

SAN BRUNO

Community Foundation

Audit Committee

John P. McGlothlin, *Chair* • Patricia Bohm, *Member*
Leslie Hatamiya, *Executive Director*

AGENDA

SAN BRUNO COMMUNITY FOUNDATION

Special Meeting of the Audit Committee

October 18, 2019

3:00 p.m.

Meeting Location:

San Bruno City Hall, Room 101, 567 El Camino Real, San Bruno

In compliance with the Americans with Disabilities Act, individuals requiring reasonable accommodations or appropriate alternative formats for notices, agendas, and records for this meeting should notify us 48 hours prior to meeting. Please call the City Clerk's Office at 650-616-7058.

1. Call to Order

2. Roll Call

- 5. Public Comment:** Individuals are allowed three minutes, groups in attendance, five minutes. If you are unable to remain at the meeting, contact the President to request that the Board consider your comments earlier. It is the Board's policy to refer matters raised in this forum to staff for research and/or action where appropriate. The Brown Act prohibits the Board from discussing or acting upon any matter not agendaized pursuant to State Law.

3. Approval of Minutes: October 23, 2018, Special Meeting

4. Conduct of Business

- a. Review Report from Novogradac & Company LLP on Audited Financial Statements for Year Ended June 30, 2019
- b. Review Request for Proposals for Audit and Tax Preparation Services and Provide Direction to Executive Director on Next Steps in the Auditor Selection Process

6. Committee Member Comments

7. Adjourn

SAN BRUNO

Community Foundation

Audit Committee

John P. McGlothlin, *Chair* • Patricia Bohm, *Member*
Leslie Hatamiya, *Executive Director*

MINUTES

SAN BRUNO COMMUNITY FOUNDATION

Special Meeting of the Audit Committee

October 23, 2018

4:00 p.m.

Meeting Location:

San Bruno City Hall, 567 El Camino Real, Room 101, San Bruno

- 1. Call to Order:** Committee Chair McGlothlin called the meeting to order at 4:06 p.m.
- 2. Roll Call:** Committee Members McGlothlin and Bohm, present.
- 3. Approval of Minutes:** October 23, 2017, Special Meeting: Committee Member Bohm moved to approve the minutes of the October 23, 2017, Special Meeting, seconded by Chair McGlothlin, passed unanimously.
- 4. Conduct of Business**
 - a. Review Report from Novogradac & Company LLP on Audited Financial Statements for Year Ended June 30, 2018

The Committee discussed the Audited Financial Statements for the Year Ended June 30, 2018, that were prepared by the team of auditors from Novogradac & Company LLP headed by Lance Smith, CPA. Participating by teleconference, Mr. Smith thanked Executive Director Leslie Hatamiya and Accounting Consultant Frank Bittner for their work preparing for the audit and said his firm is planning to issue an unmodified, clean opinion of the Foundation's financial statements. He said the audit process went very smoothly. He noted a positive change in assets based on investment income, an increase in program expenses corresponding with an increase in program activity, and relatively flat administrative expenses. He noted a new addition to this year's statements is the inclusion of temporarily restricted net assets in the Statement of Financial Position. He also highlighted for the Committee several reporting changes that will take place in 2019, including a renaming of "temporarily restricted net assets" to "donor restricted net assets," the integration of the Statement of Activities and the Statement of Functional Expense, the treatment of investment expenses to be net of investment income, and, most significantly,

SAN BRUNO

Community Foundation

Audit Committee

John P. McGlothlin, *Chair* • Patricia Bohm, *Member*
Leslie Hatamiya, *Executive Director*

a liquidity disclosure requirement. Mr. Smith said that Novogradac would issue its standard letter (AU-260) to accompany the audited financials and reported a clean set of books with no major difficulties or misstatements/misclassifications. He said that his team intends to have a draft of the Foundation's tax returns prepared within the next week and confirmed that he would be at the November 7 Foundation Board meeting.

Chair McGlothlin and Committee Member Bohm thanked Mr. Bittner for his work closing the 2017-2018 accounting books and preparing for the audit; they also thanked Mr. Smith and his team for their work on the audit.

4. Public Comment: None.

5. Committee Member Comments: None.

6. Adjourn: Committee Member Bohm moved to adjourn the meeting at 4:31 p.m., seconded by Chair McGlothlin, approved unanimously.

Respectfully submitted for approval at the Special Audit Committee Meeting of October 18, 2019, by
Audit Committee Chair John McGlothlin.

John McGlothlin, Audit Committee Chair

SAN BRUNO

Community Foundation

Memorandum

DATE: October 15, 2019

TO: Audit Committee, San Bruno Community Foundation

FROM: Leslie Hatamiya, Executive Director

SUBJECT: October 18, 2019, Audit Committee Meeting

The Audit Committee of the San Bruno Community Foundation will hold a special meeting at 3:00 p.m. on Friday, October 18, 2019, at San Bruno City Hall, Room 101, 567 El Camino Real, San Bruno.

