months concessionaire had underpaid rent for a total \$1,341. Unpaid rent is also subject to an additional 10% late payment penalty.

We recommended management pursues collection of unpaid rent and late fees, and Finance Department staff verify propriety of monthly rent payments, and time notify Land Division staff to follow-up with the concessionaire, to resolve potential discrepancies between required and actual rent paid.

Discussion Draft was issued on Aug. 29, 2014. Response from Operations Division is pending.

- 7. Review of Little Hills Facility at Las Trampas Concession:** Pursuant to the Concession Agreement dated December 14, 2010 Urban Park Concessionaires operates this facility as a site for group picnics, weddings, and special events by reservation only. Term of the current agreement, expires on November 30, 2014. Concessionaire pays approximately \$58,000 in concession fee, and contributes approximately \$81,000 to maintenance fund, per year.

The audit examined whether concessionaire was complaint with financial aspects of the concession agreement, gross revenue was properly accounted for, and concession and maintenance fees were accurately calculated and remitted timely.

We concluded that concessionaire was not fully compliant with the financial provisions of the concession agreement. Revenue reported to the District was understated, and concession and maintenance fees paid were less than required, due to the exclusion of residence rent, service charge and facility rent. However, monthly remittance on the reported revenues was timely.

Urban Park Concessionaires has routinely ignored inclusion of residence rent in its gross receipts, Also, year 2010 total gross receipts was understated due to duplicate sales tax deduction. We recommended collection of unpaid concession and maintenance fees from Urban Park Concessionaires.

Facility's cash register machine was not operated properly, generating records that were unreliable and sometimes unverifiable. During 92 business days of 2010, in approximately 65% of times, tally of daily transactions per the Cash Register's Z Tape was somewhat distorted due to keying error's, inaccurate transaction date, or erased historical data when the machine was shut off. Concessionaire is required to keep accurate books and records that show all of its income and expenses. Insufficient and unverifiable records, such as Z tapes,

*could lead to inaccurate financial reports and potential underpayment of fees due to the District. We recommended diligent data input, replacement of the current cash register with one that retains its memory even when it is turned off, and retention of verifiable records.*

*Discussion Draft was issued on September 24, 2014. Response from Operations Division is pending.*

**8. Review of Kennedy Grove Regional Recreation Area Cash Handling Procedures:**

Kennedy Grove is located north of the San Pablo Reservoir in El Sobrante, and provides reservable facilities and recreational opportunity for visitors year-round. It generates approximately \$80,000 in revenue per year, of which about \$45,000 is collected onsite.

The audit examined Kennedy Grove's cash collection procedures, to assess safeguarding and accountability of cash on-hand and daily collections, functionality of controls, and compliance with the District policies and procedures.

At Kennedy Grove patrons may rent volleyballs and horseshoe sets, for a fee of \$2 per set plus a \$20 deposit that is refundable upon proper return of the rented items. Deposits for damaged or lost items are forfeited, and occasionally patrons may neglect to get their refund. Park staff had purchased off-the-shelf unofficial receipt books to keep track of such transactions, and the unclaimed and forfeited deposits were neither deposited to the bank nor reported on the Daily Revenue Reports. In some instances, Park staff had used a portion of the forfeited funds to purchase replacement volleyballs and horseshoe sets. Also, whenever cash register machine was not functional, instead of the District official manual receipts, the unofficial receipts books were used.

We noted unrecorded immaterial amounts of cash and coins on-hand during our unannounced cash count on July 9, 2014.

As explained Park staff was not adequately compliant with the District Financial Policies and Procedures, and it had adversely affected safeguarding of assets.

We also noted that Kennedy Grove record retention and documentation needed improvement. In some instances Daily Revenue Reports were not transmitted, or were not submitted to the Finance Department timely, prolonging cash reconciliation process and financial reporting. There were an unexplained variance between amount collected per Daily Revenue Reports and amount deposited into the bank in 48% of the samples tested. Some of the cash register Z tapes, and Ventek machine C tapes that document official accountability were missing. Missing records increase potential for misappropriation of the District revenues.

