



Moraga-Orinda Fire District
BOARD OF DIRECTORS
Audit Committee Minutes
April 18, 2022
(Approved – March 15, 2023)

1. OPENING CEREMONIES

The Audit Committee convened a teleconference Open Session at **11:00 a.m.** on **April 18, 2022**, via the Zoom application <https://us02web.zoom.us/j/84419013236>, webinar id: 84419013236 or by phone 669-900-6833. This meeting was conducted by webinar and teleconference only in accordance with AB 361. The meeting was not available for in-person attendance.

Present were the following Directors and Staff:

Director Danziger	Gloriann Sasser, Admin Services Director	Marcia Holbrook, District Clerk
Director Jex	Mary Smith, Finance Manager	
Dave Winnacker, Fire Chief	Ahmad Gharaibeh, Partner Eide Bailly LLC*	

2. PUBLIC COMMENT - ITEMS NOT ON THE AGENDA

There were no comments from members of the public.

3. CONSENT AGENDA

3.1 Audit Committee Meeting Minutes – October 25, 2021

Director Jex asked if anyone had questions or comments regarding the October 25, 2021, Audit Committee meeting minutes. There being no further questions or comments, the minutes of the Audit Committee Meeting on October 15, 2021, were unanimously accepted as written by oral vote. Director Jex inquired if the Auditors had started the audit. ASD Sasser answered no. Director Danziger asked if the Auditors would be able to come into the office to audit this year. Director Jex stated that question would be discussed later in the agenda.

4. REGULAR AGENDA

4.1 Review the External Auditors' Audit Plan and Anticipated Non-audit Services and the Scope and Activities of the Audit.

Director Jex provided a preamble of the role and purpose of the audit committee. The Committee will focus on five key areas for the audit process: 1) the oversight of the District's financial reporting and related internal controls; 2) review filings and related reports issued as a result of audit activities or other financial reporting requirements; 3) risk management oversight; 4) oversight of the Independent Auditor and the Firm's performance in terms of engagement; 5) ethics and compliance. At 11:06 a.m., Ahmad Gharaibeh, Partner Eide Bailly LLC arrived. Director Jex restated the purpose of the meeting. Director Jex requested a review of the questions submitted in the packet.

Risks and Internal Controls, Management Overview, Fire District's Financial Issues: Mr. Gharaibeh reviewed the financial risks of how the industry and the District's revenue are changing and the impact the external environment will have on the audit. Expected changes in how the District receives and accounts for property taxes, the stock market, and how those changes will impact calculations of long-term items, including the pension. The District will be surprised this year because of the flux in the stock market and the net pension liability. Mr. Gharaibeh did not know about CCCERA specifically but has seen with the other pension plans the NPL has dropped because of the stock market's performance. The audit plan has not been finalized and is open to feedback or incorporating any additional items. Director Jex asked Management if there were any areas or issues that the Auditor should incorporate into the audit plan. ASD Sasser listed the following areas:

1. Operational and Payroll accounts changed banks from Citibank to JPMorgan Chase.
2. Implemented a lockbox for check payments to improve internal control.
3. Changed accounting system (same accounting system moved to a cloud-based version).
4. Implemented a new MOU in November 2021. The new MOU added a benefit to include a monthly payroll contribution to a Retiree Health Savings Account (HSA) with Mission Square. The benefit includes converting vacation hours for some employees to the HSA.
5. The District continues to work remotely (particularly the Administrative and Finance staff)
6. In December 2021, the Board accepted a \$6M Grant from the State of California to build a new fuel break.

Mr. Gharaibeh noted the Auditors would look at the change in the accounting system.

Director Jex commented on the volatility in the market impacting the pension fund, the OPEB fund, and Union fund. The reports are six months in arrears. Mr. Gharaibeh confirmed. Director Jex stated when the reports are issued in five months could be different than the positive numbers the District received. Mr. Gharaibeh confirmed that CalPERS uses a measurement date. The performance has a significant impact on the net pension liability. The discount rate is calculated with the up and down fluxes and is typically incorporated in the projections. It is a projection of the liabilities but is something that the audit will review. Director Jex asked Finance Manager Smith if there were any items she wanted to add. Finance Manager Smith did not have any items.

