

**SPECIAL MEETING OF THE AUDIT COMMITTEE OF THE
BOARD OF DIRECTORS
TUESDAY, SEPTEMBER 5, 2023 – 1:00 P.M.**

PLEASE SEE PAGE 2 FOR MEETING LOCATION

	<u>Time</u>	<u>Page</u>	<u>Target</u>
I. CALL TO ORDER			1:00
II. PUBLIC COMMENTS	15		1:15
<i>5 minutes allowed per speaker, with a cumulative total of 15 minutes per group For further details and policy see <u>Request for Public Comment</u> notice on the website</i>			
III. INFORMATION ITEMS			
A. None	0		1:15
IV. OLD BUSINESS			
A. None	0		1:15
V. MINUTES			
*A. Wednesday, September 9, 2022 (Addendum A – Pp7-13)	3	3	1:18
*B. Monday, November 14, 2022 (Addendum B – Pp14-16)	2	4	1:20
VI. NEW BUSINESS			
*A. Election of a Chairperson and a Vice-Chairperson of the Audit Committee	5	5	1:25
VII. PRESENTATIONS			
A. Audited Financial Statements – FYE June 30, 2023– (Addendum C – Pp17-28) Aldrich CPAs & Advisors LLP	20	6	1:45
VIII. COMMITTEE MEMBER COMMENTS/FUTURE AGENDA ITEMS	5	—	1:50
IX. FINAL ADJOURNMENT			1:50

Next Meeting: TBD

Palomar Health Development, Inc.	
Audit Committee of the Board of Directors	
Linda C. Greer, RN, Chairperson	Laurie Edwards-Tate, MS, Vice-Chairperson

**If you have a disability, please contact us 72 hours prior to scheduled meeting time
by calling 760-740-6383 to arrange reasonable accommodations**

- The Linda Greer Conference Room, 2125 Citracado Parkway, Suite 300, Escondido, CA 92029
 - PHD Board members who are also elected members of the Palomar Health Board of Directors will attend at this location, unless otherwise noticed below
 - Elected members of the Board of Directors of Palomar Health who are not members of the PHD Board and wish only to observe, non-Board member attendees, and members of the public may also attend at this location
- Join on your computer, mobile app or room device:
 - [Click here to join the meeting](#) | Meeting ID: 279 292 428 453; Passcode: jnSLvF |

OR

- Dial in using your phone (*audio only*):
 - 929.352.2216 | Phone Conference ID: 255 395 685# |
 - Elected members of the Board of Directors of Palomar Health who are not members of the PHD Board and wish only to observe, non-Board member attendees, and members of the public may attend the meeting virtually utilizing the above options

**Minutes from the Wednesday, September 9, 2022,
Palomar Health Development Audit Committee Meeting**

TO: Audit Committee of the Palomar Health Development Board

MEETING DATE: Tuesday, September 5, 2023

FROM: Tanya Howell, Corporate Secretary

Background: As there wasn't a quorum at the November 14, 2022, PHD Audit Committee meeting, the minutes that would have been reviewed at that meeting have been held for this meeting.

The minutes from the meeting of the PHD Audit Committee, held on Wednesday, September 9, 2022, are respectfully presented for approval (*Addendum A*).

Budget Impact: N/A

STAFF RECOMMENDATION: Staff recommends approval of the minutes from the meeting of the PHD Audit Committee, held on Wednesday, September 9, 2022.

Motion: X

Individual Action:

Information:

**Minutes from the Monday, November 14, 2022,
Palomar Health Development Special Audit Committee Meeting**

TO: Audit Committee of the Palomar Health Development Board

MEETING DATE: Tuesday, September 5, 2023

FROM: Tanya Howell, Corporate Secretary

Background: Although there was not a quorum present at the special meeting of the PHD Audit Committee, held on Monday, November 14, 2022, the creation of minutes noting the Call to Order and Adjournment due to lack of quorum was required. Those minutes are respectfully presented for approval (*Addendum B*).

Budget Impact: N/A

STAFF RECOMMENDATION: Staff recommends approval of the minutes from the special meeting of the PHD Audit Committee, held on Monday, November 14, 2022.