Kiosk attendants were allowed to directly refund parking fees to patrons, without sufficient documentation and supervisory review.

Park Supervisor was recommended to enhance his monitoring of the cash handling activities, and enforce compliance with the District cash handling policies and procedures, ensure retention of verifiable records and timely transmittal of Daily Revenue Reports, and proper documentation of direct refunds.

Discussion Draft was issued on December 31, 2014. Response from Operations Division is pending.

**Review of Measure WW Grants:** During the year, the following 25 pre-approved projects funded by Measure WW grants were reported to have been completed, and the grantee-provided records of those projects were subjected to an audit to ensure compliance with the EBRPD requirements and satisfactory completion of the projects prior to approving their final payment request. Audit staff found that grantees were generally compliant and approved their final payment requests in accordance with the established procedure.

<u>Grantee</u>	<u>Project # and Title</u>	<u>Total Grant Amount</u>
City of San Leandro	311005 Marina Park Irrigation Improvement.	\$622,000.00
Discovery Bay	314002 Community Center Project.	400,000.00
City of Alameda	310002 Tillman Park Play Structure Replacement.	42,773.00
City of Antioch	311408 Community Park Synthetic Turf Fields.	2,999,744.75
City of Antioch	311400G Prewett Aquatics Renovations.	420,000.00
Pleasant Hill Rec.	312803 Community Center.	323,985.00
City of San Leandro	311010 Toyon Park Pathway Rehabilitation.	89,314.51
City of Fremont	310503 Replace Irrigation Controller & Radio Project.	576,122.19
Contra Costa County	313701 Clyde Park Improvement project.	36,681.00
City of Antioch	313400A Security Camera Project.	311,200.00
City of Concord	311720 Tennis Courts & Softball Field Lighting.	496,879.67
City of San Leandro	311007 Stenzel Park Drainage Project.	174,895.09
City of Oakland	310703 25 <sup>th</sup> Street Mini Park Project.	719,035.60
City of Fremont	310505 Irrigation Wells and Pumps Rehabilitation.	734,615.37
City of San Pablo	313001 Helms Community Center.	1,000,000.00
City of Union City	311101 Restroom Building Facilities Replacement.	1,204,075.98
City of Concord	311715 Playground Equipment at Newhall Park.	247,727.30
City of Fremont	310504 Patterson House Rehabilitation.	556,782.48
HARD	311205 Castro Valley Center ADA Kitchen Project.	50,107.00
City of Pinole	312606 Swim Center Heater Replacement.	24,000.00
City of Pinole	312608 Solar Panel Facilities at Pinole Swim Center.	60,000.00
HARD	311206 Castro Valley Park ADA Pathway Project.	75,000.00
HARD	311207 Castro Valley Center HVAC Project.	100,000.00
HARD	311214 Weekes Park ADA Tot Time Play Area.	70,789.72
HARD	311208 Castro Valley Center ADA Tot Play Area.	21,375.97

**Result of Internal Audit Project Completed on Request (not included on 2014 Internal Audit Plan)**

**Review of a Former Employee's Activities within Finance Department:** Union dues are withheld from the District's represented employees' payroll, and are remitted to the Union's bank account by the Finance Department on a regular basis.

On August 19, 2014 the District management was notified by the AFSCME Local 2428 Union President about alleged misuse of an estimated \$490,000 in Union dues. The funds in question were retained and controlled by the Union. Alleged perpetrator (i.e., Union Treasurer), who was also a longtime Finance Department employee, was immediately put on Administrative Leave and has subsequently retired from the District.

Pursuant to the District's management request, Internal Audit staff performed a targeted review of the District records to assess whether employment of the alleged perpetrator within Finance Department had adversely affected safeguarding of the District's assets.

