

SUMMARY MEETING NOTES

FIRST 5 LA  
SUMMARY MEETING NOTES  
Budget & Finance Committee  
May 20, 2014

APPROVED: 08/13/14

**COMMITTEE MEMBERS PRESENT:**

Philip Browning [Chair]  
Jane Boeckmann  
Suzanne Bostwick [Alternate]  
Sandra Figueroa-Villa

**COMMITTEE MEMBERS ABSENT:**

Jonathan Fielding [Excused]

**STAFF PRESENT:**

Kim Belshé, Executive Director  
Genie Chough, Finance Director  
Elizabeth Iida, Director  
Program Development  
Reena John, Senior Program Officer  
Program Development  
Alison Mendes, Economic Analyst  
Finance  
Teresa Nuno, Acting Chief of Programs  
and Planning  
Raoul Ortega, Finance Manager  
Mercedes Perezchica, Program Officer  
Program Development  
Linda Vo, Commission Secretary  
John Wagner, Chief Operating Officer

**EXTERNAL PRESENTERS:**

Roger Alfaro, Partner  
Vavrinek, Trine, Day and Company, LLP

**1. Call to Order/Roll Call**

The meeting was called to order by Chair Browning. Roll call completed.

**2. Review of Meeting Notes –Budget and Finance Committee, April 21, 2014**

**THE ITEM WAS RECEIVED AND FILED**

**3. Draft FY 2014-15 Proposed Budget**

Ms. Chough gives a short presentation on the draft FY 2014-15 proposed Budget. She reminds the Committee that this is the 5<sup>th</sup> time the draft proposed budget item has been brought before a committee. She says that during this meeting, only changes that have occurred since the last May 8 meeting will be discussed. In addition, she and her staff plan on briefing the Committee on the GASB 54 commitments and will take any questions.

She reminds the Committee that this year's budget, given it is the last year of our current strategic plan, is pretty much a status quo budget with only select augmentations for full implementation of the current Strategic Plan and strengthening policy and advocacy efforts.

Recent changes include the following:

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BUDGET COMPONENT	Draft Proposed	Final Proposed	Variance \$
	FY 2014-15 Budget (May 2014)	FY 2014-15 Budget (June 2014)	
Program	\$ 220,061,000	\$ 221,203,000	\$ 1,142,000
Operating	19,304,683	19,355,179	50,496
<b>TOTAL BUDGET</b>	<b>\$ 239,365,683</b>	<b>\$ 240,558,179</b>	<b>\$ 1,192,496</b>

Ms. Chough goes over a chart that illustrates a breakdown of all the changes:

BUDGET COMPONENT	Draft Proposed	Final Proposed	Variance \$
	FY 2014-15 Budget (May 2014)	FY 2014-15 Budget (June 2014)	
<b>Program</b>			
Place-Based Initiatives			
Best Start Family Strengthening	\$ 30,126,000	\$ 30,126,000	\$ -
Best Start Communities	12,878,000	12,908,000	30,000
<b>Total Place-Based Initiatives</b>	<b>\$ 43,004,000</b>	<b>\$ 43,034,000</b>	<b>\$ 30,000</b>
Countywide Strategies	\$ 25,902,000	\$ 26,233,000	\$ 331,000
Countywide Initiatives	72,303,000	72,981,000	678,000
Prior Strategic Plan Initiatives	68,373,000	68,385,000	12,000
Research & Evaluation	10,479,000	10,570,000	91,000
<b>Total Program</b>	<b>\$ 220,061,000</b>	<b>\$ 221,203,000</b>	<b>\$ 1,142,000</b>
<b>Operating</b>	<b>19,304,683</b>	<b>\$ 19,355,179</b>	<b>50,496</b>
<b>TOTAL BUDGET</b>	<b>\$ 239,365,683</b>	<b>\$ 240,558,179</b>	<b>\$ 1,192,496</b>

Committee Chair Browning asks Ms. Chough if these changes are different from the last set of changes that were presented to the Commission.

