

EAST BAY REGIONAL PARK DISTRICT
BOARD FINANCE COMMITTEE
 AGENDA STATEMENT
 MEETING DATE – March 22, 2017

SUBJECT: 2017 Risk Management Annual Report
 Report prepared by: Risk Management Department

ATTACHMENT: 2017 Risk Management Annual Report

RECOMMENDATION: Receive 2017 Risk Management Annual Report and
 Accept Renewal of Existing Insurance Programs for
 July 1, 2017 – June 30, 2018

DESCRIPTION:

The District is continuing to experience low claim frequency and low claim severity in the areas of workers’ compensation and general liability. This is notable given the increasing number of new employees, number of park users, and the size of the District. However, insurance costs are continuing to trend upward and staff is constantly evaluating methods to manage these costs. Overall, costs for the July 1, 2017 through June 30, 2018 policy year are up by approximately \$128,804 or 10% from current rates.

Please see the attached Risk Management Annual Report which outlines the District’s insurance program, workers’ compensation, general liability, unemployment insurance, and safety and loss control measures.

RECOMMENDATION:

Staff recommends that the Board Finance Committee approve insurance program for July 1, 2017 through June 30, 2018 at the “not-to-exceed” estimates as follows:

	Estimated FY 2017-18	Actual FY 2016-17
General Liability	\$ 367,000	\$ 313,953
Property	\$ 456,942	\$ 427,516
Excess Workers’ Compensation	\$ 474,000	\$ 455,571
Aircraft	\$ 100,000	\$ 73,467
Crime	\$ 4,200	\$ 3,939
Watercraft	\$ 2,700	\$ 2,234
Cyber Liability	\$ 2,300	\$ 1,658
TOTAL	\$ 1,407,142	\$ 1,278,338

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2017 RISK MANAGEMENT ANNUAL REPORT