Auditors Management Letter from 2021. Mr. Gharaibeh stated there were no findings.

Internal control risks: Mr. Gharaibeh answered whenever you have a change in the accounting system, a change in the lockbox, a change in the banks and authorized signers the audit will review.

Workplace and significant stress and strain control environment: Director Jex asked if there were any issues with performing the audit remotely and shared insight from talking to other firms regarding the turmoil with turnover and loss of staff. The turmoil has resulted in audit firms resigning from cases due to issues with the recruitment. Mr. Gharaibeh confirmed Eide Bailly is experiencing a staffing shortage and recruiting issues. Mr. Gharaibeh informed the Committee that Eide Bailly would not be able to meet the October-November deadline due to significant resignations. The audit will not be completed until January-February 2023. Mr. Gharaibeh noted this is the last year of the three-year contract with the District. Salary increases are expected to be 40% to 50% over the standard salary. The remainder of the Staff that remains with Eide Bailly are spreading the audit reviews over a more extended period to accommodate the workload. Mr. Gharaibeh believes the housing market and the ability to work remotely are causing a decline in available talent within the Bay Area.

Director Jex commented that other firms have had to raise salaries and rates substantially to recruit personnel. Mr. Gharaibeh stated the increase in the fees is 100% passed through to the Staff and not going to the Partners. The category of people being hired is between zero experience and four years of experience, and those are the ones that are turning over in mass. The salary increases are roughly \$40K to \$50K per Staff.

Director Jex asked if there was a December 31 requirement for the audit to be completed. ASD Sasser answered the GFOA has a deadline of December 31. Mr. Gharaibeh responded that the District could apply for an extension. Director Danziger asked if the GFOA was for obtaining the Certificate of Achievement for Excellence in Financial Reporting. Mr. Gharaibeh confirmed. Director Danziger asked if the GFOA reviewed the audit. Fire Chief Winnacker explained that the GFOA's purpose is to confirm that the District follows best practices. There is no external requirement for the audit to be completed by December 31. Should the Board decide to proceed under the circumstances discussed, the District could request an extension from the GFOA with the explanation that it is due to the extenuating circumstances the Auditors are experiencing.

Director Jex shared that it appears to be an industry-wide issue based on his experience from sitting on another audit committee where the firms have had to resign from accounts they could not service. Director Jex asked how it was working for the audit staff coming from outside California. Mr. Gharaibeh answered it is challenging. Eide Bailly has branches in other states and can hire some people, but it will take a year or longer to bring them up to be able to complete an audit. Eide Bailly has a specific quota regarding the percentage of allowed remote workers. Director Danziger suggested adding an agenda item to the next board meeting to provide the Board with an update on the situation. Director Jex agreed to provide a report during the next Audit Committee update to the full Board.

Director Danziger asked if there was any significant impact on delaying the audit. ASD Sasser answered providing timely audited financial statements by November to the Board has been a significant priority. ASD Sasser recommended the Committee ensure that the full Board understands the delay and agrees with either accepting the delay in the audited financial statements (January or February 2023) or exploring alternative options to find a different firm. Director Jex inquired if there were any filing requirements in the existing debt agreements. ASD Sasser answered that audited financial statements must be issued annually with JPMorgan Chase Bank (debt for the construction of station 43). Director Jex asked about the date of the deadline. ASD Sasser replied within six months of the end of the fiscal year but would confirm. ASD Sasser opined with the circumstance of the industry; that it should be acceptable to receive an extension on that deadline. Director Jex commented he was unsure if the District needed to pursue other firms since the situation in the industry is universal.