Ms. Chough responds with an affirmative indicating that these are additional changes that staff has identified since the last meeting.

Ms. Chough then informs the Committee that primary drivers of program increases are:

- New data available to inform budget development
- Delay in current year activity
- Oversight led to inadvertent error in the May budget

Committee Chair Browning would like for Ms. Chough to explain #14 in the budget materials:

**#14-Program Evaluation**

Home Visiting Evaluation- \$1,300,000

Change- \$300,000

Final FY 2014-15 Proposed Budget (June)- \$1,000,000

Explanation of change: A piece of the Welcome Baby Implementation & Outcome Study was eliminated based on feedback from the Research Advisory Committee. In addition, estimates were revised based on contract negotiations.

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Ms. Chough responds by informing the Committee that our Research and Evaluation team work with the an advisory committee team and based on their feedback, there was an element that was removed from this study, thus driving the cost down by \$300,000.

There are no other questions from the Committee.

Ms. Chough now hands over the presentation to Ms. Mendes whom goes over the GASB 54 commitments. GASB 54- Governmental Accounting Standards Board statement 54 re: Fund Balance Reporting.

Ms. Mendes briefs the Committee on a previously board-approved policy:

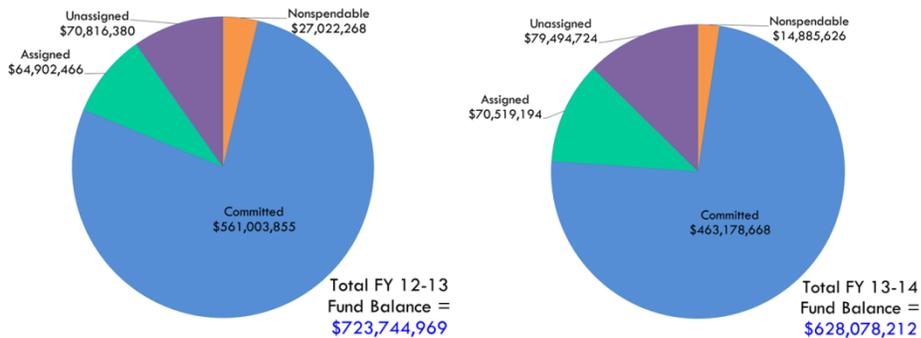
*The Commission should undergo an annual reaffirmation process prior to fiscal year-end to review all levels of fund balance and determine what action is needed. As part of this reaffirmation process, the Commission should take formal action prior to the fiscal year-end to either modify the existing fund balance levels or maintain them.*

She informs the Committee that as part of the annual budget process, staff presents projected fund balance categories to the Commission for review and approval that allows the Commission a regular opportunity to review and approve existing commitment levels.

Ms. Mendes briefs the Committee of the four fund balance categories:

- Nonspendable: Funds that have been advanced to a contractor or grantee for services to be provided in the future and are considered to be an asset of First 5 LA.
- Committed: Funds appropriated for a specified purpose and directed by the Commission via Resolution. Commission must adopt another Resolution to reappropriate these funds for other purposes.
- Assigned: Funds are reserved for Commission use consistent with the 2009-15 Strategic Plan (may be referred to as Uncommitted Fund Balance).
- Unassigned: Funds designated for the Operating Budget and Reserve.

She then goes over the fund balance projections and informs the Committee that the fund balance as of June 30, 2013 was \$723,744,969 and the projected fund balance for June 30, 2014 will be \$628,078,212.



Ms. Mendes adds that there are other potential changes to the budget:

1. Implementation of compensation study recommendations

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- Currently in the process of being evaluated by management
  - Recommendations will be brought to the Executive and Budget & Finance Committees and incorporated into the budget as appropriate
2. Possible modifications to the budget based on the direction of the new Strategic Plan, to be approved no later than November 2014
  3. Continued assessment of the following:
    - New data available to inform budget development
    - Delay in current year activity
    - Oversight led to inadvertent error in the May budget

Committee Chair Browning asks for clarification to as whether or not these four categories make us compliant with GASB 54 and if there are any other categories.