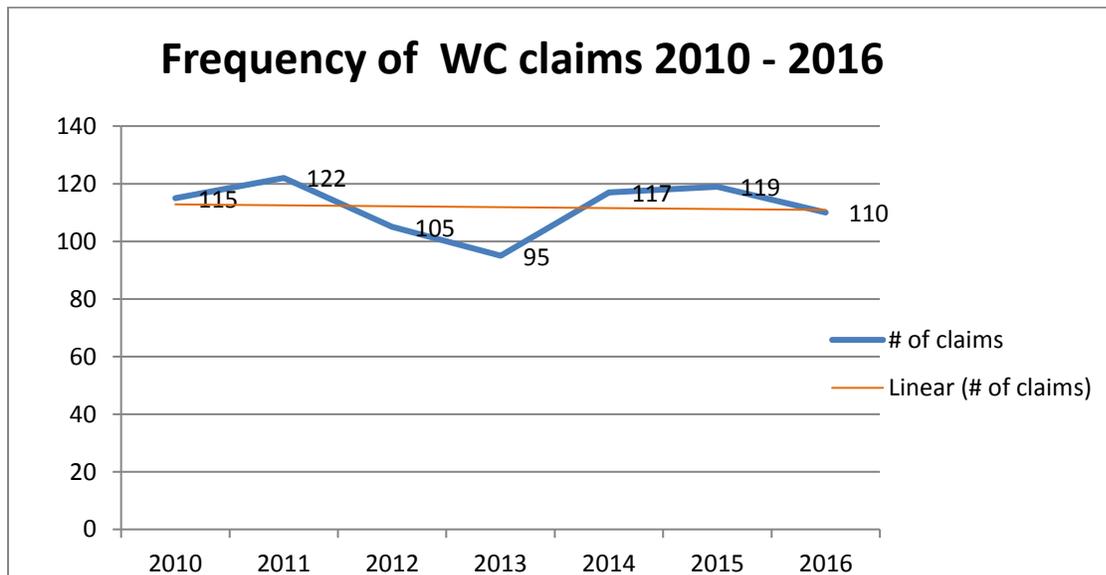
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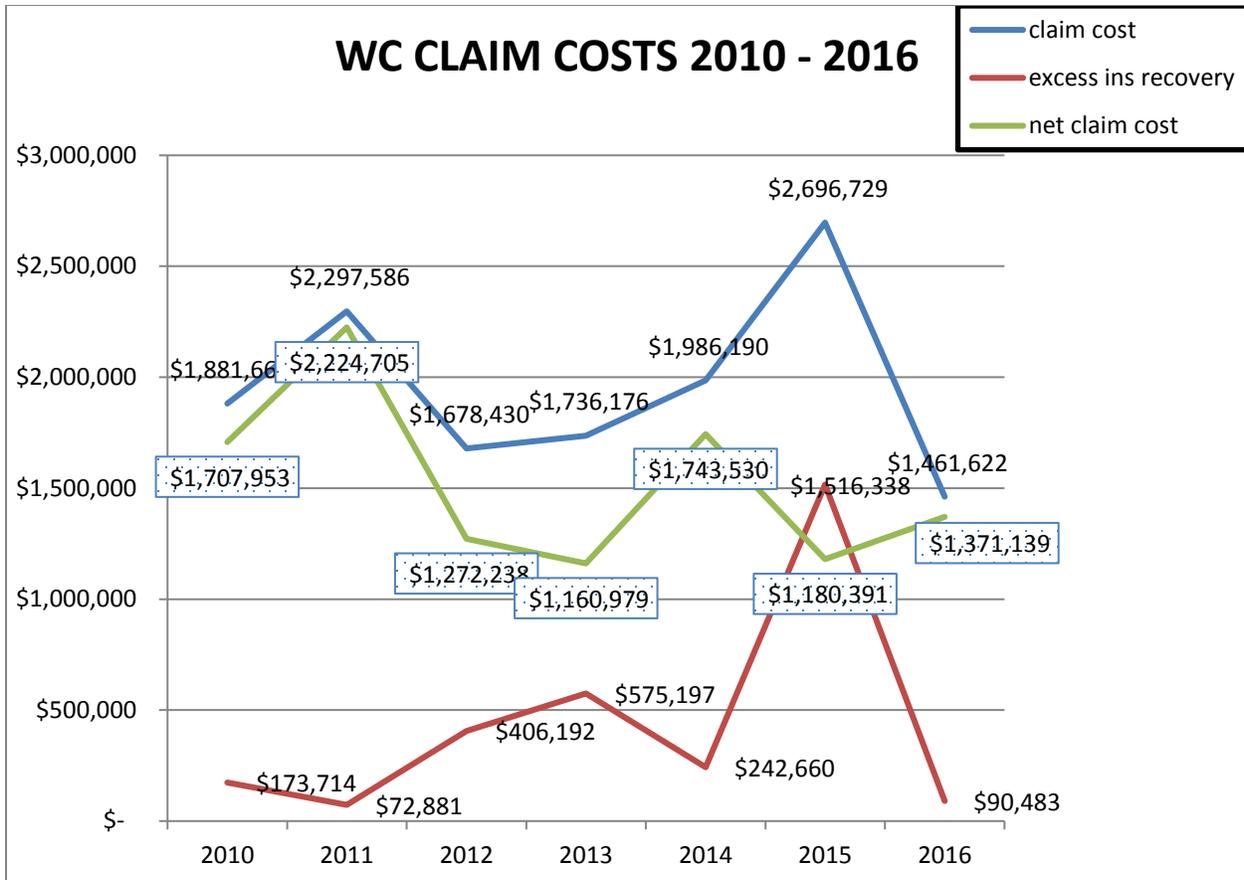
The Risk Management Department, under the direction of the Legal Division, is responsible for evaluating loss exposures, assessing liability, handling claims, and promoting internal controls in order to mitigate risks. Effective loss control is accomplished through the implementation of safety training programs, regular safety committee and accident review board meetings, pursuit of recoverable costs, monitoring insurance compliance of outside contractors, and management of reported claims. Through the participation in insurance programs, the District minimizes its exposure to major losses related to general liability, property, earthquake, workers' compensation, watercraft, aviation, crime, and cyber liability.

The major challenges and accomplishments of Risk Management for 2016 are highlighted in this annual report.

WORKERS' COMPENSATION

The District's workers' compensation program remains stable in 2016, with claim costs slightly down at \$1,461,622 and the frequency of reported claims at 110. Over the years, the average number of employees has increased; however, the frequency of reported work injuries has remained flat. The Risk Management Department continues to control costs with close oversight of the program and assistance from its third-party claims administrator, Athens Administrators.





In 2016, overall workers' compensation claim costs were lower at \$1,461,622 and excess insurance recovery was reduced, due to the absence of high dollar value claims being resolved in 2016. Claim severity has remained stable, with mostly soft tissue-related injuries.

In addition to controlling costs through excess workers' compensation insurance coverage, other cost containment measures include medical bill review, utilization review, and nurse case management. Medical bill review uses the state fee schedule as a benchmark and identifies duplicate billings. In 2016, a total of 2,116 bills were reviewed at a cost of \$42,914 resulting in a savings of \$960,143. Utilization review, a state mandated program, is in place to ensure the medical necessity and appropriateness of medical requests for treatment of work-related injuries and illnesses. One hundred (100) medical requests were reviewed at a cost of \$28,821 resulting in a savings of \$113,604. Nurse case management is reserved for more complex claims in order to better coordinate the care of the injured worker, ensuring proper utilization of services and resources. This service helps the injured worker through the claim process, which translates to less litigation. The cost of this service was \$51,240.

