

Audit Committee Meeting
Washoe County, Nevada
February 8, 2024, at 3:00 PM

Voting Members: Barbara Kinnison, Kevin Stroupe (*remote*), John Briscoe,
Commissioner Herman

Non-Voting Members: County Manager Eric Brown

Absent: Charlene Hart, Commissioner Hill, County Manager Eric Brown

Other attendees: Katelyn Kleidosty (Internal Audit Manager), Louis Martensen
(Internal Auditor), Abigail Yacoben (Chief Financial Officer),
Trenton Ross (Deputy District Attorney), Cathy Hill (Comptroller),
Dave Solaro (Assistant County Manager), Laura Nelson (Eide
Bailly LLP, Senior Audit Manager), Teri Gage (Eide Bailly LLP,
Partner, *remote*)

Agenda Item 1: Roll Call

The meeting was called to order at 3:00 PM by Ms. Barbara Kinnison, the Chair of the Audit Committee. The roll call was conducted, and Charlene Hart, Commissioner Hill, and County Manager Brown were absent. Those listed above were present at the meeting. A quorum was established.

Agenda Item 2: Public Comment

There was no public comment for this item.

Agenda Item 3: Presentation of the FY23 Annual Comprehensive Financial Report (ACFR) and Audit Results for the year ended June 30, 2023 (representative from Eide Bailly LLP)

Ms. Laura Nelson introduced herself to the Audit Committee. Ms. Teri Gage expressed gratitude for the opportunity to join remotely. She acknowledges Ms. Nelson's presence at the physical venue.

Ms. Nelson began by discussing the "AU 260 letter," which was provided alongside the audit issued to the Board of County Commissioners. She offered extra copies for anyone interested (*attached*). The letter mainly covered items outlined in the ACFR, except for one aspect: identified risks not included in the ACFR. She acknowledged the importance of these risks to the Audit Committee. These risks were related to the audit but required separate procedures. Ms. Nelson clarified that identifying a risk didn't imply its occurrence but necessitated specific audit procedures. The first risk highlighted was "management override of controls." She mentioned that as part of the audit process, procedures were established to address the possibility of management overriding county controls. These procedures were implemented to prevent manipulation of financial statements, overstating the county's financial performance, or concealing fraud. Additionally, it was noted that this risk was also addressed in

the single audit, particularly concerning the potential for management to override controls related to federal grant compliance requirements. This was highlighted as the first risk identified during the audit.

Ms. Nelson noted that the second identified risk was improper revenue recognition. Professional standards acknowledged a presumptive risk related to revenue recognition, where revenue could be misdated due to error or potential fraud. She acknowledges that this risk was addressed as part of the audit procedures. Additionally, whenever a new GASB standard was implemented, it was treated as a risk, with the possibility of incorrect implementation. Ms. Nelson referenced the previous year's implementation of GASB 87, the new lease standard, as an example of such a risk.

She further explained that GASB 96 was a significant new standard implemented that year. This standard pertained to subscription-based information technology arrangements, also known as SBITAs, which primarily involved software contracts. Similar to previous year implementations, this new standard was identified as a risk. GASB 96 mandated the inclusion of software contracts onto the balance sheet as a right-to-use asset and a corresponding liability for the amounts paid by the County.

Ms. Nelson highlighted that significant estimates were another area of concern. Whenever there was a substantial estimate deemed material within the ACFR, it was recognized as a risk that the data used for reporting that estimate could be incorrect or erroneous. Specifically, three significant estimates for the County were noted: those related to the pension, OPEB liability, and self-insurance incurred but not reported. These areas were identified as a focus for the audit process.

Ms. Nelson emphasized the final risk discussed was related to the Coronavirus State and Local Fiscal Recovery Fund. The County had received a significant amount of federal funding through this program, which was established in response to the COVID-19 pandemic. Due to the specific compliance requirements associated with these funds, it was identified as a risk for potential non-compliance. This risk was noted for consideration during the audit process.

She mentioned previously identified risks were highlighted as those specifically addressed during the audit procedures. Ms. Nelson indicated that the remaining aspects of the letter were part of the ACFR, which she intended to discuss in more detail. She mentioned that she would go through the ACFR quickly, focusing on the changes and findings for the year, as she believed these were of most interest to the Audit Committee. She encouraged Committee members to interrupt with questions or seek clarification at any point during the presentation. Moving forward, Ms. Nelson began discussing the audit opinion, stating that it was issued as unmodified, signifying the highest level of assurance provided. This was considered positive news for the County, indicating a clean opinion.

