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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors
Fire Safe Council of Nevada County
Grass Valley, California

We have performed the procedures enumerated below on the evaluation and preparation of responses to Susan Kay McGuire's letter to Fire Safe Council of Nevada County (FSCNC) dated June 14, 2021, on behalf of her client Roby Pracht (former bookkeeper of FSCNC), and the letter from the County of Nevada dated June 23, 2021. FSCNC's management is responsible for proper accounting and financial reporting.

FSCNC has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of responding to these letters. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The information obtained to prepare the report was gathered from discussions with FSCNC's Executive Director, Jamie Jones, and Elise Strickler, Administrative Services Officer at Nevada County. The FSCNC's former bookkeeper, Roby Pracht, was advised by her attorney, Ms. McGuire, not to discuss these items with us, so we were unable to obtain clarification or input from her.

The procedures and associated findings are as follows:

1. <u>Financial reporting the Board</u>

   <u>Procedure</u>: Compare financials prepared by the former bookkeeper of FSCNC to those provided to the Board for July to November 2020 and evaluate reasons for differences.

   <u>Findings</u>: The financial report provided by Ms. Pracht to Director Jones for the period July 1, 2020, to November 30, 2020, on January 13, 2021, showed a net loss of $155,808. The financial report provided to the Board in July 2021 for July 1, 2020, to November 30, 2020, was prepared as of July 14, 2021, and showed a net loss of $79,024. The books were not completely closed for the period ended November 30, 2020 at the time the reports were generated on January 13, 2021. The primary cause of this change was the recognition of an additional $77,250 of project revenue, possibly related to recognizing additional revenue on the Ponderosa grant based on the actual expenditures incurred to date. The Ponderosa grant proceeds were received in advance of expenditures incurred and was recorded in a deferred revenue (liability) account and is to be recognized as revenue (reclassified from the deferred revenue account to revenue) as project expenditures are incurred. Since we have not

performed an audit for the years ended June 30, 2020, or 2021, we cannot conclude whether or not the recognition of grant revenue is correct.

2. Invoicing and reporting for the Ponderosa Project

   Procedure: Discuss with the County their scope of work in auditing the FSCNC grant expenditures.

   Findings: We spoke with the County, and they are in receipt of project expenditure information from FSCNC through May 2021 but have not yet completed an audit of the grant. They have requested supporting documentation for a sample of the transactions for testing.

   Procedure: Obtain and review general ledger activity related to the grant, to verify proper accounting treatment.

   Findings: In reviewing the general ledger for the fiscal years ended June 30, 2020, and 2021, we noted that the advances received from the County for the Ponderosa grant were recorded in an advance liability account, and as qualifying expenditures were incurred, the advance liability account was properly reduced, and the revenue was recognized. Advances received to date on the grant total $3,007,769 and the unexpected balance as of June 30, 2021, totals $343,844. The McGuire letter stated the project was completed in November 2020 and that the advance liability balance was $531,259 as of that date, which was required to be paid back to the County. However, the grant contract period extends through March 31, 2022, and the project is not yet completed. Monthly expenditures continue to be incurred on the project. FSCNC expects to expend the entire amount of the grant, which totals $3,343,553, to be expended.

   Procedure: Obtain an understanding of the calculations performed to support the internal payroll costs invoiced to the County, including how payroll costs are determined.

   Findings: FSCNC incurred expenses on the project from both contractors and internal staff, as well as indirect costs and grant administration, as provided for under the grant agreement. These expenses are then applied against the grant advances received from the County. The McGuire letter indicated that FSCNC was using their own equipment and employees and "billing themselves (Fire Safe) and Fire Safe then billed the County." The grant does not prohibit FSCNC from using their staff to perform the work.

   FSCNC utilizes a job costing system to track the resources used on this and other projects, which is used to develop the internal costs incurred on the project. The field supervisor provides a daily roster of the resources that were used on-site, which is provided to the Field Operations Manager to input into the job costing system. The system has rates for various tasks, which are based on the rates provided for in the grant agreement. We walked through one month of charges and the rates appear to be consistent with the rates listed in Exhibit A, Attachment 3, List of Equipment, included in the grant agreement. The job costing system then generates a monthly "invoice" based on the labor resources utilized and the "not to exceed" rates in the contract. The amount of this invoice is then applied against the advance payments from the County and the corresponding revenue is recognized. The billing for internal costs on this grant is based on actual time/resources used on the project, as captured in the job costing system, with the rates provided for in the grant agreement with the County.

We inquired of the County whether the FSCNC will be required to justify the rates in the contract for these internal staff services and also the daily on-site vehicle rate that is not included in the grant agreement but have not yet received a response. The conclusions reached here are pending results of the audit being performed by the County on FSCNC's grant charges.