Outside legal defense counsel is also utilized to reduce costs and is used for more complex litigated claims. The litigation rate remains low through good claims handling and administration.

Kaiser On-the-Job continues to be the District’s dedicated medical provider for work injuries. In 2016, less-invasive medical services through Kaiser were fast tracked as being preauthorized in order to provide more prompt treatment for the injured worker.

Overall, workers’ compensation claim activity has been stable over the years in regard to claim frequency, severity, and costs. The program is well-funded, at above the 90% confidence level. The Risk Management Department and Athens Administrators continue to partner in order to take good care of injured workers so they can recover quickly and return to work.

GENERAL LIABILITY

The District has had very few high dollar liability claims in the last five years. In 2016, the District paid \$500,000 towards a settlement for a burn injury that occurred in 2012. Also in 2016, several property claims concerning landslide or drainage issues were filed against the Park District and have resulted in on-going litigation. Despite the District’s many visitors participating in activities that are classified as “hazardous recreational activities” such as cycling and horseback riding, very few liability claims are filed against the District. The District is protected from liability under state law by the trail and hazardous recreation immunities. Risk Management is proactive in informing claimants about these immunities resulting in almost no litigation being filed as a result.

Given the number of miles District employees drive in District-owned vehicles, there have been relatively few vehicle accidents resulting in claim activity. Defensive driver training, individual training (when circumstances warrant), regular maintenance of the vehicle fleet, and the Accident Review Board all contribute to the overall safe driving records of employees. Below is a table that reflects the most frequently reported claim categories:

CLAIM TYPE	2012	2013	2014	2015	2016
Auto	5	6	7	3	5
Aquatics	0	0	0	0	0
Property	0	0	0	0	4
Trail	2	4	2	2	1
Tree	0	4	2	2	2
Miscellaneous	20	7	12	3	7
TOTAL # OF CLAIMS	27	22	23	11	19
TOTAL \$ PAID OUT	\$37,264	\$35,512	\$27,994	\$12,724	\$516, 844

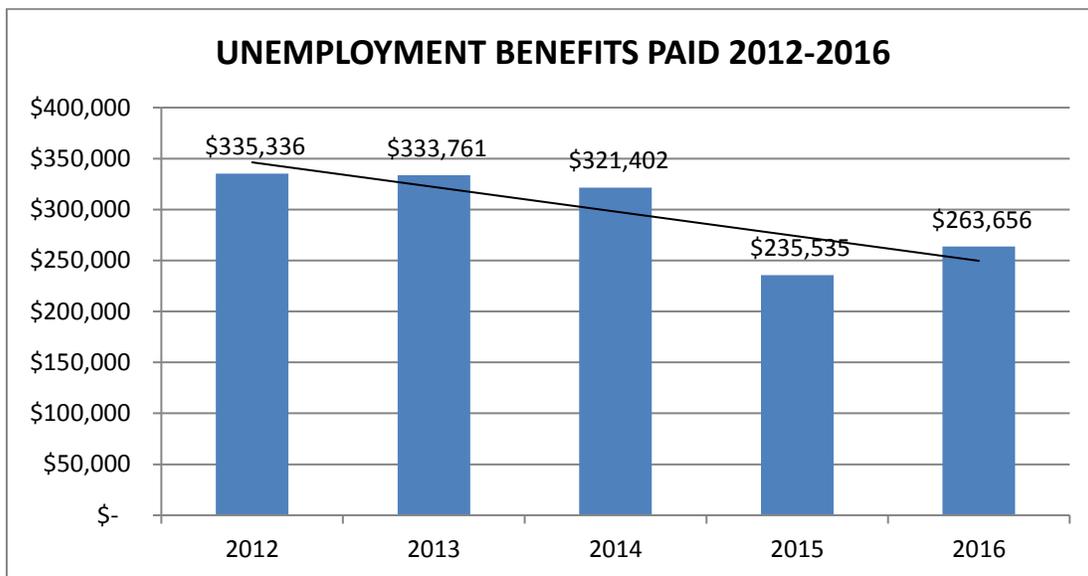
The amounts above represent settlement payments by the District related to the various claims in the year paid.

The general liability program is funded at a confidence level above 90% as of December 31, 2016. This is based on a preliminary actuarial study provided by Bickmore Risk Services.

