

MINUTES  
CLARK COUNTY SCHOOL DISTRICT  
SPECIAL MEETING OF THE BOARD OF SCHOOL TRUSTEES  
**AUDIT ADVISORY COMMITTEE**  
ADMINISTRATIVE CENTER, ROOM 466  
5100 WEST SAHARA AVENUE, LAS VEGAS, NV 89146

Wednesday, June 25, 2014

9:32 a.m.

Roll Call:	<u>Members Present</u>	<u>Members Absent</u>
	Patrick Patin, Chairman	Colleen Boyle
	Anthony Mook	Patricia Morris
	B. Keith Rogers	
	Erin Cranor, Board Liaison	

Pat Skorkowsky, Superintendent of Schools

Also present were: Jim McIntosh, Chief Financial Officer, Business and Finance Division; Janette Scott, Director, Internal Audit Department, Office of the Chief of Staff; Tamara Miramontes, Audit Manager, CPA, Kafoury, Armstrong & Co.; Norma Herrera, Administrative Secretary II, Board Office; and Stephanie Gatlin, Transcriber/Recording Secretary, Board Office.

**ADOPT AGENDA**

*Adopt agenda, except move Items 3.02 and 3.03 to follow Item 3.09.*

*Motion: Rogers    Second: Mook    Vote: Unanimous*

**PUBLIC COMMENT PERIOD**

None.

**APPROVE MINUTES**

*Approval of minutes from the meeting of the March 12, 2014, Audit Advisory Committee meeting.*

*Motion: Mook    Second: Rogers    Vote: Unanimous*

**APPROVE REVIEW OF THE CLARK COUNTY SCHOOL DISTRICT FRAUD RISK EXPOSURE**

Approval regarding the current risks to the Clark County School District from fraud including discussion of the District's anti-fraud programs.

Mr. Patin reviewed the three criteria that are necessary for fraud to potentially occur and how those typically arise. He said the criteria are perceived pressure, opportunity, and rationalization. He said in the past, areas of potential fraud risk for the District have been school banks because of the large amount of cash kept there and misappropriation of employees. He pointed out that the District has been under budgetary pressures for some time, as well as public pressure to raise graduation rates.

## **APPROVE REVIEW OF THE CLARK COUNTY SCHOOL DISTRICT FRAUD RISK EXPOSURE**

(continued)

Mr. McIntosh said the highest areas of risk in the District are in the purchasing card program and in the school banks. He said the oversight of these programs is in the policies provided to the schools and through the audits performed by the Internal Audit Department. He said the District also relies heavily on the school administration being ethical and responsibly overseeing these programs. He said perhaps more emphasis needs to be placed on support for administrators in the oversight of these areas.

Mr. Patin asked if recent events concerning the publically-funded program have changed Mr. McIntosh's position in terms of his perception of potential fraud.

Mr. McIntosh said what occurred in that instance was not related to the purchasing card program but to a separate bank account similar to a school bank account, which he feels was a lack of oversight.

Mrs. Scott said there have been discussions on how to better train and prepare administrators. She said she believes there are some good controls in place, but further oversight is necessary.

Mr. Mook asked if Mrs. Scott felt she had sufficient resources to examine and review all the school banks and other programs.

Mrs. Scott said she believes more could be done in the school banks if funds permitted and if she had more staff.

Mr. Rogers asked if because of the resource and time constraints Mr. McIntosh felt any recommendations would be coming forward for procedural and policy changes that would limit the amount of exposure in the purchasing card program and school banks.

Mr. McIntosh said staff has reviewed some of the policies and procedures, and they do rely heavily on school administration to assist with these programs. He said with regard to the purchasing cards, the schools control that, and staff has some insight as to where purchases are being made but not what is being purchased, and there is limited ability to control what is being purchased on the cards. He said through policy some limits have been put in place regarding the amount of money that can be spent on a card in a single transaction and on a monthly basis. He said the Internal Audit Department audits the purchases as part of their audits of purchasing cards.