Review of the available systems, accounts, and records did not reveal any specific fraudulent activity. The audit concluded that the District system of internal controls was overall functional and reliable, and Union dues remitted by the District during January 2006 through August 2014 were not tampered with while they were in transit. Alleged misuse of the Union dues occurred only after funds were placed in the custody of the AFSCME Local 2428 Union.

To further strengthen District system of internal controls, Internal Audit staff shared their observations and offered recommendations to the District management.

Discussion Draft was issued on December 15, 2014, and Finance Department response was received on February 5, 2015.

## **External Audit Projects Results**

**Rose Property Acquisition Audit:** East Bay Regional Park District was awarded two grants for a total of \$394,218 by State of California, Department of Parks and Recreation for acquisition of the 218 acre Rose property that resulted in an expansion of Vargas Plateau Regional Park.

The District's reported expenditures for the project was subjected to a review by grantor's Audits Office. The East Bay Regional Park District was found compliant, and project was approved for closure without requiring any further action.

**Urban Area Security Initiative Grant Audit:** City and County of San Francisco, Department of Emergency Management, under their Bay Area Urban Areas Security Initiative had granted \$88,180 to the East Bay Regional Park District. Funds granted were spent to replace Eagle 6 helicopter radio system.

Pursuant to the requirements of the U.S. Office of Management and Budget, an on-site monitoring visit was conducted by City and County of San Francisco staff, to ensure that grant funds were used for authorized purposes in compliance with laws and regulations.

Reviewers found that East Bay Regional Park District did not have policies and procedures to ensure that contractors we enter into agreements with, are not debarred or suspended with the Federal government.

Since October 2014, District staff has established a procedure that verifies status of all federally-funded contractors, to ensure that they have not been debarred or suspended.

### **2015 Internal Audit Plan**

Internal audit projects were selected based on level of financial risk, which is defined as a set of circumstances that hinder achievement of objectives. The financial risk assessment was first completed in 2009 and is updated annually for audit planning. A risk-based auditing approach helps define the areas with the greatest financial impact and the greatest financial risk for the District. The risk assessment process involves understanding the entity and its environment including internal controls, performing analytical procedures, observation and inspection, and eventually establishing a risk scoring system that is used for developing the annual internal audit plan.

The top priority of the internal audit function is to examine a high risk revenue area, and a high risk expenditure area, every year. The risk areas are reassessed annually and projects rotated, so all are examined on a regular basis. 2015 planned audit projects include formal review of a prior year audit project findings and recommendations, and assessing their implementation and impact on improving internal controls. If time permits, audit staff will also review personnel's compliance with an established District policy.

The *2015 Internal Audit Plan* is approved by the General Manager and reviewed with the Board Finance Committee. The results of the audit projects are reviewed with District management and the Finance Committee. The desired goal of the internal audit function is to help management effectively discharge their duties by enhancing and maintaining effective controls throughout the District.

### **RECOMMENDATION**

Review the information and direct staff to provide the 2015 Internal Audit Plan for acceptance by the Board of Directors.

**EAST BAY REGIONAL PARK DISTRICT  
FINANCE DEPARTMENT  
2015 INTERNAL AUDIT PLAN**

Selected Projects

**Review of Carquinez Scenic Trail Capital Improvement Project No. 148500**

Verify compliance with administrative requirements, functionality of controls, and safeguarding of assets.

**Review of Skyline Ranch Stables Concession**

Verify concessionaire's compliance with the contract terms.

**Review of MLK, Jr. Regional Shoreline Cash Handling Procedures**

Verify adequacy and reliability of internal controls, safeguarding of assets, and compliance with administrative requirements.

**Review of Don Castro Regional Recreation Area Cash Handling Procedures**

Verify adequacy and reliability of internal controls, safeguarding of assets, and compliance with administrative requirements.

**Review of Garin Regional Park Cash Handling Procedures**

Verify adequacy and reliability of internal controls, safeguarding of assets, and compliance with administrative requirements.

