**CARSON CITY AUDIT COMMITTEE**
**Minutes of the May 8, 2012 Meeting**
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A regular meeting of the Carson City Audit Committee was scheduled for 1:00 p.m. on Tuesday, May 8, 2012 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

**PRESENT:** Chairperson Michael Bertrand
Vice Chairperson William Prowse
Member Kenneth Brown
Member John McKenna
Member Robert Parvin

**STAFF:** Nickolas Providenti, Finance Department Director
Andrew Burnham, Public Works Department Director
Randal Munn, Chief Deputy District Attorney
Kathleen King, Deputy Clerk / Recording Secretary

**NOTE:** A recording of these proceedings, the committee's agenda materials, and any written comments or documentation provided to the recording secretary during the meeting are part of the public record. These materials are available for review, in the Clerk's Office, during regular business hours.

**1 - 2. CALL TO ORDER AND ROLL CALL** (1:01:04) - Chairperson Bertrand called the meeting to order at 1:01 p.m. Roll was called; a quorum was present.

**3. PUBLIC COMMENTS AND DISCUSSION** (1:01:31) - Chairperson Bertrand entertained public comment; however, none was forthcoming.

**4. POSSIBLE ACTION ON APPROVAL OF MINUTES - February 14, 2012** (1:02:25) - Chairperson Bertrand entertained a motion to approve the minutes, as presented. **Member Parvin so moved. Vice Chairperson Prowse seconded the motion. Motion carried 5-0.**

**5. POSSIBLE ACTION TO ADOPT THE AGENDA** (1:02:39) - Chairperson Bertrand entertained a motion to adopt the agenda. **Member Brown moved to adopt the agenda. Vice Chairperson Prowse seconded the motion. Motion carried 5-0.**

**6. POSSIBLE ACTION REGARDING PRESENTATION, DISCUSSION, AND ACCEPTANCE OF THE ENTERPRISE RISK ASSESSMENT FOR CARSON CITY, PREPARED BY MOSS-ADAMS, LLP; and 7. DISCUSSION AND POSSIBLE ACTION TO CONSIDER RECOMMENDATIONS FOR POSSIBLE INTERNAL AUDITS AND TO MAKE A RECOMMENDATION TO THE BOARD OF SUPERVISORS FOR CONSIDERATION** (1:03:04) - Chairperson Bertrand introduced this item, provided background information, and invited Moss-Adams, LLP Managing Partner Tom Krippaehne to present the enterprise risk assessment. Mr. Krippaehne provided an overview and narrated a PowerPoint presentation of the draft enterprise risk assessment, copies of which were included in the agenda materials.

(1:16:08) Moss-Adams Director of Policy and Planning Mark Steranka advised of seven potential audit activities, as outlined in the April 25, 2012 memorandum included in the agenda materials for item 7. Mr. Steranka explained that the first four audit projects "are near-term opportunities to gain some traction, to focus on the economy, the efficiency of the City," and a second group of three "that are a little bit longer,

perhaps a little bit more complex, might take some more work to do ..." Mr. Steranka reviewed and discussed the Public Defender Cost and Utilization Study, the Fleet Management Efficiency Study, Community Facility Recovery Analysis, and Shared Services Feasibility.

Chairperson Bertrand entertained questions or comments of the committee members. In reference to the Recommendations for Revenue Enhancements and Expenditure Reductions, at page 30 of the draft enterprise risk assessment, and in consideration of the City's economic condition, Vice Chairperson Prowse inquired as to which of the recommendations would help reduce the financial deficits. Mr. Krippaehne suggested considering a number of the listed recommendations for consolidation, streamlining, revenue enhancement, and cost reduction. He further suggested considering utility billing, time entry, payroll as business processes that can be further enhanced. He advised that some of the studies would likely result in recommendations for change, "but they're also challenging for organizations to ... achieve. You're not likely to have full consensus behind these kinds of changes." Mr. Steranka advised that the recommendations would be prioritized in collaboration with appropriate City staff. Vice Chairperson Prowse suggested that the recommendations could be used as "a potential to do list." Mr. Krippaehne agreed with City management keeping at hand a potential project list.

Member McKenna suggested considering the list of recommendations as a proactive procedure for "growing in a productive direction" once the economic crisis has passed. He requested input of City staff in consideration of the likelihood that the listed recommendations had been previously discussed. Mr. Burnham acknowledged the accuracy of the statement, and advised that City management is in the process of investigating online utility billing. He expressed the opinion that all the recommendations should be given due consideration by the Board of Supervisors. In response to a question, Mr. Burnham commended the audit process. "... it's a really healthy process ... We learn a lot of things. We, many times, get stuck in the process of doing things the same way and so this gets us to thinking and gets us to open our eyes as well." Mr. Providenti expressed complete agreement, and discussed the potential for cost savings in the short term.

