

**MINUTES OF THE MAY 11, 2023
MEETING OF THE
WASHOE COUNTY SCHOOL DISTRICT
AUDIT COMMITTEE**

May 11, 2023

1. Opening Items

1.01 Call to Order

The meeting of the Audit Committee was called to order at 4:00 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 Ronald Ellis and Committee Members Ben Barteau, Wesley Chewjalearn, Vita Ozoude, and Jennifer Thomas were present. Vice Chair Todd Shipley attended via remote link. Committee member Debra Yates was absent. Staff Liaison Kirk Starkey was also present.

Dr. Diane Nicolet, Vice President of the Washoe County School District Board of Trustees, addressed the Committee on behalf of the Board of Trustees. Dr. Nicolet expressed appreciation for the Audit Committee and thanked them for their service. She read a message written by the Chief Auditor explaining the Audit Committee as “instrumental in evaluating the results of the District’s annual external financial statement and audit” and “the committee members provide significant oversight into the report results and also offer forward-looking questions to the external accountants.” Dr. Nicolet agreed that the work of the Audit Committee is very valuable.

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

2.01 APPROVAL OF THE MINUTES OF THE AUDIT COMMITTEE MEETING HELD JANUARY 5, 2023

It was moved by Mr. Chewjalearn and seconded by Ms. Thomas that **the Audit Committee approve the minutes of the Audit Committee meeting held January 5, 2023.** The result of the vote was Unanimous: Pass (Yea: Ben Barteau, Wesley Chewjalearn, Ronald Ellis, Vita Ozoude, Todd Shipley, and Jennifer Thomas.) Final Resolution: Motion Carries.

2.02 DISCUSSION AND POSSIBLE ACTION TO FORWARD TO THE BOARD OF TRUSTEES FOR CONSIDERATION AND ACCEPTANCE THE ANNUAL FOLLOW-UP OF THE INFORMATION TECHNOLOGY – ORGANIZATIONAL STRUCTURE AND SECURITY PROGRAM AUDIT

Paul Casey, Internal Auditor, presented the annual follow-up of the Information Technology – Organizational Structure and Security Program Audit. Also present remotely via *Teams* were Joe Gallegos, Interim Chief Information Officer, and Austin Smith, IT Security Officer. Mr. Casey thanked Mr. Gallegos and his team for their assistance in compiling the follow-up report.

Mr. Casey explained that in 2016 the Internal Audit Department, in conjunction with SysAudits.com, an Information Technology audit and cybersecurity consulting company, conducted an audit of the Office of Information Technology. Several IT governance and risk management programs, such as those established by the National Institute of Standards and Technology and the Center for Internet Security, were relied upon as industry best practices. The audit identified opportunities to improve the District's computer security program and weaknesses in resources. The resulting original audit report was accepted by the Audit Committee and the Board of Trustees in November 2016 and resulted in fourteen (14) recommendations designed to improve the department's organizational structure and security program. As of the previous year's annual follow-up, there were five (5) remaining open recommendations. All five of the remaining recommendations are still considered partially implemented. However, significant progress has been made on each with varying degrees towards full implementation or closure.

Two of the recommendations (2.1 and 3.1) sought to have the Department adopt certain computer security procedures and to establish written plans related to elements such as network and system activity monitoring, disaster recovery, incident handling, and configuration and vulnerability management. Applicable to both recommendations, the Department has adopted all recommended policies into regulation, except for one, which is currently in draft form. The remaining policy is expected to be adopted into regulation by May of 2024. Once it is adopted, these two recommendations will be considered fully implemented.

The remaining three recommendations (1.1, 3.6, and 3.7) center around budgetary resources. Though there has been an increase in funding for the Department since the original audit, no anticipated full implementation date can be established until resources are increased to fully support current District technology needs.

Mr. Barteau asked about turnover in the IT Department at the executive level. Mr. Gallegos explained that he is temporarily filling in for Chris Turner as the Chief Information Officer. Mr. Turner is currently on leave and will be returning in a couple of weeks.

Chair Ellis asked if the findings of the audit are still relevant and asked for some clarification on the recommendation numbers. Mr. Casey replied that part of the original audit centered around IT staffing compared to comparable school districts around the country, and they have not gone back to those districts to check on staffing and funding.

