

From: [Rosie Farnsworth](#)
To: [FORA Board](#)
Subject: David Farnsworth, CPA -Thank you!
Date: Wednesday, June 19, 2019 12:04:22 PM
Attachments: [Intro to our Firm - Fort Ord Reuse Authority.pdf](#)

Good afternoon members of the board,

I spoke with Hermelinda Flores regarding the Authority's Financial Audit. We would like to share our Intro to our Firm Booklet and thank you for considering our Firm for the Authority's external auditor. Please let us know if you have any questions.

We look forward to working with you. Have a great day!

Regards,

--

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david farnsworth cpa
ACCOUNTING • ADVISORY • ASSURANCE

INTRODUCTION TO OUR FIRM

CONTACT: David Farnsworth, CPA

JUNE 19, 2019

11501 Dublin Blvd, #200 ♦ Dublin, CA 94568 ♦ 408.780.2236 ♦ david@dfarnsworthcpa.com

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MESSAGE

from the

CPA

June 19, 2019

Fort Ord Reuse Authority
920 2nd Ave
Marina, CA 93933

Dear Board of Directors,

Thank you for considering us to provide professional auditing services to the Fort Ord Reuse Authority. David Farnsworth, CPA is pleased to present our auditing professional services to the Fort Ord Reuse Authority.

A while back we sought out to perform audits differently. A better way where our work would help the Board, Management, and Staff improve fraud prevention, internal controls, and government operations. We're pleased to say its working. Our Clients have saved money from enhancing fraud prevention and improved government operations. How do you receive value and improve transparency, enhance fraud prevention and run government operations more efficiently? We provide the following:

- ▶ Fraud Prevention Package
- ▶ We present an analysis of your District's finances over a period of five years
- ▶ You'll receive special reports on fraud prevention, performance management, grant management, etc
- ▶ You'll receive best practice recommendations to enhance business operations
- ▶ We are available throughout the year to answer any questions you may have
- ▶ The Audit Report will be ready within 4 - 6 weeks

As the owner of David Farnsworth, CPA, I am authorized to make representations for and to bind our firm. I am looking forward to discussing and reviewing its content with you. Should you have any questions, please feel free to contact me via email at david@dfarnsworthcpa.com or via phone at (408) 780-2236. Our mailing address is 11501 Dublin Blvd, #200, Dublin, CA 94568.

Sincerely,

David Farnsworth, CPA

David Farnsworth, CPA

ABOUT *our* COMPANY

FIRM PROFILE

At David Farnsworth, CPA we solve problems and improve processes. Ultimately, our goal is to help you improve government operations and a more transparent District so you can serve your community better.

We emphasize education in our Firm to better serve our clients. We require our audit personnel to take 40 CPE pertaining to government accounting, audit, and fraud. Our audits are performed differently as we provide our Clients with fraud prevention techniques and fraud detection techniques to mitigate the likelihood of fraud. Furthermore, during our annual presentation, we'll provide a financial analytics section to review the long-term view of the District to better plan for the future.

We are a local Firm with one office located in Dublin, CA. Our industry specialization enables us to keep up to date with all GASB pronouncements, GAAS, GAGAS, and AICPA standard changes. We provide monthly white papers (special reports). The topics range from best practice techniques of business operations, update of GASB pronouncements, fraud risk management, etc. Our Firm runs on Cloud Software and uses Google Gsuite, Microsoft Office, and AuditFile Software to upload and save audit working papers. Furthermore, your data will be saved for 7 years. We believe our unique service offering gives our clients a value-added financial audit service. Below are features, advantages, and benefits of our audit services.

Below are Features, Advantages, and Benefits of our Auditing Services:

| Features | Advantages | Benefits |
|--|---|---|
| Specialize in auditing special districts | Knowledgeable in government accounting and auditing standards | The audit is performed and compliant with auditing and accounting standards. |
| Effective and Efficient Auditing | Complete financial audit within 4 - 6 weeks | The District will have a completed signed audit report within 4 - 6 weeks after the start of the audit. |
| Fraud Prevention Package | Obtain knowledge in fraud prevention and detection | It provides a platform to assess current controls if they are adequate to fight against fraud and whether to add new controls. |
| Financial Analytics | Provides a five year comparison of key financial accounts | It provides the District with an excellent understanding of how the District is financially performing. These analytics will be presented with the conclusions of the audit at the Board meeting. |
| Monthly Reports | Receive one monthly report on fraud prevention, government trends, budgeting, grant management, etc | You'll learn new topics pertaining to Management's and Board Members' tasks as it pertains to financial reporting and planning. |