**Review of the District's Financial System (OneSolution) Security**

Review and assess propriety of access controls setup, to ensure safeguarding of assets.

**Review of Workers' Compensation Claims Processing \***

Verify compliance with administrative requirements, functionality of controls, and safeguarding of assets.

**Review of Contra Loma Cash Handling Procedures\*\***

Verify adequacy and reliability of internal controls, safeguarding of assets, and compliance with administrative requirements.

**Follow-up Review of RPF Membership Fee Collection as it relates to the District**

Verify propriety of internal controls, and safeguarding of assets .

**Follow-up Review of Quarry Lakes Cash Handling Procedures\*\***

Verify adequacy and reliability of internal controls, safeguarding of assets, and compliance with administrative requirements.

**Review of Deer Valley - Roddy Ranch Land Acquisition, Project No. 234800**

Verify propriety of accounting transactions and functionality of controls.

**Review of Big Break Visitor Center Capital Improvement Project No. 104803 \*\***

Verify compliance with administrative requirements, functionality of controls, and safeguarding of assets.

Routine Projects

**Review of Contracts and RFPs**

Review, revise and refine text of the proposed contracts & RFPs. Perform financial review, protect the District's best interest and assist with vendor selection.

*Requested by: Management and staff.*

**Review of Measure WW Local Grant Projects**

Verify propriety of payment requests submitted to the District's Grants Department.

*Requested by: Jeff Rasmussen, Grants Manager*

\* Project field work was started in 2014 , audit report will be issued in 2015.

\*\* Project field work was completed in 2014 , audit report will be issued in 2015.

## East Bay Regional Park District

### Finance Department

#### Internal Audit Unit

#### 2014 Quality Assurance and Improvement Program Report

Quality of a product or service is the degree to which the product or service is fit for purpose, or meets the customer's expectations.

Pursuant to promulgations of the Institute of Internal Auditors and United States Government Accountability Office, the District's Internal Audit Unit is required to develop and maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit activity. The QAIP should measure whether internal audit is meeting its own objectives, as well as those of the broader organization. Audit Manager is required to report results of the QAIP activities to the Board Finance Committee and management.

The primary objective of the QAIP is to promote continuous improvement and provide reasonable assurance that Internal Audit Unit:

1. Complies with the *Generally Accepted Government Auditing Standards* and The Institute of Internal Auditors *International Standards for the Practice of Internal Auditing (IPPF)* and *Code of Ethics*, as applicable.
2. Performs its work in accordance with the East Bay Regional Park District Internal Audit Charter.
3. Helps in improving East Bay Regional Park District's operations.

To ensure quality and compliance, Internal Audit Unit:

- A. Has a Board approved Internal Audit Charter.
- B. Performs and updates audit risk assessment annually.
- C. Prepares a risk based annual Audit Plan.
- D. Has internal and external assessment processes for ongoing review, supervision of engagements and staff, and undergoes a periodic Peer Review.
- E. Reports to the Board Finance Committee and management results of internal and external assessments - along with a written action plan in response to significant comments and recommendations contained in the reports, when applicable.
- F. Hires qualified staff, and strives to maintain adequate staffing level.
- G. Supports staff's professional development through training.

The Audit Manager is responsible for quality of audits performed, monitoring of quality assurance activities, and developing and implementing a Quality Assurance and Improvement Program that is tailored to size, structure, and nature of the Internal Audit Unit activities within the District.

This is the first annual QAIP report based on the ongoing monitoring, and discloses to Board and management, material nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards, that impacts the overall scope or operation of the internal audit activity.

The followings are opportunities for improvement:

- I. **Condition:** Response to the audit reports' comments and recommendations is normally due 30 days after an *Audit Report Discussion Draft* is issued. Often response to the audit report's comments and recommendations is not delivered timely, and in some instances management has declined to respond.