Motion: X

Individual Action:

Information:

Election of Officers for CY2023

TO: Audit Committee of the Palomar Health Development Board

MEETING DATE: Tuesday, September 5, 2023

FROM: Hubert U. King, Chief Financial Officer

Background: The Bylaws of Palomar Health Development, Inc. (“Health Development”) {*ARTICLE IV, Section 4.12, as amended January 27, 2015*} authorize the Board of Directors (“the Board”) to create one or more Board committees. In November 2018, the Board formally created a two-person Audit Committee, comprised of “the two Palomar Health-appointed Directors of the Board not appointed Chairperson of the Board”.

Further, *ARTICLE IV, Section 4.13* requires that regular and special meetings and actions of Board Committees shall be governed by the provisions of this *Article IV* applicable to meetings and actions of the Board.

ARTICLE IV, Section 4.07 requires that the Board elect officers at its Annual Organizational Meeting: “One member shall be elected as Chairperson, one as Vice-Chairperson and one as Secretary. The Board may also appoint the Treasurer at the Annual Organizational Meeting.” In order to adapt *Section 4.07* for pertinence to this two-person Board Committee, a Chairperson and a Vice-Chairperson should be elected.

The current slate of officers are:

- Linda Greer, Chairperson
- Laurie Edwards-Tate, Vice-Chairperson

Budget Impact: N/A

STAFF RECOMMENDATION: Staff recommends that a Chairperson and a Vice-Chairperson be elected for the Audit Committee of the Health Development Board.

Motion: X

Individual Action:

Information:

Required Time:

**Entrance Presentation of the External Auditing Firm
Aldrich CPAs & Advisors LLP**

TO: Audit Committee of the Palomar Health Development Board

MEETING DATE: Tuesday, September 5, 2023

FROM: Hubert U. King, Chief Financial Officer

Background: The external auditing firm of Aldrich CPAs + Advisors LLP has been retained to perform an audit of the FYE June 30, 2023, financial reports of Palomar Health Development, Inc. Representatives from the firm will discuss the attached planned scope of the audit at the meeting (*Addendum C*).

Budget Impact: Budgeted

STAFF RECOMMENDATION:

Motion:

Individual Action:

Information: X

Required Time:

ADDENDUM A

Meeting Minutes

ATTENDANCE ROSTER		
MEMBERS	MEETING DATES	
	9/9/2022	TBD
Linda C. Greer, RN	V	
Laurie Edwards-Tate, MS	V	
Staff Attendee		
Tanya Howell, Secretary	V	
Guest Presenters¹		

P = Present E = Excused V = Virtual

¹ See text of minutes for names of invited guests/presenters

HEALTH DEVELOPMENT AUDIT COMMITTEE – MEETING MINUTES – FRIDAY, SEPTEMBER 9, 2022

(I.A) AGENDA ITEM

• DISCUSSION

CONCLUSIONS/ACTIONS

**FOLLOW-UP/
RESP PARTY**

I. CALL TO ORDER

- **Notice of Meeting** and **Full Agenda Packet** were posted at PH’s Administrative Offices and on the Palomar Health Development, Inc. (PHD) home page on the PH website on Tuesday, September 6, 2022, which is consistent with legal requirements. Notice of that posting was also made that date via email to the Board and staff members.
- As there was not yet a Chairperson, Director Greer called the meeting to order at 3:01 p.m.

II. PUBLIC COMMENTS

- When Director Greer called for Public Comments, there was some discussion regarding why a corporation would be required to hold the meeting pursuant to the requirements of the Brown Act
 - It was determined that the Bylaws required it, and Chief Legal Officer Kevin DeBruin recommended that the matter be placed on the agenda for further discussion during the next full Health Development Board meeting
- There were no public comments

III. INFORMATION ITEMS

- None

IV. OLD BUSINESS

- None

IV. MINUTES 17:32

A. Minutes, Monday, December 6, 2021

MOTION: By Director Greer, seconded by Director Edwards-Tate, and carried to approve the minutes from the Monday, December 6, 2022, meeting
 Vote taken by roll call vote: Director Greer – aye; Director Edwards-Tate – aye

- No discussion

VII. NEW BUSINESS

A. Election of a Chairperson and a Vice-Chairperson of the Audit Committee

MOTION: By Director Greer to nominate herself as Chairperson of the Committee, seconded by Director Edwards-Tate
 Vote taken by roll call vote: Director Greer – aye; Director Edwards-Tate – aye
 No specific action was needed to elect Director Edwards-Tate as the Vice-Chairperson, as she is the only other member of the Committee