Mr. Gallegos explained that recommendations 1.1 and 3.7 are similar and concern funding resources including staff. He noted they have not increased staff. They have reached out over the last few months to comparable districts and have found that the District IT Department is still understaffed. Recommendation 3.6 concerns getting network monitoring devices to monitor network security. Mr. Gallegos told the committee that they have a plan for this and recently purchased a network intrusion module and will be putting it in place. The final item for recommendation 3.6 is an anti-malware network firewall upgrade which is a \$50,000 item that needs to be worked into the IT budget. Mr. Gallegos expressed the hope that they will be able to resolve recommendations 3.6, and 2.1 & 3.1 (establishing policies) this year, leaving just the resource and budget issues. Mr. Chewjalearn asked about the process in Internal Audit for follow-ups. Mr. Casey answered that after the initial audit, there is a 6-month follow-up with annual follow-ups thereafter. Mr. Chewjalearn suggested that follow-ups be done more frequently than annually. Chair Ellis expressed concern that the recommendations represent significant risks and are important. He noted that the onus is on management to get the necessary resources.

It was moved by Mr. Chewjalearn and seconded by Mr. Barteau that **the Audit Committee forward the Annual Follow-up of the Information-Technology – Organizational Structure and Security Program Audit to the Board of Trustees for their consideration and acceptance.** The result of the vote was Unanimous: Pass (Yea: Ben Barteau, Wesley Chewjalearn, Ronald Ellis, Vita Ozoude, Todd Shipley, and Jennifer Thomas.) Final Resolution: Motion Carries

2.03 DISCUSSION AND POSSIBLE ACTION TO FORWARD TO THE BOARD OF TRUSTEES FOR CONSIDERATION AND ACCEPTANCE THE ANNUAL FOLLOW-UP OF THE OFFICE OF HUMAN RESOURCES SICK LEAVE BANK AUDIT

Kirk Starkey, Chief Auditor, presented the annual follow-up of the Human Resources Sick Leave Bank Audit. Over a year ago the Internal Audit Department conducted an audit of the Sick Leave Bank Program that is administered by the Human Resources Department (HR). Since that time the previous Chief Human Resources Officer has left District employment and a new Chief Talent Officer, Dr. Kristina Mason, has recently been hired. He added that Dr. Mason was unable to attend the Audit Committee meeting and if the committee has questions that can't be answered they can be forwarded to her. Her responses will then be sent to the committee.

Mr. Starkey gave the committee some background to the original audit. The purpose of the Sick Leave Bank program is to attempt to alleviate economic hardship that may be brought upon an employee by an illness or injury. The program allows participating employees, who have exhausted all their leave, to draw additional paid leave from the bank that has been donated by other employees. Participation in the program is voluntary. Participant requests and approvals for usage of bank days are received and

approved or denied by the respective bargaining associations. HR does not have any responsibility for the application process or the acceptance and denial of decisions pertaining to bank hour usage. Each association individually retains authority for the guidelines and approval and denial responsibilities.

The objective of the audit was to determine whether procedures are in place to ensure sick leave bank hours are available prior to their approval for use. The audit identified four recommendations to improve the viability and effectiveness of the program: (1) HR should administer the program itself and standardize guidelines; (2) Program paperwork should be secured and protected to protect personally identifiable information; (3) Consider requiring annual employee contributions to the bank by all participants and additional contributions of participants based on usage; (4) Consider allowing separating employees to transfer some accumulated sick leave to the bank. These recommendations were discussed with the previous HR Department head and with the recently hired Chief Talent Officer. Both represented that because the Sick Leave Bank program is considered an employee benefit, any proposed changes must be negotiated with the associations. A third-party contractor is currently performing a comprehensive assessment of the HR department's organizational structure and activities. The Chief Talent Officer represented that, when addressing any proposed enhancements that may result from that review, she will also consider incorporating the Sick Leave Bank Audit report recommendations. Based upon this, all the recommendations are considered not implemented at this time.

Chair Ellis noted that when this report was first presented there was a problem with the bank being overdrawn and asked if the Sick Leave Bank is part of the collective bargaining agreements. Mr. Starkey clarified that because the Sick Leave Bank is considered a benefit it must be bargained with each of the bargaining associations. One reason for the delay is that the associations do not go through the bargaining process every year. They are still in the process of bargaining this calendar year and he speculated that they would have something to report from the bargaining units by the time of the next follow-up. In addition to the bargaining, the third-party contractor could have some recommendations.