Whenever response due is unjustifiably delayed, or there is an outright lack of response to the audit report's comments and recommendations, District remains exposed to the risks that were identified in the audit report. There is also no assurance that management has given due consideration to the issues communicated in the audit report, and is implementing audit recommendations.

Under these circumstances, one can deduce that there is no remedial action plan for timely and full resolution of the identified weaknesses and or problems, which makes periodic follow-up review by Internal Audit Unit a moot point.

Per IPPF Standard #2500 – The District's Audit Manager must establish and maintain a system to monitor the disposition of results communicated to management. Per IPPF Standard #2500.AI- The District's Audit Manager must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

**Recommendations:** Currently, District leadership is notified about status of the audit recommendations twice a year. To enhance conformance, Audit Manager proposes to send a copy of the audit reports issued along with a transmittal letter, to the General Manger 45 days after response is due, communicating management's action or inaction, in response to the audit report's comments and recommendations.

2. **Condition:** Electronic data processing is permeating every aspect of the District's activities, and is a mission critical component of the District operational, financial, and communication systems and infrastructure.

In 2015 Internal Audit Unit is planning to perform a review of the *District's Finance System (OneSolution) Security* to assess propriety of access controls / security levels

assigned to staff that interact with the system upon its implementation. However, Information Services Department is not receiving sufficient audit coverage.

The District's Internal Audit Unit staffing and technical capability is inadequate for undertaking a comprehensive review of the information technology related risks, and identifying control weaknesses.

Per IPPF Standard #1210.A3 - Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing. Per IPPF Standard #2110 - District Audit Manager is required to communicate risk and control information to appropriate level of the organization's leadership, and per IPPF Standard #2120 - Significant risks are to be identifies and assessed.

**Recommendation:** The District's management is recommended to arrange for performing a comprehensive information technology audit by a qualified third party contractor, to assess risks and controls, and identify and report on vulnerabilities that have to be remedied.

Since information technology systems are mission critical, and their role and complexities are increasing and evolving rapidly, District is recommended to allocate adequate resources for training of its Internal Audit staff about information technology auditing, and purchase and use of audit software in 2016.



EAST BAY REGIONAL PARK DISTRICT  
**BOARD FINANCE COMMITTEE**  
 AGENDA STATEMENT  
 MEETING DATE – February 25, 2015

**SUBJECT:** Recommendation for Community Facilities District (CFD)  
 Formation and Assessment District Administration Services

Report Prepared by: Deborah Spaulding, Assistant Finance Officer

**RECOMMENDATION:** Direct staff to prepare this recommendation for approval by the Board of Directors.

**DESCRIPTION**

Overview

The District uses Landscape and Lighting Assessment Districts (LLDs) and special taxes to generate revenue for services in specific areas within the two counties. These revenue sources are complex enough to require oversight and administration by a consultant who specializes in assessment district engineering and administration. The current consultant’s contract will expire at the end of 2015.

Additionally, the District is preparing to form a new Community Facilities District (CFD) for a 109-acre site near Las Trampas Regional Park. Creation of this new CFD will require a consultant to be engaged immediately, in order to begin formation proceedings.

On January 5, 2015, Finance staff issued a Request for Proposals (RFP) for these consultant services. Four firms responded to the RFP, including the District’s current firm, NBS. The proposals were reviewed by staff from Finance & Management Services and Acquisition, Stewardship & Design. Reference checks were performed on the two top-scoring firms.

Staff recommends selection of NBS to serve as the consultant managing the District’s existing assessment districts and special taxes, and to form the new CFD. This recommendation is based on the District’s past experience with NBS, as well as references from other jurisdictions that used NBS’s services for CFD formation.

NBS submitted the following cost proposal:

CFD Formation Fee:	\$10,500
Annual Tax & LLD Administration Fee	<u>\$44,000</u>
TOTAL	\$54,500

This proposal is a 10% reduction from NBS’s current fees. The proposal is in alignment with fees proposed by other firms, which ranged from \$49,500 to \$54,500.