HEALTH DEVELOPMENT AUDIT COMMITTEE – MEETING MINUTES – FRIDAY, SEPTEMBER 9, 2022

(I.A) AGENDA ITEM

• DISCUSSION

CONCLUSIONS/ACTIONS

**FOLLOW-UP/
RESP PARTY**

- Reviewing the minutes from the last meeting, Director Greer commented they stated that Director Greer had nominated Director Griffith as the Chairperson, and that vote had precluded a need for a nomination of the Vice-Chairperson, since there were only two members, and the second would automatically become the Vice-Chairperson
- She then called for a nomination for the Chair

VII. PRESENTATIONS

A. Audit Entrance Presentation by Aldrich CPAs & Advisors LLP

Information only

- Mrs. Howell will poll the Audit Committee regarding potential date/time options for a 2nd meeting, following discussions with Mr. Maffia as the audit nears finalization
- If necessary, Mrs. Howell will poll the PHD Board regarding potential date/time options to move the Board meeting from November 14th to the month of December

- Hugh King introduced Andy Maffia, Partner in Charge of the audit for Aldrich CPAs + Advisors, noting that Mr. Maffia was going to review the requirements in terms of the information that he needed to share with the Audit Committee about the upcoming audit
- Mr. Maffia stated that the auditors annually hold a kick-off meeting to discuss the audit with this Committee, and he wanted to spend a few minutes going over the plan for the audit this year
 - o Chairperson Greer interrupted to confirm with Chief Legal Officer DeBruin that this matter did not require a vote, and he confirmed that it was informational only, then Mr. Maffia resumed his presentation
- As a part of the audit process, there is some required communication that is based on professional standards, and there are a couple of sets of standards that they as our CPA firm must adhere to when going through the audit
 - o One of those is Generally Accepted Accounting Principles (GAAP), which governs how PHD as an organization does its accounting and reporting of certain transactions throughout the year
 - o SCOPE OF SERVICES (PAGES 13-14) provides an outline as a reminder of both the responsibilities of the auditing firm and the responsibilities of PHD as the organization being audited
 - There is also an executed contract that outlines much of the same information
 - The bottom line is that PHD hired Aldrich as an independent firm to perform analysis, look at transactions and inquiries, and get enough information to support an opinion
 - 1) The best opinion is one that is unmodified, which provides the highest level of assurance that can be provided
 - 2) The end result will be an audit that includes the auditors’ opinion, the financial statements (which are the responsibility of the organization), and the notes from the auditor regarding the financial statements

HEALTH DEVELOPMENT AUDIT COMMITTEE – MEETING MINUTES – FRIDAY, SEPTEMBER 9, 2022

(I.A) AGENDA ITEM

• DISCUSSION

CONCLUSIONS/ACTIONS

**FOLLOW-UP/
RESP PARTY**

- Mr. Maffia further noted that Aldrich has been PHD’s auditing firm for the last several years, and there haven’t been any changes in their responsibilities during that time
 - 1) Chairperson Greer asked if it held true for this entity that best practices were to rotate firms, similarly to what the PH Board Audit Committee does by going out to bid for a new auditing firm every 5 years
 - 2) Mr. Maffia stated that there were no such rules for non-profit organizations or even with other public entities; however, a typical best practice for those types of entities was to use the same firm, but to have a periodic rotation of partners, as well as a rotation of the entire auditing team, allowing new people to become involved and providing a fresh perspective
 - 3) Most organizations have a new partner rotation every 5 to 7 years
- The auditors will provide the Audit Committee and the Board with two letters
 - 1) A management letter commenting on the internal controls of the organization, fiscal management practices, and other observations resulting from the audit
 - a) Although the auditors do not issue an opinion on internal controls, they must still have an understanding of them in order to perform the audit
 - b) If any areas were identified where the auditors thought that internal controls could be strengthened, that information would be included in the letter
 - 2) A letter identifying significant accounting policies, management judgments, and accounting estimates, audit adjustments and other matters discussed during the audit
 - a) None of those have been issues in the past
- o CLIENT SERVICE TEAM (PAGE 14)
 - In addition to Mr. Maffia, Shane Valleau will be managing the day-to-day audit activities; and Rachelle Jumper will be responsible for the completion of the tax filings and tax consultation services (State of California 199 and IRS form 990)
- o SERVICE TIMELINE (PAGE 14)
 - The auditors work with Aimee Ebner to identify an appropriate timeframe, and the field work is currently scheduled to begin the week of September 26th, with information requests scheduled to be submitted in the weeks between this meeting and that date
 - 1) Those information requests are related to specific areas selected for review by the auditors, with Ms. Ebner gathering the requested information and returning it to them so that they will be prepared to “hit the ground running” once they are in the field
 - 2) Mr. Maffia asked Secretary Tanya Howell if a second PHD Audit Committee meeting had been scheduled, and she responded that the PHD Board was currently scheduled to meet on November 14th; however, that date could be pushed further out if the preliminary audit work wasn’t done in time to allow a meeting of the PHD Audit Committee by that date
 - a) Mr. Maffia and Mrs. Howell were going to discuss further options offline
 - b) Chairperson Greer asked for confirmation that this Committee would meet again, and Mr. Maffia stated that a final draft of the audit would make a full presentation to the PHD Audit Committee, who would make a recommendation to the full PHD Board
 - (i) The auditors would then make a much briefer summary presentation to the full PHD Board