We reviewed the accounting entries related to these internal expenses and they are reflected in an expense account, which are then offset by a contra-expense account, so as not to inflate the expenses in the general ledger.

Procedure: Discuss with County and CalFire the applicability of the prevailing wage requirements discussed in the grant agreement.

Findings: We discussed with the County whether the prevailing wage reporting requirements discussed in the grant agreement apply to FSCNC. They indicated that these requirements apply to certain job classifications and the job classifications FSCNC used on the project were not included on the list of prevailing wages at the time the grant agreement was put into place. The Department of Industrial Relations changed the job classifications included on the prevailing wage listing in 2020, but since the grant agreement was put into place prior to the change, the new classifications would not be applicable to the current agreement. Thus, the requirement to pay prevailing wages and provide certified payrolls is not applicable to FSCNC under the current contract. This requirement could be applicable in future contracts as a result of the job classification changes made in 2020.

3. Evaluation of payments made under the 401k/IRA plan

Procedure: Obtain and evaluate the calculations supporting the amounts distributed to the employees for employee and employer contribution in November 2019.

Findings: The McGuire letter makes reference to a 401k plan. FSCNC does not have a 401k plan, but rather has a SIMPLE IRA plan. The employee withholdings in the payroll system are incorrectly labeled as 401k contributions but the actual retirement plan is set up as a SIMPLE IRA under the IRS code, so that may have given the appearance that FSCNC had a 401k plan. While the SIMPLE IRA plan is discussed briefly in the personnel manual, it does not appear that FSCNC has an official plan document. We recommend that FSCNC develop a plan document, using IRS Form 5305-SIMPLE. Preparing a plan document will ensure that FSCNC meets the employer notification requirements and provides proof that FSCNC has such a plan. We also recommend that reference to a 401k plan in the executive director's contract and throughout the payroll system be revised to SIMPLE IRA to avoid confusion as to whether or not FSCNC has a 401k plan.

We noted in our fiscal year 2019 financial statement audit (report issued July 2021) that withholdings and company contributions to employees' SIMPLE IRA were being recorded as a liability in the general ledger, but no payments were made to an IRA account during the year under audit. Payments were eventually made in November 2019, but they were made directly to employees instead of to the financial institution maintaining the SIMPLE IRA. We received a plan document in past audits showing that FSCNC has a SIMPLE IRA plan through American Funds, but current management did not continue the relationship due to concerns with how the plan was managed. The former executive director was the administrator of the SIMPLE IRA, but current management did not transfer administrative duties and instead had each employee establish their own IRA accounts, as allowed by the IRS, so FSCNC took on the responsibility for SIMPLE IRA compliance. The employee manual was never updated to remove reference to IRA accounts being held by American Funds. Each employee established their own IRA account at different institutions, which is allowed by the IRS, but the contributions should be remitted directly to the financial institution, not the employee. Failure to follow Internal Revenue Code requirements for SIMPLE IRA's could result in these distributions of the employer contributions directly to the employee being taxable to the employees, and would need to be reported on the W-2's. We recommended that FSCNC set up IRA accounts with one institution and that the contributions be made by FSCNC directly into the IRA accounts. FSCNC established IRA accounts for employees at one financial institution and began making contributions into the plan in July 2021, including catch-up contributions for 2020.

The McGuire letter indicated amounts paid to employees to deposit into their IRA accounts were overstated based on a spreadsheet that appears to be prepared from the general ledger. We verified the amount of payments made to employees for their IRA deposits in November 2019 to the retirement plan report generated from the payroll system, which summarized the amount reported on paystubs for both employee deductions and company contributions, and noted the amounts agreed. The reports generated from the payroll system, which are also used for tax reporting, appear to be a more reliable source of information than the postings to the liability account in the general ledger. We do recommend that FSCNC ensure that the proper system is in place for ensuring that contributions do not exceed IRS limits.

While in the process of establishing IRA accounts at a financial institution, FSCNC determined that employer contributions to the SIMPLE IRA cannot exceed 3%, but FSCNC has been including in the executive director's contract (both the current and former executive directors) that FSCNC will be contributing 6%. This issue is being resolved by increasing the executive director's pay by the 3% and changing the FSCNC match to 3%.

To ensure that the employees do not lose the tax benefits of the SIMPLE IRA, FSCNC should consider using one of the IRS correction programs to report the issue of payments made to the employees instead of directly into the SIMPLE IRA.

<u>Procedure</u>: Evaluate why certain employees did not receive a check for either employee or employer contributions.

