



DRAFT

**Minutes of the Meeting
SUBCOMMITTEE ON LOCAL GOVERNMENT FINANCE
March 8, 2018, 9:00 a.m.**

The meeting was held at the Department of Taxation, 1550 E. College Parkway, Carson City, Nevada, This meeting was also part of a teleconference.

COMMITTEE MEMBERS PRESENT:

Mary Walker, Chairman
Beth Kohn-Cole

COMMITTEE MEMBERS ABSENT:

Alan Kalt

COUNSEL TO COMMITTEE

Peter Keegan

DEPT OF TAXATION STAFF PRESENT:

Jeff Mitchell
Kelly Langley
Penny Hampton
Erik Rowley
Susan Lewis
Keri Gransbery
Christina Griffith
Chali Spurlock

MEMBERS OF THE PUBLIC PRESENT:

| Name | Representing |
|-----------------------|--------------------------------|
| Deborah Lauchner | City of Reno |
| Christine Vuletich | Washoe County |
| Stacie Hammerling | City of Sparks |
| Bob Erickson | City Fallon |
| Marla McDade Williams | Strategies 360 |
| Kristen Chinvarasopak | Eide Bailly |
| Daniel Carter | Eide Bailly |
| Teri Gage | Eide Bailly |
| Denise Lewis | City of Fernley |
| Joannie Brum | City of Henderson |
| Corey Mayes | City of Las Vegas |
| Grace Martel | Clark County School District |
| Susan Paprocki | Elko Community & Visitors Auth |
| Lori | Clark County School District |
| Linda Newman | Incline Village Resident |
| Gina Rackley | Humboldt County |
| Kelly Haluzak | City of Caliente |
| Maria Gueder | Clark County School District |
| Leah Williams | Reno Tahoe Airport Authority |
| Quin Oszakiewski | City of Las Vegas |
| Sherry Wideman | Churchill County |

ITEM 1. ROLL CALL AND OPENING REMARKS

Chairman Mary Walker called the meeting to order at 9:03 a.m. Chairman Walker and Member Beth Kohn-Cole were present, Member Alan Kalt was absent.

Chairman Walker briefly explained the reason for the subcommittee meeting.

ITEM 2. PUBLIC COMMENT

Linda Newman, a resident of Incline Village, requested the Committee contact the Attorney General or the District Attorney to investigate Incline Village General Improvement Districts accounting and reporting processes.

ITEM 3. For Possible Action: Discussion and Consideration of Proposed Guidance regarding NRS, 354.624 Submittal of Audits, 354.626 Unlawful Expenditures, and NAC 354.410 Available Resources

Chairman Walker read paragraph 1 from NRS 354.624, regarding submittal of the annual audit. She noted there was some confusion at the last Committee of Local Government Finance meeting (CLGF). The first clarification she would like in a letter from the Department of Taxation (the Department) is that within 5 months after the audit report has

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Chairman Walker read paragraph 1 from NRS 354.624, regarding submittal of the annual audit. She noted there was some confusion at the last Committee of Local Government Finance meeting (CLGF). The first clarification she would like in a letter from the Department of Taxation (the Department) is that within 5 months after the audit report has been completed it must be submitted to the local government body. A board meeting must be held 30 days after the report is submitted to the local government.

Member Kohn-Cole agreed adding auditors may think they have to wait until the audit goes to the governing body to date the report. Chairman Walker clarified that the governing body does not approve the audit report, they accept it.

Chairman Walker noted some local governments have been cited for not bringing the report to the governing body by November 30th, but that is not a violation.

Christine Vuletich, on behalf of Washoe County, asked for clarification on when it is considered a public document.

Member Kohn-Cole believes it is a public document once it becomes an Agenda Item. Ms. Vuletich agreed.

Daniel Carter, with Eide Bailly, expressed concern about compliance with paragraph 6. The public has access to the document once it is posted, before it is filed with the clerk due to things being done electronically. Ms. Vuletich read from paragraph 6 where it refers to filing it as a public record.