HEALTH DEVELOPMENT AUDIT COMMITTEE – MEETING MINUTES – FRIDAY, SEPTEMBER 9, 2022

(I.A) AGENDA ITEM

• DISCUSSION

CONCLUSIONS/ACTIONS

**FOLLOW-UP/
RESP PARTY**

- o COMMITMENTS & SIGNIFICANT AREAS AND ISSUES (PAGE 15)
 - Mr. Maffia read the items
- o FRAUD CONSIDERATIONS (PAGE 15)
 - Mr. Maffia stated that the auditors have an obligation to look at transactions to confirm there isn't any fraudulent activity occurring
 - They also have discussions with various members of the team related to their responsibilities, their roles, and whether they have noticed any errors or were suspicious about any activities, all of which assists them in determining if there is a potential that fraud could be occurring
- o PEER REVIEW (PAGE 16)
 - Every 3 years, Aldrich is audited by another CPA firm to confirm their adherence to professional standards, internal controls, etc.
 - Options are to pass, pass with deficiencies or fail, with pass being the best and what Aldrich received
 - Their next audit will be in 2023, and Mr. Maffia the new report once that audit has been completed
- o PROFESSIONAL AND REGULATORY CHANGES (PAGES 17-21)
 - Mr. Maffia spoke briefly about the technological changes that had occurred since the pandemic, noting that many non-profits were grappling with the changes required by having their staff working remotely
 - 1) Aldrich has developed a cybersecurity arm within the firm to help them traverse some of those changes
 - There has also been a change in the audit report format, so the structure will look different, but it didn't change the procedures that will be performed for the audit
 - Lastly, there is a new lease accounting standard about which— while not overly significant to PHD—the Committee needed to be made aware
 - 1) The standard was enacted 6 years ago and is just now being implemented, with an effective date for PHD of June 30, 2023
- Mr. Maffia opened the floor for questions
 - o Chairperson Greer asked if the audit would be done virtually or in-house, and Mr. Maffia responded that the last couple of years it had been all virtual, and that had worked pretty well; however, the plan this year is to work with Ms. Ebner on creating a sort of hybrid, as some procedures are better when done in person
 - Overall, it will depend on what makes the most sense
 - o Mr. King stated that, after many years of perfect service to Palomar Health and Palomar Health Development, Ms. Ebner had taken advantage of another opportunity; however, she had agreed to stay on part-time through most of the audit as well as to help train her replacement, and would mostly be working remotely
 - Mr. King thanked Ms. Ebner for all that she had done for us, and thanked her for remaining to help out
 - Chairperson Greer inquired about Ms. Ebner's length of service with the District, and Ms. Ebner replied that it had been 13 years
 - 1) Chairperson Greer then thanked Ms. Ebner for that service, noting that she was appreciated and that she would be missed

VIII. AUDIT COMMITTEE COMMENTS/FUTURE AGENDA ITEMS

- None

HEALTH DEVELOPMENT AUDIT COMMITTEE – MEETING MINUTES – FRIDAY, SEPTEMBER 9, 2022

(I.A) AGENDA ITEM

• DISCUSSION

CONCLUSIONS/ACTIONS

**FOLLOW-UP/
RESP PARTY**

IX. ADJOURNMENT

- The meeting was adjourned by Chair Greer at 3:51 p.m.