1. Review of Report from Novogradac and Company LLP on Audited Financial Statements for Year Ended June 30, 2019

Article XIII, Section 4, of the San Bruno Community Foundation's Bylaws states that the Foundation "shall retain an independent auditor and conduct annual independent audits in accordance with the applicable provisions of the Supervision of Trustees and Fundraisers for Charitable Purposes Act (commencing with Section 12586 of the California Government Code)." As authorized by the Board on March 6, 2019, the Foundation is using Novogradac & Company LLP to conduct the audit of the Foundation's financial statements for the year ended June 30, 2019, and to prepare the Foundation's annual federal and state tax returns. Engagement partner Lance Smith is again heading up the Novogradac team assigned to the Foundation.

In July, Accounting Consultant Frank Bittner and I began preparing the financial reports and documentation Novogradac requested to begin work on the audit. We submitted all of the requested materials by August 22, nearly two weeks prior to the September 3 deadline. Since then, the Novogradac team has examined the Foundation's financial records, accounts, business transactions, accounting practices, and internal controls. Mr. Bittner and I have responded to several follow-up requests for additional information from the Novogradac team.

The Novogradac team provided a draft of the audited financials on October 11. Mr. Bittner and I are reviewing the draft financials and sharing our comments with the Novogradac team; we hope to receive a new draft prior to the October 18 meeting and will provide that to the Committee.

At the meeting, the Committee will discuss the draft financials with the Novogradac team including Mr. Smith, who will participate by telephone. The Committee will also speak with Mr. Smith about his preparations for presenting the audited financials to the Board at its November

SAN BRUNO

Community Foundation

Memorandum

6, 2019, meeting, and inquire about the firm's progress on preparing the Foundation's tax returns.

2. RFP for Audit and Tax Preparation Services

The Foundation's Fiscal Policies and Procedures require the Foundation to issue a Request for Proposals (RFP) for audit and tax preparation services at least every five years. Under the Bylaws, the duties of the Audit Committee include "[a]ssisting the Board in choosing an independent auditor and recommending termination of the auditor, if necessary."

The Foundation last issued an RFP for audit and tax preparation services in 2015, when the Board selected Novogradac and Company as its auditor. Novogradac has now prepared the Foundation's audited financial statements and tax returns for five consecutive years. As a result, the Foundation must issue a new RFP for the fiscal year 2019-2020 audit and tax preparation. While the Fiscal Policies and Procedures require issuing an RFP at least every five years, they do not require that the Board make a change in CPA firms – that is, the Board could select Novogradac to prepare the FY2019-2020 audited financial statements and tax returns.

Nonprofits generally require annually the following from an auditor:

- Conduct an audit of the organization's records, internal controls, and financial statements in accordance with auditing standards generally accepted in the United States,
- Communicate with the Audit Committee as appropriate, before, during, and after audit fieldwork,
- Complete an audit report of Foundation financial statements with appropriate accompanying notes,
- Complete a report to management, which includes recommendations on strengthening internal controls and/or operations,
- Present the audit report and the report to management to the organization's Board of Directors, and
- Complete federal and state tax forms (IRS-990, CA-199, and RRF-1) by the applicable deadlines.

I recommend that the Foundation, as it did in 2015, follow this typical process for hiring an auditor:

- Draft a Request for Proposals (RFP) for Audit and Tax Preparation Services
- Send the RFP to CPA firms that provide nonprofit audit and related services, including firms recommended by other nonprofit organizations

SAN BRUNO

Community Foundation

Memorandum

- Receive, by a set deadline, responses to the RFP
- Review the responses and select a small number of finalists for consideration
- Interview finalists, request additional information as needed, and check references
- Make a recommendation to the Board for selection of a CPA firm for audit and related services

Consistent with this process, I am proposing the following timeline for the selection of the Foundation's next independent auditor. The Audit Committee with its current composition would begin the process, and a re-constituted Audit Committee appointed after the new Board members join the Board in January would complete the review and recommendation process.

- October 18: Audit Committee reviews and provides feedback on draft RFP for Audit Services and list of CPA firms to receive RFP
- October 21-31: Executive Director prepares final drafts of RFP and list of CPA firms
- November 6: Audit Committee shares the RFP and reports on the timeline to the Board
- Mid-November: Executive Director begins sending RFP to list of CPA firms
- January 15: Deadline for receiving responses to RFP
- January: New Audit Committee appointments made
- February-March: Audit Committee reviews RFP responses, selects list of finalists, conducts interviews, and checks references
- March: Audit Committee makes recommendation to the Board for approval (if the Audit Committee needs more time for its review, it can present its recommendation at the June Board meeting)

The audit and preparation of tax returns would then take place from late August through early November. The federal and state tax forms are due on November 15 (the Foundation may request a three-month extension if additional time is needed).