Chairman Walker agreed that is the process. Since it is posted 3 days in advance, it becomes a public document at that time.

Chairman Walker added some local governments think the audit report must be concluded without the Management Discussion and Analysis Letter (MDA). Chairman Walker noted that it needs to be included. Auditors look at the MDA and tie those numbers back to the audit.

Member Kohn-Cole agreed adding that it is part of the annual audit. She mentioned single audits are sometimes separate, but thinks it is really the engagement letter of the auditor. The entire thing should be complete.

Susan Lewis, with the Department, questioned where that material was located. Chairman Walker clarified that it was a comment made at the last CLGF meeting.

Chairman Walker noted the MDA is part of the audit that needs to be completed before November 30th.

Penny Hampton, on behalf of the Department, noted they often get calls on November 30th because entities are unsure if they need an extension as the MDA is not ready. The Department always advises them if the MDA is not ready, perhaps they should ask for an extension. Chairman Walker agreed. Member Kohn-Cole noted without the MDA the report of the audit submitted hasn't been submitted.

Ms. Vuletich agreed it is the auditor's report, adding it is the entity's financial statement, and is general good practice to have completed the MDA to be sure they understand the financial results. Chairman Walker agreed.

Chairman Walker discussed NRS 354.626, unlawful expenditure of money in excess of amount appropriated. She read paragraphs 1 and 2. Her interpretation is the exceptions are things they don't have control over, insurance for example. They don't know what the costs will be. Paragraph 2(e) regards contracts between local governments and employees covering professional services or contracts between local governments and employee organizations.

Chairman Walker referred to the last CLGF meeting where a school district was cited for an over expenditure due to arbitration that was out of their control. Negotiations can go on for years. She believes this is specifically excluded and does not believe is a legal violation.

Member Kohn-Cole questioned unbudgeted transfers, noting she understands they will discuss transfers later. She also noted in paragraph 2(e) that she agrees with the Chairman, especially if it is retroactive. She explained she makes a footnote that it appears to be a violation, but there is an exception and asked if they shouldn't do that. Chairman Walker replied that they should not.

Chairman Walker noted she spoke with Peter Keegan with the Attorney General's office regarding that. If there isn't an actual violation, it should not be noted that there is a possible, or appearance of a violation.

Member Kohn-Cole noted if they are over expended in the audit, and nothing is noted in the MDA, they would end up getting a letter from Taxation asking why. The auditors try to prevent that from happening.

Kelly Langley, on behalf of the Department, agreed it is nice for the Department to have that, but not how it has been stated. She suggested stating that the over expenditure is *not a violation due to this exception regulation*. Member Kohn-Cole added they do the same thing with grants. Ms. Langley noted the Departments appreciation.

Peter Keegan, with the Attorney General's Office, asked if when it is not an exception, if the auditors ask for clarification before they complete the audit. Member Kohn-Cole replied that they visually know why it is over budget, and if it is a violation.

Chairman Walker asked Mr. Keegan his thoughts on the auditors using the term *it could be a potential violation*. He stated he would avoid that, to put local governments on the hook when there isn't evidence there was a violation should be avoided to eliminate the possibility where a local government is in the position of being accused of a violation. Member Kohn-Cole added the public could read that and not understand it as well.

Member Kohn-Cole and Ms. Langley discussed new language for the auditors to use. They agreed on "*The over expenditure in X is not a violation due to this*". Chairman Walker suggested that needs to be added to the letter.

Chairman Walker went over NRS 354.626, which regards unlawful expenditures of money. She emphasized the word expenditures, clarifying that operating transfers are not expenditures. This is another thing they saw at the last CLGF meeting. She also clarified that it is not illegal for a local government to overspend their operating transfers.

Kristen Chinvarasopak, with Eide Bailly wanted to discuss where over expenditures lie. She understands some local governments were receiving notification of a violation in a particular line item, salary and wages being over expended but not the function itself. She asked if they could talk about appropriated for that function and what that means.

Chairman Walker replied that it is function, for example: general government, public safety, etc. It is not going line item by line item. Member Kohn-Cole added that it is summarized on the budget based on function in a particular fund.