During the presentation by Ms. Nelson, various sections of the auditor's report were discussed. The adoption of new accounting standards related to GASB 96, focusing on software contracts, was highlighted. Additionally, attention was drawn to the correction of errors, which would be addressed towards the end of the discussion when the findings were covered. The management discussion and analysis section of the ACFR was briefly mentioned as a valuable

overview of the county's activities throughout the year. Moving on, the government-wide statements starting on page 17 were discussed, emphasizing the county's positive net position of \$566 million despite a negative unrestricted net position of \$256 million, primarily due to a significant net pension liability of \$571 million. The fund statements starting on page 20, particularly the general fund, were noted for their positive fund balance of \$153 million and an unassigned fund balance of \$138 million, showing a decrease of approximately \$11 million from the prior year.

The meeting proceeded to the footnotes to the financial statements starting on page 42, described as containing essential details regarding key or material items highlighted in the ACFR. Specific attention was given to note 6, regarding the implementation of GASB 96 for intangible right-to-use assets related to software subscriptions, which impacted the capital asset footnote. Additionally, note 9 detailed future payments for software subscriptions, affecting total long-term obligations outlined in note 10. Another notable footnote was note 20, discussing the correction of errors, which required additional disclosure about restating the opening balance as of June 30, 2022. Further details regarding these errors and their impact on the financial statements were to be discussed in the findings section later in the meeting.

Ms. Nelson discussed the next portion of the ACFR, focusing on the detailed examination of various funds. The report on internal controls and major programs, as well as internal controls over uniform guidance, was also reviewed. Opinions were shared regarding compliance with internal controls and major programs audited as part of the single audit for federal grant awards spent by the County throughout the year. She highlighted during the discussion was the qualified opinion concerning the reporting requirement for the Coronavirus State and Local Fiscal Recovery Fund in the report on internal control over compliance required by uniform guidance. This qualification was specifically related to finding number six, which identified a component of material noncompliance. The presence of material noncompliance in the single audit necessitated the issuance of a qualified opinion. Further discussion on this specific finding was deferred until its detailed examination.

The schedule of expenditures of federal awards in the ACFR was discussed by Ms. Nelson, which outlined all federal funds expended by the County throughout the year, categorized by assistance listing number. This information is crucial for determining major programs during the single audit for compliance. Identified major programs for the year included the Emergency Rental Assistance Program, the Coronavirus State and Local Fiscal Recovery Funds, Foster Care, and Capitalization Grants for Clean Water State Revolving Fund. The County expended over \$82 million from these federal grant awards in FY23.

She continued the final part of the ACFR related to findings. The first three findings pertained to financial statement issues, while the remaining findings addressed compliance with grant awards or the single audit. The initial finding identified a material weakness concerning a fiduciary component unit. With the implementation of GASB 84, she noted that the Truckee Meadows Fire Protection District OPEB Trust, as one of the fiduciary component units, should have been included in the ACFR but was omitted. The County addressed this issue during ACFR preparation, and it has now been appropriately rectified for future reporting.

Ms. Nelson addressed the second finding, a material weakness concerning revenue recognition. Several issues contributed to this finding, including the timing of recording federal grant revenue, resulting in a risk statement and adjustments to the financial statements. Additionally, she noted there were issues with reporting revenue related to opioid settlements due to a lack of timely communication with the Comptroller's Office, a common problem across the state of Nevada. Another aspect involved recording food share fund revenue on an accrual basis and revenue related to a cost-sharing local agreement known as the Nevada Shared Radio System. Consistency in reporting this revenue was ensured through engagement with GASB, resulting in a risk statement that was corrected for future reporting.

She elaborated that the third financial statement finding pertained to capital assets and stemmed from the implementation of GASB standards 87 and 96, with some nuances missed during reporting. Ms. Nelson explained that despite these findings, day-to-day transactions were found to be clean and well-managed. Moving forward, corrective actions were put in place to address these issues.

Next Ms. Nelson transitioned to the findings related to the single audit, the first four findings were associated with the Coronavirus State and Local Fiscal Recovery Fund, given the significant amount of federal funds expended. Compliance requirements for such a large sum necessitated highlighting a few missed audit points during the meeting.