UNEMPLOYMENT CLAIMS

The District paid out \$263,656 in benefits for unemployment claims that were filed in 2016. This benefit was primarily paid to employees who held job classifications as lifeguards, 9-month rangers, gate attendants, student aides, temporary employees, and others who may experience seasonal layoffs.

After a near doubling of benefits due to legislative changes during the period 2007 through 2010, yearly benefits paid out since then have remained stable, and on a slightly downward trend. The Human Resources Department does a good job coordinating furloughed park rangers with parks in need of extra help which helps reduce the number of claims. Benefits paid in 2016 saw a modest increase that can be explained in part by an increase in temporary employees. As more 9-month parker ranger positions are transitioned to 12-month positions, the downward trend in unemployment benefits paid is expected to continue.



SAFETY AND LOSS CONTROL

The District controls and prevents injuries and accidents through various trainings and practices that comply with CalOSHA safety regulations. Throughout the year, there are ongoing trainings within the parks in addition to the Safety Academy coordinated by Risk staff. The Safety Academy accommodates over 300 staff members who receive CalOSHA mandated safety training on various rotating topics such as: safe operation of mowers, dump trucks, brush chippers, chain, pole pruners, line trimmers; ladder safety; heat illness prevention; hearing conservation; respirator use; blood borne pathogen awareness; and prevention of vector borne diseases like Lyme disease.

Other trainings that are conducted periodically include:

- New employee respirator training and fitting
- Hearing conservation and testing
- Forklift certification
- Equipment trailer & tie-down training
- Confined space entry
- Tractor
- Chainsaw
- Chipper
- Torch cutting
- Defensive driving

The net result of these safety and loss control measures is to protect employees and ensure longevity with the additional benefit of a decrease in workers' compensation claims. The Accident Review Board and Central Safety Committee meetings, which are chaired by the Risk Management Department, also focus on how to prevent injuries in the work place and are instrumental in mitigating losses. The Risk Management Department will continue to hold these meetings to discuss safety concerns, and note new or revised CalOSHA safety regulations which apply to the District.

INSURANCE PROGRAM

The District participates in several insurance programs in order to minimize the financial impact associated with excessive, unanticipated, or catastrophic losses. Although these types of losses are rare, insurance coverage prevents the need for an immediate infusion of resources to pay for damages.

Currently, the District purchases insurance policies for general liability, auto, property, excess workers' compensation, earthquake, aviation, watercraft, crime, and social engineering. All of these policies, with the exception of aviation and crime, are covered by CSAC-Excess Insurance

Authority (CSAC-EIA), a member-directed public entity insurance pool. The aviation and crime policies are purchased through HUB International.

The following table shows the estimated insurance costs for the 2017-2018 policy period and the actual 2016-2017 costs:

INSURANCE PROGRAM	POLICY PERIOD: 7/1/17 – 6/30/18*	POLICY PERIOD: 7/1/16 – 6/30/17
General Liability	\$ 367,000	\$ 313,953
Property	\$ 456,942	\$ 427,516
Workers' Compensation	\$ 474,000	\$ 455,571
Aviation	\$ 100,000	\$ 73,467
Crime	\$ 4,200	\$ 3,939
Watercraft	\$ 2,700	\$ 2,234
Cyber Liability	\$ 2,300	\$ 1,658
TOTAL	\$1,407,142**	\$ 1,278,338

**Estimated not-to-exceed amounts*

***Difference of +\$128,804 from previous year*

Although the frequency of District claims has been low, insurance costs continue to escalate due to the overall insurance market conditions. However, participation in a member-driven insurance pool allows for pricing stability, leverage, customization, ownership, and flexibility. The figures shown for the 2017/2018 policy year are conservative and actual costs may be lower than estimated.

The insurance claim for the fire at the Tilden Corporation Yard that destroyed the equipment shop and partially destroyed a wing of adjacent office space on March 19, 2011 was fully resolved in 2016 when the last recovery check of \$233,932 was received. The District obtained a total recovery for the fire loss in the amount of \$4,569,112.

SUMMARY AND RECOMMENDATIONS

Risk Management staff will continue to provide high quality service to the many departments it serves with the objective of keeping staff and the public safe, as well as the frequency and severity of all claims to a minimum.

Staff will also continue to review the insurance program in order to protect the District in the event of major losses. It is recommended that the Board Finance Committee accept the estimates for the July 1, 2017 through June 30, 2018 estimated not-to-exceed amounts in the insurance program section of this report. Final quotes will be received in June and are anticipated to be lower than the not-to-exceed amounts.

No other options are recommended since the insurance brokers explored alternatives and the current programs are more attractive. The District could self-fund all losses but this is not recommended because major unforeseen losses can adversely impact general fund reserves.