Mr. McIntosh said staff does have the ability to run a purchasing card report through the provider online system to see where purchasing cards are being used and how much is being spent, but not what is being purchased. He said, however, the District has implemented a new policy beginning July 1 whereby people would be required to scan their receipts into the system and attach them to the purchasing card transaction, giving the Business and Finance Division some insight into what is being purchased, and there will be a monthly procedure reviewing any red-flagged items or vendors that require additional research.

**APPROVE REVIEW OF THE CLARK COUNTY SCHOOL DISTRICT FRAUD RISK EXPOSURE**  
(continued)

Mr. Patin mentioned "Tone at the Top" as a means for mitigating fraud. He asked if an annual update of a code of conduct or ethics code with administrators is conducted.

Mrs. Scott said with regard to Tone at the Top, the Superintendent has openly communicated that fraud at any level would not be tolerate, but the District does not currently have a districtwide policy for codes of conduct and ethics. She said that would be forthcoming, but presently, all employees at the school level are required to sign a contract which outlines what they should and should not do.

**APPROVE REVIEW OF THE RISK ASSESSMENTS OF THE CLARK COUNTY SCHOOL DISTRICT FOR THE 2014 – 2015 FISCAL YEAR**

Approval regarding Clark County School District Internal Audit Department's assessment of risk for the fiscal year 2014-2015, including but not limited to, the general fund and CIP.

Mrs. Scott presented the Internal Audit Department's Audit Universe with Risk Rankings for 2014-2015. She said the most noticeable change to the Audit Universe is that she rearranged the departments to reflect the current reporting structure of the District. She said the changes in the overall risk rankings were minimal and are shown in the Summary of Changes on Page 4 of 4 of Reference 3.05.

**APPROVE REVIEW OF THE 2014-2015 AUDIT PLAN OF THE CLARK COUNTY SCHOOL DISTRICT INTERNAL AUDIT DEPARTMENT**

Approval of the proposed audit plan of the Clark County School District Internal Audit Department for the 2014-2015 fiscal year and the rolling audit plan, as recommended in Reference 3.06.

Mrs. Scott presented the Internal Audit Department's Audit Plan and Rolling Audit Plan. She said she is directing the majority of the department's resources to school audits in an effort to become current on those. She said aside from the department audits currently in progress, she is committing the Internal Audit Department to only two department audits this year.

Mr. Patin expressed concern with the lack of resources in the Internal Audit Department. He asked how many additional staff members Mrs. Scott believes would be reasonable for her department to be more effective and efficient.

Mrs. Scott said she could use five more full-time auditors and more interns. She said it would also be helpful to be able move some of the more qualified interns into permanent positions.

Mr. Patin talked about the importance of the work of the Internal Audit Department and expressed his support.

Mr. Mook asked how often staff goes out to audit the elementary schools.

**APPROVE REVIEW OF THE 2014-2015 AUDIT PLAN OF THE CLARK COUNTY SCHOOL DISTRICT INTERNAL AUDIT DEPARTMENT (continued)**

Mrs. Scott said they try to get to elementary schools every three years and secondary schools every year and a half, and they are currently behind on that schedule. She said the priority and at-risk audits are placed on an accelerated schedule, and the department also responds to requests and concerns.

Mr. Mook asked how committing to only two department audits this year would impact the department's audit schedule.

Mrs. Scott said it will shift the schedule and push everything back.

Mr. Patin asked Mrs. Scott to briefly go over the rolling audit plan.

Mrs. Scott went over the Rolling Audit Plan and her decision to commit to two department audits and give priority to the school audits.