Ms. Mendes says that there is a 5<sup>th</sup> category, Restricted funds, which does not apply to First 5 LA.

Ms. Belshé reminds that committee that these four terms are the same terms that are used in the governance guidelines.

Mr. Alfaro explains that GASB views those funds that are designated for operating expenses and the reserve as unassigned because it doesn't meet the criteria of assigned funds classification.

Ms. Mendes reminds the Committee that staff planning on bringing this budget item for action at the June 12, 2014 Commission meeting.

The Committee would like to know if this proposed budget will be impacted by anything else such as the compensation study recommendations.

Mr. Wagner says that once the staff recommendations are approved by the Commission, and the intent is to bring it for approval sometime around September, any financial impact would require an amendment to the budget that would be retroactive to July 1, 2014, per discussion with the Executive Committee meeting.

There is no further discussion on this item.

#### 4. **Monthly Financials and Program Spending Update**

Mr. Ortega briefly goes through the monthly financials that were approved at the last Commission meeting in May.

He goes over some major highlights of the Financials:

##### Program Budget expenditures FY 2013-14

March Expenditures: \$7,195,443

YTD expenditures: \$81,213,857

Balance Remaining: \$132,573,803

Fiscal YTD Expenditures/Budget: 38%

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Operating and Administrative Budget expenditures FY 2013-14

March Expenditures: \$1,083,748  
 YTD expenditures: \$10,830,213  
 Fiscal YTD variance: \$6,972,145  
 Fiscal YTD Actual/Budget: 61%

There is no further discussion on this item. Mr. Ortega now hands the presentation over to Ms. Perezchica who will cover the Little by Little/One Step Ahead Initiative.

She gives the following highlights of the program:

	\$	% Spent
a. FY 2013-14 Funding level	\$2,887,728	NA
b. Amount spent as reported in the <u>March 2014</u> Monthly Financial report (enter most recent month)	\$455,826	16%

She then goes over a brief history of this program.

- Early literacy program originally developed by Public Health Foundation Enterprises-Women, Infants and Children Program (PHFE-WIC) and funded by First 5 LA from 2003-2008 in the amount of \$ 4.7 million, serving approximately 117,000 children
- In January 2011, the First 5 LA Commission approved an allocation of \$30 million for an expansion of the LBL program under the Little by Little/One Step Ahead (LBL) initiative name.
- In May 2013, the Commission approved a six year strategic partnership with PHFE-WIC in the amount of \$27,399,547 to lead and manage the expansion of the LBL program to other WIC sites throughout LA County.
- As part of Year 1 expansion in FY 13-14, the LBL program is expanding to seven additional WIC sites, and continuing to serve the three original WIC pilot sites for a total of ten WIC sites

Ms. Perezchica now goes over the implementation and status update of this program.

- 1) July 2013 -September 2013: The contractor continued implementation of the LBL program at three WIC pilot sites.
- 2) July 2013 - December 2013: The LBL program served 18,121 children ages 0 to 5 and 14,513 parents.
- 3) October 2013 -March 2014: The LBL program expanded to a total of 7 WIC sites. The contractor is on track to expand to 3 additional WIC sites for a total of 10 sites by June 2014.
- 4) One major event that affected the program in FY13-14 is the impact of the Federal Government shutdown in October 2013. Based on current analysis of client caseload data, the shutdown resulted in decreased WIC program participation from November 2013 through January 2014

She says that there are reasons for the unanticipated rate of spending.

1. Delayed Start Date of Program Expansion

Ms. Perezchica informs the Committee that this delay was partly due to a delay in Commission approval of the six-year strategic partnership.