In response to a question, Mr. Steranka reviewed estimated expenses associated with the recommended audits. Discussion followed, and he responded to questions of clarification regarding various aspects of the recommended audits. Member Parvin commended the short-term projects, but inquired as to whether they were selected from experience with other organizations or specific to the City's organization. Mr. Steranka advised "it was a combination. ... a number of these are common areas amongst cities ...; however, we wouldn't have mentioned them if we didn't think there was opportunity here. And so, both drawing from our experiences elsewhere and based on our initial understanding of how the City is operating today, these seemed like prudent opportunities for improvement." In response to a question, Mr. Krippaehne advised that Moss-Adams regularly conducts risk analyses with governmental clients. He advised of having conducted the assessment which was the subject of the presentation. The City's management also weighed in with their own view. Mr. Krippaehne advised that the City management "collectively have gauged that the risk levels are a little lower than what we gauged on the risk assessment. That's understandable ..., particularly because on a relative scale, the correlation of our analysis and the City employees' lined up quite well. ... there's very consistent views and that's a good thing."

Chairperson Bertrand entertained public comment. (1:40:07) Richard Schneider suggested auditing people instead of things, and listed the areas of professional responsibility; zoning and code enforcement relative to home-based businesses, recreational vehicles, general nuisances, the landfill, animal control, and delinquent taxes.

(1:44:54) Lori Bagwell requested additional clarification of the expenses associated with the Community Facility Cost Recovery Analysis. Mr. Steranka advised that an alternatives analysis would include economies of scale, but also "quite a bit more depth ..." He advised there would be some additional cost, but was uncertain as to an estimate. He responded to questions of clarification regarding the shared services feasibility analysis. Ms. Bagwell expressed support for the short-term projects, but a preference for more detailed analyses to determine long-range efficiencies. Vice Chairperson Prowse suggested that the Board of Supervisors would need to direct the Audit Committee to pursue the same. Discussion followed.

(1:51:21) William Birk inquired as to whether a process will be established to provide for public input relative to audit recommendations. Vice Chairperson Prowse provided background information on his audit experience, and expressed support for the suggestion. Discussion followed.

(1:55:23) Tom Leahy requested the committee to consider City government competition with local businesses. In response to a question, Mr. Steranka advised that Moss-Adams is not "at a point of making any type of judgment or recommendation that the City should be backing away from services. We ... don't have enough information yet so that certainly could be a part ... but wasn't currently envisioned." Mr. Leahy clarified his comments were relative to "low hanging fruit; things that you could look at today and make decisions on within a month."

Chairperson Bertrand entertained additional public comments and, when none were forthcoming, a motion on item 6. **Vice Chairperson Prowse moved to recommend the Moss-Adams risk assessment report to be forwarded to the Board of Supervisors. Member Brown seconded the motion. Motion carried 5-0.** Member McKenna thanked Mr. Krippaehne and Mr. Steranka for their attendance and presentation, and invited them to contact the Audit Committee members with questions.

(1:59:14) - Chairperson Bertrand introduced Item 7, and provided an overview of the agenda materials. In response to a comment, Mr. Providenti advised that the current fiscal year ends on June 30th and the new budget starts on July 1st. "So ... we budgeted $110,000 [for the internal auditor] on July 1st for the next fiscal year." Mr. Providenti assured the committee "there should be adequate money to do all four [audit projects] if you're taking into consideration next fiscal year." In response to a further comment, Mr. Providenti advised that the City's contract with the public defender terminates June 30, 2013. Member McKenna provided background information on various aspects relative to the recommended audits, as listed in the April 25, 2012 memo included in the agenda materials. He suggested a presentation may be necessary prior to the committee taking action, and extensive discussion ensued with regard to prioritizing the recommended audits. Member McKenna suggested requesting the auditors to pursue short-term projects 1 and 3 as "a good use of our time and money for this first shot through. They're similar, cost utilization, recovery and a lot of those studies can be done without on-site visits ..." He suggested that "jumping in on just doing one is way too little and maybe doing all four is way too much ..." Member Brown agreed.

