WASHOE COUNTY AUDIT COMMITTEE

MEETING MINUTES

Friday, December 5, 2014
9:30 a.m.
Commission Caucus Room

Committee Attendees:	Dave Stark, Keith Romwall, Elaine Alexander, Marsha Berkbigler, and John Slaughter
Other Attendees:	Alison Gordon, Al Rogers, Joey Hastings, Felicia O'Carroll, Dan Carter and Paul McArthur.

CALL TO ORDER

The meeting was called to order at 9:30 a.m. and Alison Gordon performed the roll call – those listed above were present.

Agenda

Mr. Stark moved to approve the agenda as presented. Mr. Romwall seconded the motion, which carried unanimously.

PUBLIC COMMENT

There was no response to the call for public comment.

MINUTES

Ms. Alexander noted an error on the February 2nd minutes, page 3, first paragraph.

Ms. Alexander moved to approve the minutes as corrected. Mr. Romwall seconded the motion, which carried unanimously.

BUDGET UPDATE FY15 AND FY16

Al Rogers, Management Services Director, stated the annual budget book was produced after the last time the Committee convened. He noted a different approach was taken regarding how many books were produced. It was available online and available to citizens, but he asked the Committee if they would be interested in one hard copy, since they quit producing so many books. He said the budget represented the information in summary, table and graphical fashion and captured what was going on in Washoe County in the first quarter.

Mr. Rogers referred to the last page, noting the general fund expenditures and where we were budget-year-to-date, which would give the Committee a comparison to last year. He said we were above last year, but were under the 25 percent of expenditures at this time. The major message was that revenues were not necessarily trending up, but were meeting budget expectations and expenditures were doing the same. He said the document was being revised, and he wanted to continue the evolution of this document to this group and others in terms of providing updates.

Mr. Rogers distributed information regarding what was being worked on within the budget office heading into the mid-year of FY 2015 and looking ahead to FY 2016 in terms of major milestones and things that needed to get done for the budgetary process. He said they would be working very closely with the Comptroller in terms of tasks to be completed.

Ms. Alexander asked about taxable sales on page 2 of the handout. She wondered what the terminology meant regarding "over-year percentage change," and why it went from 5.5 percent for FY 2012/13 to 9.4 percent for FY 2013/14. Mr. Rogers stated it represented the average over previous years. He said the 9.4 percent was an annual figure.

Mr. McArthur directed the Committee to page 1 where it showed Washoe County at 4.7 percent, which was a year-to-date number ($1,698,355 versus $1,621,669). He said the 4.7 percent happened to tie to the bottom of that, which was year-to-date. Mathematically, all of the percentages were the same over a year and that was why this was a percentage change month-by-month and then cumulative. The Committee agreed it would be easier to understand if the report just reflected FY2014.

Marsha Berkbigler, County Commissioner, pointed out that in figure 4 on page 2 it appeared consolidated taxes were up. That was clearly a good sign and indicated the State was recovering as well as the County.

PRESENTATION OF FY14 CAFR

Paul McArthur, Comptroller, gave a copy of the presentation that was given to the Board of County Commissioners (BCC) to the Committee. He highlighted the report by stating the County received a positive opinion and the highest form of confidence in the financial statements. He said it was done on time and was allowed to be issued to the public after the November 12, 2014 BCC meeting. He noted things were changing positively on the revenue side and the cash position went up by $10 million. He said expenditures were holding even.

Mr. McArthur presented the Popular Annual Financial Report (PAFR) that was not audited, which was less formal. He said this report would help people understand where the County was financially. He said what the Committee had in front of them represented general government, which had nothing to do with Enterprise Funds, the General Fund, Capital Improvement Projects, or other major Government Funds. The big element was that 83 percent of all of our revenue came from two sources; property tax and sales tax. He wanted to demonstrate where Washoe County was comparatively to other counties. One of the difficulties he had was comparing Clark County to Washoe County because Clark County had almost two million people and Washoe

County had a half a million. The nearest county had 50,000 to 60,000 people. He did not find that it was easy to compare them in magnitude as far as dollar amounts, so he used percentages to help assist him. What he found was that with us getting 42 percent of our property tax revenue compared to Clark County at 26 percent and Lyon County at 32 percent. He felt the real estate bubble had a lot of effect on the County. The graph within the handout reflected our property tax went from $157 million to $208 million, which was a 30 percent increase within a four-year window and in a 10-year window it moved up and down of almost $100 million. For two years in a row, we were relatively flat, and he was not going to try to interpret where the next leg would be. He wanted to communicate that they found two years that did not move up or down, so maybe we found a point where sales tax and real estate were at a plateau.