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EAST BAY REGIONAL PARK DISTRICT
BOARD FINANCE COMMITTEE
AGENDA STATEMENT
MEETING DATE – WEDNESDAY MARCH 22, 2017

SUBJECT: 2017 Internal Audit Work Plan and Final 2016 Internal Audit Results

Report Prepared by: David Sumner, CIA, CFE, CGFM, Audit Manager

ATTACHMENT: 2017 Internal Audit Work Plan

RECOMMENDATION: Review the information and direct staff to provide the 2017 Internal Audit Work Plan for acceptance by the Board of Directors.

INTRODUCTION:

This is the final year-end 2016 Internal Audit report. It includes both a recap of mid-year update items, as previously presented at the September 28, 2016 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. New material begins on the fourth 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, Request for Proposal's (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 Auditor. The unit had adequate staffing during 2016.

Projects: During the 2016 fiscal year, Internal Audit Unit staff completed 25 audit projects. A summary of those projects is as follows.

2016 Internal Audit Plan Projects' Results

- 1. Review of Skyline Ranch Stables:** *The facility is equipped with 40 stalls for boarding horses, an arena for horse riding, and is home to Skyline Ranch Equestrian Center, Inc. that is owned and operated by Ms. Judith Martin. Concessionaire pays 5% of their gross receipts (approximately \$17,000 a year) as a concession fee to the EBRPD and contributes an additional 5% of their gross receipts to the maintenance fund.*

The audit examined Concessionaire's compliance with the financial aspects of the concession agreement for the period January 1, 2013 through June 30, 2015. We verified propriety and timeliness of concession fees paid, and assessed reliability of internal controls and adequacy of records retained supporting revenue-generating activities of the Concessionaire.

We concluded that the Concessionaire had a functional system of internal control, retained reliable records, and was generally compliant with the financial aspects of the concession agreement. Overall, their gross revenue was properly accounted for, and concession and maintenance fees were fairly calculated and timely remitted.

We noted that revenue recognition requirements per concession agreement did not fully conform to either Cash Basis or Accrual Basis of accounting. The Concessionaire had occasionally extended credit to the boarders and refrained from reporting of sales on credit until fees were collected. Also, moving-in deposits received from the boarders were not reported as revenue when collected. Instead, the Concessionaire had applied the moving-in deposits to the last month's rent and included them in "gross receipts" upon termination of the boarding agreement. These practices were not permissible under the current concession agreement and resulted in a timing difference for calculation of concession fees paid to the District. However, we deemed their impact immaterial, and suggested that the future concession agreement simplify definition of "gross receipts" allowing the Concessionaire to follow either cash basis or full accrual basis of revenue recognition and reporting.

We also noted that there was insufficient documentation on file substantiating Concessionaire's reported revenue from lessons, commission earned from third-party trainers, and ancillary services provided to boarders. We recommended that Concessionaire improve its record retention practices.

The audit report with management response was issued on March 17, 2016. The Operations Division intends to implement audit recommendations as soon as practical.

2. **Review of Pleasanton Ridge Robertson Property Land Acquisition:** The Robertson property is located in unincorporated Alameda County east of Palomares Road, almost 1.5 miles west of Sunol. This property consists of four parcels totaling approximately 1,367.80 acres, with a total appraised fair market value of \$6,235,425. Acquisition of this property was financed through \$75,000 awarded by San Francisco Bay Area Conservancy Program, \$1,000,000 awarded by Alameda County Altamont Landfill and Resource Facility Open Space Advisory Committee, \$1,000,000 donated by Gordon and Betty Moore Foundation, \$25,000 appropriated from Measure AA Interest account, and \$3,522,925 from Measure WW Principal account. The Robertson property ownership was formally transferred to the EBRPD on December 21, 2012. Total actual cost of acquiring this property, per the Buyer's Closing Statement dated January 3, 2013, was \$6,244,143.

The audit examined compliance with administrative requirement, propriety of accounting transactions and functionality of internal controls.

We concluded that internal controls were functional, accounting transactions were properly recorded, and administrative requirements were complied with. The audit report was issued on August 30, 2016.

3. **Review of Briones Regional Park Cash Handling Procedures:** Briones Regional Park is a 6,255-acre wilderness area nestled in Central Contra Costa County which was opened in 1967. This park is a great venue for horseback riding, picnicking, hiking, bird watching, and dog walking year-round and generates approximately \$34,000 in revenue per year for the District.

Audit objectives were to assess functionality of controls, verify compliance with the District's current cash handling policies and procedures, and evaluate safeguarding of assets.

