



Meeting of the PSERN Board of Directors (Monthly Meeting)

Location: To be conducted virtually: Microsoft Teams Meeting

Date: Thursday, May 26, 2022

Time: 4:00 p.m. – 5:00 p.m.

Teams Call: Members of the public are invited to participate in the virtual meeting by telephone or video by using the following phone number and meeting ID: 1-425-653-6586 Meeting ID: 607 105 419#

Directors: Lora Ueland (Chair), Harold Scoggins, Brad Miyake (Alternate for Kurt Triplett), Dwight Dively, Chris Elwell, Dan Yourkoski

Alternates: Kristin Meitzler, Mark Schmidt, Matt Morris, Shawn Hayes (King County does not have an alternate at present.)

Agenda Details:

1. Call to Order – Lora Ueland 4:00 p.m.
2. Roll Call – Julia Holden 4:01 – 4:03 p.m.
3. Approve the Minutes – Lora Ueland 4:04 – 4:05 p.m.

(Decision: Motion to approve the minutes from the 04-28-22 Monthly Meeting of the PSERN Board of Directors)

4. Public Comment – Lora Ueland 4:06 – 4:10 p.m.

Board Chairperson to open floor for public comment. Members of the public are invited to address the Board of Directors for a period of time not to exceed three minutes.

5. Executive Director Report – Mike Webb 4:10 – 4:15 p.m.

(Discussion)

6. Startup Spending Update – Tracy Plouse 4:15 – 4:20 p.m.

(Discussion)

7. Operational Startup Funding Approval – Mike Webb 4:20 – 4:30 p.m.

(Decision)

8. Phase 1 Financial Advisory Report (Clark Nuber) – Mike Webb 4:30 – 4:55 p.m.
(Discussion)
9. PSERN Board of Directors Officer Report – Board Officers 4:55 – 4:57 p.m.
(Discussion)
10. Review Action Items – Lora Ueland 4:57 – 5:00 p.m.

Next Meeting: June 23, 2022



Meeting of the PSERN Board of Directors - Meeting Minutes (Monthly Meeting)

Location: Microsoft Teams Meeting

Date: Thursday, April 28, 2022

Time: 4:00 p.m. – 5:00 p.m.

Teams Call: Members of the public are invited to participate in the virtual meeting by telephone or video by using the following phone number and meeting ID: 1-425-653-6586 Meeting ID: 607 105 419#

Attendees:

- **Directors:** Lora Ueland (Chair), Harold Scoggins, Kurt Triplett, Dwight Dively, Chris Elwell, Dan Yourkoski
- **Alternates:** Kristin Meitzler, Mark Schmidt, (King County does not have an alternate at present.)
- **Other Attendees:** Spencer Bahner, Tom Bloomingdale, Spencer Bahner, Mahak Chopra, Sean Douglas, Tracey Doss, Armand Eichhorn, Adrian Englet, Julia Holden, Hank Krajewski, David Mendel, Kimberly Nuber, Michael Webb, Ellen Whitely

Meeting Minutes:

1. Call to Order – Lora Ueland 4:00 p.m.
2. Roll Call – Tracey Doss 4:01 – 4:01 p.m.
3. Approve the Minutes – Lora Ueland 4:01 – 4:02 p.m.

(Decision: Motion to approve the minutes from the 03-24-22 Monthly Meeting of the PSERN Board of Directors)

- **MOTION:** A motion was made to approve the minutes of the meeting held on 24th March 2022 by Kurt Triplett. It was seconded by Dwight Dively. Members unanimously approved the motion.
4. Public Comment – Lora Ueland 4:02 – 4:02 p.m.
 - There were no public comments.
 5. Executive Director Report – Mike Webb 4:02 – 4:07 p.m.
 - Mike Webb presented a report that summarizes the activities of the PSERN Operator since the last meeting of the Board in March.

- The final offer for a Finance Manager has been made and the recruitment for a Technical Operations Manager is underway (posting closes May 10). Mike Webb will be reaching out to people to form an interview panel.
- Clark Nuber is nearing completion of the financial advisory project and will present the report in the May meeting.
- Mike has been participating in the operational transition planning with the PSERN Project and started work to look at streamlining radio provisioning, activation/deactivation, asset management and inventory.
- The Operator has workspace in the Chinook Building, Mike is investigating the possibility of leasing a property or at dedicated facility.
- Upcoming Board Topics:
 - Clark Nuber report
 - Approval of operational and technical startup funding
 - Budget and service fee rate development.

6. Startup Spending Update – Mike Webb

4:07 – 4:13 p.m.

- Spending is under the 2022 baseline, does not include any operational expenses.
- Mike is considering pulling the Lease/Contract role into the 4th quarter to assist PSERN with negotiations on some leases which are not transferable to PSERN and may have to start from scratch, specifically the USFS leases.
- The workplan includes a placeholder to develop a summary of the portfolio of PSERN leases, this is currently being worked on by the project.

7. 2023 Budget and Rates – Mike Webb

4:13 – 4:44 p.m.

- Mike has been researching to understand where the process to develop the operational budget and services fees is at and what future work does the Operator need to do and what decisions will need to be made.
- Previous budget and service fee estimates (2019) provided are for a fully autonomous model and unsubsidized, based on year 1 of operations being 2022. (ref: Appendix A)
- 2019 estimated service fees shown are per month and do not include any rate stabilization funds applied.
- Original requirement of \$2.6M in rate stabilization funds set aside from project funds in 2014 is updated to an estimate of \$6.5M if the same assumptions are used today.
- Over the eight year period PSERN rates have gone up.
- Issues for 2023 budget:
 - Updated budget and service fee estimates:
 - Changes from the 2019/2020 operating budget include increased staffing plan, updated King County salary scale, re-estimation of operating expenses, some cost offset from sublease revenues, radio and console counts have gone up, non-public safety radios have gone down
 - Updated operating budget and service fee estimates are still a work in progress; operating budget is in the range of 7-8% higher. Year 1 is now 2023 but will be prorated based on FSA. Budget assumes full staffing by FSA. Operating cashflow of \$5M is sufficient.
 - It was requested to spend a longer time in a future or separate meeting to discuss the budget and rates and to consider a monthly briefing to address

such things as how many radios have we expanded, how does dispatch consolidation impact rates. Mike suggested a budget workshop.

- Cost allocation methodology:
 - Operator ILA does not specify a vendor support cost split.
 - ILA model is defined as first year only.
 - There is a need to consider future services and look at the demand for services such as CAD interface.
- Other considerations:
 - A plan is needed to define and manage the 5% operating reserve to determine what the reserves can be used for and how can they be authorized.
 - Capital replacement reserve should be established that is different from the operating reserve of 5%.
 - King County Fire Chiefs workgroup is investigating CAD interface for seamless communications around the County and will be interested in the costs and how it would work.
 - The new Finance Manager will be looking at how much reserve is enough and how to collect the funds.
 - Eligibility and methodology for rate stabilization needs to be determined.
- Plan and timeline for 2023 budget and service fees:
 - Target approved budget and service fees by October.
 - Further work is required for operating cost estimates, cost allocation methodology, rate stabilization methodology and reserves.
 - Concern about the October budget time frame due to most budget deadlines for municipalities, an earlier October meeting to vote on the budget might be needed.

8. Operational Startup Funding – Mike Webb

4:44 – 4:59 p.m.

- Funding needed for operational startup to cover PSERN facility, salaries, vehicles, and office expenses. Funding comes from the project.
- PSERN operational funding is assumed to begin at FSA, at the end of March 2023.
- There is a risk of additional cost exposure if FSA is delayed, mitigation includes possibility delaying staffing or detach contract FSA from the operational responsibilities.
- **MOTION:** Motion that the PSERN Operator Board request the Project Joint Board allocate additional \$1.2M of project funds to the Operator for the purposes laid out in the report by Kurt Triplett. It was seconded by Dwight Dively. Members unanimously approved the motion.
- Mike Webb will work with David to put together a report for the Joint Board on the impact of the \$1.2M to the project.
- No action was taken on the second topic, to consider what it means to fix the date the Operator assumes responsibility for the network. The ILA will need to be amended by the Board. Action may be needed by the Joint Board and KCERCS.
- Mike Webb will review the ILA and follow up with Lora on any topics that need to be considered for amending and provide a report. And also assess the Motorola contract for any concerns.

9. PSERN Board of Directors Officer Report – Board Officers

4:59 - 5:00 p.m.

- Kurt Triplett will not be present at the May meeting; his alternate will be present at the Joint Board and Operator Board of Directors meetings.

10. Review Action Items – Lora Ueland

5:00 - 5:03 p.m.

- Clark Nuber report will be presented at the May meeting and if possible, provided to the Board in advance.
- The new Finance Manager will be introduced at the May meeting, Mike will send out a notice confirming the hire.
- Summary of the lease portfolio and the risks associated is being worked on and will be presented at a future meeting.
- Budget workshop to be explored. Suggestion to add consideration of any leftover funds from the project.
- Mike will provide a report on possible changes to the Operator ILA associated with a change to the milestone at which the Operator takes over operational responsibility.