SIGNATURES:

**PHD Board Audit
Committee Chair**

Linda C. Greer, RN

**PHD Board Audit
Committee Assistant**

Tanya Howell

Next Meeting: TBD based on scheduled date of completion of FYE June 30, 2022, audit

DRAFT

ADDENDUM B

Meeting Minutes

ATTENDANCE ROSTER		
MEMBERS	MEETING DATES	
	9/9/2022	11/14/2022
Linda C. Greer, RN	V	V
Laurie Edwards-Tate, MS	V	E
Staff Attendee		
Tanya Howell, Secretary	V	V
Guest Presenters¹		

P = Present E = Excused V = Virtual

¹ See text of minutes for names of invited guests/presenters

HEALTH DEVELOPMENT SPECIAL AUDIT COMMITTEE – MEETING MINUTES –MONDAY, NOVEMBER 14, 2022

(I.A) AGENDA ITEM

• DISCUSSION

CONCLUSIONS/ACTIONS

**FOLLOW-UP/
RESP PARTY**

I. CALL TO ORDER

- **Notice of Meeting** and **Full Agenda Packet** were posted at PH’s Administrative Offices and on the Palomar Health Development, Inc. (PHD) home page on the PH website on Friday, November 11, 2022, which is consistent with legal requirements. Notice of that posting was also made that date via email to the Board and staff members.
- Chairperson Greer called the meeting to order at 11:30 a.m.; however, Vice-Chairperson Laurie Edwards-Tate was not present
- Following a short wait for Director Edwards-Tate to appear online, Chairperson Greer ensured that Mr. Maffia could make his presentation at the December 12th PHD Board meeting, then adjourned the Audit Committee meeting due to lack of quorum

IX. ADJOURNMENT

- The meeting was adjourned by Chairperson Greer at 11:45 a.m.

SIGNATURES:

**PHD Board Audit
Committee Chair**

Linda C. Greer, RN

**PHD Board Audit
Committee Assistant**

Tanya Howell

Next Meeting: TBD based on scheduled date of completion of FYE June 30, 2023, audit

ADDENDUM C

Palomar Health Development, Inc.

Meeting with the Audit Committee and Management

Year Ended June 30, 2023



Aldrich CPAs + Advisors LLP
7676 Hazard Center Drive, #550
San Diego, California 92108

September 5, 2023

To the Audit Committee and Management
Palomar Health Development, Inc.

Dear Committee Members and Management,

We are pleased to discuss with you our audit service plans for Palomar Health Development, Inc. (PHD) for the year ended June 30, 2023.

The purpose of this discussion is to provide you with the required communications regarding the auditor's responsibility, the scope of the audit, and the timing of the audit.

We would also like to discuss current year developments at PHD, as well as the risk factors, professional and regulatory changes, and other factors that will be included in our planning for the audit and that will impact the performance of our audit.

We welcome any questions or input you may have about this audit service plan. We look forward to working with you again this year and consider PHD to be an important client for our audit practice.

Very truly yours,

A handwritten signature in black ink that reads "Andy Maffia". The signature is written in a cursive, flowing style.

Andy Maffia, CPA
Aldrich CPAs + Advisors LLP

SCOPE OF SERVICES

We are engaged to audit the financial statements of Palomar Health Development (PHD) for the year ended June 30, 2023. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 15, 2023, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope, Timing of the Audit, and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of Palomar Health Development and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to Palomar Health Development or to acts by management or employees acting on behalf of Palomar Health Development. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

Andy Maffia is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

This information is intended solely for the use of the board of directors and management of Palomar Health Development and is not intended to be, and should not be, used by anyone other than these specified parties.

SCOPE OF SERVICES, CONTINUED

Our services include:

- ▶ Financial statement audit and opinion on PHD’s financial statements as of June 30, 2023.
- ▶ As considered necessary under professional standards, and based on our judgment, a management letter commenting upon the internal controls of PHD, fiscal management practices, and other observations resulting from the audit.
- ▶ A letter to the Board of Directors and Audit Committee, identifying significant accounting policies, management judgments and accounting estimates, audit adjustments and other matters discussed during the audit.
- ▶ Meetings with the Board of Directors and/or Audit Committee prior to and at the conclusion of the audit, and at other times, as deemed appropriate.
- ▶ Completion of the information returns (form 990)

CLIENT SERVICE TEAM

Aldrich uses a client service team to bring a broad range of competencies to our engagements. We will assign a client service team that will lead our services and the additional staff needed for your requirements. The client service team will include:

- ▶ Andy Maffia, Partner – Responsible for all professional services
- ▶ Edna Flores, Manager – Responsible for overseeing the audit activities
- ▶ Ashley Duarte, Associate – Responsible for managing day-to-day audit activities
- ▶ Debi Smith, Senior Manager – Responsible for the completion of the tax filings and tax consulting services

All members will be actively involved and available for the duration of the assigned services, and additional staff members will be assigned and available as needed. All staff have significant experience with not-for-profit organizations. Should there be any management staff changes we will discuss them with you prior to implementation.