Mr. McArthur stated one of his observations was the fact that the picture in front of the Committee showed that we brought in revenue of $384 million, and the expenditures did not include debt service, capital outlays or new loans, which represented what it took to run Washoe County. He noted the gap in 2005 between revenue and expenditures was closing. The 2010 spike correlated to a very difficult decision that the BCC and management had to make in offering early retirement. He felt the PAFR was a great place to help people understand what communities did to keep things afloat and to keep from utilizing their equity. He said our capital outlay in 2005 was $75 million and an entity was very much like a home; you could only spend what you brought in and you had to look at things that could be postponed or delayed.

Mr. McArthur said financial confidence was coming back, but he did not want to give the impression that things had changed dramatically. He said because Washoe County was so reliant upon real estate, we had to re-establish new "norms." On page 3 it showed the fund balance sustained us from $55 million down to $31 million and that the fund balance found its way back up to $46 million. He noted if the 2014 capital outlay equaled the 2013 levels, the fund balance would have declined by $1.2 million. He noted we had equity and equity was a byproduct of assets minus liabilities, which was merely an equation. He wanted to focus on the revenue flattening and the expenditures holding, not the fact that the balance sheet was now reflecting higher equity.

Mr. McArthur stated the other element was what would it look like had we used the two prior year's debt payments without any new debt and if we would have bought the same amount of big ticket items. He pointed out that from 2005 to 2009 public safety increased from 31 percent to 35 percent and welfare went from 16 percent to 19 percent. He stated costs went up over that 10 year period, what did we spend our money on. Even though our revenue went up and went down it was starting to find an end and this is what we spent our money on. The bottom of page 4 showed a comparison chart with other governments and two cities. He noted cities operated completely different than counties did as they had different priorities, audiences, and revenue sources.

Commissioner Berkbigler stated Carson City was technically a city and a county, and she wondered if they received the same things the City of Reno and Washoe County received. John Slaughter, County Manager, stated they operated more like a county than a city. Commissioner Berkbigler asked Mr. McArthur to define public safety; did it include both fire and police. Mr. McArthur said the format for a CAFR was defined by the Standards and Accounting

Regulations, but he believed fire and police would be included. Mr. Slaughter explained Clark County had a County Fire Department and others had their own county fire departments. Commissioner Berkbigler stated she understood apples and oranges were being compared when it came to comparing Reno versus Washoe County, and Reno was spending more money on fire, but Washoe County's fire was a "district" and not a "department." Mr. McArthur stated the only reason Truckee Meadows Fire Department was disclosed was that it was a represented entity and nowhere in the CAFR do we see our district. Commissioner Berkbigler said once the CAFR goes public; the public would bring those types of questions to the commissioners. Ms. Gordon suggested adding a footnote for clarification. The audit committee members agreed with this suggestion.

Mr. McArthur stated the CAFR was created for a simple audience and to put lots of footnotes in might complicate things. Commissioner Berkbigler said her questions to him were more for her benefit so she could answer questions. He said he would be happy to present the numbers in any form the Committee thought would be the most helpful. Mr. Carter stated you could not have a county without fire protection, so maybe under Washoe County both fire districts should be included. Commissioner Berkbigler said the same board sat as the BCC and the Fire Board.

Mr. McArthur next moved on to debt payments, which he thought would help articulate the increase in cash positions. He could detail all the funds, but people wanted to know why we had more money than we used to have. Revenue was up a little, expenditures were even, payables and receivables about the same, but we did not make a $16 million debt payment like we did last year. We re-financed the debt and now had a lower interest rate.

Felicia O'Carroll, Kafoury Armstrong, said from the financial statement standpoint, there were no findings. The audit went well and it was a learning experience for Mr. McArthur and for them to get used to doing things a new way. She said they worked well together and even though there was a lot of turnover in upper management in the Comptroller's Office, it got done early. Mr. McArthur said the materiality of a single-audit was a lot different than the materiality of Washoe County. He said they elected to make sure that people knew Washoe County's finances were not just solid, but received no findings, there were no material weaknesses and it was a different level of scope. He said there were findings on the federal side and there were areas for improvement. He stated the reason we had the CAFR presentation and the single-audit presentation was because he felt it was important for the audience to have faith in the audit and the financials of Washoe County and understand the audit of federal funds was different. He reviewed the grant award from the U.S. Department of Health and Human Services to the Nevada Division of Child and Family Services. He said as part of the testing and maintenance of the payment rates, they noted there were no policies and procedures included to provide for periodic review at reasonable time periods.