Our review included a study of the current cash collection procedures, a site visit and surprise cash count, observation of safekeeping practices, review of the financial records and testing a sample of transactions recorded during the period from January 1, 2014 through March 31, 2016, and verification of daily deposits to the bank to ensure accurate reporting and safeguarding of daily collections.

Although internal controls were overall functional, cash handling and reporting practices at this park needed improvement. We noted a net shortage \$58.13 in the starting cash that was reportedly caused by removal of funds by a gate attendant to obtain change to facilitate cash handling transactions, without leaving a written notification. Park staff had also used bank deposit bags in reverse sequential order, and bank deposits were not always timely. Delayed depositing of daily collections could jeopardize safety of the park staff, and adversely affect proper safeguarding of assets. We suggested that the Park Supervisor enforce and verify gate

attendants compliance with the District's cash handling and reporting requirements, to improve safeguarding of assets.

The Briones Regional Park has two kiosks that were supposed to be open year-round on weekends and major holidays only, and collect fees from patrons as applicable. We noted that on 40% of the scheduled days, the kiosks were not operational due to inadequate staffing. We also noted that occasionally only one group of park visitors had paid applicable fees while the others who had entered the park via unstaffed gate had used the park free of charge. This had resulted in unequal treatment of patrons and a decline in the park's total collections as compared to the past. We recommended that Management consider having an on-call gate attendant available to fill unexpected vacancies that might arise in various parks due to sickness, vacation, reassignment, transfer and or resignation of the incumbent gate attendants.

The audit report with management response was issued on October 13, 2016. The Operations Division intends to implement audit recommendations.

4. **Review of Sales and Use Tax Compliance:** The State Board of Equalization has audited the EBRPD's Accounts Payable records three times during the past decade, and every-time imposed penalty and interest for insufficient compliance with the sales and use tax regulatory requirements.

To assess propriety of sales and use tax calculations in the recent months, we performed a limited review of the Accounts Payable transactions posted during January 1, 2016 through February 29, 2016.

Although most of the taxable transactions that lacked or had an inaccurate amount of sales tax reported on the vendor invoices were identified and manually adjusted by the Accounts Payable staff, there were still some instances where sales and use tax regulations were not properly complied with.

Since non-compliance with the State Board of Equalization regulations subjects the District to payment of unpaid sales/use tax plus penalty and interest, we recommended that Accounts Payable staff enhance their due diligence in payment processing, and resolve sales and use tax discrepancies that were identified in our audit. We also suggested continuing to provide on-going education to Accounts Payable staff about sales and use tax regulatory requirements, encouraging the EBRPD staff to use Central Stores as their first source for supplies and buy locally to the extent feasible, and reduce number of P-Cards, to lessen volume of sales/use tax related transactions to be processed and reduce Accounts Payable workload. We also suggested requiring and retaining invoices electronically for every payment processed, consolidating supervision of all sales and tax payments under the Assistant Finance Officer or Accounts Payable Supervisor, verifying proper coding of transactions posted into the District Financial system, to substantiate propriety of recorded transactions, and reduce likelihood of inadvertent errors.

The audit report with management response was issued on January 23, 2017. The Finance Department is implementing the audit recommendations as soon as practical.

5. **Review of Reservations Active Net Cash Handling Procedures:** The District has been using Active Network, Inc.'s data processing system for recreation program registrations and collection of applicable fees, and tracking park use and compiling customer statistics. The use of the system has been gradually expanded to include processing of group camping, picnic, indoor facility reservations, and Point of Sales (POS) transactions at ten park locations where credit cards are accepted.

Use of the web-based *Active Net* system allows the District to comply with the mandatory *Payment Card Industry Standards*, without additional costs for equipment and staffing. The District pays a transaction fee between 2.0% to 6.5% per transaction to Active Network Inc. In 2015, fees paid amounted to \$95,319.08 and District earned net amount of \$2,151,972.29 from such transactions.

We reviewed Reservations *Active Net* cash handling procedures to assess functionality of internal controls and verify safeguarding of the District assets.

We concluded that internal controls were functional, and collections were generally properly accounted for. However, cash handling activities and documentation of transactions at the parks that accept credit cards should be improved to enhance safeguarding of assets.

We noted that approximately 32% of the Active Net, Inc.'s weekly remittances to the District (payment of our portion of revenue) were not promptly deposited into the bank account. Delayed deposits reduced the District's interest earnings, and availability of funds for daily activities. We recommend implementing an electronic funds transfer rather than receiving payment by check.