Next Meeting: May 26, 2022

Adjourn 5:03 p.m.

PSERN Board of Directors Staff Report

Agenda Item #5



Title: Executive Director Report – May 2022
Meeting Date: May 26, 2022
PSERN Staff Contact: Michael Webb, Executive Director
Action: Discussion

SUMMARY:

This report provides a summary of the activities of the PSERN Operator since the last report to the Board at the April 2022 meeting.

ANALYSIS:

Stakeholder Engagement

- Over the past few weeks, we have worked with the Project external affairs team to update the PSERN Project External Affairs Strategic Plan, which now includes a section on PSERN Operator stakeholder engagement.

PSERN Project to Operator Transition

- A Change Control process is now in place, involving weekly Change Advisory Board (CAB) review with participants from Valleycom, EPSCA, King County RCS, the City of Seattle, Motorola, the PSERN Project and PSERN Operator.
- This process is intended ensure that all changes to the combined KCERCS/PSERN network are appropriately tracked, assessed, and communicated for the purpose of minimizing unplanned service interruptions due to poorly executed changes.
- An early draft of a transfer agreement for the PSERN assets, contracts and leases has been received and initial review undertaken; the PSERN Operator’s legal counsel (Pacifica) has been advised that they will be requested to review this agreement prior to its execution.
- Monthly operational planning meetings involving the King County and Seattle radio shops and the PSERN Project and Operator are continuing.

Staffing/Hiring

- Tracy Plouse started as PSERN Finance Manager on May 16th:
 - Her initial focus will be on establishing the Operator’s financial management capabilities and facilitating the 2023 budget development.
- The Technical Operations Manager position was posted on April 14th and closed May 10th:
 - 9 applications were received and 6 have been selected for first round interview.
 - 2 rounds of interview panels are scheduled for the weeks of May 23rd and May 30th.
- The funding requirements for technical and operational staff to be hired prior to FSA are the subject of a funding request being presented at the May Project Joint Board meeting; a separate report on this topic is included in the May Operator Board package.

- Recent discussions with the King County budget office and KCIT Finance have highlighted that approval will be required from King County Council for 8 additional FTE's to be hired by King County (on behalf of the PSERN Operator) before the end of 2022:
 - This has been incorporated in the 3rd omnibus appropriation measure that will move forward for Council approval starting in June, with final approval estimated to be in July or August.
 - Only 6 FTE's within the PSERN Operator are currently authorized.

Financial Advisory Phase 1 Project

- A draft of the Clark Nuber report for the Phase 1 project is provided as part of the May meeting package and the consultants will be presenting an overview during the May board meeting.
- Work to develop the scope of work for a second project, focused on supporting budget development, will commence shortly and be based on the recommendations from the Phase 1 project.

2023 Operating Budget and Service Fee Development

- Further work on this will commence in early June.
- Based on discussion at the April board meeting, a target of mid-July for a budget workshop will be set.
 - A list of participants will need to be determined.

Records Management

- Pacifica Law Group are developing a records management plan/policy for the Operator:
 - Target completion is end of May.

BoD Workplan Updates

- The latest full workplan update was provided to the Board at the January 2022 meeting.
- A full update of the workplan will be prepared for the July meeting.
- The following workplan items have been completed since the last update:
 - (12) Set and adopt a PSERN staffing plan that includes the Operator's supervisory structure.
 - Submit year-end report to the State Auditor for 2021.
 - This is a "no business" report.
- Work is currently underway on the following items:
 - (17) Determine place of employment (office/location).
 - See below.
 - (9) Determine what services will be contracted out and what will be done in-house.
 - Develop coordinated (Project/Operator) stakeholder communications plan.
 - Adopt and implement internal financial controls, policies, procedures and processes.
 - (25) Procure business suite software (financial management system).
 - Open PSERN Operator deposit account(s).

Workspace/Facility

- Lease proposals have been received for two properties in the Kent/Tukwila area:
 - Both are approximately 7,500 sq. ft. – mixed office and warehouse.
 - Triple net rent for both is approximately \$13,500 per month for the first year (3% escalation), which includes basic tenant improvements
- A lease proposal has also been requested for 925 Hiawatha, Seattle (the King County facility being used by the Project)
 - This facility is not expected to be available before January 2023.
- The goal is to have a facility identified and a lease approved by June, with occupancy to occur in the October-November timeframe
 - A key decision will be the optimal location/preferred within the County.

Vehicles

- The PSERN Operator will need to acquire approximately 11 vehicles by the transfer of operations date (some as early as fall 2022 as outlined in the operational startup spending plan).
- Information is being gathered on local government, county and state contracts for vehicle suppliers and maintenance providers:
 - Acquisition of certain vehicles (e.g. pickups) under the state contract could take up to year.

Upcoming Board Meeting Topics

- Topics expected to be brought forward over the next 3 board meetings include the following:
 - June 2022:
 - Update and/or approval on facility acquisition/lease.
 - Update on 2023 budget and service fee development.
 - Approval of Phase 2 Financial Advisory project.
 - July 2022:
 - Full update of Board Workplan.
 - Approval of several significant procurements (financial system, vehicle acquisition).
 - August 2022:
 - Update on 2023 budget and service fee development.
- These topics are in addition to the regular standing items, including the Executive Director's report and Startup Spending Update.
- A special meeting (budget workshop) is being targeted for mid-July.

CONCLUSION:

This report has provided a summary of the work undertaken by the PSERN Operator since the previous report in April.

SUPPORTING DOCUMENTATION:

None

PSERN Operator Board of Directors

Staff Report - Agenda Item #6



Title: Administrative Startup Spending Update – May 2022
Meeting Date: May 26, 2022
Staff Contact: Tracy Plouse, Finance Manager
Action: Discussion

SUMMARY:

This report provides an update on PSERN Operator administrative start-up expenditures to the end of April 2022, and a forecast of expenditures to Full System Acceptance at the end of April 2023.

BACKGROUND:

As discussed in the January 2022 report to the Board (Start-up Staffing and Spending Plan), in the absence of a financial management system and supporting policy and processes for PSERN, the Executive Director will provide monthly status reports/updates at each Board meeting that describe:

- Year-To-Date spending against the baseline spending plan (for administrative start-up).
- Revisions to expenditure forecasts, including cost estimates and timing.

Currently, all PSERN Operator expenditures are being recorded against a specific expense code within the broader PSERN Project accounts/funds in the King County financial system (Oracle). Reports can be run on demand to show expenditures/transactions coded against the Operator.

At the point the PSERN Operator has its own financial management system later in 2022, standardized or pro forma financial reports will be provided on a regular basis to be determined by the Board.

ANALYSIS:

Appendix A provides a summary of the Year-to-Date spending of the PSERN Operator as of the end of April 2022. Spending to date is currently on-track and/or below the estimates provided in the baseline spending plan.

The following notes apply:

- The 2023 forecast is for 3 months, as it is based on FSA occurring at the end of March 2023.
- Staffing spending is shown as tracking under forecast as the Finance Manager started May 16th (budget is based on April 1st).
- The majority of expenditures to date are staffing and benefits, with small expenditures for legal services, King County IT services and miscellaneous administrative expenses (e.g. business license fees).
- The first phase of financial advisory work (\$25K committed) is underway and the first invoice was paid in April.
- This spending summary does not include any expenses associated with operational startup (operational staffing, facility expenses, additional vehicles).

CONCLUSION:

This report provides an update on administrative start-up expenditures to the end of April 2022 and a revised forecast of expenditures to Full System Acceptance in April 2023. Spending to date is on-track or below the estimates provided in the baseline spending plan.

SUPPORTING DOCUMENTATION:

Appendix A: PSERN Operator Spending (Year-to-Date and Forecast) – April 2022

A summary of expenditures to end of April 2022 and forecasted expenditures during PSERN’s startup phase in 2021, 2022 and 2023 (prior to FSA), are provided in the table below.

This only covers the administrative staffing and initiatives discussed in the January 2022 report as reflected in the approved baseline expenditure plan indicated in the table.