SCOPE OF SERVICES

We provide the following services to local governments:

1. Audit, the financial statements and submit the audit report to the District
2. Assist, review and provide recommendations to the District
3. Prepare management letter, to include a statement of audit findings and recommendations affecting the financial statements, internal control structure, accounting procedures, accounting systems, legality of actions, and any instances of non-compliance with laws and regulations and any other material matters
4. Prepare Special District's Annual Report and Local Government Compensation Report
5. Attend Board of Director's meeting when audited financial statements are presented
6. Present fraud prevention package
7. Installation of accounting software

The financial audit will be performed in accordance with generally accepted accounting standards; generally accepted auditing standards as set forth by the American Institute of Certified Public Accountants; and the Basic Audit Program and Reporting Guidelines for California District, as prescribed by the State Controller.

License

The firm and all key personnel are properly licensed to practice in California.

Independence

David Farnsworth, CPA is independent of the Fort Ord Reuse Authority as defined by GAAS. David Farnsworth, CPA has not had any professional relationships with the District or its staff.

Insurance Requirements

We will maintain insurance coverage throughout the course of the professional service agreement. Proof of coverage will be sent to the District if desired.

AUDIT APPROACH

Our engagements are supervised and managed by our owner. We believe ongoing communication is key to understanding your expectations and in return you'll know what to expect. We always provide a preliminary list to start the audit process.

Audit Planning

We take a risk-based approach and assess the risk of the District. This audit approach focuses on the combined impact of the environment in which the District operates (Management information, financial results, and the effectiveness of internal controls). It is based upon a thorough understanding of the District. This understanding is obtained through a comprehensive analysis of internal business operations and the District's external environment. It enables us to design an audit program that includes the most effective & efficient combination of audit sampling and audit testing to the District's unique circumstances. In addition, this method provides a uniform method for developing & documenting the basis of our audit program.

Substantive Procedures

Substantive procedures are designed based upon the results of the risk assessment process. Complex and high risk accounts will be identified early in the audit process. Some of our substantive audit procedures will include the following:

- ▶ Test of account details
- ▶ Analytical procedures
- ▶ Unpredictability tests
- ▶ Review of management's estimates
- ▶ Review of subsequent events and contingencies

In addition, our procedures test the validity and accuracy of various management assertions. We group these assertions as part of the process in three basic categories:

1. Transaction-level
2. Account balances
3. Presentation and disclosure

The management assertions include the following:

- Accuracy. Transaction amounts are free from error.
- Classification. Transactions are recorded in the correct general ledger account.
- Cutoff. Transactions are recorded in the correct period.
- Occurrence. Transactions actually took place.
- Completeness. All transactions were recorded in the general ledger.
- Existence. Transactions recorded actually exist.
- Rights & Obligations. The District has the rights to the assets and is obligated to pay its reported liabilities.
- Valuation. All assets, liabilities, and net position have been recorded at their proper valuation.

AUDIT APPROACH (Continued)

Audit Sampling

Audit sampling provides the auditor reasonable assurance to reach the appropriate conclusion. We utilize statistical and non-statistical sampling techniques as describe in the AICPA's Audit Sampling Guide, depending on type of testing being performed. Based upon the risk assessment, we will either increase or decrease the sample size accordingly.

Preparation of the Audit Report and Review

The audit working papers are reviewed in each phase of the audit. The signing CPA (David Farnsworth) will review the working papers prior to the release of the audit report. In addition, we also provide a preliminary audit report for your review prior to the release of the audit report.

Upon approval, we'll create bound copies of the audit reports based upon an agreed upon amount and send an electronic copy of the report.

Utilization of Advanced Technology

We use Cloud Software and an online library to provide us with the most up-to-date information to better serve you. We store and house all working papers in the Cloud (Google). We utilize technology to save actual paper and expedite the audit process.

Work Paper Retention

Audit programs, work papers and reports will be retained for a period of seven (7) years after the completion of the audit and make available for inspection by the District, oversight or cognizant agencies, parties designated by the federal and state governments, auditors of entities of which the District is a sub recipient of grant funds or component unit, and additional auditors, if requested by them.