We also noted that when a patron uses a credit card to pay fees at the parks that are equipped with Point of Sales (POS) cash registers, Gate Attendants could generate multiple duplicate copies of the receipt, shortly after a transaction takes place. We suggested that POS cash registers be reprogrammed to print only one duplicate receipt for each transaction, to preclude potential misuse of the duplicate receipts for diversion of subsequently collected funds.

Gate Attendants are allowed to void receipts under certain circumstances. We noted that occasionally voided receipts lacked sufficient documentation and explanation to substantiate propriety of the reported action and safeguarding of assets. To preclude potential risk of misuse of collected funds without timely detection by management, we recommended that Park Supervisors review Daily Revenue Reports and make sure that variances and voided transactions are properly explained and fully documented, and cash handlers are compliant with the established policies and procedures.

The audit report with management response was issued on March 6, 2017.

2016 District Grant Audit Results
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Review of Measure WW Local Grants: During the year, the following 21 pre-approved projects funded by Measure WW local grants program 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 Lafayette	312103 Manzanita Building Project.	\$241,251.00
City of Orinda	312501 Pine Grove Park Project.	652,954.80
City of Oakland	310712 Poplar Field - Leveling Playing Field Project.	732,558.34
City of Oakland	310715 Peralta Hacienda De Anza Trail Project.	239,979.06
City of Oakland	310711 Owen Jones Field Project.	953,900.00
City of Pinole	312607 Swim Center ADA Compliant Lift.	15,038.00
City of San Ramon	313113 Sports and Central Park Shade Structure.	61,789.69
City of San Ramon	313112 Shade Structure Installation – Bark & Ride.	18,922.00
City of Oakland	310705 Central Reservoir Field Project.	350,800.00
City of Pinole	312602 Pinole Valley Tennis Courts Renovation.	73,246.73
City of Oakland	310710 Morcom Rose Garden Project.	1,573,859.60
City of Albany	310104 Albany Cove Project.	11,514.65
City of Richmond	312901 Bay Trail Gap Closure Project.	295,392.53
City of Emeryville	310402 Joseph Emery Park Skate Spot Project.	444,572.00
City of Fremont	310507 Central Park Turf & Poplar Renovation.	721,999.00
City of San Leandro	311006 Stenzel Park Bleacher Replacement.	96,000.00
City of San Pablo	313003 Rumrill Sports Park Project.	425,538.00
HARD	311221 San Felipe HVAC Project.	151,500.00
HARD	311229 Hayward Plunge Locker Room Upgrade.	57,395.01
HARD	311227 Adobe Art Center Lighting & Security.	25,860.61
City of Richmond	312914 Shields-Reid Park Renovation.	607,491.47

The Chabot Space & Science Center payment request No. 12 pertaining to Redwoods Outdoor Project as originally submitted, and later resubmitted, was reviewed and rejected both times due to lack of proper supporting documents. Measure WW funds that have been disbursed for this project total \$199,046.38 as of February 16, 2016.

Result of Internal Audit Projects Completed on Request (not included on 2016 Internal Audit Plan)
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Special Review of Shadow Cliffs Regional Recreation Area Cash Handling Activities: Pursuant to the Operations Division request, Internal Audit staff performed a special review of Shadow Cliffs Regional Recreation Area cash handling activities. This project was not prescheduled in the 2016 Audit Plan.

Audit staff reviewed cash collection records for the period April 1, 2014 through April 30, 2016, performed two surprise cash counts, interviewed cashiers and observed their safekeeping practices to assess whether there has been any misappropriation of cash collections and starting change funds, and to report on functionality of controls and safeguarding of assets.

We concluded that the amount of cash on-hand did not match official accountability, and although internal controls were overall functional, they should be further strengthened to preclude potential diversion of the collected funds for unintended purposes.

We shared our observations, findings and recommendations for enhanced monitoring of cash handling activities and safeguarding of assets with the Operations Division management. The audit report was issued on May 18, 2016.

Review of the IRS reported problems with the Forms 1099-MISC that were filed in 2015: The District is required to prepare IRS Form 1099-MISC and file an informational return with Social Security Administration, reporting name, address, amount, and taxpayer identification number of the individuals and certain entities that were paid \$600 or more for their services during the year.

On October 10, 2016 Finance Department received a notice from IRS denoting seven of the 2015 Form 1099-MISC on file, appeared to be inaccurate and recommended that District update its records or start backup withholdings from these payees (at the rate of 28%).

Internal Audit researched and reviewed pertinent records to clarify the issues that had caused a mismatch between the IRS and District records. We verified functionality of internal controls, and assessed whether reported variances were due to fraudulent activities perpetrated against the District.