Item	2021 (actual)	2021 (baseline)	Apr-22 (actual)	2022 (YTD)	2022 (forecast)	2022 (baseline)	2022 (variance)	2023 (baseline)	Total Startup (forecast)	TOTAL Startup (baseline)
Salary & Benefits	\$ 46,308	\$ 39,724	\$ 44,345	\$ 129,196	\$ 661,000	\$ 667,800	\$ (6,800)	\$ 342,000	\$ 1,049,308	\$ 1,049,500
Insurance	\$ 3,488	\$ 3,488		\$ -	\$ 5,000	\$ 5,000	\$ -	\$ 1,500	\$ 9,988	\$ 10,000
King County Services				\$ -						
<i>HR, IT Support, Office Lease</i>	\$ 7,506	\$ 7,355	\$ 4,546	\$ 7,098	\$ 54,200	\$ 54,200	\$ -	\$ 29,900	\$ 91,606	\$ 91,500
Consulting Services				\$ -						
<i>Legal Services</i>	\$ 6,766	\$ 6,766	\$ 435	\$ 7,425	\$ 86,400	\$ 86,400	\$ -	\$ 28,800	\$ 121,966	\$ 122,000
<i>Financial Advisory</i>			\$ 9,148	\$ 9,148	\$ 60,000	\$ 60,000	\$ -	\$ 30,000	\$ 90,000	\$ 90,000
<i>Security/ Other Consulting</i>				\$ -	\$ 50,000	\$ 50,000	\$ -	\$ 30,000	\$ 80,000	\$ 80,000
Office/Administrative Expenses			\$ 1,430	\$ 1,668	\$ 12,900	\$ 12,900	\$ -	\$ 8,100	\$ 21,000	\$ 21,000
Transportation Expenses				\$ -	\$ 6,500	\$ 6,500	\$ -	\$ 3,300	\$ 9,800	\$ 9,800
PSERN-Specific IT Systems				\$ -						
<i>Financial/Accounting</i>				\$ -	\$ 37,700	\$ 37,700	\$ -	\$ 16,500	\$ 54,200	\$ 54,200
<i>Asset Management</i>				\$ -	\$ 54,300	\$ 54,300	\$ -	\$ 16,000	\$ 70,300	\$ 70,300
<i>Service Management</i>				\$ -	\$ 6,000	\$ 6,000	\$ -	\$ 9,000	\$ 15,000	\$ 15,000
IT Equipment (all staff)				\$ -				\$ 79,400	\$ 79,400	\$ 79,400
Vehicle Fit-Out				\$ -				\$ 142,000	\$ 142,000	\$ 142,000
Technician Tools/Equipment				\$ -				\$ 12,800	\$ 12,800	\$ 12,800
TOTAL	\$ 64,067	\$ 57,333	\$ 59,904	\$ 154,535	\$ 1,034,000	\$ 1,040,800	\$ (6,800)	\$ 749,300	\$ 1,847,367	\$ 1,847,500
TOTAL Startup by Year		\$ 57,333				\$ 1,040,800		\$ 749,300	\$ 1,847,367	\$ 1,847,500

PSERN Operator Board of Directors

Agenda Item #7 – Operational Startup Funding



Title: Operational Startup Funding Approval
Meeting Date: May 26, 2022
PSERN Staff Contact: Michael Webb, Executive Director
Action: Decision

SUMMARY:

This report presents, for approval, a recommendation that the PSERN Operator Board approve the operational startup staffing and spending plans presented and discussed at the March 2022 and April 2022 board meetings.

This recommendation and the approval are contingent on the Project Joint Board approving the allocation of an additional \$1.2 M from Project funds, which is the subject of a staff report to the Project Joint Board at its May meeting.

BACKGROUND/ANALYSIS:

At the March 2022 PSERN Operator Board meeting, a staffing plan for the operational startup of the PSERN Operator in 2022 and 2023 was presented, discussed, and endorsed by the Board.

At the April 2022 PSERN Operator Board meeting, an updated, draft 2023-2026 operating budget estimate and service rates forecast, incorporating the revised operational staffing plan, was presented and discussed.

At the April 2022 PSERN Operator Board meeting, a one-time funding requirement of \$1.2M associated with the operational startup plan was also presented and discussed. In addition to the staffing requirement contained in the March report, this funding requirement also includes the acquisition and setup of a dedicated PSERN operating facility, acquisition of vehicles, and incremental office/overhead expenses for the operational startup period.

As PSERN operational funding is assumed to begin at FSA, currently forecast as April 2023, this funding is proposed as an additional allocation from PSERN project funds prior to FSA. At the April meeting, the following motion was tabled and approved:

MOTION: Motion that the PSERN Operator Board request the Project Joint Board allocate additional \$1.2M of project funds to the Operator for the purposes laid out in the report by Kurt Triplett. It was seconded by Dwight Dively. Members unanimously approved the motion.

The Project Joint Board has been requested to approve the additional allocation of \$1.2M from project funds at its May meeting. This is the subject of a separate staff report to the Project Joint Board.

If this additional allocation is approved, PSERN Operator staff will modify its monthly reporting on startup spending to incorporate the additional funds. Startup spending reports will continue to reflect the two different expense categories – administrative and operational startup.

The Board should be aware that approval will also be required from King County Council for 8 additional FTE's¹ to be hired by King County (on behalf of the PSERN Operator) before the end of 2022. This has been

¹ Currently 6 FTE's (5 career service and 1 TLT) are approved. 8 additional in 2022 and a further 12 in 2023 will be needed to bring the Operator to full headcount approval of 26 by the FSA date.

incorporated in the 3rd Omnibus appropriation measure that will move forward for Council approval starting in June. The timing for that approval is estimated to be July or August. This is not expected to delay recruiting. No additional funding appropriation is required, just additional FTE approval.

RECOMMENDATION:

It is recommended that the PSERN Operator Board approve the staffing and spending plans and authorize hiring and other expenditures, for a total of \$1.2M, as defined in the March and April 2022 reports.

This recommendation and the approval are contingent on the Project Joint Board approving the allocation of an additional \$1.2 M from Project funds, which is the subject of a staff report to the Project Joint Board at its May meeting.

SUPPORTING DOCUMENTATION:

1. PSERN Operator Board, March 24, 2022: Staff report “Technical and Operational Staffing Plan”.
2. PSERN Operator Board, April 28, 2022: Staff report “Operational Startup Funding Requirements”.

These documents can be found in the respective meeting materials packages on the PSERN Operator website.

PSERN Operator Board of Directors

Staff Report - Agenda Item #8



Title: Phase 1 Financial Advisory Report (Clark Nuber)
Meeting Date: May 26, 2022
Staff Contact: Michael Webb, Executive Director
Action: Discussion

SUMMARY:

This report is discussing the work undertaken by Clark Nuber PS to advise the PSERN Operator on matters relating to the financial startup of the organization.

The consultants' report is provided as Appendix A (Phase 1 Financial Advisory Report). The consultants will be presenting a summary of the report and its findings and recommendations at the May board meeting.

The report is identifying several decisions the organization will need to make and for which board input and direction will be required. The report also outlines recommendations for further consultant work and support.

BACKGROUND:

A report presented at the January 2022 board meeting discussed the need for the PSERN Operator to establish its financial management capabilities.

In December 2021, an inquiry letter was drafted and sent to several firms requesting proposals for the provision of financial advisory services. The letter called for work to be broken into several phases or "scopes of work", with the first phase outlined below.

- Phase 1 – Financial Start-Up Advisory
 - The Consultant will gather required background information and undertake necessary analysis and assessment to advise the PSERN Operator Executive Director and Board of Directors on the optimal approach to setting up PSERN's financial management capabilities, policies, processes and systems.

An inquiry letter was drafted and sent to several firms, resulting in Clark Nuber PS being selected to undertake an initial scope of work.

ANALYSIS:

Clark Nuber has completed the Phase 1 Scope of work and provided a report that is attached as Appendix A. The report addresses the following matters to be considered in setting up the financial management capabilities and systems for the PSERN Operator:

- Financial management system and related issues, including:
 - Choice of accounting methodology
 - Establishment of reserves, asset retirement obligations
 - Application of the ILA cost allocation methodology
 - Benefits and pension liability
 - Capital asset transfer methodology, lease accounting
 - Selection of an accounting system
- Staffing

- Functions to in-source versus out-source
- Policies and procedures
 - Internal controls, driven by regulatory and other requirements
 - Month-end checklist
- Recommended next steps and further work

The consultants will be presenting a summary of the report at the May board meeting. This will identify several decisions the organization will need to make as its financial management capabilities are established. The report also includes a recommended list of tasks for the next phase(s) of work.

After the consultants' presentation to the board and the resulting discussion, Operator staff will review the recommendations in detail with the consultants and prepare a report for the Board for the June meeting on the required decisions identified in the report and the proposed scope and timing of the next phase(s) of work.

CONCLUSION:

This report has discussed the work undertaken by Clark Nuber PS to advise the PSERN Operator on matters relating to the financial startup of the organization.

Operator staff will prepare a report for the June meeting that will outline its proposed decisions and plan(s) in response to the findings and recommendations in the consultants' report.

SUPPORTING DOCUMENTATION

Appendix A: Phase 1 Financial Advisory Report – Clark Nuber P.S.

PUGET SOUND EMERGENCY RADIO NETWORK

Phase 1 Financial Advisory Report
May 13, 2022

Submitted by:

Clark Nuber P.S.

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PUGET SOUND EMERGENCY RADIO NETWORK

Phase 1: Start-Up Consulting
May 13, 2022

I. EXECUTIVE SUMMARY

Clark Nuber (CN) was engaged by Puget Sound Emergency Response Network (PSERN) to provide guidance related to certain financial issues that will need to be addressed as the PSERN Operator (Operator) comes online in late 2022. Information gathered in the report was obtained through interviews with the various voting and non-voting members of the Board, as well as through discussions with management. This report is only for the use of PSERN and the Board, management, and authorized designees.