As the first step in the process, I have prepared the attached first draft of an RFP for audit services for the Audit Committee to review and edit at its October 18 meeting. The draft RFP provides background information on the Foundation, a list of expected annual audit and tax services deliverables, the list of information sought from responding CPA firms, and the deadline for responses. The goal for the Committee will be to finalize the RFP for presentation to the full Board at its November 6 meeting.

Also attached is the beginning of a list of Bay Area CPA firms known to have nonprofit audit practices to whom the Foundation may want to send the RFP. Many of these firms we contacted in 2015. I will continue to develop this list, and Committee members will have the opportunity to provide input on the list of CPA firms at the Committee meeting.

SAN BRUNO

Community Foundation

Memorandum

Attachments:

1. Draft RFP for Audit and Tax Preparation Services
2. Draft List of CPA Firms

SAN BRUNO

Community Foundation

REQUEST FOR PROPOSAL FOR AUDIT AND TAX PREPARATION SERVICES

DRAFT October 15, 2019

The San Bruno Community Foundation (“Foundation”) requests a proposal for the annual audit of its financial statements and preparation of state and federal information tax returns (IRS-990, CA-199, and RRF-1).

The Foundation is a nonprofit entity incorporated in California, with federal income tax exemption issued under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Foundation is classified as a public charity and, under Section 509(a)(3), as a Type I supporting organization.

The San Bruno City Council created the Foundation to administer the \$70 million in restitution funds resulting from the devastating 2010 gas pipeline explosion in San Bruno’s Crestmoor neighborhood. As stated in the Foundation’s Bylaws, the primary purpose of the Foundation is “to benefit the San Bruno community through enduring and significant contributions to, and investments in, charitable and community programs, and publicly owned community facilities, over the long term.”

The Foundation runs three main programs: the Crestmoor Neighborhood Memorial Scholarship (multi-year college scholarships to San Bruno students who have been actively engaged in the San Bruno community, the Community Grants Fund (community organizations are able to apply for grants of up to \$25,000 for programs benefiting San Bruno), and a portfolio of strategic grants. Of note, the Foundation has committed to providing a series of strategic grants to total up to \$50 million to the City of San Bruno to fund the design and construction of a new Recreation and Aquatics Center in San Bruno City Park.

A seven-member Board of Directors appointed by the City Council governs the Foundation. The Board has a two-member Audit Committee that is overseeing the auditor selection process. The Foundation’s fiscal year runs from July 1 to June 30.

The Foundation was founded in 2013 and began independent operations in early 2015. In 2016, the Foundation developed its Investment Policy Statement; established three investment accounts, each with its own strategy, for holding the funds; hired an investment management firm (Sand Hill Global Advisors, LLC); and took possession of the restitution funds. The three investment accounts are as follows:



In FY2018-2019, the Foundation reported revenues of \$3,781,370 (primarily investment income), expenses of \$7,596,816, and total year-end assets of \$75,582,041. The Foundation's activities are primarily funded by investment income (from the Quasi-Endowment for the Crestmoor Scholarship and the Community Grants Fund, and from the Strategic Pool for other grants and operating expenses). During the last two fiscal years, approximately five restricted donations have been received. The largest (\$100,000) supports Community Grants and the others (totaling about \$20,000) are from Community Day sponsors. For 2019-2020, total budgeted expenses are \$1,541,185. (Most revenue is investment income, which is not projected or budgeted.)

Currently, the Foundation employs one full-time staff person and two part-time contractors (accounting consultant/full charge bookkeeper and program consultant). For the first three months of FY2019-20, accounts payable payments have averaged eleven per month. In addition to savings, payroll, and general checking bank accounts, the Foundation has a credit card account in the name of the Foundation and the Executive Director.

In accordance with the Foundation's Bylaws and Fiscal Policies and Procedures, the Foundation has its financial statements audited on an annual basis by an independent CPA. A Request for Proposals (RFP) for audit services is issued at least every five years.

EXPECTED ANNUAL AUDIT & TAX SERVICES DELIVERABLES

The selected auditor or CPA firm will be expected to do the following annually:

1. Conduct an audit of the Foundation's records, internal controls, and financial statements in accordance with auditing standards generally accepted in the United States of America.