We concluded that all mismatched Form 1099-MISC were issued to individuals and entities that had provided services to the District as a subcontractor, and ruled out fraud. Four Form 1099-MISC were issued by a District contractor, Touchstone Golf that was engaged to modernize Redwood Canyon Golf Course, as proxy for the District without any notification to the Finance Department staff. Three other mismatched Form 1099-MISC were due to the transposition of Tax Identification Number and or mistyping of the recipients' name by Accounts Payable staff.

We shared our findings and recommendations for early prevention and timely detection and resolution of the problems, with the Finance Department management. This project was not prescheduled in the 2016 Audit Plan. Our review report was issued on December 8, 2016.

External Audit Projects Results

CalPERS Public Agency Review: California Public Employees Retirement System Office of Audit Services performed a review of the EBRPD records, to assess compliance with the provisions of Public Employees' Retirement Law, and its contract related to compensation and payroll reporting, for the pay periods from July 1, 2013 through October 31, 2015.

The CalPERS auditors did not identify any instances of non-compliance with reviewed sections of the Government Code, Public Employees' Pension Reform Act, California Code of Regulations, and the EBRPD's contract with CalPERS.

2017 Internal Audit Work Plan

For 2017, 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 that all are examined on a regular basis. 2017 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 *2017 Internal Audit Work 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 2017 Internal Audit Work Plan for acceptance by the Board of Directors.

**EAST BAY REGIONAL PARK DISTRICT
FINANCE DEPARTMENT
2017 INTERNAL AUDIT WORK PLAN
DRAFT**

Selected Projects

Review of Oakland Strokes, Inc. MLK Jr. Estuary use

Verify lessee's compliance with financial terms of the lease agreement.

Review of Del Valle Marina, Camp Store, and Two Food Concessions *

Verify concessionaire's compliance with the contract terms.

Review of Capital Improvement Project No. 152600 Shadow Cliffs Solar Panels installation

Verify propriety of accounting transactions and functionality of internal controls.

Review of Lake Chabot Regional Park Cash Handling Procedures *

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

Review of the District's Financial System (OneSolution) security relating to HR & Payroll

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

Review of Redwood Valley Railway Corp. Concession

Verify concessionaire's compliance with the contract financial terms.

Review of Mudpuppy's Tub & Scrub Concession

Verify concessionaire's compliance with the contract terms.

Review of Mudpuppy's Sit & Stay Café Concession

Verify concessionaire's compliance with the contract terms.

Review of Outback Adventures Concessionaire at Del Valle *

Verify concessionaire's compliance with the contract terms.

Review of Tilden Merry-Go-Round Concession *

Verify concessionaire's compliance with the contract terms.

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: Grants Department

* Project field work was started in 2016. Audit report will be issued in 2017.

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EAST BAY REGIONAL PARK DISTRICT
BOARD FINANCE COMMITTEE
AGENDA STATEMENT
MEETING DATE –Wednesday, March 22, 2017

SUBJECT: Update on District-wide Banking Contract with Wells Fargo Bank and Intention to Commence Procurement Process for Banking Services

Report Prepared by: Deborah Spaulding, Assistant Finance Officer

RECOMMENDATION: This report is informational only.

DESCRIPTION

In 2010, the District conducted a procurement process, issuing a Request for Proposal (RFP) for District-wide banking services that would facilitate our ability to receive deposits of cash and checks from park locations, enhance payroll disbursements, and facilitate disbursement of funds to vendors. Previous to this, the District banked with Bank of America for over twenty years.

As a result of this RFP process, Wells Fargo Bank was selected as the District's banking services provider. At the time, Wells Fargo was the highest rated bank in the United States for customer service, access to bank branches, and stability. Additionally, Wells Fargo had a highly-rated Government and Institutional Banking group which provided services tailored to local government needs. The District entered into a three-year contract and extended this contract for two additional two-year extensions, as provided for in the original resolution. The contract extension is set to expire on June 30, 2017.

In April 2017 staff intends to commence the procurement process by issuing a new RFP for District-wide banking services. Interviews of the top scoring proposers will be scheduled for May. The selection of the bank will be brought to the Board Finance Committee for recommendation to the full Board of Directors.

Selecting a banking services provider (and, if needed, transitioning to a new banking provider) is a very technical process, requiring a great deal of time and expertise. Depending on the length of time needed to potentially transition to a new banking provider, it may be necessary to extend the Wells Fargo contract for several months beyond the current June 30, 2017 expiration date.

The District's Banking and Investment Services Policy (Policy 13.0) states: "The Board delegates to the General Manager or some other authority to execute and deliver contracts for banking services with banks that have a depository agreement with the Board." For this reason, this item is brought to the Board Finance Committee for information only.

ALTERNATIVE

No alternatives are recommended.