Cyber security risks, ransomware attacks: ASD Sasser reported the District had one instance affecting the Kronos system. Kronos is an international company that suffered a Cyberattack. DNI

responded by putting different controls on the system. Fire Chief Winnacker added that the District engaged the California Office of Emergency Services to identify weaknesses in cybersecurity. No major deficiencies were found that required correction and validated that the District's cybersecurity in place is robust. Director Jex asked when the attack took place. Fire Chief Winnacker answered in October 2021 and would share the report. Mr. Gharaibeh reported the audit would look at the password protection at the user level.

Governmental rulemaking activities: Mr. Gharaibeh reported nothing applicable to the District.

Automating manual activities or improving efficiencies: ASD Sasser answered Staff continues to pay some invoices through the ACH process instead of issuing manual paper checks. Director Jex asked the percentage of payments paid with the new process. ASD Sasser answered 10%.

Use of data analysis: ASD Sasser referred to the quarterly report that is provided to the Board. Mr. Gharaibeh answered Eide Bailly uses software called Teammate Analytics. The software focuses on unique transactions and identifies anything unusual. It is a powerful software used during the testing process. The primary focus when performing the audit, especially during the test of the internal controls, is to make sure that there is a review process. Director Jex commented the reports provided to the Board every quarter have been helpful.

Audit Firm: Director Jex asked if there was anything the Committee needed to be aware of regarding the loss of the Senior Auditing personnel. Mr. Gharaibeh answered no and that the current managers are reviewing the engagements. Eide Bailly will not issue any financial statements or opinions on any financial statements unless the audit standards are met. Eide Bailly has a dedicated National Insurance Office Director who ensures that the standards are met. Director Jex inquired if the quality review is done internally in the Bay Area by another partner. Mr. Gharaibeh answered it is performed by the National Insurance Office in Minneapolis. Director Jex probed about the process. Mr. Gharaibeh answered there are multiple levels of reviews. The National insurance Office thoroughly reviewed the confirmations and the audit procedures during the first year. In subsequent years, they ensure the report meets the standards and review the significant areas identified as high-risk. Director Jex asked if there was an outside firm engaged to perform an external review. Mr. Gharaibeh confirmed that all audits performed in 2022 would be subject to the AICPA triennial review. Mr. Gharaibeh added internal reviews are perpetual on an annual basis.

Audit Scope in Light of Current Circumstances: Mr. Gharaibeh commented the current contract with the District goes through 2022 and reaffirmed his commitment to the contract. However, in order for Eide Bailly to be able to retain people, fees will increase once the contract is final. Eide Bailly is interested in continuing to work with the District as the District produces clean books and has no audit adjustments. Audit adjustments are time-consuming. Mr. Gharaibeh understood if the District wished to solicit other services. Director Jex asked if it would be appropriate to talk about fee increases for the current year. Mr. Gharaibeh answered yes and explained the difficulties and benefits of hiring people now instead of next year. The delay in the fee increase will delay the Firms ability to hire and retain people. Director Jex supported the increase. The District would not be able to find another firm with the same quality and support currently provided to the District. The current problem is universal.

Accounting and financial reporting developments: ASD Sasser reported no developments to report

Significant changes in the organization's activities: Previously Discussed.

Audit Timing: January-February 2023.

Personnel being assigned to the audit: Mr. Gharaibeh answered the same Manager will be assigned. The staff that will be working on the engagement is unknown. Director Jex inquired about the rotation focusing on certain sections of the audit or systems. Mr. Gharaibeh explained the rotation would be incorporated into the risk assessment. The audit will look at the influx of revenues because of the market and some internal changes.

Director Jex asked for an estimated cost. Mr. Gharaibeh answered he would provide an estimate. Director Danziger requested the estimate before the April Regular Board Meeting. No further discussion by the Audit Committee. There were no public comment requests to address the Committee.

5. ADJOURNMENT

At 11:45 a.m., the Audit Committee called for adjournment of the meeting.

Marcia Holbrook,

Marcia Holbrook

District Secretary/District Clerk