Ms. Nelson presented several findings from the audit. The first finding pertained to subrecipient monitoring, where it was noted that assistant listing numbers to identify funds from the Coronavirus State and Local Fiscal Recovery Fund were not provided to subrecipients in a timely manner. She explained that the second finding addressed procurement for the same fund, highlighting that specific rules regarding quotes and bids for procuring goods and services with federal dollars were not fully adhered to. This resulted in one contract not being fully executed and two contracts not being reviewed prior to procurement. Ms. Nelson continued the third finding related to reporting, indicating that written justifications were not maintained for capital projects over one million dollars, leading to incorrect reporting, which was considered material non-compliance. The fourth finding involved an overstatement of \$1.2 million in the Schedule of Expenditures of Federal Awards.

She transitioned to the Emergency Rental Assistance Program, three specific findings were discussed. The first finding concerned allowable activities, revealing a lack of documented controls over 21 payments to participants in the sample receipts tested.

Vice Chair John Briscoe questioned how many were in the total sample. Ms. Nelson responded that there were 60 in the sample, 605 in the total population, but there were findings in 21 of the 60 tested.

Ms. Nelson continued with the finding that addressed eligibility concerns within the Emergency Rental Assistance Program, with all 60 sampled cases lacking adequate documentation to review the determination of participant eligibility. She explained that the next finding for this program focused on reporting discrepancies, where expenditures on reports did not align with underlying documentation. Although not deemed material non-compliance, it was significant enough to warrant reporting as a finding. She moved on to the foster care program, a

reporting finding was identified, indicating that the average monthly child count did not match the underlying supporting documentation. Lastly, in line with earlier discussions by Ms. Nelson on procurement challenges, it was noted that contracts did not contain all the required provisions, highlighting common errors encountered during single audits due to the complexity of guidelines. In summary, while Ms. Nelson discussed the overall highlights, it was mentioned that there were no major complex GASB implementations expected for FY24, offering relief from the challenges faced in recent years.

Chair Kinnison questioned whether all the findings have been addressed and corrected moving forward. Ms. Nelson confirmed that all financial findings had been addressed and corrected for future operations. Close collaboration with Comptroller Hill's department facilitated the resolution of single audit findings. It was noted that the effectiveness of these corrective actions would be assessed in the next single audit. Overall, it was affirmed that all identified issues had been rectified to ensure improved compliance moving forward.

Ms. Nelson acknowledged that the audit process involved navigating through restatements and addressing complex issues, particularly with the implementation of GASB standards. She noted that this was the first year returning to conduct the Washoe County audit. Despite the challenges, praise was extended to Comptroller Hill and her department by Ms. Nelson for their efficiency, professionalism, and cooperation throughout the audit process. The collaboration was highlighted as instrumental in successfully issuing the ACFR. Ms. Nelson and Ms. Terri Gage, while acknowledging the rapid pace of the summary, expressed readiness to address any questions from the audience regarding the discussed matters. They invited inquiries beyond what had been previously stated.

No additional questions were presented.

Ms. Cathy Hill expressed appreciation was expressed for Eide Bailey and their team, who are navigating the complexities of the County's accounting system, especially with the introduction of new staff. The challenges posed by Washoe County's involvement in multi-jurisdictional agreements were acknowledged, adding complexity to financial reporting. It was emphasized that while findings may arise outside the Comptroller's department, they ultimately fall under its purview, highlighting the ongoing effort to enhance internal controls and processes across departments. The Comptroller's department was recognized as a hub of accounting expertise, supporting other departments in their endeavors to improve. The commitment to assisting departments and staying abreast of GASB implementations was reiterated.

Agenda Item 4: Approval of Minutes for November 13, 2023 Meeting

No one responded to the request for public comment. Vice Chair John Briscoe made a motion to approve the minutes for the November 13, 2023 meeting. Commissioner Herman seconded the motion. The motion was approved unanimously.

Agenda Item 5: Discussion on Meeting Format

No one responded to the request for public comment. There was a request for discussion by the Committee. Chair Kinnison expressed a want for hybrid, so people can join

remotely or in-person. Vice Chair Briscoe echoed Chair Kinnison's comments. Vice Chair John Briscoe made a motion to make the Audit Committee meetings hybrid going forward. Commissioner Herman seconded the motion. The motion was approved unanimously.

Agenda Item 6: Audit Update Discussion

Ms. Katelyn Kleidosty explained that a cash control audit of the Clerk's Office was conducted in concurrence with Clerk's Office audit. She explained that cash counting on behalf of the Treasurer's Office was performed, with no exceptions noted. Additionally, cash control procedures and policies were examined, along with observations and interviews. It was found that written policies and procedures related to cash handling had no exceptions, and the cash handling processes observed also had no exceptions. Reports examined during the audit also had no exceptions noted. She inquired if anyone had any questions. No questions were noted.

