



WorkSource Montgomery Board Meeting
1801 Rockville Pike, Suite 320
Rockville, MD 20852
Call-in Number: (240) 641-6756 ** Passcode/PIN: 201756

MEETING MINUTES

November 14, 2017
8:30 a.m. - 10:00 a.m.

Quorum being present, meeting called to order at 8:40 a.m.

Members: Donna Cooper (phone), Ben Edson, Ellie Giles, Steve Greenfield, Susan Leggett-Johnson, Debbie Murphy, David Petr, Lily Qi, Tom Street

Staff: Dave Buonora, Annette Gantt, Harry Thompson; **Guest(s):** Carol Barnard, Senior Manager (Aronson); Greg Plotts, Partner (Aronson)

Absent: David Gamse, Gerry Murphy, Jack Smith, Katy Strei, Paul Tchorni, John Zudnick (for S. Edelstein)

8:40 a.m. Roll Call and Approval of Minutes

Street made a Motion to approve the meeting minutes from September 19th. The Motion for approval of the meeting minutes from September 19th was seconded, with no discussion. The Motion was approved unanimously.

8:45 a.m. Chair Report (Cooper)

Governance Committee Update

Cooper provide an update from the discussion of the governance committee meeting held on November 9th. Highlighted points included:

Discussion points:

- There is a need for a facilitator to reconcile the information that is provided by the governance committee to present a plan of action moving forward.
- There is interest in ensuring the county executive and Qi are kept apprised of governance activities. Committee would like Qi to be involved, including attending meetings.
- Several comments were elicited by the overview provided by Street and Sullivan.
- Challenges were identified and discussed.
- There is a lack of understanding regarding roles, responsibilities and authorities of the two boards, including their legality and functionality.
- There is concern about the communication and level of board engagement, and whether there is potential dysfunction and execution.
- There is an ongoing need for organizational nimbleness.
- There is a need for determining authorities, strategic vs. tactical and how to integrate efforts.
- There was discussion about board and committee meeting frequencies, and time demand on staff.
- The committee received CEO comments, recommendations and experiences.

- The strategic direction and action plan, opportunities to increase engagement were discussed.

Next Steps:

- Committee members were asked to identify three top organizational issues by November 13.
- Committee members were asked to make recommendations regarding the qualifications necessary to engage a facilitator.
- Observed the Northern VA model – the model WSM follows in developing the current construct.
- Many members have sent recommendations that will help guide discussion during the next meeting and in order to engage a facilitator.
- Final recommendations will be presented to the full board.

Discussion: Are there significant differences between NoVA model and the way that we are organized now? What do we want to emulate? NoVA has a two-board model; their operations board is much smaller; they do not have unrestricted funding; much more restricted in WIOA compliance activities;

- One purpose of observing the NoVa model is to look at the pros and cons associated with the construct; look at other structures to see what is the appropriate fit; determine if how we are currently structured is working; determine whether we are adhering to the intended construct, and/or whether we need to modify the construct
- It would be helpful to get the link to the BaseCamp to enable all board members to follow the dialogue of the governance committee; both WSM and WDB members should be invited so that all can stay informed in the discussion

Action: Giles will invite all board members to the project management software – BaseCamp – to follow the work and discussions of the governance committee.

- Murphy stated that she has been in contact with two consultants familiar with governance construct work; learned from talking with them, there is at least 5-6 constructs; we can then look at and understand all these models not just our current model or going to a one-board model
- Were there any real concerns voiced regarding why WSM shouldn't move forward or were there hurdles identified that we'd have to overcome? Some felt given the work that was put in to build the current model and the staff time required we should stick with the current model; others feel that it would be much more constructive to have one board.
- Another concern is the legal compliance for the WDB under federal law, but does not have the power or authority to be a legal agent for WSM; WSM is the legal agent; need to look at the authoritative power and reach of each board
- Another concern is lack of board member engagement. We should think about coming up with a participation requirement in order to stay on the board.
- Effective communication so that members can plan. Going from quarterly to bi-monthly was intended to increase communication. Board members must be given a reason to be involved/engaged. Seems that newer WDB board members want less frequent meetings, but they also tend to miss a lot more meetings; and were brought on board without a strategic plan which helped engagement. In the past, committee members were engaged in implementing the strategic plan. Could also be the type of person that is a part of the board.

