

**MINUTES OF THE JANUARY 5, 2023
MEETING OF THE
WASHOE COUNTY SCHOOL DISTRICT
AUDIT COMMITTEE**

January 5, 2023

1. Opening Items

1.01 Call to Order

The meeting of the Audit Committee was called to order at 4:09 p.m. The meeting was conducted in the Board Room of the Central Administration Building, located at 425 East Ninth Street in Reno, Nevada.

1.02 Roll Call

Chair Ron Ellis and Committee Member Debra Yates were present. Vice-Chair Todd Shipley and Committee Members Ben Barteau and Jennifer Thomas attended via remote link. Committee Members Wesley Chewjalearn and Vitalis Ozoude were absent. Staff Liaison Kirk Starkey was also present.

2. Items for Presentation, Discussion, and/or Possible Action

2.01 APPROVAL OF THE MINUTES OF THE AUDIT COMMITTEE MEETING HELD AUGUST 11, 2022

It was moved by Ms. Yates and seconded by Chair Ellis that **the Audit Committee approve the minutes of the Audit Committee meeting held August 11, 2022.** Ms. Yates abstained from voting because she was not present at the August 11, 2022, meeting. The result of the vote was Unanimous with one abstention: Pass (Yea: Ben Barteau, Ronald Ellis, Todd Shipley, and Jennifer Thomas; Abstain: Debra Yates.) Final Resolution: Motion Carries.

2.02 PRESENTATION AND POSSIBLE ACTION TO RECOMMEND THE WASHOE COUNTY SCHOOL DISTRICT ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) FOR THE FISCAL YEAR ENDED JUNE 30, 2022, BE FORWARDED TO THE BOARD OF TRUSTEES FOR ACCEPTANCE

Mark Mathers, Chief Financial Officer, and Mindy Caporin, Assistant Controller, introduced themselves for the record. Joining the meeting remotely were Jeff Jensen and Charles Raibley from *Crowe LLP*, the external auditor. Mr. Mathers thanked the Committee for their patience with the extension filed for the finalized ACFR. He explained that the request for an extension was due to the departure of the Controller and other Business Office staff. He added that the ACFR and the audit of the District's financial statements by an external independent auditor annually are required by law. The District has 54

funds and several fiduciary funds and total expenditures for governmental funds was over \$950 million dollars.

Jeff Jensen, of *Crowe LLP*, explained the overall concept of the audit. It is the auditor's responsibility to express an opinion on the financial statements prepared by management and provide an opinion on federal compliance. The audit took a risk-based approach, and the audit process began in May 2022. It is the Washoe County School District management's responsibility to prepare the financial statements, comply with federal and state (NRS) requirements, and establish and maintain internal controls to develop financial statements and ensure compliance with requirements.

Mr. Jensen noted that the recent Governmental Accounting Standards Board (GASB) Statement No. 87 requires management to prepare an inventory of their leases, but noted this did not have a material impact to the District's financial statements. He reported that there were no audit adjustments and no corrected or uncorrected misstatements with the financial statements. There were no difficulties or disagreements with management. There was no consultation with other accountants and no significant adverse events in connection with the completion of the audit.

Charles Raibley, Senior Manager of *Crowe LLP*, summarized the audit results for the committee. He explained that both the audits of the financial statements and federal compliance resulted in unmodified opinions, adding that this is the highest level of assurance that can be achieved with an external audit. Mr. Raibley went over the key highlights of the financial statements. As of June 30, 2022, the District had total assets of \$1.93 billion and a total net position of -\$193.4 million. The negative net position is due to the net pension liability of -\$480 million and the net other post-employment benefits (OPEB) liability of -\$84.1 million. Both of these actuarially determined liabilities affect total net position negatively. There was a positive change of \$126 million in net position from the prior year. The General Fund balance was \$61.6 million at the end of June 2022, and this was an increase of \$3.3 million over the prior year. New debt issuances included \$49.2 million of general obligation bonds, \$64.9 million in general obligation refunding bonds (refinancing of prior debt), and \$3.4 million in direct placement borrowing used to purchase District vehicles. He concluded that there were no reportable findings for the 2021-22 fiscal year.