<u>Findings</u>: The McGuire letter references three employees that did not receive payments to deposit into an IRA account. Such payments were not made because these employees did not have IRA accounts opened in which to deposit these contributions. These employees were asked to open IRA accounts and one of them has set up an account at the new financial institution being used to administer the plan. One of them provided a letter indicating they were asked to set up an IRA account, but it was not a priority to do so, but plans to set up an account at the new financial institution. The third employee chose not to participate in the IRA plan and to forfeit the company match, and we examined the signed acknowledgement from the employee indicating this decision.

4. <u>Evaluation of payroll advances not processed through payroll</u>

<u>Procedure</u>: Review payroll during the year to verify that payments made relate to retroactive pay increases.

<u>Findings</u>: The McGuire letter stated that payroll advances were made to the executive director of $4,500 in July 2019 and $10,000 in June 2020 in the form of direct checks instead of being

processed through payroll. The $4,500 payment was not a payroll advance but was a deferred salary amount of $1,500 per month ($18,000 annually) for fiscal year 2018/19 as approved in the original employment contract that was effective November 2018, of which the timing of payment was up to the discretion of the Board. The $10,000 payment was not a payroll advance but was a retroactive pay increase given upon amending the executive director's contract, as voted on by the Board at the May 2020 Board meeting. At that meeting, the Board approved increasing her salary for fiscal year 2020/21 from $115,000 to $125,000, but upon review, determined that the pay increase from $105,000 to $115,000 for fiscal year 2019/20 they thought they approved was no approved, so the approved paying her $10,000 to reflect the pay increase retroactively as of July 1, 2019.

The issue with these being paid directly by check instead of through payroll was discussed with management and members of the Board of Directors in January 2021. The fiscal year 2019 audit disclosed that these payments were made to the executive director through a general disbursement check instead of being processed through the payroll system, so there were no tax withholdings made on these amounts. We recommended that FSCNC ensure that all amounts paid to employees for salary-related payments are processed through the payroll system so that the appropriate tax withholding are made. We also advised FSCNC that they need to ensure revised W-2's are issued for these payments made in 2019 and 2020 and the appropriate taxes are paid to the taxing authorities.

The $10,000 payment that was recorded in a salary advance receivable account (but it was set up in a liability account, so in the general ledger, it was offset by other payroll-related liability accounts) by the former bookkeeper was properly transferred to salary expense by journal entry made in the general ledger in June 2020 to increase the total pay for the year to $115,000, as approved by the Board.

In reviewing amounts paid to the executive director during fiscal year 2019/20 and 2020/21, we noted that when vacation was cashed out on January 8, 2020, the cell phone and health benefit reimbursement was given on that check, in addition to these reimbursements being made for the same time period on the January 13, 2020 check. We recommend that these reimbursements be repaid by suspending payment of these reimbursements on the next paycheck.

Our review of pay amounts also disclosed payments made under a merit increase program. Other than Board minutes discussing the criteria for determining the amount of performance award, FSCNC did not have documentation in the form of a policy. The Board approved the concept of the merit increase and the calculation prepared by the executive director was reviewed by the Treasurer, but we recommend that a merit increase policy be formalized to document the program and how the award amount is to be determined. This policy should be updated within the Bambee human resource site.

We also noted reimbursements totaling $4,000 made to the executive director from September 2020 to March 2021 for her personal life insurance policy, which was approved by the Board, were not included in W-2 income, even though the insurance benefits exceeded $50,000. The premiums on life insurance benefits that exceed $50,000 are taxable to the employee and should be included in W-2 income. We recommend that such premiums be reported on the W-2 as income.

We also noted that the gym membership benefits given to employees are taxable but were not included in W-2 income for the employees. We recommend that W-2's be revised to reflect this change.

We also noted amounts paid to the executive director and other employees for various COVID-related leave. It appears that payments for COVID leave were made in addition to regular pay and may have exceeded allowable limits. Also, the credits to payroll taxes that should have been received by FSCNC to offset this COVID leave does not appear to be reflected in the payroll system. We recommend FSCNC review the COVID-related pay-outs for compliance with laws and ensure documentation requirements have been met.

Procedure: Determine whether W-2's for 2019 were amended and the appropriate taxes were paid on these payroll payments not originally processed through payroll.

Findings: In a meeting with management in June 2021, they indicated that W-2's were not yet amended. FSCNC Executive Director Jones received correspondence from the IRS regarding taxes that are owed, so they were planning to research with the IRS whether an amended W-2 had already been filed to reflect some of the items discussed above in taxable income, so that FSCNC does not prepare a duplicate revised W-2. We recommend that this issue be addressed as soon as possible to minimize any interest and penalties that may be owed.