As a business owner, if there are a lot of meeting, I cannot attend a lot of meetings. Quarterly meetings are fine, but meeting monthly would be a challenge. Our company has a perspective on who needs to be hired for our industry – cyber security. As a business for profit, there is always interest in how to make connections with other organizations so that at the same time you could give back by creating other business opportunities. How do a business give back, while at the same time, having something reciprocal that create some business opportunities; how do I maximize my time to give to a worthy cause, while at the same time making it meaningful for the company.

- Can we have a structure to have an industry advisory group that do not have to necessarily be involved in approving meetings, etc., but instead advise industry workforce needs, and other strategy. The group could meet 1-2 times per year. We also need to answer the question of how members are appointed, most members do not know how they were appointed. What are the expectations, and can they speak on behalf of the industry, beyond their own company? The industry advisory group would be a great idea, but what would make it compelling for industry members to attend board members. The quicker we can get to industry issues as it relates to workforce development, the better; we need decide if we want to carve out time to discuss as a board one specific industry. We need to think about how to create a system that is balanced to serve a diverse demographic.
- We have two distinct strategies – one to the un- and underemployed job seeker; the other strategy is to engage industry and address needs for the future. We have parallel programs, and the two approaches are extremely different.
- Why did the charter and make-up of the WSM board change from being an industry led board? It started out as a WIB just to receive funding for workforce development programs. 2014 three reports – Skill Smart, WIB and MMF – stated how workforce programs were not serving the county well. Through the development of strategic committee engaged by the county executive, it was decided that a nonprofit entity had to be created. The WIB was converted from just a fundraising arm into the vehicle for developing programming. WDB was established to focus on the broad policy and strategy, and the WSM would be the implementation board. WDB kept as a result of federal WIOA mandates. WSM was structured around having the strategic industry verticals participate, e.g., healthcare, hospitals, hotel, construction, education – to help be the third leg of the triangle. There seems to be a duplication of industries between the two boards. Which has caused some confusion about why it is necessary to have duplication of industries on each board. It was intentional to have duplication, because one board was to discuss broad strategy and the other needed programs and how to procure funds to support them. The construct has improved visibility, respect and efforts in developing the team and getting out in the community. We have not achieved optimal state, work is about is whether we are going in the right direction, or whether we need to make adjustments based on those discussions two years ago. I think we are moving in the right direction, but must decide whether or not the current structure is a hinderance or a help. We need to add the purpose and the goal, which will guide the engagement.
- It seems the culture of engagement, and understanding of the roles and responsibilities of the WSM board members is intact. However, there seems to be confusion at the WDB level. In the absence of the former strategic plan that was used to guide the board’s work, it does not fully understand the purpose of their involvement. Do you think it’s the lack of clarity between the lines of broad policy and programming, and members involved in programming thinking they do not have enough involvement in execution? There hasn’t been and significant policy issues that the WDB has taken under consideration. During board meetings, there is an operational report. WDB members don’t feel they are being used as a sounding board or anything of substance that warrant their attending meetings. WSM is still

receiving guidance issues on policies from WIOA, and we don't want to ask WDB members to comment on numerous policies. WSM has come up with a process so the gist of the policy will be included in a handbook and then the handbook can be approved, especially since the policies will continue to change. Part of the reason we have not had any policy discussions at the WDB level is because we are still waiting for guidance from the federal level. In the absence of guidance from the federal level, WSM used its mission and goal to have an immediate impact by looking at where the low hanging fruit and opportunities were, e.g., grants that would serve un- and underemployed, while simultaneously engaging our industry and non-profits. As WSM moves forward, it will take a look at where there is overlap and how to use committee members to move WSM from a directive perspective.

