

MEMORANDUM

TO: Audit Committee

THROUGH: Tim Callicrate
Board Chair

FROM: Sara Schmitz
Audit Committee Member

SUBJECT: Review, discuss and possibly revise Board Policy 15.1.0 to incorporate the attached Audit Committee Charter

STRATEGIC

PLAN REFERENCE(S): Long Range Principles #2 and #6

DATE: January 31, 2020

I. RECOMMENDATION

Review the Washoe County Audit Committee Charter, which is attached, and identify the portions to be incorporated into Policy 15.1.0. which is also attached.

II. BACKGROUND

Policy 15.1.0 Accounting, Auditing, and Financial Reporting – Audit Committee needs to be revised to more robustly define the oversight responsibilities.

III. ALTERNATIVES

As deemed appropriate during discuss of this topic.

IV. STRATEGIC PLAN REFERENCE(S)

Long Range Principle #2

The District will ensure fiscal responsibility and sustainability of service capacities by maintaining effective financial policies for operating budgets, fund balances, capital improvement and debt management.

Long Range Principle #6

The District will engage, interact and educate to promote understanding of the programs, activities, services, and ongoing affairs.

- Promote transparency in all areas including finance, operations and public meetings.
- Provide clear, concise and timely information in multiple, publicly accessible formats.
- Ensure that both internal and external communication is responsive, comprehensive and inclusive.

V. **BUSINESS IMPACT**

The Audit Committee, Board, and District leaders are enabling all of staff to become actively engaged with the oversight of the Districts finances.

AUDIT COMMITTEE CHARTER

Purpose

The primary function of the Audit Committee is to assist the Board of County Commissioners in fulfilling its policy requirements in accordance with Washoe County Code by providing oversight over the County's financial statements, the systems of internal controls, the internal audit plans and reports, and the independent external auditor's assessment of financial statements. The Audit Committee is also to provide open communications between the Board of County Commissioners, the County Manager, Internal Audit, and the independent external auditors.

Scope

The Audit Committee shall provide oversight over the financial reporting process by being informed of all significant financial reporting matters, by reviewing the annual financial statement and disclosures with management and the independent external auditors on a timely basis, by reviewing the management report of findings and recommendations with management and the auditors, and by reviewing the performance of the independent external auditor on an annual basis.

The Audit Committee shall provide oversight over internal controls by assuring that systems of internal controls are being established by management and these systems are being reviewed on a regular and systematic basis for functionality and effectiveness by the Internal Auditor and by independent external auditors.

The Audit Committee shall specify the purpose, authority, and responsibility of the Internal Auditor in accordance with Washoe County Code. The Internal Auditor shall maintain independence, objectivity, professional proficiency, integrity, due professional care, and diligence in the performance of these responsibilities.

The Audit Committee shall review the work of the Internal Auditor by understanding how internal audits are conducted; by reviewing and approving the risk assessment and annual work plan of the Internal Auditor; by reviewing all audit reports; and by reviewing the annual report of audits completed, significant findings, and status of corrective actions.

Organization

Members of the Audit Committee shall be appointed by the Board of County Commissioners.

Audit Committee members shall be independent. They shall not accept any consulting, advisory, or other compensatory fee from the County and shall not be an affiliated person with the County or any subsidiary thereof (applicable to at-large members only).

The Audit Committee shall consist of an odd number of voting members with at least three (3) voting members and one advisory member (non-voting).

- Voting Member One: shall be appointed from the Board of County Commissioners with a one-year term.
 - An alternate member from the Board may also be appointed.
- All Other Voting Members: shall be appointed from at-large with appropriate expertise with staggering two-year terms.
 - For the first appointment, one member will serve a one-year term and the second will serve a two-year term.
 - Each subsequent appointment will serve two-year terms.
- Non-Voting Member: shall be the County Manager, or designee, to provide advice as needed.
- The Internal Auditor will provide staff assistance to the Audit Committee.

At least one member of the Audit Committee should be a financial expert with understanding and experience in generally accepted accounting principles, financial statements, internal accounting controls, auditing of financial statements, and audit committee functions.

One member of the Audit Committee shall be appointed by the Committee to be the Chair. With the inclusion of the Chair, it will be the responsibility of the Internal Auditor to schedule all meetings of the Committee and to provide the Committee members with a written agenda for each meeting.

The Internal Auditor will be responsible for ensuring the Audit Committee members receive appropriate and necessary briefings and training relative to internal controls, preparation of financial reports, internal audit processes, governmental regulations, and other pertinent information relative to this appointment.