Ms. Alexander asked him to summarize what the finding meant, what steps were going to be taken, and when. Mr. McArthur stated the department submitted a solution and that was what the recommendation was. He noted the important part was, each department that had a finding showed ownership, crafted a solution and would help communicate the importance of the findings to not reoccur next year. Ms. O'Carroll said in this case the federal government developed an audit program known as the Compliance Supplement. It did not mean there had to

be a long lengthy written procedure; it just meant it had to be in their plan to consider the rates. She explained this was under the foster care program where the County was using Kids Kottage to provide services. They provided a very specific service to Washoe County and we paid for it and used that service a lot. It was just that the department needed a formal process in place to ensure that they looked at it on an annual/periodic basis. Mr. McArthur said that finding had nothing to do with Washoe County's finances. It had to do with the entity who gave us money set forth standards and those standards were being reviewed. He said it was not a failure of internal controls, nor was it a failure of financial responsibility.

Mr. Romwall said the wording recommending Washoe County Department of Social Services implement policies and procedures, should be changed to "improve" policies and procedures. Ms. O'Carroll clarified that they did not have any procedures in place to follow this particular item in the grant. Ms. Alexander said the references in the report are not correct and the we should be looking at the department response to this item on page C22 instead of C26 notated on the report. Ms. O'Carroll said it was different because it was not internal control over financial reporting, but was a facet of internal control over compliance. The second finding was under the foster care program, which had a tremendous number of requirements. In all fairness to them, it was a difficult grant to administer and very difficult to audit. She said they actually had twice the number of findings but they found documentation for them during their exit conference. Typically, in the federal audit arena they could not come to her after the fact and say "oh" I found something that would resolve this. However, this was something that had been there all along, it just wasn't in a place where they could put their hands on it quickly, so they gave them the benefit of the doubt. The second one related to the fact that the A-133 Compliance Supplement allowed them to use their cost allocation plan for some of the costs that foster care could accept. That was great except that when they were doing their testing, they noticed there were big differences between what the actual amount of allocated costs were and what the budget was for them. That should not happen because they calculated their cost allocations based on what they were actually going to charge them. What they found out was there was an older version of the cost allocation plan on the Internet and they used that one instead of the updated version approved by the County. They had controls, but they were not adequate enough to find this one circumstance. Ms. Alexander asked why this was so hard to audit and administer. Ms. O'Carroll stated it was a pass-through from the State, so they had federal regulations to follow and State regulations to follow. Compliance was a yes or no question; it was not an issue of materiality.

Mr. Romwall said they were also raising the threshold for A1-33 from $500,000 to $750,000. Ms. O'Carroll said that would affect the small communities, but not Washoe County. She said they were opting for $1 million or $3 million, because they were asked as a firm to comment on those proposed regulations, but their recommendations were not accepted.

Ms. O'Carroll stated 2014-3 was the third finding and was again for foster care. She said it had to do with a cost allocation plan and the Compliance Supplement required they use the program called Allocap. She said it was supposed to have been in place since 2011; however, the County had not used it yet because the department felt strongly that Allocap was not calculating things correctly. When they ran Allocap compared to their spreadsheets, there was a $300,000 difference in allocation. She said we could not tell the federal government we were going to do

something and then do something else. We could tell them we did not like the program and the question cost was undetermined because they did not have the staff to go back through and figure out where it was wrong or why it was wrong. Her recommendation to them was to put that in their plan. Ms. Alexander asked if that certain software was required. Ms. O'Carroll stated it was highly recommended by the federal government. It could be something the federal government would take to the next level, if the County stated they would not use their program and use manual spreadsheets.

Ms. O'Carroll stated the fourth finding related to Chafee which was an off-shoot of foster care; it was actually teaching people who were in foster care and grew up through the foster care program, how to live independently. In this case, the County contracted with Truckee Meadows Community College to get some seminars and training together and that was allowable under the grant. The County gave them about $10,000 a semester, but when they sent back the information to the County identifying what they did, they listed 16 individuals. More than half of those were not eligible to be trained under the Chafee Program because they were 21 years of age or older. She stated it was possible the County would have paid $5,000 for only training those that qualified, but unfortunately no one who approved that payment looked at it. She said they went back to the grant and reviewed it and eligibility was one of the things that was mandatory. She noted Chafee had not been audited for many years; but large grants got audited periodically and they knew the auditors were coming in. The federal government requires auditors to rotate their audits of the smaller grants and departments don't know which smaller ones will be selected for audit from year to year.