Mr. Ozoude asked for clarification about the bargaining associations. Mr. Starkey explained that there are several bargaining associations within the District for different employee classifications such as teachers, administrators, and professional technical employees. Mr. Ozoude asked if sick leave banks are separated by each bargaining entity. Mr. Starkey confirmed that sick leave bank hours are pooled by the bargaining association. Each association has their own bank balance.

Ms. Thomas asked that, given that there is the risk of the bank being overdrawn, would it make sense to put the program on pause until it could be better administered. Mr. Starkey answered that because it is a benefit, it cannot be removed unless it is bargained away.

It was moved by Mr. Barteau and seconded by Mr. Chewjalearn that **the Audit Committee forward the Annual Follow-up of the Office of Human Resources Sick Leave Bank Audit to the Board of Trustees for their consideration and acceptance.** The result of the vote was Unanimous: Pass (Yea: Ben Barteau, Wesley Chewjalearn, Ronald Ellis, Vita Ozoude, Todd Shipley, and Jennifer Thomas.) Final Resolution: Motion Carries

2.04 PRESENTATION AND POSSIBLE ACTION TO FORWARD TO THE BOARD OF TRUSTEES FOR CONSIDERATION AND ACCEPTANCE THE BIENNIAL REPORT OF THE AUDIT COMMITTEE

Kirk Starkey, Chief Auditor, presented the Biannual Report of the Audit Committee. He explained that the report documents the work of the Audit Committee over the last two years, describes the composition of the committee, and how its activities are discharged. He added that Chair Ellis reviewed the report and asked the rest of the committee members if they had any proposed changes before the report is presented to the BOT. There were no suggested changes.

It was moved by Chair Ellis and seconded by Mr. Ozoude that **the Audit Committee forward the Biannual Report of the Audit Committee to the Board of Trustees for their consideration and acceptance.** The result of the vote was Unanimous: Pass (Yea: Ben Barteau, Wesley Chewjalearn, Ronald Ellis, Vita Ozoude, Todd Shipley, and Jennifer Thomas.) Final Resolution: Motion Carries

2.05 PRESENTATION AND POSSIBLE ACTION TO FORWARD TO THE BOARD OF TRUSTEES FOR THEIR CONSIDERATION AND ACCEPTANCE THE ANNUAL INDEPENDENCE STATEMENT FROM THE CHIEF AUDITOR

Kirk Starkey, Chief Auditor, explained that the Internal Audit Department operates under the Standards of the Institute of Internal Auditors (IIA) and IIA Standard 1110 requires the Chief Audit Executive to confirm to the BOT annually, the organizational independence of the Department's activities. The Independence Statement confirms that the structure of the Internal Audit office properly allows the Department to fulfill its responsibilities by operating in an environment that maintains and facilitates its organizational independence and has no impediments to carrying out the duties of the Department. Mr. Starkey asked for approval to forward the Independence Statement to the BOT. Chair Ellis asked what the process is for confirming that an auditor does not have a conflict of interest. Mr. Starkey replied that before every project commences, it is certified that there are no conflicts.

It was moved by Ms. Thomas and seconded by Mr. Ozoude that **the Audit Committee forward the Annual Independence Statement from the Chief Auditor to the Board of Trustees for their consideration and acceptance.** The result of the vote

was Unanimous: Pass (Yea: Ben Barteau, Wesley Chewjalearn, Ronald Ellis, Vita Ozoude, Todd Shipley, and Jennifer Thomas.) Final Resolution: Motion Carries

2.06 STATUS UPDATE ON THE ACTIVITIES OF THE INTERNAL AUDIT DEPARTMENT TO INCLUDE CURRENT PROJECTS ON THE INTERNAL AUDIT DEPARTMENT AUDIT PLAN INCLUDING RECENT STUDENT ACTIVITY FUNDS AUDITS OF ELIZABETH LENZ, ROY GOMM, AND PEAVINE ELEMENTARY SCHOOLS