We have broken out the report into three key sections: Financial Management System and Related Issues, Staffing and Policy and Procedure. Key Observations from these categories Include:

Financial Management System and Related Issues

- The choice of accounting methodology (accrual, cash, and modified cash) will have a direct impact on several financial areas pertinent to the accounting and reporting for PSERN.
- Discussion and consensus is needed between the Board and management for:
 - The need for the establishment of a reserve for capital replacement
 - Estimation and reporting on asset retirement obligations
 - Cost allocation methodology
 - The need to account and report on pension liability and other post-retirement benefits
 - Capital asset transfer methodology, tracking and lease accounting
- There are many different accounting software packages to choose from in the marketplace, each with their own benefits and downsides. Careful consideration should be given to each viable software, with an eye towards reporting capabilities and requirements, ease of use, and customization ability.

Staffing

- Independence of the PSERN Operator from King County from a financial management perspective is an important consideration
- Discussion and a conclusion should be reached on whether to maintain an independent staff, rather than using a member for services. Outsourcing to a CPA firm or payroll services provider should be considered as well.

Policies and Procedures

- Consistent and clear policies and procedures should include a purpose, the policy itself, and the high-level procedures needed to carry out the activity
- Operational, financial, and regulatory goals should be the basis for producing internal controls and risk mitigation policy
- A standardized month-end checklist should be developed for consistency in financial close

The details in the report give you the advantages and disadvantages of options being considered to help guide you through these key decisions. We thank all Board members and managers who spent time providing valuable input into the writing of this report.

PUGET SOUND EMERGENCY RADIO NETWORK

Phase 1: Start-Up Consulting
May 13, 2022

II. BACKGROUND, PURPOSE AND SCOPE

Background: The King County Emergency Radio Communication System (KCERCS) was approved by voters in September 1992. The communications system has been used by various agencies in King County, including fire/EMS, police and 911 dispatch agencies, hospitals, public transportation providers, utilities, schools, and other general governmental agencies. In 2015, the KCERCS system had reached 20 years in operation, and was in need of replacement.

In June 2015, voters approved an ordinance authorizing the King County executive to enter into and implement an MOU with the cities of Auburn, Bellevue, Federal Way, Issaquah, Kent, Kirkland, Mercer Island, Redmond, Renton, Seattle, and Tukwila, relating to the ownership, governance, and management of the Puget Sound emergency radio network after construction. The ordinance would provide public safety agencies and other regional user groups with improved coverage and capacity, and uniform high-quality radio communications.

Puget Sound Emergency Radio Network (PSERN Operator) was formed in March 2022 to own, operate, maintain, manage, and provide ongoing upgrading and replacement of the PSERN system throughout its useful life. PSERN operates under two Interlocal Agreements: The first is an Operator Interlocal Agreement, which was entered into between and among King County and the cities of Auburn, Bellevue, Federal Way, Issaquah, Kent, Kirkland, Mercer Island, Redmond, Renton, Seattle, and Tukwila. The second is the PSERN Implementation Period Interlocal Cooperation Agreement, which provides more specific expectations of the PSERN Operator.

The initial implementation phase (through early 2023) is headed by King County as the lead agency for planning, procurement, financing, and implementation of PSERN, with the plan for the PSERN Operator (“PSERN Operator”) to take over operations from the County in early 2023.

Purpose: The purpose of this engagement is to consult with and advise the PSERN Operator on financial management issues that a small non-profit governmental organization might face as a new and growing organization that will deliver services to multiple local jurisdictions and agencies, prior to taking over operations in early 2023.

Scope: The engagement will be completed through a multi-phased approach. For the first Phase, Clark Nuber (CN) has been engaged to consult with the PSERN Operator on a broad range of topics, including financial management system, staffing and policies and procedures. The following report outlines our considerations, recommendations, and best practices in these areas. This first phase will be complete when the recommendations are reported to the Board of Directors in late May 2022.

Interviews: To assist with our recommendation process, we interviewed the following Board members and other individuals over the course of Phase 1 of the engagement. The purpose of the interviews was to gather thoughts and ideas about the various startup issues facing the PSERN Operator:

- Chris Elwell, Fire Commissioner, City of Burien (Non-Voting Board Member)
- Dwight Dively, COO Performance Strategy and Budget Director, King County
- David Mendel, Director, King County Emergency Radio Division
- Harold Scoggins, Fire Chief, City of Seattle (Board Member)
- Kurt Triplett, City Manager, Kirkland (Board Member)
- Lora Ueland, Executive Director, ValleyCom (Board Member)

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Interviews (Continued)

- George Vida, CFO, King County
- Mike Webb, PSERN Executive Director
- Thomas Wood, Budget Analyst, King County Emergency Radio Division
- Dan Yourkoski, Chief of Police, Normandy Park (Non-Voting Board Member)

We would like to thank all individuals for their time and thoughtful responses to our questions.

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III. CONSIDERATIONS (OBSERVATIONS), RECOMMENDATIONS AND BEST PRACTICES

A. Financial Management System and Related Issues

a) Basis of Accounting

Selection of the basis of accounting is one of the first key management decisions that needs to be made. It impacts the setup of the accounting system, what policies and procedures to use, staffing needs, and also touches on many of the startup issues described in this report. In the following sections, we will discuss the different accounting methods, timing of revenue and expense recognition, capitalization, which method of accounting is allowable by the various governing bodies, as well as summarizing the advantages and disadvantages of the different accounting methods.

The options available to the PSERN Operator are:

Accrual Accounting - Generally Acceptable Accounting Principles (GAAP) requires the use of accrual accounting which follows the matching principle where revenues are recognized in the period when earned and expenses are recognized in the period when incurred.

Cash Accounting - In this accounting method, revenues and expenses are recorded when cash is received or paid. Cash accounting does not follow the matching principle as described above. As such, fixed assets and liabilities that have been incurred but not paid will not be reflected in the books. This can have a significant impact on the financial statements especially when fixed assets and liabilities incurred but not paid are material amounts.

Modified Cash Accounting - This accounting method combines elements of cash and accrual accounting. For example, revenues are still recorded when payments are received, and expenses are only recorded when paid. However, management may elect to capitalize and depreciate fixed assets in the books.

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Basis of Accounting	Accrual (GAAP)	Cash	Modified Cash
Revenue recognition	Record in the period when earned	Record when payment is received	Record when payment is received
Expense recognition	Record in the period when expenditure incurred	Record when payment is made	Record when payment is made
Capitalization	Certain expenditures are capitalized as prepaids, fixed assets or other assets	Not applicable	May be applicable
Accruals	Expenditures incurred in the period are accrued when bills not received	Not applicable	May be applicable

For the annual reporting with the State Auditor’s Office, all three accounting methods are allowable. Where accrual basis financial statements may be required is when issuing debt or obtaining a bond rating. We were not made aware of any regulators the PSERN Operator interacts with that mandate the use of a certain method.

Basis of Accounting	Accrual	Cash	Modified Cash
In compliance with GAAP	Yes	No	No
In compliance with GASB*	Yes	Yes	Yes
Allowable by the Washington State Auditor's Office	Yes	Yes	Yes

The primary authoritative body on the application of GAAP to state and local governments is the Governmental Accounting Standards Board (GASB).

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Presented below is a summary listing of advantages and disadvantages the Office of the Washington State Auditor has outlined under each method:

GAAP basis reporting:

Advantages	Disadvantages
Financial reports that are more comprehensive, sophisticated, and potentially informative	May be more difficult to understand and use for managers or governing bodies who are unfamiliar with accrual concepts and terminology
Improved ability to evaluate government’s financial position and changes in its net position	Requires more qualified staff, a more complex accounting system, and more time devoted to preparation and controls over financial reporting
Consistent with nationally recognized financial reporting standards	More costly financial reporting
More familiar to external users	May need to reconcile between multiple basis of accounting for financial reporting and operational purposes
May be required by grantors or oversight agencies	

Cash basis reporting:

Advantages	Disadvantages
Financial reports that are more simple and easier to understand and use	Statements are focused on short-term rather than long-term financial position ¹
Clear presentation of cash flows and available cash	Less information on non-cash assets, including infrastructure, and changes in these assets
Financial reporting that is aligned with budgets	Less information on liabilities and changes in liabilities
Financial reporting may be less costly	May not be as familiar to external user
Less training required for staff	

¹ A significant issue to consider when the need to plan for capital replacement is considered.

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The following relevant issues and questions were identified during the interviews with PSERN Operator management and the Board related to the selection of accrual vs cash basis accounting:

- Reserve for capital replacements
- Asset retirement obligation
- Capital assets and corresponding depreciation
- Cost tracking within each reporting period
- Prepaid expense recognition
- Accrual for pension liability and other post-retirement benefits
- Matching expenses to revenues

b) Reserve for Capital Replacements

The purpose of establishing a capital replacement reserve is to ensure there are sufficient funds to cover any major repair and replacement of the capital assets. The capital replacement reserve is a Board designated restricted fund. Some Board members have expressed the need for a capital replacement reserve to fund major repair and maintenance as well as replacement cost for IT and radio equipment that have a shorter life cycle. This would help to avoid big swings in annual allocations to the members due to large capital purchases. For capital assets with a longer life cycle such as towers, certain Board members determined that having a capital replacement reserve for towers would not be necessary as they do not need to be replaced in the next 20 years. In addition, the PSERN Operator will likely need to seek an additional levy to fund any significant costs such as tower replacements which will need to go through the voting process. Based on feedback from various Board members, it appears that having a 6-month reserve may be appropriate.

