

CHARTER AUDIT COMMITTEE MINUTES

June 30, 2020
Department of Education
Videoconference via Lifesizecloud

MEMBERS IN ATTENDANCE

James Smack, Chairman, COSAL Committee
CJ Manthe, Commissioner, Public Utilities Commission
Michael Shafer, Audit Chairman, Department of Education
Mike Dang, Management Analyst IV, State Public Charter School Authority
Sarah Nick, Management Analyst III, Department of Education

MEMBERS EXCUSED

Heather Domenici, Executive Branch Auditor, Governor's Office of Finance

STAFF PRESENT

Suzanne Richards, Charter Audit Committee Administrator, Nevada Department of Education

GUESTS

Martha Ford, CPA, Piercy, Bowler, Taylor and Kern
Brian Hardy, CPA, Ellsworth Stout
Christy VanderMolen, Director, BDO USA, LLP

I. ROLL CALL/CALL TO ORDER

There were enough committee members to convene the meeting with a quorum. Heather Domenici was excused.

II. PUBLIC COMMENT I

Chairman Smack asked for comments from the public. There were no members of the public who wished to make comments.

III. APPROVAL OF MINUTES

The committee briefly reviewed the minutes from the January 22 meeting. After reviewing them, and with no added discussion from the committee, Mr. Shafer motioned in favor to accept the minutes. Ms. Manthe seconded the motion. The minutes were unanimously passed

IV. REVIEW SUGGESTED RECOMMENDATION FOR THE AUDIT GUIDE

Proposed changes to the Audit Guide from Brian Hardy, CPA, Ellsworth Stout
(see appendix A)

Chairman Smack made a reference to a previous email sent by Mr. Hardy and turned the conversation over to him. The committee listened to Mr. Hardy's comments regarding the Audit Guide. He addressed the contradictions he felt were in the guide and asked that clarification of them.

- Bullet point #1, stated the argument that the classification of the charter school was incorrect. The argument was addressed by the committee which agreed that no changes to the guide were necessary.
- Bullet point #2 of the email requested a change to the guide with regarding the number of years allowed for a school to retain an auditor before a change in auditing personnel would be required.
A motion made by Michael Shafer to change the requirement that the “Auditing Firm” should be changed every 6 years and that the “Audit Manager” should be changed every 3 years. Sarah Nick seconded the motion. The committee agreed.
- Bullet point #3 addressed a change to what should be included in the audit and that some of the information is not something that is generally required during a financial audit Michael Shafer agreed that an update to the compliance would be made to the Audit Guide once information was received from Michael Dang.
- As requested in point #4, an update to the current year will be made.
- As requested in point #5 the reference to “GASB” will be changed to “the State”. The committee voted and agreed.
- In reference to bullet point #6, Michael Dang requested further clarification from Mr. Hardy as to how he felt the information requested in the Audit Guide should be reported. No further discussion was required.
- Regarding bullet point #7, clarification was given to Mr. Hardy regarding the format the Charter School Authority would like to have when reporting the End of the Year Report. No further discussion was needed.
- Regarding bullet point #8, the committee felt that the question about how schools fall under GASB as opposed to FASB reporting should be sent to State Public Charter School Authority, (SPCSA). Michael Dang agreed to address it with the SPCSA.
Mr. Hardy offered further assistance to the committee and the SPCSA.
Michael Shafer motioned to send the suggestion the SPCSA and Sarah Nick seconded the motion. The committee agreed to send the suggestion to the SPCSA.

Proposed changes to Minimum Reporting Package, Michael Dang, SPCSA

(See Appendix B)

Chairman Smack reference a previous email sent by Mr. Dang.