SERVICE TIMELINE

We will work with management to determine a detailed timeline for our audit procedures. Our general timing is as follows:

Pre-audit meeting with the Audit Committee and management to obtain further understanding of PHD and develop a work plan, including discussion of the audit plan	September 5, 2023
All requested information to be provided to Aldrich	No later than September 15, 2023
All selections to management	No later than September 19, 2023
Selection documentation to Aldrich	No later than September 22, 2023
Complete fieldwork	Week of September 25, 2023
Delivery of audit report draft to PHD	TBD
Presentation of the audit results to the Audit Committee	TBD
Completion of the information returns (990)	TBD

COMMITMENTS

Adhering to the agreed upon timeline will not only make the audit efficient, but it will allow us to meet your deadlines while minimizing the burden on your team. If there are delays in providing Aldrich the requested information on those dates, please connect with us immediately. We will work with your team to adjust the schedule which could include delays in performing audit procedures, adjusting the due date of the report, and/or additional fees.

SIGNIFICANT AUDIT AREAS AND ISSUES

We will focus our audit efforts on the following significant areas:

- ▶ Cash
- ▶ Grants receivable
- ▶ Revenue recognition cycle
- ▶ Net asset restrictions
- ▶ Payroll and related liabilities
- ▶ Functional expense allocations
- ▶ Controls associated with significant transaction cycles, including revenues, expenditures, and payroll

FRAUD CONSIDERATIONS

Our professional standards require us to consider the risk of fraud. As it relates to our audit, fraud includes the misappropriation of assets or fraudulent financial reporting. Procedures we will perform relating to fraud considerations include:

- ▶ Reviewing internal controls for susceptibility to fraud.
- ▶ Considering the control environment and pressures/incentives to commit fraud.
- ▶ Questioning employees at various levels within PHD regarding fraud.
- ▶ Our professional standards also require us to make inquiries of the board of directors, or a representative thereof, related to fraud concerns.

PEER REVIEW

We have included our 2020 peer review report below for your records.

Briscoe, Burke & Grigsby LLP CERTIFIED PUBLIC ACCOUNTANTS

Report on the Firm's System of Quality Control

October 5, 2020

To the Partners of Aldrich CPAs + Advisors LLP
and the Oregon Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Aldrich CPAs + Advisors LLP (the firm) in effect for the year ended April 30, 2020. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards). A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

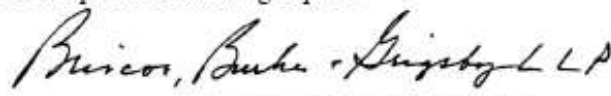
Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act and audits of employee benefit plans.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Aldrich CPAs + Advisors LLP in effect for the year ended April 30, 2020, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Aldrich CPAs + Advisors LLP has received a peer review rating of *pass*.


Certified Public Accountants

PROFESSIONAL AND REGULATORY CHANGES

The following items relate to changes throughout the not-for-profit environment for the benefit of the audit committee and management:

State of Nonprofits

Technology

Flexible and remote working arrangements became essential to continued operations for many not-for-profits (NFPs) during the pandemic. Remote work presents unique challenges, particularly for information security controls, because remote work environments do not usually have the same safeguards as office environments. When employees are at the office, they typically work behind layers of preventive security controls. When computers leave the perimeter and people work remotely, new risks arise for the organization, and additional security policies are essential. According to the March 2020 Information Technology Laboratory Bulletin published by the National Institute of Standards and Technology, organizations should “plan telework-related security policies and controls based on the assumption that external environments contain hostile threats.”