We also recommend that the PSERN Operator review its insurance policy and coverage and assess whether the existing policy is adequate to cover the costs of the capital assets if they were damaged. In addition, all tower sites and other sites containing the PSERN Operator's capital assets should be listed on the insurance policy.

c) Asset Retirement Obligations

An asset retirement obligation is a legal obligation related to the retirement of assets where all hazardous materials must be cleaned up when the assets are removed and returned to its original condition. With regards to the PSERN Operator, management will need to determine if asset retirement obligations exist. If so, then the choice of accounting method will impact how these costs are handled. On a cash accounting basis, the asset retirement obligation will not be reflected on the balance sheet and will be fully recognized the year the asset is retired. On an accrual accounting basis, the asset retirement obligation will need to be calculated using management's estimates when the assets are purchased and are recorded at fair value as a liability with an increase to the corresponding asset value. The increase to the asset value will be depreciated over the asset's useful life which will reduce net operating income. Management may consider building up a reserve for this asset retirement obligation by appropriating the monthly fees collected from services performed using the depreciation amount over this obligation.

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d) Capital Assets and Corresponding Depreciation

Property and equipment are recorded at cost. Maintenance and repair costs are charged to operations as incurred. The costs of renewals, replacements and betterments are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. If the accrual basis of accounting is selected, Management will need to make a decision about proper classification of assets, as well as capitalization threshold.

e) Cost Tracking Within Each Reporting Period

The Board has emphasized the need for proper cost tracking and reporting to show costs incurred and budget to actual information. Costs can be tracked by locations and departments in some accounting software systems.

f) Accounting Treatment of Prepaid Contract Costs

On a cash accounting basis, prepaid costs will not be reflected on the balance sheet. The entire prepaid amount is recorded as expense in one single period. On an accrual accounting basis, these prepaid costs will be recorded as asset and the costs will be spread evenly over the contract terms.

g) Accrual for Pension Liability and Other Post-Retirement Benefits

On a cash accounting basis, pension liability and other post-retirement benefits will not be reflected on the balance sheet². On an accrual basis, these will need to be calculated and accrued for on the balance sheet as liabilities. Additionally, they will require disclosures in the notes to the financial statements and the annual report.

h) Chart of Accounts

The annual SAO report requires the use of BARS (Budgetary, Accounting and Reporting System) accounts. However, it is not required for government agencies to use BARS accounts in their internal accounting system. For the agencies that do not use the BARS accounts in their internal accounting system, there would be a requirement to complete a manual internal mapping each year to align their internal general ledger accounts to the BARS accounts.

Our recommendation is to set-up the chart of accounts with BARS coding in internal financial reporting.

i) Monthly and Annual Reporting

Monthly Reporting - The monthly Board package should include the basic financial reports including the statement of operations and statement of activities. Additionally, the Board members and the key stakeholders would like to see monthly and year-to-date actual to budget reports to show the budgeted amount for each line item, what was spent in the month, and whether budget is met.

² Note that PSERN will hire staff through King County through 2024 who will pay all benefits. Employees will participate in PERS through the County.

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Annual Reporting - For local governments with a calendar year end (12/31), the annual SAO report is due by May 30 of the following year. The annual report consists of the financial statements and notes to the financial statements along with supplementary schedules that are applicable to the respective governmental entities.

j) Cost Allocation Methodology

The cost allocation methodology is spelled out in the PSERN Operating Interlocal Agreement. Some areas to consider related to the cost allocation methodology are:

- Consistency of reporting among members - from our experience with interlocal agreements, the information used to allocate costs can be reported inconsistently from one member to another resulting in disproportionate cost allocations. Although the relatively straightforward primary metrics that will be used for allocation is quantity of radios and consoles, it is still important to establish clear policies for collecting and reporting this information to avoid confusion.
- Basis of accounting selection impacts allocations - selecting the cash basis of accounting can result in large, unanticipated swings in allocations to members due to the timing of payments. Accrual basis of accounting includes expenses not recorded on a cash basis such as depreciation of capital assets, asset retirement obligations, pension, and other post-employment benefit costs. Management should consider the positive and negative impact accounting treatment will have on allocation of costs.
- Reserves can help avoid large swings in allocations from year to year - a best practice is to consider building into the allocation methodology an amount for reserves. Some organizations build an emergency reserve of three to six months of operating expenses to help meet unexpected cashflow needs. Some organizations establish capital replacement reserves to start setting funds aside immediately for major capital costs that will occur in the future. Finally, some organizations establish strategic reserves to set funds aside to fund strategic objectives established by the Board and management.

Our recommendation is that the Board take into account the cost allocation impact when selecting the basis of accounting. With regards to reserve and reporting among members, these are lower priority discussions to have once the more important topics have been addressed.

k) Capital Asset Transfers and Tracking

When the PSERN Operator commences operations in the Spring of 2023, a large number of capital assets and leases will be transferred to the organization. Assets being transferred to the PSERN Operator total about \$150 million which includes towers, buildings, and other equipment. The PSERN Operator will also receive approximately a hundred leases in total which fall into two categories. For approximately 70% of the leases, the PSERN Operator will be tenants of another entities property (city's, agencies, U.S. Forest Service, etc.) property. The other 30% represent subleases where the PSERN Operator is subletting to another entity such as AT&T, T-Mobile, or another public agency. These leases are currently all tracked in a spreadsheet. With these leases and assets come questions that need to be addressed.

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- **What Value will be Assigned to These Assets When Transferred?** The answer to this question hinges on the decision of whether to adopt the cash or accrual basis of accounting. On a cash basis, capital assets are not recorded or depreciated so no value would be assigned to the transferred assets.

If the accrual basis is adopted, then under current GASB standards, these assets would come across at the carrying value of the transferring entity unless the assets are impaired, in which case they would be written down to the impaired value. For the Operator, there has been at least one example of impairment, in which a powerline associated with a site will need replacement at a cost of \$3 million.

- **How will Leases be Accounted for?** The answer to this question also depends on whether the organization adopts the cash or accrual basis of accounting. If accrual basis is selected, the Operator would be subject to GASB 87, in which the organization would record a liability for required lease payments over the life of the lease and an offsetting right-to-use asset for items it leases from others. Short-term leases with an initial length of 12 months or would not be included in this standard. For items leased to others, the Organization would record a receivable for lease payments to be received over the life of the lease and a deferred inflow offsetting this amount. CN has not identified any particular lease accounting software to recommend as of the date of this report.

If cash basis is selected, leases are not recorded on the balance sheet. The only entries are recorded when cash is paid or received on leasing activity.

- **How will Capital Assets be Tracked?** Options here include using an Excel spreadsheet or investing in a software that can track capital assets and leases and integrate into the financial accounting software.

The advantages of using Excel are that it is inexpensive and well known so there is not a significant implementation cost for training, nor is there a big learning curve. The disadvantages are that the organization has a large number of capital assets and leases so the risk of human data-entry error increases. Also, if accrual accounting is used, calculating depreciation on assets can be more time-consuming using Excel.

The advantages of using a capital asset software that is integrated with the financial accounting software are improved accuracy and efficiency as you reduce the amount of staff interaction in the process. Also, the calculations for recording leases under the new accounting standard are complex and could be prone to error so having a software that performs these calculations could save time and improve accuracy. The biggest disadvantage would be if the organization adopted the cash basis of accounting because it would be time consuming to enter all the data into the software and that cost may exceed the benefits received since no depreciation calculation is necessary under this basis of accounting.

- **How will Capital Replacement Costs be Handled?** Like the others, the answer to this question hinges on what basis of accounting is selected.

If the cash basis of accounting is selected, then costs for capital replacement could either be allocated out to members as an additional charge when the asset is purchased which could potentially cause financial hardship for some members. Alternatively, the organization could build into the member charges an amount each year to build reserves for capital replacements. This would require implementing a capital budgeting process and getting member agreement on the additional charges for reserves.

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If the accrual basis of accounting is selected, then each period's charges to members would include a share of the depreciation expense of the organization's assets. Payments received related to these depreciation charges could be earmarked for capital reserves to fund future capital replacement costs. A capital budgeting process and reserves would still be recommended to account for expansion of the system, increases in replacement costs, or changes in technology. An explicit policy should be developed as to which assets should be depreciated and associated costs recovered versus those that won't.