- Do you think WSM is serving MCEDC well? Yes, absolutely. The approach to be client and industry centric, is exactly what we need in a partnership between MCEDC and WSM. The number one thing that we hear when MCEDC's team is meeting with companies, about the barrier to growth, talent is number one or two. WSM must have a balance in serving the candidate and businesses. There is still room for growth and have discussed ways that WSM and MCEDC can be more strategic. Would like to know summary of what and where the deficiencies within the county were.
- I believe there has to be a balance between both a focus on the job seeker and business. Want to reach a dynamic where anyone living in Montgomery County, whether someone just out of college, someone without college, retired federal workers, regardless of educational background, skillsets, there is a place for them to go, e.g., a virtual place where they can access industry postings, etc. Job seekers also need a place where they can visit to obtain consultation and advice about job search resources. I also hear from some senior groups that if the focus is solely on industry demand, industries focus on hiring young people. Senior groups as a result feel they are left out. We need to create a system that has a balance.

Action: Giles will send the call to action report to board members.

Summer RISE Impact Report (Giles)

- Working more closely with MCPS and see it as a MCPS program beginning the summer of 2019.
- Would like to see more than a one touch in the summer, instead incorporated into curriculum.
- Met with Craig Rice to advocate for minimally level funding, and possibly more as the program is scaled up. There will be a more concerted effort to have private contributions.
- Beginning to register industry and business willing to have youth interns.
- Hoping to have 100% board participation this year.
- Kaiser in the video at the Chamber's award event highlighted Summer RISE. Goodwin made a statement with a business audience. The word is out and believe WSM can scale the program up, but can only enroll as many students there are placements for.
- Want to double our number next year.

Discussion: Some businesses were concerned about why a \$300 stipend is being offered for a job shadowing. Will this continue? It will continue and is an incentive for participate and the training. WSM will not require smaller businesses to sponsor the \$300. WSM is more interested in procuring the experiences, than getting business to provide \$300 sponsorship. Edson noted that his SR interns were great, bright, did not want to leave. Edson also noted that there was an inspection that discouraged them from transporting interns in personal vehicles. The orientation for businesses went really well. Recommendation is to give student and employer an outcome

that they can both look at to provide more structure. WSM is meeting with MCPS on a monthly basis and are working on ways to recognize students who complete Summer RISE.

New Resource Development Role (Giles)

- Have been allocated funds for RSD position.
- WSM first will put together a RSD strategy to diversify revenues. A consultant will be brought on to develop strategy.

Action: Giles will send out job description to board members.

8:45 a.m. Audit and Financial Report (Aronson & Thompson)

Discussion: Finance committee reviewed the audit report. Made a motion to accept the draft audit report.

Greg Platts, Engagement Partner and Carol Barnard, Senior Manager

Platts reviewed the “Communications to Those Charged with Governance; Barnard reviewed the financial statements and findings.

Platts: CTTCWG letter focuses on areas that Aronson may have found during the audit that would be necessary to bring to the board’s attention.

- There were no difficulty performing the audit.
- There were disagreements with management.
- Some audited adjustments made, that are included as attachments.
- Management representation will let Aronson to state that everything WSM provided to Aronson for the audit was all that was available.
- There are significant deficiencies and internal controls that were provided by Aronson.
- There are four significant accounting estimates: allowance for doubtful accounts, value of in-kind donations, depreciation and functional expense allocation. These are estimates made by WSM management. Aronson found that these estimates were reasonable.

Discussion: Did the finance committee agree with all of Aronson’s findings? They did. Management of WSM will also respond to each of the findings. Once received, this will be written documentation included in the final report. It is typical for startup to have some of these findings, considering the transition from an outsourced accounting. WSM has addressed many of the findings.