2. Communicate with the Audit Committee as appropriate, before, during, and after audit fieldwork.
3. Complete audited financial statements report with appropriate accompanying notes.
4. Complete report or communication related to audit findings with Board of Directors (*e.g.*, AU-C 260 letter)
5. Present both reports mentioned in numbers 3 and 4 above to the Foundation Board of Directors at its November meeting (typically the first Wednesday in November).
6. Complete IRS-990, CA-199, and RRF-1 by November 1, thereby allowing for timely filing of these forms on or before November 15 (or such extension as mutually agreed).

INFORMATION AND/OR RESPONSES TO BE PROVIDED

In order to assist the Board of Directors in its search for an auditor to provide the services described above, please provide, by January 15, 2020, a proposal that includes responses to the following:

1. Please describe your firm's background, history, and areas or industries of specialization. In particular, please highlight your experience with 501(c)(3) nonprofit organizations, particularly those with assets of at least \$50 million. Please include the names of any principals of the firm and their backgrounds. Also, please provide a copy of your firm's annual report (if any) and/or other literature about your firm.
2. Please provide the location of your office(s) and the names and titles of personnel that are expected to be involved in the Foundation's annual audit and tax services.
3. Please provide a proposed timeline for fieldwork and final reporting for all services requested, assuming an on-time November 15 tax filing for fiscal year 2019-2020.
4. Does your firm have a written Code of Conduct, Ethics Policy, or Conflict of Interest Policy? If so, please provide a copy of each.
5. Please describe the level of coverage for errors and omissions and professional liability insurance your firm carries. List the insurance carrier(s) supplying the coverage.
6. Has your firm, or anyone in your firm, provided any gifts, travel and room expenses, entertainment, or meals to any Foundation Board member or employee during the past 12 months? If yes, please describe in detail.
7. What do you feel makes your firm superior to other firms that the Foundation may be considering?
8. Provide a list of other nonprofit 501(c)(3) clients for whom your firm provides annual audit services. Also, please provide a sample of your audit reports for such organizations.
9. Please provide a reference to three of your nonprofit 501(c)(3) clients that have hired your firm for annual audit and tax preparation services during the past five years.
10. What will be your projected fee for completing all services described above in the "Expected Annual Audit & Tax Services Deliverables" section of this RFP for fiscal year 2019-2020? Indicate how these fees may change for fiscal years 2020-2021 and beyond. Do you provide any financial incentives for clients who are particularly well prepared and organized in preparing for the audit?
11. Does the fee described above differ from fees charged to other clients? If yes, please explain.

12. Describe any other potential fees that the Foundation may be subject to based upon common situations with other clients.
13. Include a copy of your firm's pre-audit requests for information that your clients are required to provide, including any worksheets and questionnaires. How far in advance of the site visit must the information be submitted to your firm?
14. Describe your process for informing clients of the timeline for completion of the audit and tax filings.
15. Include a copy of your firm's most recent peer review report, the related letter of comments, and the firm's response to the letter of comments.
16. Provide any additional information that you believe to be relevant to the Request for Proposal and your capability to provide the services requested.

Basis for award of contract will include but not be limited to responsiveness to the RFP, interview performance, quality and timeliness of service, and price.

Only licensed Certified Public Accountants or firms may respond to this RFP. The Foundation reserves the right to reject all proposals or request additional information from one or more proposers. All costs incurred in the preparation of a proposal responding to this RFP will be the responsibility of the proposer and will not be reimbursed by the Foundation.

The successful proposer agrees to execute a professional services agreement for the work in a form substantially similar to the agreement provided in Attachment A of this RFP. The successful proposer must also obtain a City of San Bruno business license during the term of the agreement.

The Foundation reserves the right to reject all proposals or request additional information from one or more proposers. All costs incurred in the preparation of a proposal responding to this RFP will be the responsibility of the proposer and will not be reimbursed by the Foundation.

Proposals must not be marked as confidential or proprietary. Information in submitted proposals shall be subject to public disclosure laws. All proposals shall become the property of the Foundation.

Submit proposals (three hard copies along with an electronic copy) by January 15, 2020, to:

San Bruno Community Foundation
Attn: Audit Committee
901 Sneath Lane, Suite 209
San Bruno, CA 94066
lhataamiya@sbcf.org

Questions? Please contact Leslie Hatamiya, Executive Director, at lhataamiya@sbcf.org or (650) 763-0775.

RFP for Audit and Tax Preparation Services
Distribution List

as of 10/15/2019

CPA Firm
Armanino
Bedinger & Company
Boman Accounting Group, Inc.
Crosby & Kaneda
DZH Phillips
Frank, Rimerman + Co. LLP
Harrington Group
Hood & Strong
Lamorena & Chang CPA
Novogradac & Company LLP
PMB Helin Donovan
Randolph Scott & Company
RINA
RJ Ricciardi, Inc.
Seiler LLP
Vargas & Company