2. Lower WIC Program Participation Due to External Factors - On October 2, 2013, the State issued a directive that WIC benefits could only be issued for the month of October

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(WIC benefits are typically issued for two or three months at a time). During this time, while WIC sites remained open, media outlets often inaccurately covered the situation to suggest WIC was closed or that vendors would not cash WIC vouchers. This information led to a 12% drop in WIC participation.

3. Gradual Program Ramp Up - Program spending rate is expected to be higher in Quarter 4 (April 2014 to June 2014) due to program expansion occurring gradually and as more clients are expected to be served during Q4, hence, incurring direct service expenses. In order to negotiate lower per item costs for program supplies (books and safety items), the contractor purchases items in bulk. A large portion of the vendor payments are reflected in the last quarters of the contractors' invoice.
4. Minor Invoice Processing Delays due to Budget Modification - Expenditures as reflected in the Monthly Financials are actually through December (not March) due to submission of a budget modification that required additional information by the contractor in order to process January 2014 and February 2014 invoices totaling \$334,100. The need for supporting documentation delayed the usual invoice processing by First 5 LA staff. Based on the subcontractor expenses, reimbursement and payment schedules with the various subcontracts, a large proportion of these costs are reflected in the contractors' last two invoices.

Committee Chair Browning would like to know where most of the money gets spent: salary or on books and supplies?

Ms. Perezchica informs that Committee that it is both where most money is utilized.

There is no further discussion on this item.

### 5. Annual Audit Entrance Interview

Mr. Ortega introduces Mr. Alfaro, whom is a partner with Vavrinek, Trine, & Day, and whom will be conducting the Audit at First 5 LA for six months.

As a part of this process, the following items will be audited:

1. Comprehensive Annual Financial Report (CAFR)
2. State Compliance – Standards and Procedures for Audits of California Counties Participating in the Children and Families Program issued by the State Controller's Office
3. OMB A-133 Single Audit (as applicable)

The timeline of this audit will be:

- June: Planning and Interim Fieldwork
- August: Final Fieldwork
- September/October: Report Delivery

Mr. Alfaro says that under U.S. Generally Accepted Auditing Standards (GAAS), he and his firm are supposed to express opinions about whether the financial statements that have been prepared by management with the oversight of the Commission are presented fairly, in all material respects, in conformity with generally accepted accounting principles. He informs the

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committee that the opinions that are made are reasonable but that they are not absolute assurance.

He and his firm are also responsible for considering internal control, though no opinion will be expressed. And finally, Mr. Alfaro informs the Committee that another responsibility will be to also express an opinion on compliance applicable to major federal programs and to issue a report on the state compliance SCO guidelines.

As part of this audit, Mr. Alfaro informs the Committee that he and his firm will also be responsible for the following:

- Communicate other matters:
  - Qualitative aspects of accounting policies and accounting estimates and note disclosures
  - Difficulties encountered
  - Uncorrected misstatements
  - Material corrected misstatements
  - Disagreements with managements
  - Management representations
  - Consultations with other accountants

The final part of their audit will be to perform substantive tests on a sample basis on account balances and transactions, including but not limited to:

1. Analytical procedures
2. Third party confirmation
3. Tracing/vouching to supporting documentation

They will also determine the adequacy of the financial statements and disclosures, in addition to assessing accounting principles and significant estimates that are practiced by First 5 LA.

And then the final part of this audit will be the exit. Mr. Alfaro informs the Committee that as part of the exit, they will discuss the following:

1. Discuss audit adjustments
2. Present findings and recommendations
3. Provide required communications

There is no further discussion on this item.

### **ADJOURNMENT:**

The meeting was adjourned at 5:18 pm.

### **NEXT MEETING:**

The next Budget and Finance Committee meeting will take place on August 13, 2014 at 10 a.m..

First 5 LA

Conference Room B, First Floor

750 N. Alameda Street

Los Angeles, CA 90012

Summary action minutes were recorded by Linda Vo, Secretary of the Board of Commissioners.