Recommendation: In our discussions with Board members and stakeholders, there was not agreement on which accounting method to adopt. Our recommendation would be to have further discussion with management and the Board to discuss as a group the advantages and disadvantages outlined above, and then agree on a decision.

l) Accounting Software

The PSERN Operator has a number of options in purchasing a new accounting software. Ideally, the software you choose should have the following modules at a minimum:

- Accounts Payable
- Creditor/Supplier Management
- Purchase Invoices
- Purchase Credit/Debit Notes
- Purchase Payments
- Remittance Advices
- Purchase Journals
- Cash Allocation/Matching
- Debtor/Customer Management
- Fixed Assets

The following items should be considered when choosing an accounting software:

Security Considerations

Consider the following requirements:

- Control user access via an authentication mechanism based on a unique username and password login for each user.
- Allow the System Administrator to specify the minimum password length and whether passwords are case sensitive or not.
- Allow the System Administrator to specify who can amend user passwords
- Log user access (including reporting), date last used, unsuccessful log-in attempts (username, password, and workstation)
- Log user activity, for example, by function.

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Transaction Processing Considerations

Consider the following requirements:

- Allow a written narrative to be attached to any transaction or transaction line.
- Provide a common chart of accounts across all modules, with consideration of other key elements such as departments, projects, job code, etc.
- Permit additions and amendments to the chart of accounts structure without corrupting existing data at any level in a simple and efficient way, i.e., without the need to rebuild the chart of accounts.

Accounting Period Considerations

Consider the following requirements:

- Not allow periods to be deleted once data has been posted to them.
- Provide the functionality to open and close accounting periods to control posting of transactions into current and/or previous/future periods.
- Roll closing balances from one period into the opening balances for the subsequent period(s).
- Allow/prevent the posting of transactions to present, future and previous periods and years, with security defined at user level; for example: certain users may post to an open past or future period, as well as the current period, while others are restricted to posting to the current period only.
- Allow prior year and audit adjustments to be made throughout the current year. This must be subject to strict security/ access control. All such adjustments must be also applied to the current year where relevant.
- Warn the user if they attempt to post to a non-current period.

Audit Log Considerations

Consider the following requirements:

- Provide comprehensive audit log covering all data entry and user activity.
- Record sufficient information to permit users and external auditors to easily check the completeness of the audit trail.

Journal Entry Considerations

Consider the following requirements:

- Allow the entry and posting of journals as a two-stage process comprising (1) input of the entry and (2) its checking, amending, and authorization which will lead to the automatic updating of the General Ledger with no further intervention required.
- Allow journals to be auto numbered.
- Allow for journal numbers to be auto checked for duplicates.
- Allow narrative to be added to each journal header and journal item line.

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Cost Allocation/Apportionment Considerations

Consider the following requirements:

- Ability to generate regular, automatic journals to simplify the posting of overhead allocations to cost centers, projects, activities etc.
- Allow the balances that the allocations are based upon to be an account code; for example: single account, ranges of accounts, cost center and ranges of cost centers

The following is a list of potential software packages that may be a good fit for the PSERN Operator:

- *Springbrook* - Governmental accounting software - allows for auto-generated BARS accounts
- *MIP Fund Accounting* by Community Brands - The preferred, industry leading fund accounting solution for nonprofit organizations and government entities. Availability of 3rd party integrations need to be considered.
- *Microsoft 365 Business Central*
- Government Accounting Software by *Black Mountain Software* - Accounting and billing software for municipalities, counties, schools, utility districts and other special governmental districts
- *AccuFund Accounting Suite* by AccuFund - AccuFund online or onsite solutions provide easier access to information, better decision-making, and greater financial control.
- *Community* by Open Office - Fully integrated council wide solution. Financials, Property and Rating, Asset Management, Licensing, Compliance and Local Services.
- *Tyler Technologies*
- *Caselle*
- *Serenic Navigator*
- *QuickBooks*
- Systems used by member agencies
 - Eastside Public Safety Communications Agency (EPSCA): *QuickBooks*
 - ValleyCom: *Springbrook*
- Systems used by non-member special-purpose agencies
 - Cascade Water Alliance - MIP
 - WA Dairy Product Commission - Sage 50
 - WA State Bar - 365 Business Central
 - Eastside Fire and Rescue - Springbrook
 - WA St Major League Baseball PFD - Sage, then switched to QBO

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B. Staffing

a) Internal Vs. External Staff Considerations

Choosing whether to keep the finance function in-house vs. outsourcing is an important decision which requires a number of considerations. In-house refers to internal sources, meaning the organization would hire and use its own employees to complete specific jobs, making it an “in-house” job or operation. Outsourcing is when an organization employs an external organization to perform organizational activities on a contract or agreed-upon basis. These options include use of a contract bookkeeper and using a member’s staff to fulfill these duties similar to how EPSCA is currently structured.

Pros of outsourcing the accounting/finance function

- More time to focus on organizational core objectives.
- May be more cost effective.
- Instant access to an established finance department.
- Instant team of professionals.

Cons of outsourcing

- Potential communication issues.
- Lack of flexibility.
- Increase in time needed to access reporting and other financial information.
- Subject to outsourced teams’ methods and processes.
- Outsourcing to a member could raise concerns about lack of independence in the cost allocation process.

Pros of In-House

- Full-time operational control, better able to manage the team and control processes more easily.
- Greater access to dynamic reporting or informational requests and therefore ability to make business decisions.
- Because service fees are directly tied to operating budgets, internal resources are needed to ensure spending decisions enable strict adherence to operating budgets.

Cons of In-House

- Compared to outsourcing, it can become quite costly to allocate operational duties in house. This is because the Organization will need to equip the workplace for new employee positions and potentially rent additional space to house them.
- Initial delays in process flow as team ramps up.

b) Other Staffing Considerations

The PSERN Operator has no financial management capabilities of its own at the present time. Currently, all PSERN Operator expenditures are recorded against a specific expense code within the broader PSERN Project accounts/funds in the King County financial system (Oracle). Reports can be run on demand to show expenditures/transactions coded against the PSERN Operator. The Project is also executing any financial transactions (payment of invoices, etc.) on behalf of the PSERN Operator.

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Based on our discussions with stakeholders, the majority believe the PSERN Operator needs to be independent of the County from a financial management/accounting perspective. This might mean establishing its own accounting/financial management system and/or outsourcing certain financial management functions to one or more service providers (including local governments, or private sector service providers). At a minimum, we'd recommend considering outsourcing the payroll function unless the accounting team has significant experience in this area.³ From our experience, this is a complex area with ever changing rules, and can get exponentially complicated if union agreements come into play.

C. Policies and Procedures

a) Accounting Policies, Procedures and Desk Manuals

A strong set of policies area should contain a purpose, the policy itself and the procedures. This is important to make sure that policies and procedures are consistent, clear and written at the appropriate detail level. Desk manuals are not policy, and are reserved for a detailed "down-in-the-weeds" documentation of a given process.

- Policies are the over-arching tenets of your organization. They set direction, guide, and influence decision-making. It is a framework of management philosophies, aims and objectives.
- Procedures have a narrower focus. They describe what actions to take in specific instances. Procedures have a beginning and an end and should be strictly followed to achieve desired outcome.
- Desk manuals are the most narrowly focused type of document and provide a step-by-step detailed guide to a specific process. Beware of creating policy that is actually procedure and vice versa. Also, desk manuals and Policy and Procedure manuals should be maintained separately.

Policies:

- Change infrequently
- Have widespread application
- Are statements of what or why
- Are broad and general
- Example: It is the policy of the PSERN Operator to require two signatures on all checks over \$5,000

Procedures:

- Have a narrower focus
- Continuously change and improve
- Are statements of how, when and/or who, sometimes what
- Offer a detailed description of activities or processes
- Example: The following two positions are authorized to sign all checks over \$5,000

Desk Manuals:

- Have the narrowest focus and most detail
- Are "in the weeds"
- Include step-by-step processes that a particular staff member uses to get a specific job done
- Can serve as a virtual backup employee trainer, in the event someone becomes ill or leaves the organization

³ Note that as of the date of this report, the payroll function is outsourced to King County via the staffing Agreement. This may change in the 2024-2025 timeframe.

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- Example: To print checks, go into the QuickBooks accounts payable module and select the following:

The non-exhaustive policy areas listed below are considered best practice in the accounting function. Note that each example policy (two of them) has a Purpose, the actual Policy, and the Procedures. Other policies and procedures may be required as well:

- **Accounting Conventions Followed**
 - *Example Purpose:* The purpose of this policy is to describe the underlying basis used to prepare the financial statements (for example, US Generally Accepted Accounting Principles, Other Comprehensive Basis of Accounting, etc.)
 - *Example Policy:* It is the policy of the PSERN operator to present the financial statements on the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.
 - *Example Procedure:* The (Position Title) is responsible for ensuring that the Operator accounts for monthly and/or yearly accruals, revenue recognition and other standards in compliance with management's objectives and Generally Accepted Accounting Principles (GAAP).
- **Bank Reconciliation**
 - *Example Purpose:* Bank account reconciliation is a key component of good controls over cash and should be done in a timely manner (*on a daily/weekly/monthly basis*). Bank statement balances should be reconciled with the general ledger to ensure that (1) all receipts and disbursements are recorded (an essential process in ensuring complete and accurate monthly financial statements); (2) checks are clearing the bank in a reasonable time; (3) reconciling items are appropriate and are being recorded; and (4) the reconciled cash balance agrees to the general ledger cash balance.
 - *Example Policy:* It is the policy of PAE that all incoming or outgoing funds to PAE's bank accounts be recorded in the general ledger on a timely basis. Frequent (daily/weekly/monthly) bank reconciliation is essential to prevent fraud and/or error and to ensure that the Operator's funds are handled with fiscal and fiduciary responsibility.
 - Bank statements will be addressed to, opened (or downloaded) by, and reviewed and signed by (Management position), who is not involved in accounting or the bank reconciliation process.
 - Bank reconciliations will be conducted (daily/weekly/monthly) by someone who is not a check signer.
 - Reconciled bank statements are reviewed by the (Management position) or designee monthly.
 - Outstanding checks more than (# days) old are investigated and stop payments issued as required. Replacement checks are reissued after appropriate documentation has been collected.