CLIENT REFERENCES

Below are current relevant clients who can attest to our services and work performed on their behalf. We welcome the Fort Ord Reuse Authority to contact any of our references listed below.

| Clients | Name and Position | Contact Info | Service | Engagement Partner | Year |
|---|---|---------------------|-----------------|---------------------------|-------------|
| Salsipuedes Sanitary District | Delia Brambila ♦ District Manager | (831) 722-7760 | Financial Audit | David Farnsworth, CPA | 2018 |
| Elk Grove Cosumnes Cemetery District | Johnathan Lambdin ♦ District Manager | (916) 686-5170 | Financial Audit | David Farnsworth, CPA | 2018 |
| Gonzales Rural Fire Protection District | Victor Lanini ♦ Board President | (831) 594-8007 | Financial Audit | David Farnsworth, CPA | 2018 |
| Santa Clara Valley Habitat Agency | Jill Mross ♦ Management Budget Analyst | (408) 779-7266 | Financial Audit | David Farnsworth, CPA | 2018 |
| Reclamation District No. 2064 | Diane Dias ♦ Board Secretary | (209) 946-9675 | Financial Audit | David Farnsworth, CPA | 2018 |
| Artesia Cemetery District | Antonio Mendoza ♦ District Manager | (562) 865-6300 | Financial Audit | David Farnsworth, CPA | 2018 |

FRAUD PREVENTION PACKAGE OUTLINE

The following outline provides the high level topics of the fraud prevention package. The fraud prevention package is presented to the Board and Management after the financial audit is complete. It provides background information on the most recent fraud study conducted by the Association of Certified Fraud Examiners, defines fraud, and gives a general framework on how to fight against fraud within a small to medium-sized Special District.

OUTLINE

| | |
|-----------------------|----------------|
| ACFE Fraud Study 2018 | Prevention |
| Fraud Definition | Detection |
| Fraud Triangle | Investigation |
| Planning Phase | Final Thoughts |

FINANCIAL ANALYTICS

The financial analytics consist of presenting the audited financial statements in a way where the Board and Management can review the financial position over a period of many years. The financial analytics provide and give the Board and management insight into District liquidity, solvency, break-down of revenues and expenses, and its liabilities.

WHITE PAPER REPORTS

Our firm writes white papers on various subjects including internal controls, fraud prevention, etc. These white papers are included in the services we provide. Each publication can be reviewed as they are released at www.dfarnsworthcpa.com/resource-library/



david **farnsworth** cpa

ACCOUNTING • ADVISORY • ASSURANCE

White Paper

Education Based Literature

FRAUD FIGHTING STRATEGIES

Have you ever thought, can fraud happen to me or if it does, what should I do? You're not alone. Fraud is prevalent among all types of organizations. Fraud is a world-wide problem, and it can also be the downfall of an entire organization. Fraudulent behavior by senior management has negatively impacted brands, images, and reputations. Don't let that happen to you. There are controls and governance policies organizations can implement to mitigate the likelihood of fraud. Of course every organization varies in size, product offering, industry, company culture, etc, but there are 5 basic principles any organization can follow to mitigate fraud.



PRINCIPLE 1: FRAUD RISK MANAGEMENT PROGRAM

Written Policy

A fraud risk management program should be in place, including a written policy (or policies) to understand the expectations of senior management and the Board of Directors. This policy or policies are part of your business's corporate governance. Corporate governance can be defined as "the system by which companies are directed and controlled" and "The process by which corporations are made responsive to the rights and wishes of stakeholders." A written policy also provides a clear definition of what is classified as acceptable and unacceptable behavior.



Principle 1: Fraud Risk Management Program

Fraud Communication

An ongoing awareness program is essential to deliver and communicate the fraud risk management program throughout your organization. An awareness program will convey fraud risk management expectations, and is one key preventive measure to deter fraud from ever occurring.

Roles and Responsibilities

Fraud risk management responsibility should be taken on by every employee, vendor, and stakeholder. The role and responsibility will determine how involved is the person with the program. At

a high level, the board of directors /executives should communicate the importance of the new or ongoing fraud risk policy (or policies). If the board and/or upper management don't think the program is important, the rest of the organization will view it in like manner. Management is responsible for the design and implementation of the program. Staff needs to understand the importance and have a basic understanding of fraud and be aware of 'red flags'. The board and senior management should embed this fraud risk management program to the organization's values and

code of conduct. The organization may consider issuing documents (i.e. letter) to all employees, vendors, and customers. The document should stress the importance of fraud mitigation, vulnerability to fraud, and all stakeholders have the responsibility to support fraud risk management. All stakeholders should be reminded periodically the importance of fraud risk management.

An effective Fraud Risk Management Program serves as an excellent fraud prevention tool. Now that you have a written policy, the next step is to assess fraud exposure.

PRINCIPLE 2: PERIODIC FRAUD RISK ASSESSMENT

Key Elements

Generally, an assessment of fraud risk will include the following:

- Identify inherent fraud risk
- Assess likelihood and significance of inherent fraud risk

Respond to reasonably likely & significant inherent and residual fraud risks.