5. Determine the extent of the Executive Director's use of FSCNC's credit card for personal purposes and that those repayments were made.

   Procedure: Review employee receivable account activity and determine that personal charges were repaid.

   Findings: The executive director inadvertently used the FSCNC credit card because her Amazon account was being used to purchase FSCNC supplies, and the credit card selection was not changed back to her personal credit card when personal purchases were made. Between July 2019 and June 2020, personal charges using the FSCNC credit card totaled $1,443.68 according to the general ledger. We did not perform an audit of the credit card statements, but these personal charges were identified by FSCNC staff upon matching up charges and receipts. The amount was repaid by the executive director by June 2020. Personal charges on the FSCNC credit card from July 2020 to June 2021 totaled $1,310.31 and were repaid in June 2021. We recommend that repayments of personal charges to FSCNC be made each month, upon receiving the credit card statement, rather than waiting until the end of the fiscal year to be repaid.

6. Evaluate the proper accounting for the PPP loan proceeds.

   Procedure: Examine FSCNC's general ledger for the recording of the PPP loan proceeds.

   Findings: The McGuire letter indicated that proceeds from the Paycheck Protection Program loan of $77,306 was recorded as a credit to program expense, and that the loan should have been recorded as a liability until the loan is forgiven. The proper accounting treatment under generally accepted accounting principles (GAAP) is to record the loan proceeds as a liability until the loan is forgiven. FSCNC was trying to match up the timing of the loan proceeds with the timing of the payroll expenditures that were covered by the loan proceeds, which is the cash basis of accounting, a more realistic representation of cash inflows and outflows, but GAAP requires the accrual basis of accounting, whereby the loan proceeds would be recorded as a liability until the criteria for recognizing the revenue is met (i.e. loan is forgiven by the SBA).

FSCNC received an email on July 6 from their bank indicating the portal was open for submitting their forgiveness application. The application for forgiveness was filed on July 30, 2021. There is no deadline for filing an application for forgiveness, but it is in the best interest of FSCNC to apply for forgiveness before they are required to begin making loan payments, which is ten months from the end of the covered period, which for FSCNC was June 1, 2021.

7. Respond to issues noted in County Letter

   Procedure: Review issues raised in County letter regarding inconsistent benefits packages, vehicles for personal use, storage fees, OSHA and nepotism.

   Findings: The following items were noted in the letter from the County and related responses:

   Benefits packages--The letter from the County indicated that benefits packages were provided to the three key employees that were not provided to other staff. We obtained the schedule of benefits provided to employees and noted that all employees received health club memberships. Eight employees that require phones for their job, not just key employees, received cell phone reimbursements. In reviewing the general ledger for fiscal years 2019/20 and 2020/21, we noted that two key employees and one other employee were receiving cell phone reimbursements in January 2020 and three key employees and three other employees were receiving cell phone reimbursements in January 2021.

   We did note that seven employee positions have access to a company vehicle, and it does not appear that an amount representing personal use of a company vehicle has been included in W-2 income. FSCNC needs to ensure that if the vehicles are used for personal use, including commute miles, the value of the personal use be included in W-2 income.

   Storage fee—The letter from the County indicated that a storage fee was paid to the executive director for storing FSCNC equipment on her property. FSCNC's Driving Policy does address that management staff can be compensated for storage of a company vehicle at their private residence. The prior executive director received a storage fee of $150 (referred to as a garage fee) for parking the company car at her residence. The current executive director is receiving $375 for storage of her car ($75), the Field Operations Manager's truck ($75), and track chipper/20-foot trailer ($225) at her personal residence. This fee was not included in W-2 income. We recommend that this fee be included in W-2 income. In addition, we suggest that this storage fee be discussed and approved by the Board or be addressed in the executive director's employment contract. The executive director believes storage of equipment at her residence is more cost effective for FSCNC than renting a facility to store the equipment.

   OSHA violations—The County letter indicated OSHA violations related to the operating of heavy equipment by minors and adults. While this is not our area of expertise, we were informed by FSCNC management select individuals were working around heavy equipment while FSCNC finalized an on-the-job training program through the local school in May 2020. They have not received any violations or notices from OSHA. In March 2020 FSCNC, through an outside safety officer, developed and updated their safety manual, which brought FSCNC into full compliance with OSHA.

Nepotism—The County letter indicates that FSCNC does not have a nepotism policy. The FSCNC Board adopted a nepotism policy in February 2019. In addition, the Board has established that the spouse of the executive director is to report to the Chair of the Board of Directors so as not to violate the nepotism policy.

We were engaged by FSCNC to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on responses to the letters. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of FSCNC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the FSCNC and is not intended to be and should not be used by anyone other than those specified parties.

_____________, 2021