## Background

The District uses Proposition 218 landscape and lighting assessments districts and special taxes to generate revenue to provide services in specific areas within the two counties. These special assessments and taxes generate approximately \$8 million annually, and include the Alameda/Contra Costa Counties Landscape and Lighting District (“Two County LLD”); the East Contra Costa County “ECCC LLD”, six Zones of Benefit, and the Special Park and Operations Maintenance Tax, “Measure CC”. Certain services are required annually for administration of these districts and special taxes: preparation of the statutorily required Engineer’s Report, an annual examination of parcel information, and submission of levy information to the counties. These reports are brought forward on an annual basis for review and approval by the Board of Directors.

Recently, the District has begun discussions with the developer of the 109-acre Podva Property to create a Community Facilities District to manage the open space and trails in the area adjacent to Las Trampas Regional Park. Additionally, a CFD may also be appropriate for maintenance of open space adjacent to the Faria Preserve, a 450-acre development project in the same area.

A Community Facilities District is a type of Mello-Roos financing. CFDs are currently regarded as the preferred method of funding maintenance of open space. The creation of a new CFD follows three general phases, beginning with the Board of Directors defining and adopting the purpose and goals of the CFD. The second part of the process is a special tax election, which requires approval of two-thirds of property owners. Last is the implementation of the levy by the county assessor through parcel taxes.

NBS is headquartered in Temecula, California, with a branch in San Francisco, and the firm has provided engineering and assessment district administration for the District since 2011. NBS is currently one of the most active consultants in CFD financing, with over 15 CFDs currently in formation proceedings. They are also experts in the field of Proposition 218 financing, which is essential to the continued viability of our assessment districts.

## **Recommendation:**

Staff recommends that the Finance Committee recommend to the full board a three-year contract with NBS for Community Facilities District Formation Services and Benefit Assessment Engineering and Professional Administration Services, with the authority to amend the term by two (2) additional one-year extensions, at the District’s discretion.



EAST BAY REGIONAL PARK DISTRICT  
**BOARD FINANCE COMMITTEE**  
AGENDA STATEMENT  
MEETING DATE - February 25, 2015

**SUBJECT:** December 31, 2014 Investment Report  
Report Prepared by: Debra Auker, CFO/Controller

**ATTACHMENT:** December 31, 2014 Investment Report

**RECOMMENDATION:** Review the investment report and direct staff to prepare the information for acceptance by the Board of Directors.

**DESCRIPTION:**

In accordance with State law and the District's Investment Policy, the attached report has been prepared on the District's cash and investments. The grand total of the District's cash and investments as of December 31, 2014 was \$307,458,659.

Pooled cash/investments held by District equaled \$203.6 million, \$44.1 million greater than cash/investments at September 30, 2014. This is expected as fourth quarter revenue (including \$51 million of property tax) exceeded expenditures. Additionally, \$15.5 million was received for the debt levy in December.

Funds held by fiscal agents, US Bank and Union Bank equaled \$103.9 million, \$8.3 million less than bond funds as of September 30, 2014. The majority of the difference was attributed to the spending of WWV project funds.

Year-to-date investment earnings, at the end of the quarter, totaled \$1,756,658, which exceeds the prior year and exceeds 2014 budgeted estimates.

This quarter the District performed on target and just below the short-term benchmark (by -.01%), and outperformed the mid-term benchmark (by .04%). Short-term returns were .03% and mid-term returns were .22%.

This quarter's investment and banking fees totaled \$33,302 or .026% of the average cash/investment balance. Fees as a percentage of the amount invested are consistent with the prior quarter.

Graphs accompanying the investment report include:

- pie chart of District cash and investments by type, and
- bar graph of the mid-term securities investment maturities.

This report is provided to the Finance Committee for review and recommendation to the Board of Directors for acceptance.

**RECOMMENDATION:**

Staff requests that the Finance Committee recommend to the full Board of Directors acceptance of the December 31, 2014 Investment Report.