*Motion to approve the Internal Audit Department 2014-2015 Audit Plan and the Rolling Audit Plan.*

*Motion: Rogers Second: Mook Vote: Unanimous*

**REVIEW OF THE CLARK COUNTY SCHOOL DISTRICT FRAUD RISK EXPOSURE (continued)**

Ms. Miramontes introduced Anna Danchik, CPA, Project Manager, Kafoury, Armstrong & Co., and said Ms. Danchik would be on the engagement this year. She noted that due to unforeseen changes in staffing, the risk assessments, typically done in May, would be completed in July. In terms of areas of concern for audit risk from external audit's perspective, she agreed with those comments raised during the discussion.

Ms. Danchik said external audit would also be speaking with employees outside of accounting and finance to get their perspective on other possible areas of concern.

**APPROVE REVIEW OF THE CLARK COUNTY SCHOOL DISTRICT REGULATION 3420**

Approval regarding the review of the Clark County School District Regulation 3420, Periodic Audits, as recommended in Reference 3.07. Any changes recommended to Regulation 3420 at this meeting will be brought forward to the Board of Trustees and will not be implemented unless adopted by the public policy review process at a regular meeting of the Board of Trustees.

Mrs. Scott said she believes this regulation to be valid, and she does not have any recommended changes to offer at this time.

Mr. Patin said he periodically contacts Mrs. Scott, as well as Mr. McIntosh and the external auditors, as authorized by the Committee, to have a discussion regarding any items relevant to the Committee.

## **APPROVE UPDATE ON THE CLARK COUNTY SCHOOL DISTRICT INTERNAL AUDIT DEPARTMENT**

Approval on work performed by and the status of the Clark County School District Internal Audit Department for the current fiscal year.

Mrs. Scott presented an update of the Internal Audit Department's Audit Plan for Fiscal Year 2014 as of June 15.

Mr. Mook asked if the number of special requests here is higher or lower than they typically see.

Mrs. Scott said it is just slightly higher than normal, but not all of them turn into full investigations.

Mr. Rogers asked if the special requests are related to gate receipts.

Mrs. Scott said they are mostly school bank related.

## **APPROVE UPDATE FROM THE CLARK COUNTY SCHOOL DISTRICT'S FINANCIAL MANAGEMENT DEPARTMENT**

Approval regarding an update from the District's financial management department on the current and future expected financial conditions including the budget and the budget visualization tool known as "Open Book."

Mr. McIntosh introduced Nikki Thorn, Deputy Chief Financial Officer, Finance Department, Business and Finance Division. He gave a brief update of the budget process. He said the final budget was approved by the Board in May, and a third budget, the amended final budget, will be due before January 1. He noted that the District is experiencing significant enrollment increases, which means an increase in state allocations; property taxes are beginning to increase; and external audit is slightly behind in completing their risk assessments as noted by Ms. Miramontes, but will complete that work in July.

Mr. McIntosh explained that CCSD will be required to include in its government-wide financial statements its share of the unfunded liability for the Public Employees Retirement System (PERS) with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 67 and No. 68, and CCSD expects Nevada PERS' report of its share of the liability to be provided with PERS' current financial statement audit to be used for CCSD's reporting.

Ms. Danchik offered that the state is forming a steering committee of auditors to meet with the PERS' auditors to discuss what the requirements of that report might look like. She said she is hoping to have more of an update this fall.

Mr. McIntosh said the District is currently in negotiations with the four employee groups, and the budget has been balanced for this year. He said because of significant needs in the older schools and capacity issues, there is even more of a need now to move forward with another capital question, and the Board has recommended moving forward with a question potentially in 2016.

**APPROVE UPDATE FROM THE CLARK COUNTY SCHOOL DISTRICT'S FINANCIAL MANAGEMENT DEPARTMENT (continued)**

Mr. Patin asked if there was an update on Open Book.

Mr. McIntosh said Open Book is automatically updated on the CCSD website with every budget cycle. He said Open Book now contains information about the District's Food Service program, and it is currently updated with the latest budget information. He shared that Open Book can now be viewed on the iPad. He stated that staff has been working on dashboards to provide information related to the cost of schools to the Superintendent's Executive Advisory Group, a group reviewing the District's budget items for 2016.