The Audit Committee may ask members of management or others to attend the meetings and provide pertinent information as necessary.

The voting committee members are limited to two terms with the possibility of extending in the event there are no interested and qualified applicants.

Responsibility

The members of the Audit Committee shall be responsible for the following:

1. Meet at least four times a year or more frequently as circumstances require.
2. Adhere to and periodically review the Code of Ethical Standards (NRS 281A.400 – 281A.430), that promotes honest and ethical conduct; full, fair, accurate, timely, and understandable disclosure; and compliance with applicable governmental rules and regulations.
3. Evaluate managements' identification of fraud risks, implementation of anti-fraud measures and provide the tone at the top that fraud will not be accepted in any form.
4. Review procedures for the receipt, retention, and treatment of complaints received by the County regarding accounting, internal accounting controls, or auditing matters and any confidential, anonymous submissions by employees of the County regarding fraud and/or questionable accounting or auditing practices.
 - Review any complaints that might have been received, their current status, and resolution, if one has been reached.
 - Ensure proper steps to investigate and resolve complaints are timely
5. Conduct an annual meeting with the independent auditors, the County Manager, the Internal Auditor, the Finance Director, Comptroller, general counsel and anyone else as desired by the Committee.
 - Inquire about significant risks or exposures facing the County. Assess the steps management has taken or proposes to take to minimize such risk to the company and periodically review compliance with such steps.
 - Inquire about critical estimates of revenues and expenditures.
 - Inquire about off-balance sheet transactions, if any.
 - Review the policies and procedures with respect to executive expense and travel accounts with management. Consider the review of these areas by the Internal Auditor or the independent auditors.
 - Review with management and general counsel any legal and regulatory matters that may have a material impact on the financial statements and related company compliance policies in the opinion of management.
6. Participate in the selection, engagement, and dismissal of independent external auditors or auditing firms doing work for the County.
 - Ascertain that the Request for Proposal for the independent audit firm retained by the County for the annual financial audit is no less than every

five fiscal years with those directly supervising audit staff rotating at least every two years and audit partners rotating at least every five years.

- Consider, with management, the rationale for employing audit firms other than the principal independent auditors.

7. Review the audited annual financial statements including the Comprehensive Annual Financial Report with the County Manager, Finance Director, Comptroller, and the independent external auditor.

- Review the Management Letter of findings and recommendations and any schedule of unadjusted differences provided by the independent external auditors relative to the annual audit of the County's financial statements with the County Manager and the independent external auditors.
- Review the independent auditors' judgments about the quality, not just the acceptability, of the company's accounting principles as applied in its financial reporting.
- Any significant changes required in the independent auditor's audit plan.
- Any serious difficulties or disputes with management encountered during the audit.
- Review all matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, *Communication with Audit Committees* related to the conduct of the audit.
- Review the adequacy of the County's internal controls including computerized information system controls and security.
- Review with management and the independent auditor, the effect of any regulatory and accounting initiatives. Also review all critical accounting policies and practices used by the County.
- Review all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the County, the ramifications of each alternative, and the treatment preferred by the County.
- Ensure that the County Manager and the County Comptroller certify that financial reports are accurate and not misleading; and internal controls are sufficient and effective.
- Review interim financial reports with the County Manager and the financial staff to assure fair and accurate reporting.

8. Review the risk analysis and work plans of the Internal Auditor including the three-year schedule of audits to be submitted to the Board of County Commissioners.

- Review with the Internal Auditor, and the County Manager the audit scope and plan of the Internal Auditor.
 - Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
9. Evaluate the internal audit program and independent external audit program annually based on the annual report of audits performed, significant findings, recommendations, and implementation of corrective actions prior to submission of the annual report to the Board of County Commissioners and on any other observations and reports regarding the conduct of audits of County functions.
- Review all reports of audits, including responses by management (including implementation plans and timetable to correct weaknesses) prior to submission to the Board of County Commissioners.
 - Any difficulties the audit teams encountered in the course of their audits including any restrictions on the scope of their work or access to required information.
 - Any changes required in the scope of their audits.
 - The Internal Auditor's compliance with the Institute of Internal Auditors' (IIA) Standards for the Professional Practice of Internal Auditing.
10. Report Committee actions to the Board of County Commissioners with recommendations as deemed appropriate.
11. Hire outside consultants as necessary upon the request of the Internal Auditor and subsequent approval of the Board of County Commissioners.
12. Review the Audit Committee Charter periodically and submit changes recommended by the County Manager to the Board of County Commissioners for approval.