- Mr. Shafer was asked to provide his opinion regarding bullet point 1 of the email which would require both a Statement of Activities and a Balance Sheet to the Minimum Reporting Package. He addressed the comments stating that he thought they were acceptable and offered no argument against them.
- Bullet point 2 requested the inclusion of an Adjusted Net Position table be added to the report. Chairman Smack agreed table should be included in the notes. The committee had no argument against the suggestion, so Michael Shafer motioned to change the wording to state that a Net Position table needs to be included in the notes. The motion was seconded by Mr. Dang and the committee agreed .
- Bullet point #3, suggested changing the statement, “Statement of Revenues, Expenses and Changes in Net Position” be referred to as, “Statement of Revenues, Expenditures, and Changes in Fund Balances.” Mr. Shafer agreed make the change.

V. REVIEW AND VOTE ON NEWLY SUBMITTED RFQ’S.

Mr. Shafer asked why the submissions were late.

Martha Ford explained that the previous person retired and that he stated that he never received the information.

Christy VanDerMolen from BDO stated that the information was sent to a different person and was not passed on to her.

Michael Shafer stated that it is the responsibility of the firms to contact the state if changes in the auditors are made. Chairman Smack agreed.

The Piercy, Bowler, Taylor, and Kern proposal passed 3 to 1 in favor of the firm being added to the list. Mr. Shafer voted no.

The BDO proposal passed 3 to 1 in favor of the firm being added to the list. Michael Shafer voted no

VI. PUBLIC COMMENT

Chairman Smack asked for comments from the public.

Martha Ford commented on the Audit Firm rotation . She noted that the SEC requires that the signing partner is only required to be changed every 5 years. The firm is not required to change.

The meeting was adjourned at 10:38 am.

APPENDIX A

From: Brian Hardy <Brian@lvcpas.com>
Sent: Thursday, June 18, 2020 1:13 PM
To: Michael Shafer <mshafer@doe.nv.gov>
Cc: Jaime Velez <Jaime@lvcpas.com>; Suzanne J. Richards <sjrichards@doe.nv.gov>
Subject: Charter School Audits

Michael,

We recently went through the newest charter school Audit Guide (November 2019) as posted on the DOE website. In reviewing that document, some changes were made that we would like to discuss with you or a representative of COSAL and get some clarification on. I've copied Suzanne Richards as well since she is listed as the COSAL contact on the state website.

1. The Guide requires that charter schools be accounted for as "business-type entities" which are considered to be proprietary funds under GASB. Per GASB, proprietary (or enterprise) funds are used for exchange type transactions, such as a utility company, which receives fees for products or services of a governmental unit. In the case of a charter school, the school activities are tax-supported activities in that the funds used to support those activities originate from tax sources and are allocated to the individual schools, rather than charging tuition to students. Based on this, it appears that the school's activities should be considered a governmental activity rather than a business-type activity. There is a significant difference in the layout of the financial statements between the two methods. If the activities are governmental, it would require two sets of statements (government-wide and fund financials); whereas, if the activities are considered business-type activities, this would remove the requirement for the fund financials and add a statement of cash flows.
 - a. The Guide requires that the school maintain their accounts based on the NDE chart of accounts, which is the same chart of accounts used by the school districts. In addition, NAC 387.775 states that the school's chart of accounts "must be, as nearly as possible, the same as that used in the preparation and publication of the annual budget". If you review the financial statements of the school districts, they also consider their activities (from the same funding sources) to be governmental activities. They also use the same chart of accounts, and it is also my understanding that the school's budgets are reported based on their functions, which are primarily based on the fund financial statements.
 - b. One section of the Guide refers to the accrual basis of accounting, while another section refers to the modified accrual basis (which is only used for fund financial statements – governmental funds).
 - c. The Guide requires that separate columns be reported for general and SpEd, but this is also typically only seen with governmental funds, as the SpEd fund is a type of special revenue fund. In addition, this column is normally found on fund financial statements.
2. The new Guide includes a mandate that audit firms must be changed every 3 years. This can create inefficiencies and have significant financial impacts on schools, as the first year for each audit requires significant additional time and effort to gain an understanding of the entity as a whole. This results in additional costs to the schools that might be considered a waste of public funds. As a suggestion, we would ask that COSAL consider a change in staff on the projects rather than a change in firm, or similarly a change in manager or other

requirement for a concurring partner review as this would allow the institutional knowledge to be retained while still maintaining an increased level of scrutiny from year to year. At the very least, we would suggest increasing the amount of time until a change is required.