Chairperson Bertrand entertained public comment. (2:14:05) Lori Bagwell expressed agreement with pursuing short-term projects 1 and 3 "and get results from those to determine and save your potential dollars ... to see if you need to go further on number 3." With regard to short-term project number 3, she suggested that "the beauty of having an outside audit firm do this is to eliminate the constituencies. The whole idea was to have an outside firm determine the appropriateness and alternatives of services for the golf course, the swimming pool, ice rinks." Ms. Bagwell expressed the opinion that "people in the community are tied to their personal recreational activity." She emphasized "go[ing] the step further on number 3, from an outside firm, that has no vested interest in any of those activities. ... it would actually give your Board of Supervisors a much clearer picture that takes away people's heartstring about the item versus what's good for the City as a whole and whether we can afford the services."

(2:16:57) Ward 2 Supervisor Candidate Maurice White suggested prioritizing project number 4. "With 556 full-time employees and 300 part-time employees, ... job consolidation and priority assignments could save this City a substantial amount of money."

Vice Chairperson Prowse expressed a preference "to do one and then another one. We're talking a wait of about two to three months." He expressed a further preference to be able to review an audit result prior to commencing another audit. With regard to short-term project number one, Mr. Munn advised that the audit would have to be concluded prior to the end of the year due to the term of the contract with the State Public Defender.. Mr. Providenti advised of the requirement to convey the City's intent to cancel the public defender contract in March 2013.

Chairperson Bertrand entertained a motion. Member McKenna advised that he would abstain from voting, except in the event of a tie, noting the importance of the citizens' recommendation to the Board. **Member Parvin moved to recommend to the Board of Supervisors to proceed with items 1 and 3 of the recommended audit projects. Member Brown seconded the motion. Motion carried 3-1-1, Member McKenna abstaining.** In response to a question, Chairperson Bertrand clarified the recommendation to be forwarded to the Board of Supervisors. In response to a question, Mr. Providenti advised of the intent to forward the committee's recommendation at the next Board of Supervisors meeting. He explained that the City's contract with Moss-Adams, LLP is task-based, and offered to include the April 25, 2012 Moss-Adams memo with the Board's agenda materials. He thanked Mr. Krippaehne and Mr. Steranka for their attendance and participation. Chairperson Bertrand entertained additional public comment; however, none was forthcoming.

**8. POSSIBLE ACTION TO RECOMMEND TO THE BOARD OF SUPERVISORS AN AMENDMENT TO CARSON CITY MUNICIPAL CODE, TITLE 2, ADMINISTRATION AND PERSONNEL, CHAPTER 2.14, CARSON CITY AUDIT COMMITTEE, AMENDING SECTION 2.14.040, RESPONSIBILITIES OF THE CARSON CITY AUDIT COMMITTEE, BY ADDING REVIEW AND RECOMMENDATION RESPONSIBILITIES REGARDING THE ADEQUACY OF CITY DEPARTMENT AND OFFICE PERFORMANCE MEASURES FOR THE PURPOSES OF INTERNAL AUDITS, SETTING FORTH AUDITING STANDARDS, AND REQUIRING THE COMMITTEE TO OVERSEE THE INTERNAL AUDITOR'S CREATION AND IMPLEMENTATION OF FRAUD, WASTE, AND ABUSE IDENTIFICATION PROCESSES AND REPORTING** (2:24:10) - At Chairperson Bertrand's request, Vice Chairperson Prowse introduced this item, provided background information, and reviewed the agenda materials.

Chairperson Bertrand entertained public comment. (2:31:09) Lori Bagwell expressed agreement with the proposed ordinance, and inquired as to whether "a process to report" will be part of the mechanism. Vice Chairperson Prowse acknowledged the intended objective, and "also an objective under this would be to establish a hot line." Ms. Bagwell expressed concern with regard to ensuring that reports are made directly to the Audit Committee "instead of staff that may be able to review and squelch what the report is." Vice Chairperson Prowse assured Ms. Bagwell of his concern relative to "whistle blower protection. ... confidentiality is very important." Vice Chairperson Prowse acknowledged the intent to develop a system of implementation. Mr. Munn pointed out that any report to the committee, as a public body, cannot be confidential in consideration of the Open Meeting Law. "That's why we've left it to the internal auditor to create a protocol in which to handle this so that ... reporting isn't stymied because it's going to end up being public if it comes before this body and how that protocol should work so that it will encourage and not discourage disclosures of defalcations or thefts ..."

(2:33:29) Richard Schneider suggested "a big part of preventing waste, fraud, and abuse is to identify employees ahead of time or while they're ... actually working ..." He inquired as to the possibility of requiring "trust employees and the law enforcement employees to meet ... background investigations and then periodic re-investigations every five years that will look at their personal life, will check their criminal records ..." Vice Chairperson Prowse discussed the importance of generalities in the proposed ordinance.