Ms. O'Carroll stated the last one was Family Planning. She said they spent quite a bit of time with the State trying to understand what their requirements were. They told Family Planning that they wanted them to begin preparing reports quarterly. Somewhere midstream they decided they didn't want them quarterly anymore, they wanted them cumulative. There was nothing in writing and because they faced this with other local governments, they had no reason to believe that was not the case. The department started doing the reporting cumulatively and the first cumulative report did not resemble what the financial statement showed. They did correct it after that fact, but noted it was understated by $203,000. She said the federal reports were very complex and required a lot of information in their format and many people had to prepare pivot tables to get their financial information into the form the federal government wanted. In the big scheme of things, were any of those findings earth-shattering. She said she did not believe so, but it was just a lack of attention to detail and a lack of understanding as to what the grant required. She said they pointed out the Compliance Supplement to them and told them to read it before they came out because this was what they were going to do.

AUDIT REPORTS

Alison Gordon, Internal Auditor, started with Reno Justice Court and explained these audits were for auditing compliance with the State Supreme Court's minimum accounting standards and the County's standards. The first two report issues were the same in each of the justice court audits and the courts got caught by surprise. The State Supreme Court started requiring compliance with the payment card industry security standards for credit cards, which included completing a questionnaire, and having policies and procedures in place regarding computer systems

adequately securing credit card information. Ms. Alexander asked when they were supposed to start complying. Ms. Gordon responded the requirements came out in 2012 when the Supreme Court received a finding regarding its lack of compliance with these same standards, so they tucked it into the Compliance Supplement and the Supreme Court did not send out an email or correspondence regarding the new compliance. She said Reno stepped up and got their tech people involved and got their questionnaire and implemented policies and procedures. She said they were very generous in letting the other courts see what they had done so everyone was on the same page. The MAS also required these courts to have an aging report for their accounts receivable; 30, 60, 90 and 120 days. Recently, three of the justice courts implemented a new software system called Odyssey, which she liked. However, this piece did not get programmed into the Odyssey system. She stated the Supreme Court did not really tell the courts what they were supposed to do with this. Mr. Romwall asked if it was a module within the system they just did not load. Ms. Gordon replied no, they had to develop it, so Reno reached out to programming and got it set up and in place.

Ms. Gordon stated the next court for audit was Incline Village and again the payment card industry security standards were not being complied with. She said Reno Justice Court helped them with that and they were in the process of getting their policies and procedures and the questionnaire going. She noted Incline did have a few accounting control issues. She said they need to make sure their invoice and paying documents were approved adequately. She did a random sample of operating expenses and for one of the items they did not have evidence of supervisor approval for the payment. She talked to the court about it and they said there was a special circumstance associated with it, but they agreed it should have been approved. She said she also found that the court was not making sure that their void checks were reviewed and approved by a second person. The fourth finding for Incline was that the policies and procedures they had to comply with MAS were from 2008 and had not been updated for the new Odyssey system. Their court administrator started working on that and Ms. Gordon helped them go through those. She said they were doing a great job compared to 2008 and had stepped up to get their practices in compliance.

Ms. Gordon said Sparks Justice Court had the same findings regarding payment card industry and accounts receivables, but they had other areas of concern. One area was in their documentation of case data. She said the purpose of the Odyssey system was to eventually go paperless. She said there were several instances where the case information was either incorrectly recorded in the system, or not recorded at all. She stated in one case she found the defendant had overpaid by $350 and had to be refunded. Another case was shown as closed in the Odyssey system; however, $3 was still owed. Another case showed where the court reduced the case fees because the defendant had brought in the proof of insurance and vehicle registration, but they did not copy the proof. Ms. Alexander asked Ms. Gordon how she found these types of issues, because the Odyssey system should catch it. Ms. Gordon stated she had access to Odyssey and had learned how to use it and she could see it and the court had notes in the system. Ms. O'Carroll said Ms. Gordon could not just take their word for it, she had interview them, document it and then take a sample and test it. Ms. Gordon stated she also had several instances where the Judges' Orders were not documented in the Odyssey system. She said when there were orders for sentence conversions, those needed to be recorded, but they could also have a paper file. She selected 20 of those where community service had been

performed, but she had four instances where the order was to convert time-served or community service, and those were not documented in the Odyssey system or in the paper file. She noted there were three instances where the Judges' Order was documented in the paper file, but not in the computer system. Ms. Alexander asked if that caused trouble down the road, if someone got in trouble again and went to the court and it wasn't documented. Ms. Gordon explained that if the individual appeared before a different judge, it could potentially be a problem.