Ms. Kleidosty noted that similar procedures were conducted at the Treasurer's Office as well. As the Treasurer's Office is not permitted to count their own cash, external counting was performed, revealing no exceptions. The audit encompassed counting all cash, drawers, and vault, alongside a review of policies and procedures and observation of cash handling processes. Bank reconciliations, typically conducted within the department only in case of issues, were examined during the audit, with no exceptions noted. Overall, Ms. Kleidosty explained throughout the entire process, no exceptions were identified. She inquired if anyone had any questions. No questions were noted.

She continued that the audits for the sheriff's fees and bail procedures are still pending. It was suggested that these audits should be treated separately rather than being combined in the same report, as they involve distinct areas of focus. Specifically, for the sheriff's fees audit, attention is directed towards various fees paid by the public, including fees for records, civil services, alarm services, inmate medical services, and inmate weekend services. These highlighted fees will be subject to scrutiny as part of the audit process.

Vice Chair Briscoe questioned what a weekender fee was. Ms. Kleidosty explained that a judge can order an inmate only serves their sentence on the weekends, in which case we would charge a fee. Vice Chair Briscoe questioned whether there was intent to make a profit or breakeven? He asked what we are going to look at, is the fee a flat rate? Ms. Kleidosty explained that the auditors will review the amounts, review the appropriate accounts, and determine if it was approved correctly. Ms. Kleidosty elaborated that the fee is a set amount of \$25 determined by the Nevada Revised Statutes (NRS), which would be established by the State Legislatures. She continued most fees are either established by NRS or approved by the Board of County Commissioners (BCC). Ms. Kleidosty concluded that there would be no consideration of any interlocal agreement. This aspect was to be entirely separate from the discussion. The focus remained on matters funded by the public and their impact on the general fund.

Ms. Kleidosty mentioned that ongoing efforts were being made to support the Assessor's Office with an audit program, particularly as they were currently in the midst of auditing, which presented some challenges. Additionally, initiatives were underway for cash control audit at the

Washoe County Library System, and attempts were being made to establish contact with Northern Nevada Public Health for a similar audit.

She provided follow-up regarding a fraud tip received previously concerning an altered timecard for an intermittent or RETA employee (retired employee). Vice Chair Briscoe questioned why a retired employee would have a timecard. Ms. Kleidosty explained that it's a person who retired and then came back to work for the County and that a RETA employee is specifically someone who retired from Nevada PERS and is employed by another entity contributing to Nevada PERS, like Washoe County. She reported that additional verbiage had been incorporated into the email ticket associated with timecards based on a previous recommendation. However, she noted that further follow-up would be necessary. This issue was brought to the attention of the Committee, with the assurance that follow-up would be conducted in a couple of months to assess if any additional recommendations had been implemented. As of the current update, Ms. Kleidosty stated that no other recommendations had been implemented besides the addition of the mentioned verbiage.

Ms. Kleidosty continued to the *Other* Section on PowerPoint. She drew attention to the Institute of Internal Auditors (IIA), which oversees internal auditing practices, made an announcement regarding new global internal audit standards set to be effective from January 2025, which involved significant changes and additions. It was emphasized that adherence to these standards was important, alongside compliance with governmental auditing standards. Furthermore, updates and additional guidance were mentioned, particularly aimed at enhancing governance frameworks and assisting public sector internal auditors. Key areas of focus included cybersecurity and IT-related matters.

No questions were raised when Ms. Kleidosty inquired.

Agenda Item 7: Fraud Hotline

Ms. Kleidosty explained that two fraud hotline reports had been received since the previous Audit Committee meeting. One report pertained to a civil dispute between the complainant and another individual, which was referred to the Washoe County Sheriff's Office Civil Department for handling. Additionally, another tip was received regarding a trainer providing medical training who allegedly shared answers to certification tests. This matter was forwarded to the Department of Health and Human Services, specifically the Nevada Division of Public and Behavioral Health Bureau of Health Care Quality and Compliance, who assumed responsibility for further investigation.

No questions were raised when Ms. Kleidosty inquired.

Agenda Item 8: Calendaring of Future Audit Committee Meetings

Chair Kinnison announced that there were changes to the schedule. First, the March meeting was scheduled for the 21st at 3:00 p.m. in the Caucus Room. Additionally, the meeting originally set for June 27th was rescheduled to June 13th.

Agenda Item 9: Audit Committee Member Comments

There were no comments from the Committee members for this item.

Agenda Item 10: Public Comment

There was no public comment for this item.

Adjournment

The meeting was adjourned at 3:38 p.m. by Chair Kinnison.

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