Mr. Raibley gave the committee some background on the pension liability, which is the District's share of the Nevada Public Employee Retirement System (NVPERS), and the OPEB liability representing the ultimate cost of medical and other benefits to be paid out on behalf of future eligible District retirees. Both of these liabilities are actuarially estimated. The current financial resources for these benefits are limited to annual contributions to the NVPERS for current retirees and current year benefits of current retirees for OPEB. The decrease in the 2021-22 NVPERS liability was due to positive changes in investments at the measurement date of the plan, June 30, 2021. The

decrease in the 2021-22 OPEB liability was due to an adjustment of the discount rates which reduced net liability.

Mr. Jensen told the Audit Committee that the District's financial statements were presented fairly in all material respects, there were no audit adjustments, and no findings in the report. He concluded that the ACFR is an accurate representation of the District's financial position and thanked District management and staff for their help getting the ACFR completed. He asked the committee if they had any questions.

Chair Ellis asked for clarification around the reason the pension liability went down based on investment performance as of June 30, 2021, rather than June 30, 2022. Mr. Raibley explained that when GASB 68 was established it allowed for the pension liability to be reported a year in arrears so that they would not have to wait for pension systems to complete their audit reports. Chair Ellis asked for clarification on what OPEB are. Mr. Raibley explained that OPEB are retiree health insurance and life insurance benefits.

Mr. Barteau asked about threshold for a deficiency to be included in the ACFR. Mr. Jensen explained that there are three levels of deficiencies: *material weaknesses*, *significant deficiencies*, and *deficiencies*. Standards require that any *material weaknesses* or *significant deficiencies* be included in the report as these types of deficiencies can affect the materiality of the financial statements. Segregation of duties is an example of a *significant deficiency*. *Deficiencies* are not usually included in the ACFR but could be included in a separate Management Letter. *Deficiencies* might include best practice improvements. Mr. Raibley added that there was no Management Letter issued for this report period.

Mr. Barteau asked about the District's performance and efficient use of Information Technology (IT) given the amount of turnover in the Business Department. Mr. Jensen replied that District is not unique in the amount of turnover it is experiencing. The District needs more people on the fiscal services team and the annual preparation of the ACFR is an extra load on top of all their other duties, which is why it took longer to prepare the report this year. He added that internal controls are sound, and the IT system is adequate from an accounting perspective allowing for adequate segregation of duties.

Ms. Yates thanked Mr. Mathers and staff and acknowledged that the completion of the ACFR comes at a cost and sacrifice of personal time. Chair Ellis agreed and expressed his appreciation to staff.

It was moved by Ms. Yates and seconded by Ms. Thomas that **the Audit Committee forward the Washoe County School District Annual Comprehensive Financial Report for the fiscal year ended June 20, 2022, to the Board of Trustees for acceptance.** The result of the vote was Unanimous: Pass (Yea: Ben Barteau, Ronald Ellis, Todd Shipley, Jennifer Thomas, and Debra Yates.) Final Resolution: Motion Carries.

2.03 UPDATE ON THE CAPITAL PROJECTS PROFESSIONAL SERVICES AUDIT

Kirk Starkey, Chief Auditor, gave the Committee an update on the search for a third-party to perform an audit of the Capital Improvement Program focusing on professional service providers which include architects, engineers, and design firms. The project is an agreed-upon procedures audit with the objective of determining department compliance with Nevada law and WCSD policies when engaging professional service providers on District capital projects. Funds for the project have been approved by the Capital Funding Protection Committee and the Board of Trustees. Four firms were contacted, and project cost proposals were received from all four. A firm has been selected for the project and the contracting process has begun. A project update will be provided at the next Audit Committee meeting.