3. The Guide includes a number of added operational compliance testing procedures, including determining if the school facility has been inspected and approved for use as a school, whether open meeting laws are being followed correctly, etc. Such testing is normally outside of the scope of a financial audit. These types of procedures would generally be included in either an sponsor level compliance review or a separate agreed-upon procedure. The only way this would impact the normal financial audit would be if the compliance requirement is considered to be material to the financial statements. This would generally be the case if a school were likely to be closed down in the event of non-compliance. From historical charter school involvement, such closures are usually only used a last resort. The school's sponsor is generally responsible for reviewing the school's compliance with such requirements and recommending corrections, which are usually made by the schools. That being said, we do not believe that such compliance testing should generally be included unless the auditor, in their professional judgment, believes a specific compliance requirement is material to the financial statements.
4. The Guide refers to *Government Auditing Standards (2011 Revision)*. There is a new revision (2018) for those standards so this should likely be updated.
5. The Guide states that GASB requires comparative financial statements subsequent to the first year of operations. GASB does recommend comparative financial statements, but this is not a requirement and GASB simply includes additional requirements if such comparative information is presented.
6. For Networks of Charter, the Guide requires that separate columns be presented for each school, which DOES make sense from an accountability standpoint and reporting to the state; however, this ultimately presents these separate campuses or component units as discretely presented units. The schools that we audit meet the requirements under GASB to be reported as blended component units. This would include combining the numbers for the blended units into a single reporting unit. In this case, GASB suggests presenting the blended unit on the government-wide and fund financials, and then present separate combining statements for major component units (i.e. individual schools as reported to the state) after the fund financial statements. Another option under GASB is to present that combining information as condensed financial statements in the notes; however, we do not believe this would meet the desired reporting of information to the state.
7. The Guide refers to a Charter School End of Year Report (CSEOFYR) indicating that it has a specified format, and refers to the state website for that format. We were unable to locate that report on the state's website, including the associated certification that is required. It is unclear if this is simply the financial statements with an accompanying questionnaire and certification or if this is altogether separate and the responsibility of management at each school.
8. The state's statutes regarding charter schools does not indicate that the schools actually meet the requirement under GASB to be considered as a governmental entity. For those schools that are incorporated as nonprofits, these schools would fall under FASB reporting requirements unless they meet the requirements to be considered a governmental entity. The primary requirement applicable to the charter schools is whether or not the sponsor or other governmental entities can unilaterally dissolve the entity with the assets reverting to another governmental unit. As far as I can tell, the statute is silent as to any government agency's ability to dissolve the nonprofit corporation, even if they CAN terminate the charter and funding. It also does not specify whether the assets, other than any restricted grant assets, would revert to another government entity or could be kept with the remaining nonprofit

corporation for other charitable purposes. I also reviewed the charter contracts for a couple of our clients and they were also silent on these items. I know that Utah's auditor recently had this come up as an issue and they ended up changing the statute to match GASB's requirement. I also know that other states have had extensive discussions with GASB on these issues and have had varying results depending on the nature of the organization and the relationship with the other governmental entities, as well as the wording of individual state statutes and charter contracts.

Please let us know your feedback on the items above. I realize that this is a significant amount of information, which is why I had initially thought it might be best to setup a call. If you would like any further clarification or need any additional information from us, please feel free to reach out. We are expecting to begin our audit procedures in mid to late July and would appreciate a response or feedback prior to that time in order to appropriately design and perform our audit procedures.