Ms. Gordon stated she had instances wherein they were not using a uniform conversion rate. The Courts Policies and Procedures stated that the rate for jail time was $100 per day, but during her testing of conversions she found seven instances where the $100 rate was not used and not documented in the system. She gave an example of a defendant in jail for two days, but received a credit of $312 versus $200. Ms. Alexander asked what that meant. Ms. Gordon stated if someone was arrested and went to jail for two days, the judge would normally give them a cash credit of $100 per day of time served. Her recommendation to the Sparks Justice Court was to make sure they were recording information and it was correct; also, to re-emphasize that staff needed to verify the fees that were showing in the Odyssey system. She said Sparks had a few accounting controls that needed to be shored-up. One of them pertained to using a change fund log. She said they were going to the change box and swapping out a hundred dollar bill for five twenties without documentation. Also, MAS required that their bank deposits have supervisor review and that was not always being done. She said voided checks needed supervisor review and approval. Mr. Romwall asked why so many checks were being voided. Ms. Gordon stated their employee was just learning the new Odyssey system and she struggled with it.

Ms. Gordon said she felt the Court should ensure arrest warrant fees were recorded in the financial records at the time the arrest warrant was issued. She said she reviewed over 100 case files and warrant fees were not being recorded and therefore, were not being collected. The practice was for the judge to charge the $300 in warrant fees, plus any other fees at the time the defendant came in. She explained the judges were not clear on what they were supposed to be doing and the warrant fees were not being assessed or collected. Her recommendation was to record the warrant fees right when the warrant was issued. Ms. Alexander asked if Ms. Gordon knew how much was not recorded. Ms. Gordon responded that since she only picked a small sample, she did not know, but it could be a lot. She noted the Sparks Justice Court's policies and procedures were not up to date and she recommended they needed to be.

Ms. Gordon said the District Court also had the payment credit card, security standards policies and procedures to work on. They had a few accounting control issues, such as the change fund log. She said they immediately implemented the log. She selected 15 voided receipts and 13 of those did not have "void" written across them. She said five of those did not have a second approval. Ms. Alexander asked why they would void receipts. Ms. Gordon replied sometimes they used the wrong fee type, or tender type. She said they had to strengthen controls for voided checks. She selected 10 checks for testing and nine of them did not include the employee's initials that voided them, or had evidence that a supervisor approved the transaction. She said she looked at 36 bank deposits and two of them did not have supervisor approval and review. She noted the District Court also needed to update their policies and procedures. Mr. Stark commented these audit reports were really well done

At this point, Marsha Berkbigler left the meeting

THREE-YEAR AUDIT SCHEDULE

Ms. Gordon presented the audit schedule for 2014/15 and 2015/16 and noted the items from the prior period that she had not yet had a chance to get to. The only other item that she did not add that would occur in 2014/15 was that she, the TMFPD and an independent contractor would be looking at the emergency medical services that TMFPD was providing. She was to look at how much it was costing the County to provide those services, including in Wadsworth. She said it was REMSA's responsibility to be out there versus the fire department's responsibility. Because TMFPD responded to Wadsworth from Hidden Valley, that took that station out of service to drive to Wadsworth. She was initially to provide more of an oversight role, but due to some issues that came up, she had to take more of a direct role. She stated disaster recovery kept getting moved forward; worker's compensation was last looked at in 2004; and, she needed to do cash controls in 2015/16. She thought travel and employee expenses and inventory control really should be looked at again because they had not been looked at for many years. She said for 2016/17 she wanted to conduct an audit regarding Sheriff's Office fees and accounts receivable. The Audit Committee had no changes to the audit schedule presented.

CALENDARING NEXT MEETING

Ms. Gordon explained the Committee would meet again in February and she would check for availability.

AUDIT COMMITTEE MEMBER COMMENTS

There were no member comments.

PUBLIC COMMENT

There was no response to the call for public comment.

ADJOURNMENT

Mr. Romwall moved to adjourn, which was seconded by Ms. Alexander which carried unanimously.