Carol Barnard reviewed the financial statements:

- Completed a financial statement audit as well as a compliance audit using uniform guidance which means that we tested compliance with the federal grant requirements, including payroll time sheets for project allocation time, reporting deadlines.
- Page 1 and 2 is Aronson’s opinion on the financial statements. This is a clean opinion which is the best opinion possible. Which is a testament to the team of Annette, Ellie and Harry doing a good job.
- Page 3 – Balance Sheet/Statement of Financial Position – WSM has a very healthy balance sheet with more than enough liquid assets to meet its obligations. We tested these balances in a number of ways, such as confirming directly with the bank for cash accounts; testing receipts for A/R. The note payable (security deposit) was tested tracing through the statements and the original agreement, but was not able confirm through Montgomery County. Property and equipment was largely donated furniture and equipment, as well as capitalization of the website redesign.

- Page 4 – Profit and Loss/Statement of Activities and Changes in Net Assets – compliance testing was performed for the federal grants, expense and draws. Contributions include the Pepco/Epsilon proceeds that were counted as a contribution from the County. In-kind contributions, include donated rent, Smokey Glen donation for Summer RISE, and the furniture and equipment. Expenses were compared to budget and tested controls over the expenses to make sure they were going where they were supposed to go, as well as being authorized to be expended. Aronson found them to be consistent with the budget. Program expenses were slightly under budget due to timing and getting programs in place. Management in general and fundraising expenses were on budget.
- Page 5 – Cash Flow – Main takeaway is that WSM has net cash provided by operating activities, which means WSM is supported by operations. WSM is not as dependent on financing, although financing did help with cash flow needs, e.g., deposit note.
- Page 6 – Policy Notes – This is consistent with the industry. Aronson went through each with the finance committee. There is nothing unusual or out of the ordinary that Aronson needs to point out at this time.
- Page 9 – Property and Equipment breakout – Donated equipment and furniture, and website development.
- Page 10 – Note payable – breaks out the payments expected to be made over the life of the note. Operating lease includes multiple leases.
- Page 12 – Opinions about uniform guidance – First letter is about internal controls over financial reporting. It is an unmodified opinion, which is a clean opinion, although Aronson noted significant deficiency findings.
- Page 14 – Second letter regarding compliance for each federal program. Aronson did not find any compliance issues. Everything tested had no issues.
- Page 17 – Schedule of Expenditures of Federal Awards – breakout of WIOA funding, how it was spent as well as the DEI. Aronson also test monitoring over sub-recipients.
- Page 18 – Notes to Schedule of Expenditures of Federal Awards – notes that WSM does use the 10% de minimis indirect cost rate allowed under the Uniform Guidance. The actual indirect cost incurred was 12.6%.

Discussion: What is the significance of the difference in the 10% rate and the 12.6% rate incurred? WSM may be able to apply for a rate higher than the 10%. Is that allowed. Yes. WSM will be filing and asking for an adjusted rate. Is that typical for organizations to ask for a higher indirect rate? Yes.

- Page 19 – Schedule of Findings and Questioned Costs – There were no material weaknesses identified, but there were significant deficiencies. Significant deficiencies mean there were areas Aronson felt necessary to bring to management attention. Auditee does not qualify for a low-risk auditee, which is not unusual, but because it is a first-time audit. In order to qualify as a low risk auditee, two clean audits are required. Under federal awards there were no findings, which is very important. This opens opportunities for additional revenue.
- Page 20-21 – Three Findings. Cutoff for accounts payable, accrued liabilities and expense. An innocuous finding that does not signify anything significantly wrong. Capitalization of website redesign costs. Some costs qualified to be capitalized instead of expensed. Reclassification entries. There were a number of reclassifying entries from one account to another to ensure they tied to the financial statements.