Following are some information security and remote working best practices NFPs should consider when reviewing or developing policies and procedures:

- Establishing and communicating remote work security policies (for example, avoiding public wireless networks and use of personal devices or computers to store or process work information).
- Addressing authorization and authentication
- Ensuring employees are aware of current phishing and malware campaigns
- Securing communication channels
- Providing vigilant IT support
- Encrypting sensitive data

One of the most challenging issues arises as soon as assets are moved outside of an organization's physical office. Without proper foresight and the necessary tools, the IT environment can become difficult to manage and control. An organization may not know what information staff members are accessing, where they are accessing it, and what tools they are using to do so. Without managing this new remote freedom, the organization will undoubtedly experience the challenges associated with decentralization.

Data is arguably an organization's most important asset. The confidentiality, integrity, and availability of critical, sensitive, and proprietary data should be maintained. When data is housed solely on an internal network, implementing controls to protect that data is often more manageable. Organizations generally know where the data is, how it is accessed, and by whom.

However, with the move to more remote work, managing data becomes less straightforward. Staff members, typically without malicious intent, may implement various applications to increase their productivity or to fill a need that their IT department is not providing. However, this “shadow IT,” implemented by staff on their own, is concerning. If organizations do not know what technology staff are implementing, they cannot secure it, and depending on the nature of the implementation, the staff member could be unknowingly exposing organization data.

PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

State of Nonprofits, continued

Technology, continued

Staff members who are not using organization-managed devices are even more concerning. Organization-owned devices are typically equipped to meet baseline security standards. However, personal devices may be unsecured from the start. The risk continues to grow if personal devices are shared among members of a staff member's household, such as children attending school virtually or family members using the device for recreational purposes. These individuals are likely less cognizant of malicious links on social media or in email, and the potential for inadvertent downloads of malware on the system increases. Organizations should define their expectations for the use of personal devices for work purposes.

Along the same lines, consider public wireless or home networks that staff members may be using to access organization resources. These environments further introduce unmanaged technology. Not only is there an increased risk of vulnerability from the actual internet source, but there is heightened concern with the other endpoints connected to it. Network resources could be shared with other unmanaged computers, printers, scanners, and various internet-connected smart devices (for example, smart TVs, alarms, thermostats, or refrigerators). If not properly secured or segmented, these other devices could affect the devices staff members use to access organization resources. Finally, many home-based smart devices listen for commands (for example, "Hey Alexa! What's the weather?"). To do this, these devices are "always on," which means they are always listening and sending the data to various data centers for processing. If a staff member regularly has sensitive, work-related conversations with a smart listening device nearby, then it is likely that these conversations are being recorded and stored, even if just temporarily.

Ransomware Threat

Cybersecurity has been a serious concern in both the public and private sectors for quite some time, but the stakes are rising as new types of threats emerge and organizations pivot to a more significant remote delivery model. Among the most pervasive of the current generation of threats is ransomware. In its most basic form, ransomware is malicious software that blocks access to a system or data until a sum of money is paid. However, variations exist that start destroying data until a ransom is paid or an attempt to obtain and exfiltrate sensitive information is made. Some ransomware variants, such as NetWalker, have evolved from broadly distributed attacks to more targeted attacks of specific organizations. Threats like these are not only more difficult to prevent, but they also are more malicious in their intent and devastating in their potential effects. Their consequences are often immediate and severely damaging.

Most security experts have come to recognize that cyberattackers have become more numerous, more persistent, and cunning enough to make incident prevention alone an inadequate strategy. Organizations also are recognizing the near certainty that some of the attackers' attempts will succeed. In other words, it's no longer a question of whether an attack will succeed, but when. What steps can an organization take to minimize the effects of an attack?

If your organization has concerns in this area or would like to have an external party review your security Aldrich Technology can help with this. Please talk to a member of your service team if you have questions.

PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

State of Nonprofits, continued

Challenges with Resources

NFP revenue sources vary depending on the type of organization, ranging from membership dues to tuition to contributions and government grants. Yet, all these sources have been affected by the pandemic as special events have been canceled, schools have been closed, pledges have been uncollectible, membership dues have declined, and government funding sources have changed. Faced with the question of how to continue to provide services with less resources, organizations have re-forecasted their budgets to align with the changes happening due to the pandemic.

The risks associated with declining revenue can be both short and long term, and it is important for NFPs to consider the impacts on the financial viability of the organizations. NFPs with going concern issues have had to immediately assess their current situation, create financial scenario plans, and take strategic cost-saving measures. Many have had to discuss increases in spending from endowment funds and using board-designated funds to bridge the gap due to loss of operating revenues. Many organizations have approached donors to reclassify restricted funds for general operations.