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- *Example Procedure:* Upon receipt of the monthly bank statement including cleared checks, deposit slips and any other transaction notifications, the monthly bank reconciliation is prepared by the (Position #1) and reviewed by the (Position #2). The (Position #1) only signs company checks when none of the other authorized signers are available and only on an emergency case basis.
 - All cleared transactions on the bank statement will be reconciled and cleared in the accounting system. After all cleared items for the month have been selected, the book ending balance and the bank ending balance must match with a zero difference.
 - Any discrepancies between these two balances will require research to determine the cause, such as recording errors, omissions, posting errors, etc. This may also include recalculation of the bank statement for any possible errors made by the bank.

Continued List of Best Practice Policies

- Capitalization threshold
- Check disbursements
- Check signers
- Contract signing authority
- Costs incurred for research and development
- Credit cards
- Depreciation and inventory policies
- Employee expenses
- End of month and fiscal yearend close
- Financial statement preparation and distribution
- Historical or current cost accounting
- Independent contractors
- Insurance
- Mandatory vacation period
- Recognition of profits on long-term contracts
- Records retention
- Treatment of goodwill
- Treatment of leases
- Treatment of contingent liabilities
- Valuation of fixed assets
- Valuation of investments

b) Internal Control and Risk Assessment

The purpose of establishing internal controls is to mitigate the risk of not meeting operational, reporting and compliance objectives. These objectives and threats to those objectives are generally identified during a risk assessment process. During our interviews (not a risk assessment), we identified the following example objectives which should help to start guide the PSERN Operator's internal control development. A full risk assessment process is recommended.

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Examples of the PSERN Operator's operational objectives:

- All maintenance, repair and support of radio network equipment and site infrastructure.
- Establishment and execution of operational processes, procedures, and practices.
- Management of service delivery to PSERN users.
- Ongoing technical development, sustainment, and enhancement (including capital replacement) of the network and its service offerings.
- Reporting to users on adherence to Service Level Agreement metrics/KPI's, including availability, time to respond to incidents, service requests, etc.

Examples of the PSERN Operator's financial reporting objectives:

- Enable Board and management to easily understand the financial position of PSERN and manage its strategic and financial risks, which includes the ability to address infrastructure damage and other unplanned business interruption events (e.g., cyber incidents, infrastructure damage due to natural disasters, etc.).

Examples of the PSERN Operator's compliance objectives:

- Generally, the need for compliance with all applicable regulations, statues, etc., including but not limited to:
 - Understand and follow all applicable state laws (RCW's), including public records, open public meetings, health, labor and employment related, etc.
 - Radio spectrum regulations under the FCC.
 - FAA regulations related to radio tower lighting, etc.
 - Municipal authority regulations (e.g., planning, permitting, radio signal enhancement, lease obligations, etc.).
 - Interlocal agreement requirements.
 - State Auditor's Office BARS Manual requirements.
 - Various environmental laws/regulations as may pertain to our infrastructure.
 - A number of our radio sites are on either Federal (e.g., USFS) or State land (DNR, WSDOT).

The basis and plan for internal control at the PSERN Operator should address the risks of not achieving the objectives above (or any other objectives determined by management).

There are four basic types of internal control activities:

Preventive Controls - Designed to prevent fraud or error from happening. Examples are approvals, authorizations, and verifications. Management authorizes employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval (manual or electronic) implies that he or she has verified and validated that the activity or transaction conforms to established policies and procedures.

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Detective Controls - Designed to catch an error or fraud after the fact. An example is the performance of reconciliations: An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary.

Performance Reviews - Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.

Asset Security - Access to equipment, inventories, securities, cash, and other assets should be restricted. Also, assets should be periodically counted and compared to amounts shown on control records.

Segregation of Duties - Duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, the responsibilities for authorizing transactions, recording transactions (accounting) and handling the related asset (custody) are divided.

Top 12 most important areas to build and implement financial controls, according to the WA State Auditor's Office, are:

- Budgeting and planning
- Cash management and investing
- Fund stabilization and cash reserves
- Cash receipting
- Capital asset management
- Debt management
- Procurement
- Disbursement's systems control policy
- Expenditure authorization policy
- Segregation of duties
- Document Retention

c) The Control Environment

The Control Environment of an organization is the overarching management attitude, guiding principles and ethics of an organization that sets the tone for and influences how employees conduct their activities and carry out their control responsibilities. The Control Environment is the foundation for all other components of internal control and provides structure and discipline. It is a top-down "tone-at-the-top" that is a critical component in a well-functioning organization.

An effective control environment must incorporate the following principles: integrity and ethical values, commitment and competence, attention and oversight by the Board of Directors, management philosophy and operating style, organizational structure and the manner in which authority and responsibility are assigned.

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Some of the most effective ways to do this are by:

- Requiring well-written departmental policies and procedures which address its significant activities and unique issues.
- Clearly outlining employee responsibilities, limits to authority, performance standards, control procedures, and reporting relationships.
- Ensuring that employees are well acquainted with the Company's policies and procedures that pertain to specific job responsibilities.
- Discussing ethical issues with staff and providing training programs on occupational fraud.
- Making sure that employees comply with a Conflict-of-Interest Policy and disclose any potential conflicts of interest.

d) Month End and Year End Procedures

A timely financial close, both at month and year end, are critical in understanding an Organization's financial health, performance, and ability to make business decisions. Please See Appendix A for a sample month and year end financial closing checklist. This checklist is not specific to the PSERN Operator, but includes many standard steps in the process.

e) Governance Policies and Procedures

Corporate governance refers to the way an organization manages accountability, fairness, and transparency in its relationship with its stakeholders. The concept of "corporate governance" may seem like a lofty term that applies only to very large or publicly traded organizations, but it is something that is needed for managing fraud risk at organizations of any size, including the PSERN Operator.

The Board of Directors (Board) is the leading force behind influencing governance, but the duty also extends to management and other stakeholders. Put another way, corporate governance is a team effort, driven by the Board, but with varying degrees of responsibility attributed to different levels of the organization.

While day-to-day accounting and financial decisions are primarily the responsibility of management, the Board still must build the framework in which management operates by establishing policies that prevent and detect errors and fraud.

These are the primary responsibilities of the Board in corporate governance:

- The Board should be made up at least partially of individuals who have sufficient independence from management - in action, in appearance, and in actuality. Independence strengthens the Board's ability to enforce accountability by management and helps to avoid the perception of conflict of interest, both by staff and by the public. This role can be also fulfilled by an outside advisor, rather than the addition of a new Board member.
- Oversight of the development and implementation of policies and procedures and internal controls by the CEO or senior management. It is the Board's responsibility to ensure that management is implementing and enforcing them.
- Monitor management's response to accounting and reporting control deficiencies and weaknesses. A control deficiency or weakness is a serious problem that has been identified by an internal or external audit function. The Board is responsible for holding management accountable for responding to and acting on these findings timely.

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- Work with management to establish standards of conduct and an ethically sound tone at the top. The Board should help to define expectations about financial reporting transparency, integrity, and ethical values. The tone at the top trickles down through the organization and sets a consistent tone and overall standard for conduct.
 - Maintain direct and open reporting lines, such as a whistleblower policy to report business conduct issues or nefarious activity. Having a weak or inconsistent reporting policy can discourage those who would otherwise report on internal control or conduct issues. According to the Association of Certified Fraud Examiners 2018 'Report to the Nations', an anonymous phone or email "hotline" is the most frequently reported detection method in the initial finding of fraud. A hotline is inexpensive and easy to set up for any organization, regardless of size.
 - Define and evaluate the skills and expertise needed among its members to be able to understand and identify issues affecting the organization. For example, the treasurer should have a strong understanding of finance and accounting to perform his or her duties successfully. A note that the ILA specifies that one of the voting Board members must be assigned the role of Treasurer. However as of the date of this report, we have not been made aware of any such defined position.
 - Engage in "constructive challenge" conversations with management. The ability to identify and verbalize focused questions allows Board members - who have limited time - to leverage their experience and maximize their benefit to the organization. The Board should require follow-up and corrective action for all issues identified through this process.
 - Create oversight structures, such as committees to focus on specialized topics. For example, an audit committee should be created to oversee internal controls and promote transparency over the organization's financial reporting.
 - Consider the organization's internal and external risks and challenge management's assessment of those risks. Identifying an organization's potential risks is a key component in creating controls that will help the organization reach its goals. Risks should be considered on a continual basis as the organization or business environment changes or grows.
 - Exercise its fiduciary responsibilities to stakeholders and practice due care in oversight, which includes preparing for and attending meetings, reading the financials, attending Board training if needed, and other various duties that promote the organization's success and well-being.
- f) IT security Policies and Procedures
- Specific needs will depend on many factors including the PSERN Operator's appetite for risk related to malware, hackers, and other IT security threats.
 - Our recommendation is to comply with State Office of Chief Information Officer (OCIO) requirements when selecting an accounting system. In addition, consider appointing an individual accountable for information security to implement security controls but also monitor third party system suppliers and vendors.