Thanks!

Brian Hardy, CPA



APPENDIX B

Dear Michael,

I don't know if these are COSAL matters or items (one or more) which you can address directly as you did the prior changes we requested regarding the statements of timing of submittals of annual reports.

We would like to request changes to a few items regarding the Minimum Reporting package:

1. First, require both a "Statement of Activities" and, separately, a "Balance Sheet."
 - a. The main reason we need a Statement of Activities is because for our performance reporting we rely on full accrual based revenue and expenditure flow information.
 - b. The existing "Statement of Revenues, Expenses and Changes in Net Position," aka "Statement of Revenues, Expenditures and Changes in Fund Balances" are modified accrual basis statements so the numbers can vary substantially from the full accrual based statement.
 - c. The Balance Sheet is the modified accrual statement which pairs with the "Statement of Revenues, Expenditures and Changes in Fund Balances."
 - d. Some schools use the format show in [this GASB article](#) and some use a format like a typical income statement. The latter is preferred by us because it fits on one page and is easier to use.
2. Second, require a small reconciliation table showing an Adjusted Net Position. Currently, our schools are required to include the Net Pension Liability amount in calculating their Total Net Position. The result is that schools in existence for a few years will most likely show substantial deficit or net fund balance positions. Of course, since public entities are required to not be in deficit positions. So, this creates a visual concern, at the least. Most people don't know to or how to reverse out the Net Pension Liability from the Net Position. So, our schools look like they're in a deficit Net Position or deficit fund balance position when in actuality they're showing a liability which is a liability of the state but which is required to be shown on their books. Adding a reconciliation table showing what the Net Position would be with Net Pension Liability (and related/associated liabilities) removed could help reviewers better understand the financial well-being of the school. Such a reconciliation *could* look like the following:
 - a. Net Position (Beginning of Year)
 - b. +Change in Net Position
 - c. =Net Position (End of Year)
 - d. - Net Pension Liability (*to reverse out*)
 - e. -Net Pension Liability Related Items (*to reverse out*)
 - f. = Adjusted Net Position
3. Third, consider whether we should replace the existing statement name "Statement of Revenues, Expenses and Changes in Net Position" (used in Texas) with the name "Statement of Revenues, Expenditures and Changes in Fund Balances" (recommended, which our Nevada schools use as shown below). These latter statements are modified accrual basis statements so the numbers can vary substantially from the accrual statement.

Thank you for considering these changes to the COSAL Audit Guide. Please contact me with any questions or comments.

Here below is what we see in our COSAL Audit Guide

Source: Page 17, November 2019 edition is as downloaded from the [COSAL website](#)

800 REPORTING PACKAGE

The reporting package format of your charter school depends on whether the charter school is a part of a network of charter schools, has to conduct an audit in accordance with OMB Uniform Guidance, and/or has a component unit. The appropriate reporting package applicable to the School should be submitted.

Some variations from the illustrations may be appropriate, to conform to proper disclosures required by the charter school, GAAP and this *Guide*. The reporting package to be submitted to the Department must include the following:

Minimum Reporting Package - No OMB Uniform Guidance audit required:

- Management Discussion and Analysis
- Independent Auditors' Report
- Statement of Net Position
- • Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows (Direct Method)
- Notes to Financial Statements
- Independent Auditors Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Schedule of Findings and Questioned Costs
- Schedule of Prior Audit Findings
- Board of Trustees Acceptance letter (*See Appendix A*)

Below is an excerpt from one of our annual reports (by Rubin Brown)

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Below is an excerpt from another recent FYE 2019 Charter School Audit (by Ellsworth Stout)

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Below is an excerpt from a third recent FYE 2019 Charter School Audit (by BDO)

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Regards,

Mike Dang



**Nevada State Public
Charter School
Authority**

Mike Dang | Manager, Financial & Organizational Performance

State of Nevada | **State Public Charter School Authority**

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