In response to a question, Vice Chairperson Prowse discussed the external auditor's responsibility relative to fraud. Chairperson Bertrand provided additional clarification. In consideration of the phrase, "fraud, waste, and abuse," Member McKenna discussed the importance of focusing on "big-picture items." In consideration of the City, Member McKenna discussed the importance of the committee's clear understanding of City government structure, especially relative to the elected officials. Vice Chairperson Prowse discussed the "cost of fraud to the nation," and provided corresponding examples. In response to a comment, Member McKenna clarified his comments, and pointed out that "Carson City has a unique form of government with seven constitutional officers and each constitutional officer is charged with running their department. ... We have to deal with them differently than we deal with the City Manager or the Board of Supervisors." In consideration of fraud, Member McKenna suggested that "looking for waste is probably a better mindset for this committee ... because there's a lot more of that out there than there is intentional fraud." Vice Chairperson Prowse reiterated that the proposed ordinance creates a structure.

Chairperson Bertrand entertained public comment. (2:44:15) William Birk expressed support for a mechanism to control elected officials' departments. Member McKenna provided additional clarification of his comments in consideration of ensuring the committee members are as educated as necessary relative to City government structure.

(2:46:28) Carol Howell expressed understanding for and disagreement with Member McKenna's comments. "Whatever the department is, 'the City' encompasses all of the departments. ... And this committee ... should have the right to take my tax dollars and know where they're being spent, how they're being spent, if they're being wasted within any department ..."

(2:48:03) Lori Bagwell acknowledged the autonomous authority granted elected City officials, "but when it comes to the financial matters of the City, [they're] going to be subject to the same rules as every other for use of dollars, pursuant to the City Code." In reference to earlier public comment regarding background checks for City employees, Member McKenna pointed out that "waste has a judgment factor, but the person

that makes the decision, whether that's waste or necessary, ... is not the Board of Supervisors. It's the [elected official.]" Ms. Bagwell expressed the belief that elected officials follow the same policies and procedures as every other department head. Discussion followed, and Member McKenna reiterated the importance of the committee members understanding the distinction in order to properly perform their duties.

Chairperson Bertrand entertained a motion. **Vice Chairperson Prowse moved to recommend the Board of Supervisors amend Carson City Municipal Code, Title 2, Administration and Personnel, Chapter 2.14, Carson City Audit Committee, amending Section 2.14.040, Responsibilities of the Carson City Audit Committee, by adding additional review and recommendation responsibilities regarding the adequacy of City department and office performance measures for the purposes of internal audits, setting forth audit standards, and requiring the committee to oversee the internal auditor's creation and implementation of fraud, waste, and abuse identification processes and reporting. Member McKenna seconded the motion. Motion carried 5-0.** Chairperson Bertrand entertained additional public comment; however, none was forthcoming.

**9. POSSIBLE ACTION TO SCHEDULE THE NEXT MEETING OF THE CARSON CITY AUDIT COMMITTEE** (2:53:41) - Chairperson Bertrand introduced this item, and discussion ensued. **Member McKenna moved to schedule the next meeting for Tuesday, August 14th.** Following discussion, **Vice Chairperson Prowse seconded the motion. Motion carried 5-0.**

Chairperson Bertrand entertained public comment. (2:57:07) Carol Howell inquired as to whether the committee had discussed the MAC or the City Center project. Member McKenna advised that neither project was discussed. In response to a further question, he anticipates that the City Center project will be on the ballot. In response to a further question, Chairperson Bertrand explained that the committee oversees the internal audit function, including internal controls, performance, and cost savings. Ms. Howell advised of having recently researched City salaries, and that unclassified employees "are paid a percentage higher than their staff ... and that was one reason salaries were increased and pay raises were increased and that provision needs to be looked at by this Audit Committee and get that provision removed because that's why salaries were not capped earlier on in this recession and that's why people continued to get pay raises and we ended up giving people $16,000 a year pay raises based on a percentage of their staff." Vice Chairperson Prowse referred to the enterprise risk assessment, included in the agenda materials, and provided an overview of discussion which took place earlier in the meeting.

**10. PUBLIC COMMENT** (3:03:19) - Chairperson Bertrand entertained public comment. (3:03:36) William Birk expressed appreciation for the committee's attention and responsiveness.

**11. ACTION TO ADJOURN** (3:04:01) - Member McKenna moved to adjourn the meeting at 3:04 p.m. The motion was seconded and carried unanimously.

The Minutes of the May 8, 2012 Carson City Audit Committee meeting are so approved this _____ day of August, 2012.

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MICHAEL BERTRAND, Chair