2.04 STATUS UPDATE ON THE ACTIVITIES OF THE INTERNAL AUDIT DEPARTMENT TO INCLUDE CURRENT PROJECTS ON THE INTERNAL AUDIT DEPARTMENT AUDIT PLAN, INCLUDING THE RECENT STUDENT ACTIVITY FUNDS AUDIT OF FLORENCE DRAKE ELEMENTARY SCHOOL.

Kirk Starkey, Chief Auditor, presented an update on the activities of the Internal Audit Department. The annual review of the District's seven charter schools is ongoing. The work should be completed and reports issued by the end of January. Mr. Starkey explained that the majority of performance audits are on hold due to staffing shortages, and they are primarily focusing on Student Activity Fund (SAF) audits. There have been several requests from management and school principals for SAF audits. The recently completed Florence Drake Elementary School SAF audit is attached as part of the meeting packet. SAF audits for Roy Gomm and Elizabeth Lenz Elementary Schools are nearing completion and the audit reports will be sent to the Committee members. A follow-up of the McQueen High School SAF audit is planned for April 2023 to determine if issues found in that audit have been corrected. Two performance audit follow-ups are scheduled for later in the fiscal year. The department will be reporting on the implementation status of the Information Technology (IT) and Sick Leave Bank audits.

Chair Ellis asked if staffing issues in other departments are holding up the Internal Audit Department in any way. Mr. Starkey gave the example of the Transportation Audit that has been deferred because of the short staffing in that department and their effort to meet critical needs in Transportation.

2.05 ASSIGN PREPARATION OF THE ANNUAL REPORT OF THE AUDIT COMMITTEE CHAIR

Kirk Starkey, Chief Auditor, told the committee that the Annual Report of the Audit Committee Chair was not completed last year. This year's report will document the work of the committee from the last two years and be sent to the Board of Trustees. The report will include the composition of the committee, its activities, and how its responsibilities

were discharged. Internal Audit has developed a template for the report and will work to compile the necessary information for the Audit Committee Chair to review and approve. A draft report will be submitted to the Audit Committee at the next meeting for their review and approval before it is submitted to the Board of Trustees.

2.06 PRESENTATION OF "REPORT FRAUD, WASTE, OR ABUSE" HOTLINE CONCERNS AND OUTCOMES SINCE THE AUGUST 11, 2022 MEETING OF THE AUDIT COMMITTEE

Kirk Starkey, Chief Auditor, presented the status of reported cases of Fraud, Waste, and Abuse since the August 11, 2022, meeting of the Audit Committee. Since the last meeting in August, the hotline has received 18 new cases, an average of over three new cases per month. Of the new cases, nine were referred to the responsible departments for resolution and closed. One case was investigated and found to have partial merit, a report was issued to the Board of trustees, and the case was closed. Three cases were closed due to insufficient information to investigate or for being outside the scope of the program. Five cases are open and currently being investigated by Internal Audit. There are also two open cases from the previous period that continue to be worked on.

Chair Ellis asked how the hotline complaints come. Mr. Starkey answered that the cases come in directly to the Internal Audit Department via phone, mail, e-mail, and walk-ins.

2.07 PRESENTATION OF THE AUDIT COMMITTEE CALENDAR FOR THE 2022-23 SCHOOL YEAR

Kirk Starkey, Chief Auditor, presented the Audit Committee Annual Calendar, a high-level preview of upcoming meeting topics and proposed Audit Committee meeting dates.

3. Closing Items

3.01 Public Comment

The Committee received email public comment from:
Joe Morabito

3.02 Announcement of Next Meeting

The next meeting of the Audit Committee will take place on Thursday, May 11, 2023.

3.03 Adjourn Meeting

There being no further business to come before the members of the Committee, Chair Ellis declared the meeting adjourned at 4:54 p.m.

Ron Ellis, Chair

DRAFT