NFPs that provide frontline services, such as health and human service organizations, have seen increased demand for their services during the pandemic. However, their ability to provide those services has been challenging due to various COVID-19 - related impacts, including significant numbers of staff who were sick, quarantined, or working remotely and the inability to obtain personal protective equipment in a timely manner. Several NFPs simply had to close certain programs because it was impractical or impossible to provide the services in the current environment.

Workforce

Because so many NFPs provide services as opposed to goods, remote working and employee safety have been key challenges. Many organizations were not set up for remote work at the onset of the pandemic (for example, they relied on systems that are not cloud-based or lacked sufficiently strong security controls) and have had difficulty transitioning. Flexibility and a focus on security and communication were critical.

NFPs that typically provide face-to-face services are challenged by staff who are reluctant to work in that type of environment. Workforce challenges also include staff retention and recruitment as budget cuts have affected compensation, benefits, and staffing plans. For those still hiring, recruitment and onboarding processes have had to be conducted remotely. NFPs that have maintained a thriving workforce during this crisis have kept a critical focus on their people, including health, safety, and well-being.

Internal Control

Remote work environments also have brought changes to systems of internal control. Remote work environments have required organizations to re-evaluate their internal control systems to make sure that the controls are still effective with the change in location and information sources in a remote environment. Many NFPs have had to reevaluate existing controls for unintended gaps and design and implement new or mitigating controls (for example, digital review and approvals). Updates to existing policies or creation of new policies have also been needed to accommodate adjustments in roles and responsibilities, new funding sources, changes in IT, and so on.

PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

State of Nonprofits, continued

Internal Control, continued

Segregation of duties is often a challenge for small NFPs, but this challenge is magnified in the pandemic environment because of the changes in processes and duties necessitated by more virtual operations. With these changes, management will need to carefully consider who holds physical custody of assets, who is responsible for recordkeeping for assets, and who can authorize and approve transactions, and ensure those functions remain separate.

Documentation, although always important, may also require additional emphasis in the COVID-19 environment due to potentially increased scrutiny of estimates that affect key areas of the financial statements. Thorough explanations and supporting documentation for management estimates, including assumptions and methodologies applied, will be more important than ever given the heightened risk in areas such as asset impairment, debt covenants, and assessments of the entity's ability to continue as a going concern. Detailed recordkeeping also will be necessary for any COVID-19 - related funding received and related costs incurred.

Staff members will continue to welcome remote working arrangements for various reasons, and for many organizations, remote work is essential to continuing operations in the current environment. Organizations should adapt to this change by understanding the risks, potential security impact, and underlying implications for the financial statement audit if risks go unmitigated. Organizations should first measure their risk by defining who is working remotely and how and why they are accessing and storing data via applications, hardware, and other technology. Once this assessment is completed, controls can be enforced and monitored. Whether applied to cloud-based applications or virtual private network (VPN) solutions, authentication controls (for example, password, lockout, and multi-factor authentication), data loss prevention capabilities, and compliance monitoring are important.

New Audit Reports

For audits of December 31, 2021 and after there will be a new format and wording to the engagement letter and the audit reports that are issued due to the implementation of new auditing standards. These standards are intended to enhance the communication value and relevance of the reports.

The new audit report standards also include required procedures over annual reports. If your Organization issues an annual report that includes financial statement information or references the financial statements, there are required procedures that need to be conducted by your audit team. Your audit team will go over the specifics of these requirements.

Lease Accounting

FASB issued ASU No. 2016-02 in February 2016. This standard replaces FASB ASC 840, which was more than 40 years old. With the goal of increasing comparability and transparency, the new leases standard essentially moves operating lease obligations from the footnotes to the statement of financial position. Prior to ASU No. 2016-02, lessees recognized only lease obligations (liabilities) and related assets for capital leases. This left financial statement users lacking valuable information regarding an NFP's true operating costs and often required them to conduct further analysis of footnote disclosures to ascertain the costs of operating leases.

PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

State of Nonprofits, continued

Lease Accounting, continued

Bringing operating leases onto the entity's statement of financial position could make a significant difference in the numbers that an organization is reporting. However, many lessees will be able to meet the new reporting and disclosure requirements using existing systems and processes, keeping additional costs of providing the required information at bay. ASU No. 2016-02 will be effective for NFPs for fiscal years beginning after December 15, 2021.