Ms. Langley added that they can't take public safety across a number of funds, but in that fund the Department looks at function. Chairman Walker requested that be added to the letter. Member Kohn-Cole also requested for her to refer to the budget as that clarifies it.

Ms. Lewis noted in the audit it can be misleading if there is an item called Current, and functions are listed under it. Chairman Walker reiterated that it is function. Ms. Lewis added that they make it look like, and use it as a function. Chairman Walker stated that should not be Current.

Ms. Hampton added the GASB requirement has caused confusion in terminology. She has seen Capital Outlay separate from the other objects. At first glance it appears it is a separate function when it is not. Member Kohn-Cole agreed that needs to be clarified.

Member Kohn-Cole asked for there to be clarification that Enterprise Funds have different requirements. Chairman Walker asked how the Department looks at that. Ms. Hampton replied through operating expenses. Member Kohn-Cole asked that they clarify that as it has come up that there are over expenditures there. Ms. Hampton added that the Department considers depreciation expenses.

Chairman Walker wanted to discuss NAC 354.410, available resources. She noted this should be used when a local government is trying to do an augmentation. She read paragraph 1 and 2. She wanted to clarify that this is for what is available resources for an augmentation. She noted there was an audit point they saw that said the EFB was lower than budgeted by 684,000 which put the district in violation of 354.410. According to that audit point, it would say that at any time if EFB is less than budgeted, it would be illegal. She disagrees. This particular entity's total revenues were below budget. It is a management consideration, but it's not illegal.

Member Kohn-Cole noted concern that a tentative budget comes in with EFB of say 5 million, but the final shows an EFB of 4 million. That extra mil was not an available resource. Chairman Walker asked if she was talking about the tentative due April 15 and the Final due June 1. She confirmed. Chairman Walker noted that the tentative budget is just an estimate.

Ms. Langley noted they look at the tentative budget, but the compliance issues are only for their final budget or their augmented budget.

Chairman Walker summarized that the first clarification on NRS 354.624 is that when the law states that the audit must be concluded and the report submitted to the government body within 5 months at the end of the fiscal year, it does not mean that it needs to be at a public meeting, just submitted to the local government. Then the audit report needs to be presented to the governing board at a public board meeting within 30 days after the report was submitted.

The second clarification is that the MDA is included. It must be a complete audit.

Regarding clarification on NRS 354.626, workers comp and medical expenses, for example as well as union contracts with employees is excluded. It also does not include operating transfers.

NAC 354.410 available resources for augmentation, it does not reflect on if the EFB is lower than budgeted. Several factors could affect that as well as decrease in revenue. It is a financial management concern, but not a legal concern.

Member Kohn-Cole asked that it be clarified that it is the actual EFB is less than budgeted.

Chairman Walker added in regards to potential violation of NRS, that unless there is actual proof of a violation, there should not be a potential violation.

Ms. Langley offered an example that "it is not a violation due to the exception". Also, unlawful expenditures is done at a function lever, current is not a function.

Ms. Lewis asked for clarification of when the 30 days starts, Chairman Walker explained that they have 5 months to deliver it to the local government and 30 days from that to submit it to their governing body as well as the Department of Taxation.

Deborah Lauchner, representing the City of Reno, clarified that the 30 days starts the day it is submitted to the local government, even if before November 30th. Chairman Walker confirmed.

Member Kohn-Cole motioned to accept the recommendations for a clarification notice to local governments, Chairman Walker seconded it.

ITEM 4. **For Possible Action: SCHEDULE DATE AND REVIEW AGENDA TOPICS FOR THE NEXT MEETING**

Chairman Walker was not sure another meeting was necessary.

Ms. Langley suggested submitting a draft letter to the Committee on Local Government finance and if needed at that point, another meeting could be scheduled.

ITEM 7. **PUBLIC COMMENT**

There was no public comment.

ITEM 8. **FOR POSSIBLE ACTION: ADJOURNMENT**

Meeting adjourned at 9:57 a.m.