**APPROVE REVIEW OF THE INDEPENDENCE AND QUALIFICATIONS OF THE CLARK COUNTY SCHOOL DISTRICT'S INDEPENDENT EXTERNAL AUDITOR**

Approval regarding the independence of the Clark County School District's external auditor Kafoury, Armstrong & Co., the rotation of audit partners, and the qualifications and experience of the senior members of the external audit engagement team.

Ms. Miramontes said she has already begun as the engagement shareholder, but auditor rotation is always a possibility, and they have other qualified auditors in the firm who would be available. She said Kafoury, Armstrong & Co. believes that they have met all of the independence requirements and that they have sufficient controls in place through their quality control process, as well as an independent second party review. She noted that with the change in staffing, Ms. Danchik, as the senior manager, would be bringing a fresh perspective to the audit, as she has worked on this audit in the past and is returning after several years. She said for purposes of continuity, it is Kafoury, Armstrong & Co.'s recommendation that she remain as the engagement shareholder.

Mr. Mook asked how often this particular engagement is subject to an Engagement Quality Control Review (EQCR) process as mentioned in the independence letter.

Ms. Miramontes said it is subject every year because this audit is deemed high risk.

Mr. Patin said members of the Committee have expressed an interest in discussing the possibility of auditor rotation as part of the Committee's audit charter.

Mr. Mook said though he understands the rationale for keeping a shareholder on an engagement, he is also concerned about having a fresh set of eyes on the audits. He said having an auditor return to this engagement that has not been on this audit for some time and having experiences elsewhere satisfies his concerns.

Mr. Rogers said his concerns have been alleviated as well.

**APPROVE REVIEW OF THE INDEPENDENCE AND QUALIFICATIONS OF THE CLARK COUNTY SCHOOL DISTRICT'S INDEPENDENT EXTERNAL AUDITOR (continued)**

Mr. Patin shared that in his opinion retaining the same engagement shareholder is beneficial because of the experience of the auditors, and the benefit of having a fresh set of eyes on the audit will be satisfied with the rotation of Kafoury, Armstrong & Co.'s staff.

Mr. McIntosh said his preference would be to retain Ms. Miramontes as the engagement shareholder, and he is satisfied with Ms. Danchik's return.

**APPROVE UPDATE ON THE EXTERNAL FINANCIAL STATEMENT AUDIT FOR THE CLARK COUNTY SCHOOL DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Approval regarding timing, status, issues and results of the external audit of the Clark County School District for the fiscal year ended June 30, 2014.

Ms. Miramontes said they have scheduled the financial audit to begin in July. She said they have identified a special education cluster to be the Type A major program that will be audited, with all the other Type A programs being low risk because they have all been audited for several years with no findings. She said the final field work is scheduled for the month of September.

Mr. Patin asked if Kafoury, Armstrong & Co. is giving any attention to the Adult English Language Acquisition Services (AELAS) program.

Ms. Miramontes said Kafoury, Armstrong & Co. would be looking at that program this year.

Mr. Patin requested that Ms. Miramontes contact him and provide an update once planning and the risk assessment is complete.

**FUTURE MEETING PLANNING**

*Motion to hold the next Audit Advisory Committee meeting on October 15, 2014, at 9:30 a.m. at the CCSD Administrative Center in room 466.*

*Motion: Rogers      Second: Mook      Vote: Unanimous*

**AGENDA PLANNING: ITEMS FOR FUTURE AGENDAS**

Mr. Patin said at their next meeting, the Committee would be conducting its annual self-assessment, reviewing the Committee's Bylaws and Calendar and discussing the efficiency of the meetings. He said there would be an update on the audit. He reminded the Committee members that they would be having their joint meeting with the Board of Trustees to approve the Comprehensive Annual Financial Report (CAFR) in November.

**PUBLIC COMMENT PERIOD**

None.

**ADJOURN:** 10:39 a.m.

*Motion: Rogers    Second: Mook    Vote: Unanimous*