Discussion: Is some of the accounting/audit based on opinions, e.g., what depreciates, etc. Would another accounting firm have a different opinion? There are set guidelines, GAAP and a guide for all in public auditing that Aronson follows. Within these guidelines, there may be some opinions that may differ between one auditor and another, but there is a lot

of guidance about how to interpret findings. However, these findings are black and white, they are pretty standard. Aronson is waiting on management responses and corrective action. A majority of findings already has corrective actions in place. It was a pleasure working with Annette, Ellie and Harry. They were responsive. WSM has taken a lot of positive steps to identify issues that were documented during the audit. WSM has added an internal, full-time staff accountant, working primarily with Annette and myself. Each month we look for types of issues that were missed in the past and correcting them as we move forward to avoid repeat findings. We are tracking all the grants, actual vs. budget, real time, connecting program reporting with payments. We are current on reporting, have a great relationship with DLLR, and believe we are on a smooth track.

Giles requested a Motion to accept the draft audit report and findings.

Motion made to accept audit report and findings. Motion was seconded. Motion passed unanimously.

Is there a way to assess the need for a full vs. a part-time accountant; DP: we are bringing our accounting in house; maybe we can share a staff

Question about Indirect rate of 12.6 will it increase or decrease? Rate should level off. It has been as high as 16.9 during the year. Driving it down. Next task is to take the audit to DOL, apply for an indirect rate, and have it high enough so that WSM can operate underneath, but have the ability to collect more in the future. Tighter time management and allocating to programs will also help.

Question: When will the reserves policy be a requirement for nonprofits. Some accounting changes will affect WSM in 2019. Will there a decision be made regarding whether MCEDC and WSM will share an accountant position.

Action: Petr will give an update in December regarding a shared accountant position.

Financial Report (Thompson)

- Whatever type of organization, having someone in the office with oversight and the ability to produce timely reports is of great benefit. Learning from the relationship with the outsourced vendor, there was a lot of staff turnover. \$6M organization is very complex, the cost accounting federal reporting, etc.
- WSM is now through first quarter. Making good progress.
- Actual vs. budget, the WIOA continue to ramp up. There is a positive variance on net income, and behind on revenue and expenses, which is good there are tracking with the revenue.
- Diversification of revenue is getting better. Federal grants are not as high (60%) now at about 50%. WSM will procure more nonfederal funding.
- Cash and Cash Equivalents (\$1.7M) are the significant result of the restructuring of county funding, from a quarterly in arrears to a six-month advance payment basis. Of the \$1.7M, there is \$1M in a MMA with Eagle Bank.
- Capitalizing of net assets – WSM has been diligent in billing and collecting WIOA funds post 6/30/17. It has collected and stayed current on receivables, which helps in staying current on the payables.
- Current Ratio – anything above 2:1 is very healthy. WSM is currently at a 2:5 ratio, largely due to the county's payment change and keeping up with WIOA billings.

- Deferred revenue – advance payments are in deferred revenue and then amortized over six months.
- 75% of funding is allocated to programs.
- Accounts Payables have gone down significantly since June as a result of collecting payables, as well as the RSA agreements that mandate partners to pay towards.
- Indirect Rate ended up at 11.2% for Quarter 1, compared to last year of 12.6%. WSM hopes to keep this low, and will formally apply for a new rate.

Discussion: What's the criteria used to allow for application for a higher rate? It is requiring for WSM to apply, and then its operations will be reviewed, and the county will come to a reasonably conclusion based for a rate increase. As WSM grows and staffing increases, the rate will continue to decrease.

- Statement of Cash Flow - advance funding from the county. Net income is high. Expenses are tightly controlled and monitored.

Discussion: Would it make sense to get a line of credit in the future to consider the influx of cash that program may need. One priority is to make sure that the banking has overdraft protection. It is very hard to get a line of credit, rate will also be 5-6% to borrow. It probably will not be beneficial. How are we doing with the recommendation of creating a policy to establish three-month reserves? WSM currently has three-months of operating cash. WSM has almost \$1M in the MMA. The reserve policy is on the to do list to bring a draft to the next finance committee meeting to start discussion about bringing a recommendation to have at least 3-months in reserves. What aspects of the budget will be included in the reserve.

10:00 a.m. Adjournment

Meeting adjourned at 10:06 a.m.