Kirk Starkey, Chief Auditor, presented an update on the activities of the Internal Audit Department. He went over the project status update worksheet included in the meeting packet. He told the committee that the annual compliance reviews of the District's seven charter schools have been completed. He added that, due to some continued deficiencies noted during the monitoring of Bailey Charter School, quarterly contacts have been added to remedy some compliance issues related to financial reporting. Work has been focused in the area of Student Activity Funds (SAF) which comprised \$11.7 million in receipts and \$10.8 million in disbursements in fiscal year 2022. Due to the volume of requests for these types of audits and the need for continuous improvement in this area, internal audit is continuing to work through the audits that have been requested. A third-party contractor, BDO USA, has been selected to perform an audit of the Capital Improvement Program focusing on professional service providers such as architects, engineers, and design firms. The contract is being finalized and the project is expected to begin by the end of the month. Mr. Starkey asked the committee if they had any questions.

Mr. Chewjalearn asked if the requests that come through the hotline are added to the audit plan or investigated separately. Mr. Starkey answered that hotline complaints are treated through the hotline program. He noted that sometimes items are brought to their attention through the hotline that become subjects for future audits.

Mr. Ellis commented that the Peavine Elementary School SAF audit was an excellent report and added that SAF audits are very worthwhile and help with an awareness of the controlled structure and procedures for SAF. He noted that incoming principals sometimes request a SAF audit so they can begin on a good basis with regard to government funds and cash handling.

Mr. Ozoude noted recurring issues encountered in SAF audits and asked if there is something that can be done to prevent recurring issues such as training for administrators. Mr. Starkey replied that the Business Office has secured a position in their office specifically for training administrators and bookkeepers in SAF procedures. Once that person is trained, training will begin in the schools. Mr. Starkey added that on the advice of the Audit Committee, they will be doing more timely follow-ups on SAF audits, particularly in the high schools. They will be following up on the McQueen High School

SAF audit in June to see if corrections have been made to prevent items from recurring at their next audit.

Mr. Barteau asked about the Bailey Charter School deficiencies that prompted quarterly monitoring. Mr. Starkey explained that this was based on the CPAs looking at the financial statements of Bailey noting material weaknesses such as timeliness of correcting journal entries and posting the general ledger correctly. He noted that the school has had a complete management changeover.

2.07 PRESENTATION OF "REPORT FRAUD, WASTE, OR ABUSE" HOTLINE CONCERNS AND OUTCOMES SINCE THE JANUARY 5, 2023, MEETING OF THE AUDIT COMMITTEE

Kirk Starkey, Chief Auditor, presented the status of reported cases of Fraud, Waste, and Abuse since the January 5, 2023, meeting of the Audit Committee. He explained the worksheet used to track hotline complaint cases. The top portion of the worksheet shows the status of cases previously reported to the audit committee that are still considered open and active, and the bottom portion shows the status of new cases received. Since the last Audit Committee meeting in January, nine new cases have been received. Six of the new cases were referred to the appropriate responsible departments for resolution and closed. Two cases were closed due to insufficient information to investigate or for being outside the scope of the program. One case was found to be a statement only and was closed. Of the cases previously reported, one case was investigated, determined to pertain to a non-WCSD school, and closed. Six open cases that were previously reported continue to be worked on.

Chair Ellis asked whether the open cases were sent out to the appropriate responsible departments for investigation. Mr. Starkey answered that all the open cases are currently being investigated by the Internal Audit Department.

Mr. Barteau pointed out there is an open case pertaining to Psychological Services and noted that the Psychological Services Audit is "on hold" on the Audit Plan. Mr. Starkey explained there are two hotline cases related to Psychological Services and confirmed that the investigation of the cases could drive the scope of the audit.

2.06 PRESENTATION OF THE AUDIT COMMITTEE CALENDAR

Kirk Starkey, Chief Auditor, presented the Audit Committee Annual Calendar, a high-level preview of upcoming meeting topics and proposed Audit Committee meeting dates. He told the Audit Committee to let him know if they have suggested items for inclusion at an upcoming meeting. He noted that there will be one open position on the Audit Committee as of June 30, 2023.

3. Closing Items

3.01 Public Comment

There was no public comment.

3.02 Announcement of Next Meeting

The next meeting of the Audit Committee will take place on Thursday, August 10, 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 4:46 p.m.

Ron Ellis, Chair