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g) Procurement Policy

The purpose of the PSERN procurement policy is to ensure uniform, efficient, and competitive procurement to achieve the greatest attainable levels of quality and value permitted by law, and to ensure that all public procurement is executed and managed at the highest professional and ethical standards.

We compared the PSERN Operator's procurement policy against state requirements, and observed the following:

- Minimal competition for small purchases/contracts is not referenced in the policy:
 - *"PSERN may procure goods with an estimated value of less than \$10,000 using the method it determines will provide the greatest attainable levels of quality and value."*
- There is not a Code of Ethics/Conflict of Interest section
- For purchases below bid limits, there are not procedures identified for obtaining quotes from vendors including the number of quotes, the process for obtaining quotes, and how to document the process:
 - *"PSERN may procure goods with an estimated value of less than \$10,000 using the method it determines will provide the greatest attainable levels of quality and value."*
- Public works projects less than \$40,000 do not require a competitive process. Best practice is to identify procedures for obtaining quotes from vendors including the number of quotes, the process for obtaining quotes, and how to document the process.
- Although the policy identifies requirements for contractors to have insurance, there is no mention made to having PSERN names as an additional insured.

Conclusion

Options considered for developing policies and procedures for the PSERN Operator include starting from scratch and using a member's policies and procedures as a starting point. Stakeholders were split on this issue. Stakeholders could see the value of not adopting the more restrictive policies and procedures of the current operator, King County because stakeholders wanted more flexibility and King County had a large staff so policies and procedures may not translate well to a smaller organization. Our recommendation would be to start with the policies and procedures from a similar member such as EPSCA or ValleyCom and modify them to fit this organization and its risks.

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D. Next Steps

The following is a matrix of potential next steps. Priority and timing for each task will be determined through conversations with management.

Phase 2 Tasks:	Assigned To:
Review PSERN budget and cost allocation for compliance with ILA	CN
Requirements and considerations for tools to support budget development and monitoring processes, including integration with the accounting system	CN/PSERN
Assist in Determination of what information is needed from the County for the asset transfers, leases and contracts to the degree they are assignable	CN/PSERN
Determine what information is needed for capital assets in order to set up everything correctly in the accounting system (e.g. classifications, useful lives)	CN/PSERN
Guidance on approach and treatment of lease accounting, specifically GASB 87	CN
Guidance on methodology for establishment of service rates, consistent with ILA requirements	CN/PSERN
Guidance around issues raised in Phase 1, including requirement for and allocation of rate stabilization funds, requirement for operating and capital replacement reserves and other specifically designated resources	CN
Guidance around forecasting and estimation of operating costs based on a) review of previous estimates of operating costs and capital amortization expense; b) Inventory of contracts and service agreements established through the PSERN project; c) PSERN Operator staffing requirements; d) Additional operational expenses not previously estimated	CN/PSERN
Guidance on design Chart of Accounts	CN
Impacts associated with generation of additional revenues beyond service fees defined in the ILA	PSERN
Estimated Cost for Phase 2 Tasks:	\$ 65,000
Possible Future Phases & Tasks	
Draft and compile accounting policies and procedures	CN/PSERN
Design and evaluate internal financial controls and draft financial policies	CN/PSERN
Assist with audits and reporting to State Auditor's Office and other stakeholders	CN
Assist with implementation of accounting and financial management IT system	CN
Estimated Cost for Future Phase Work:	\$ 120,000

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Appendices

Appendix A: Sample Generic Close Checklist

Close Checklist		
Section	Procedure	Timing
Assets - Cash	Prepare bank reconciliations. Cross reference bank statement to the reconciliation. Cross reference reconciliation to the general ledger balance.	Month-end
Assets - Cash	Scan outstanding items on the bank reconciliations for old checks or deposits that have not cleared the bank. Inquire about status.	Month-end
Assets - Cash	File unclaimed property return.	Annual, per state requirements
Assets - Cash	Review petty cash balances for reasonableness.	Month-end
Assets - Accounts Receivable	Review AR aging detail report. Investigate any old (>90 days) or credit balances. Determine whether any past due balances need to be written off.	Month-end
Assets - Prepaid Expenses	Review expense detail report for potential misclassified prepaid expenses. Prepare reclassification entry as needed. Update prepaid expense schedule and prepare entry to recognize current month expense.	Month-end
Assets - Fixed Assets	Review expense detail for any expenses that exceed capitalization threshold. Prepare reclassification entries as needed.	Month-end
Assets - Fixed Assets	Review fixed asset additions for reasonableness. Determine appropriate useful life for additions. Update fixed asset listing/tracking software. Record depreciation expense.	Month-end
Assets - Fixed Assets	Review fixed asset listing and inquire about disposals. Record any disposals in tracking software. Calculate gain or loss on the disposals and prepare journal entry.	Year-end
Assets - Intangible Assets	For existing intangible assets, record amortization expense. Review intangible asset listing for impairment.	Month-end
Assets - Intangible Assets	Update fixed asset listing/tracking software with any new intangible assets. Record amortization expense.	Month-end
Assets - Investments	Prepare investment reconciliations. Cross reference investment statement to the reconciliation. Cross reference reconciliation to the general ledger balance. Update interest receivable as applicable for new investments purchased/sold during the month.	Month-end
Assets - Notes Receivable	Agree loan amortization schedule to trial balance.	Month-end
Assets - Notes Receivable	Review interest income for reasonableness.	Month-end
Equity	Agree YTD income to balance sheet.	Month-end
Equity	Prepare equity rollforward. Agree retained earnings balance to PY tax return.	Month-end
Equity	Review YTD shareholder distributions detail report for reasonableness.	Month-end

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Appendix A: Sample Generic Close Checklist (Continued)

Close Checklist		
Section	Procedure	Timing
Liabilities - Accounts Payable	Review AP aging detail report. Investigate any old (> 90 days) or debit balances. Match unconnected invoice payments as needed.	Month-end
Liabilities - Accrued Expenses	Review subsequent month expense detail report for potential expenses to accrue for in the current month. Prepare accrual entry as needed. Update accrued expense schedule with any new accrued expenses and remove any accruals that were reversed in the current month.	Month-end
Liabilities - Accrued Federal Income Tax Liability	Accrue for estimated federal income tax, or if a deposit has been made, amortize the deposit over the coverage period.	Year-end
Liabilities - Accrued Property Taxes	Prepare accrual for property tax expense.	Month-end
Liabilities - Accrued Sales Tax	Calculate current month B&O taxes (city & state). Record sales tax payable as needed. File and pay state & local taxes.	Month-end
Liabilities - Credit Card Payable	Prepare credit card reconciliations. Cross reference the statement to the general ledger. If the statement is mid-month, prepare a reconciliation to calculate the month-end balance and cross reference to the balance sheet.	Month-end
Liabilities - Deferred Revenue	Review revenue accounts for potentially misclassified revenue. Prepare reclassification entry. Update deferred revenue schedule and cross reference to the balance sheet.	Month-end
Liabilities - Notes Payable	Review interest expense for reasonableness. Record accrued interest expense as needed. Cross reference statement balance or amortization schedule to balance sheet.	Month-end
Liabilities - Notes Payable	If there is any new debt, obtain a promissory note and an amortization schedule (if available).	Month-end
Liabilities - Payroll	Record payroll journal entry as needed. Accrue payroll expense as needed. Cross reference to financials.	Month-end
Liabilities - Payroll	Agree quarterly or annual federal tax return (form 941/940) to the GL.	Quarter-end
Liabilities - Payroll	Record accrual for earned, unpaid PTO expense.	Year-end
Liabilities - Payroll	Review other payroll liability balances (401K, taxes, etc.) and agree to payroll records. Research any accrued balances that are not cleared out timely.	Month-end
Reporting & Deliverables	Run a twelve-month trailing income statement by month. Investigate and document any unusual fluctuations from prior period balances.	Month-end
Reporting & Deliverables	Review balance sheet. Agree account balances and cross reference to supporting schedules in the binder.	Month-end
Reporting & Deliverables	Prepare financials	Month-end