Prior to assessing a fraud risk assessment, choose personnel across multiple departments and have this 'Risk Assessment Team' create the assessment. The team's 1st step is to put themselves in the footsteps of the perpetrator. Try to think of all the various types of fraud from stealing cash and equipment to financial reporting fraud. 2nd step is to think of the chances or the likelihood that the different fraud types can impact your organization. Always remember the fraud triangle, when you are assessing the risk.

The fraud triangle is a concept that fraud perpetrators need an incentive, pressure, and opportunity to commit fraud.

General Fraud Types

Look out for three general types of fraud: Financial reporting, misappropriation of assets, and corruption. An example of financial reporting fraud can be revenues of a company were recorded too high to reach estimates or inventory was recorded too high to reduce cost of goods sold. Misappropriation of assets is where the employee, vendor, etc steals an intangible/tangible good (i.e. cash, equipment) or when an employee submits a fake invoice for a non-existent vendor. Corruption is defined as the misuse of entrusted power for private gain. Many countries have laws in place to mitigate any private organization or person to influence a politician for their private gain. After you have assessed the risks and the chances of them occurring, you can go onto principle 3.

DEFINITIONS:

Inherent Fraud Risk: The risk fraud will occur when no controls are in place to prevent or detect fraud

Residual Fraud Risk: After controls are in place to prevent and detect fraud what is the risk of fraud occurring in the organization.

PRINCIPLE 3: FRAUD PREVENTION TECHNIQUES

Fraud prevention is the most proactive fraud-fighting measure. Given a well implemented fraud prevention control system cannot mitigate 100% chance of fraud, but it does give you a better chance you do not fall victim to fraud.



Healthy Company Culture

One way to implement prevention controls is a healthy work culture. Have your HR department implement anti-fraud trainings. Proper and fair compensation is also critical. If employees are happy with their wages, how they are treated, and succeeding in the workplace, they are less prone (generally speaking) from committing fraud. In addition, exit interviews are a way to help the company determine issues regarding management's integrity or even information regarding conditions conducive to fraud.

Authority / Responsibility

Each employee's authority should be aligned with her/his responsibility. For example, not every employee should have a company credit card, and those that do should have limits which are governed by their job related tasks. Staff level should not be given the authority to spend thousands or even hundreds of dollars without management approval. If your company does not have any controls in place, you may consider implementing a spending policy.

Policies & Continuous Monitoring

A good prevention control system will not be effective unless the organization writes the policy and educates the employees. Also, make sure you are assessing the prevention controls periodically to ensure the controls are still appropriate. Its upper management's and the board of directors' responsibility to monitor & implement any changes to the prevention controls. Monitoring will give the organization insight as to which controls are effective and which need to change.

Prevention techniques are good at fighting against fraud, but fraud prevention techniques alone won't help you too much if fraud does occur. This leads us to principle 4.

"Its upper management and the board of directors job to monitor & implement any changes to the prevention controls"

PRINCIPLE 4: FRAUD DETECTION TECHNIQUES

Fraud detection is one of the best ways to deter fraud from ever occurring. There are many controls your organization can implement. However, the fraud risk tolerance of an organization will guide upper management on which types and how many controls do they wish to implement.

Whistle-blower Hot-line

Consider using a 'Whistle-blower hot-line' as a control measure. The whistle-blower hotline is the number one control measure to detect fraud. Given, the whistle-blower hotline should be anonymous. The program should be open for vendors and the public to call and report fraudulent activity. The program should have controls in place to compare the information received and compare results to norms for similar organizations to yours. Also, consider having a third-party independent of the organization to review the effectiveness and compliance with established protocols of the program and law.

Internal Controls & Technology



When an organization implements internal controls and segregates duties, fraud can be more easily detected. It is much more difficult for the perpetrator to steal, when the posting of accounting records, cash management, and the reconciliation of accounting records of the whole process is completed by different personnel.

Technology tools are available to detect fraud. These tools compare the 'norms' to actual activity. They can

identify the following:

- Hidden relationships among, people, events, and organizations
- Suspicious transactions
- Assess effectiveness of internal controls

As always remember to document your fraud detection techniques, educate the whole organization, and monitor them for effectiveness. Thus, far we have learned a well-rounded fraud risk program needs to be documented and part of the company values/code of conduct, periodic assessment of risks of fraud need to be performed, fraud preventive techniques fight against fraud, and fraud detective techniques tell us when fraud is prevalent in the organization. But what should you do, if you suspect fraud or have evidence of fraud? This question leads us to principle 5.