**EAST BAY REGIONAL PARK DISTRICT  
INVESTMENT REPORT  
for period Ending  
December 31, 2014**

District Cash and Investment Balances:	Fair Value*	Amort Cost Basis (ACB)	ACB	ACB
	December 31, 2014	December 31, 2014	September 30, 2014	December 31, 2013
<b>Pooled Investments Managed by CFO/Controller</b>				
Checking	\$ (2,774,382)	\$ (2,774,382)	\$ 337,146	\$ (581,325)
<i>Short-term investments</i>				
Sweep	4,733,504	4,733,504	3,375,391	10,682,053
LAIF	49,999,019	50,000,000	50,000,000	50,000,000
CAMP	77,078,251	77,078,251	31,505,064	43,730,741
1st Am Govern Fund US Bank invest custodian	166,336	166,336	120,765	282,778
Sub-total	129,202,727	129,203,708	85,338,365	104,114,246
<i>Mid-term securities (amortized cost basis)</i>				
US Treasuries	23,596,703	23,601,902	21,602,210	21,530,604
Federal Agencies/Instrumentalities	24,490,241	24,493,487	23,410,312	29,668,084
State/local Agencies	2,137,326	2,131,702	1,931,966	1,237,751
Corporate Bonds/CP/CDs	24,113,999	24,146,062	27,204,220	20,977,009
Sub-total	74,338,269	74,373,154	74,148,708	73,413,448
<b>Total Pooled Cash/Investments</b>	<b>203,540,997</b>	<b>203,576,862</b>	<b>159,487,073</b>	<b>177,527,694</b>
<b>Bond Funds Managed by Fiscal Agents</b>				
<i>Short-term investments</i>				
Debt service	-	-	-	9,007,885
2012 Prom Note proj fund (Dreyfus non-AMT tax free)	19,785,808	19,785,808	17,939,164	13,752,698
Measure AA project fund	17,235,657	17,235,657	17,639,292	17,400,458
Measure WW project fund	15,878,861	15,878,861	18,637,601	23,791,314
Measure WW capitalized interest	1,797,470	1,797,470	1,797,228	4,454,696
<i>Mid-term securities (amortized cost basis)</i>				
2012 Prom Note proj fund (State/Local Agencies)	4,790,123	4,788,548	6,716,437	10,969,592
Measure AA project fund (Federal Agencies)	-	-	-	2,500,056
Measure WW project fund (US Treasuries)	13,314,030	13,306,440	13,361,818	16,935,313
Measure WW project fund (Federal Agencies)	25,027,735	25,017,554	30,022,077	30,035,587
Measure WW project fund (Corp notes /CP)	6,072,234	6,071,459	6,090,596	16,147,397
<b>Total Bond Funds</b>	<b>103,901,917</b>	<b>103,881,797</b>	<b>112,204,214</b>	<b>144,994,996</b>
<b>Grand Total District Cash/Investments</b>	<b>\$ 307,442,914</b>	<b>\$ 307,458,659</b>	<b>\$ 271,691,287</b>	<b>\$ 322,522,690</b>

\*fair value furnished by State of California (LAIF), Cutwater (securities), PFM Asset Management

Investment Earnings (accrual basis):	quarter ended	year-to-date at	year-to-date at
	December 31, 2014	December 31, 2014	December 31, 2013
Short-term investments	\$ 39,419	\$ 166,014	\$ 207,096
Mid-term investments	275,214	1,590,643	1,280,455
Long-term investments	-	-	9,394
<b>Total Investment Earnings</b>	<b>\$ 314,634</b>	<b>\$ 1,756,658</b>	<b>\$ 1,496,944</b>

**Quarterly Investment Return-Annualized**

Short-term investments	0.11%
Mid-term investments	0.88%

**Quarterly Investment Return-Annualized, Net of Fees**

	0.40%
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**Quarterly Return Compared to Benchmark**

	Benchmark	December 31, 2014	Difference
Short-term invest (benchmark-US T-bill 91 day)	0.04%	0.03%	-0.01%
Mid-term invest (benchmark-ML 1-3 yr UST index)	0.18%	0.22%	0.04%

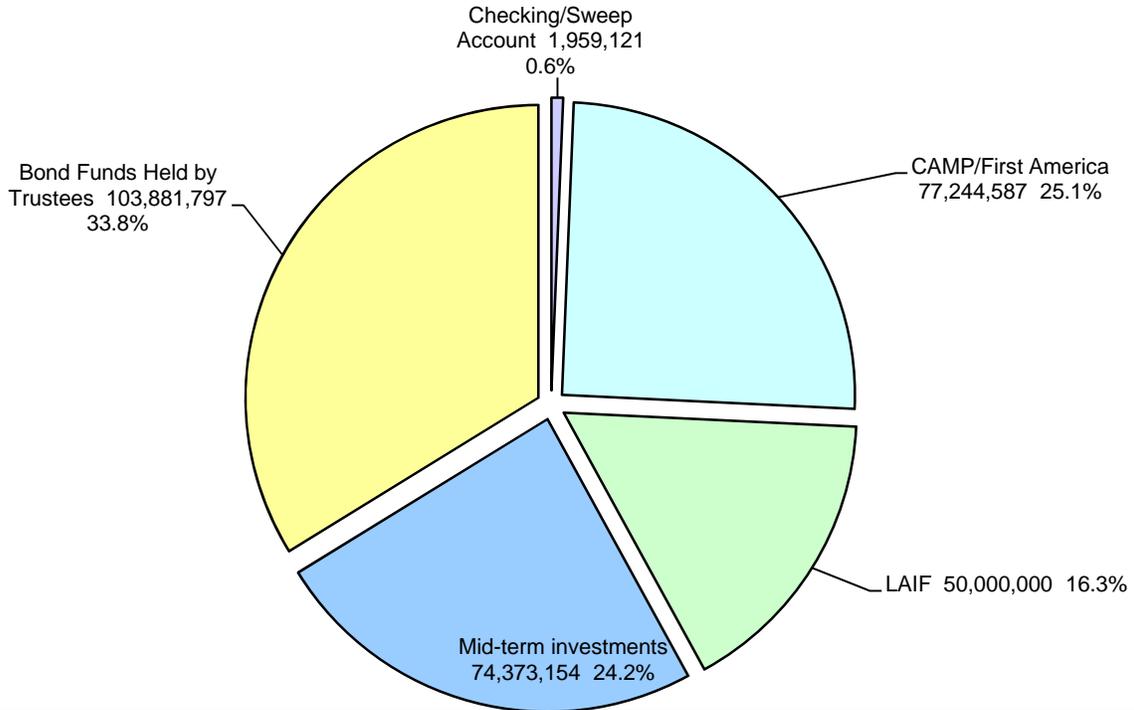
**Investment Fees:**

	quarterly	annual	% of average balance
Wells Fargo account fees	\$ 4,134	\$ 21,038	0.146%
PFM invest mgt fees/US Bank custodial fees	19,898	88,383	0.022%
Cutwater invest mgt fees/US Bank custodial fees	9,270	36,613	0.021%
<b>Total</b>	<b>\$ 33,302</b>	<b>\$ 146,035</b>	<b>0.026%</b>

I verify that this report contains the total amounts of cash and investments at December 31, 2014. The investments are in conformity with the Investment Policy as stated in Resolution # 2014-02-049, dated February 18, 2014. The District's cash management program provides sufficient liquidity in to meet expenditure requirement for the next six months, in conformity with the Investment Policy.

**EAST BAY REGIONAL PARK DISTRICT  
INVESTMENT REPORT  
for period ending  
December 31, 2014**

**Total Cash/Investments by Type \$307,458,659**



**Mid-term Security Maturities \$123,557,155  
(held by District-\$74,373,154/held by fiscal agents-\$49,184,001)**