"Whistle-blower hotline is the number one control measure to detect fraud"

PRINCIPLE 5: FRAUD INVESTIGATION

Key Process Topics

If indeed you find someone that has committed fraud or suspect someone of committing fraud, you should have a policy already in place to guide the organization on how to investigate and what should be done. According to the ACFE, each investigation and response system should include a process for the following:



- Categorizing issues
- Confirming the validity of the allegation
- Defining the severity of the allegation
- Escalating the issue or investigation when appropriate
- Referring issues outside the scope of the program
- Conducting the investigation and fact-finding
- Resolving or closing the investigation
- Listing types of confidential information
- Defining how the investigation will be documented

- Managing and retaining documents and information

Outsource Professional Expertise

Consider when appropriate to reach-out to professionals outside of the organization including lawyers, accountants, fraud investigators, computer forensic specialists, etc. These outside professionals will assist the organization on how to proceed and what the corrective action should be from a legal standpoint or even from a financial standpoint. At the conclusion of the investigation, record the results and implement new controls (preventive & detective) to mitigate the likelihood that the same type of fraud will never victimize your organization ever again.

"You should have a policy already in place to guide the organization on how to investigate and what should be done"



FINAL THOUGHTS

Fraud may not be a subject anyone wants to deal with, but the fact is most organizations experience fraud at some level. It's important to note preparing and creating a fraud risk management policy is constructive and forward-thinking. Strong organizations exist because management anticipates issues prior to them occurring, and take action to avoid unwanted results. Implementation of a fraud risk man-

agement program should bring a climate where clear, definite, and positive steps are taken to protect employees, management and ensure a positive company culture.

If you would like a more detailed way on how to implement a fraud risk management program, there is much written on the subject. I recommend you start with the book '[Managing the Business Risk of Fraud: A Practical Guide](#)' sponsored by The Institute of Internal

Auditors, The American Institute of Certified Public Accountants, and Association of Certified Fraud Examiners. This book will give you a step by step process and reference material on how to create a fraud risk management program in great detail.

If you would like to discuss further on how we can help, please call us at (408) 780-2236 or email us at david@dfarnsworthcpa.com. Good luck!

From: [Rosie Farnsworth](#)
To: [FORA Board](#)
Subject: Fraud Prevention Tips - David Farnsworth, CPA
Date: Friday, June 21, 2019 7:17:32 AM

Good morning members of the board,

I thought this [video](#) would help the Authority on fraud prevention. Have a great day!

Regards,

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Rosie Farnsworth
Mobile | (408) 780-2236
Dublin, CA 94568
dfarnsworthcpa.com

Fort Ord Reuse Authority
Board of Directors Meeting, July 12, 2019
Item 8 (d) Transition Plan
Ladies and Gentlemen,



July 9, 2019

I apologize for not personally presenting these concerns in person, but a scheduling conflict precludes my attendance at your meeting. The FORA Transition Plan Report at Item 8(d) is very important. I ask that you please review this document and have some discussion concerning the issues raised as you receive the report referenced above.


As I read the Board packet for this item there is one glaring omission. There is no reference to who or what agency would take responsibility to monitor veteran's issues on historic Ft. Ord. As you know, FORA has a committee responsible for monitoring and reporting to the Board on these issues (Veteran Issues Advisory Committee). If an issue requires coordination of effort or support, that issue will be presented to the Board with a recommended course of action. While some issues of concern to veterans are beyond any local agency or land use jurisdiction, others are still pertinent and require an agency with authority to watch over and report to veterans and to Federal and State governments when necessary.

Most significant among these issues are:

1. The California Central Coast Veterans Cemetery: The MOU among Monterey County, Seaside, FORA and the Central Coast Veterans Cemetery Foundation has not been updated and needs to occur. This is true especially as FORA sunsets next year or in 2022. The completion of ESCA for the endowment parcel and others issues concerning the continued development of the veterans cemetery is another significant issue for the cemetery. This project is multi-jurisdictional and needs an honest broker.
2. Veterans Transition Center: Its growth and expansion will certainly include issues concerning water, land use and building approvals and permits. It could potentially include not only Marina but Seaside and even CSUMB. This project also needs an honest broker to ensure that all parties issues are fairly and equitably considered.

I urge you to consider these situations. Without a specific governmental agency to broker agreements and other issues the veterans community will simply be overrun and ignored. We have come a long way under guidance and assistance from FORA. Please do not render all of that good work moot as the organization reduces size and scope and ultimately closes. Do not allow our needs to fall by the wayside due to neglect from our elected officials. FORA has accomplished much during its tenure but there is still much to do. Veterans have never abandoned their country, please don't abandon us now.

Sincerely,


Sid Williams
Marina