A regular meeting of the Carson City Audit Committee was scheduled for 3:00 p.m. on Tuesday, August 14, 2012 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

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

STAFF: Nick Providenti, Finance Department Director
Tina Russom, Senior 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 (2:59:55) - Chairperson Bertrand called the meeting to order at 2:59 p.m. Roll was called; a quorum was present. Member Brown was absent.

3. PUBLIC COMMENTS AND DISCUSSION (3:00:14) - Chairperson Bertrand entertained public comment; however, none was forthcoming.

4. POSSIBLE ACTION ON APPROVAL OF MINUTES - May 8, 2012 (3:00:53) - Vice Chairperson Prowse moved to approve the minutes, as presented. Member McKenna seconded the motion. Motion carried 4-0.

5. POSSIBLE ACTION ON ADOPTION OF AGENDA (3:01:22) - Chairperson Bertrand entertained a motion to adopt the agenda. **Member Parvin so moved. Vice Chairperson Prowse seconded the motion. Motion carried 4-0.**

6. PRESENTATION AND DISCUSSION, BY MOSS ADAMS, LLP REPRESENTATIVES, OF PROGRESS REPORT ON GOLF COURSE AUDIT AND FINDINGS; POSSIBLE ACTION ON COMMITTEE RECOMMENDATIONS AND DIRECTION ON HOW TO PROCEED (3:02:04) - Chairperson Bertrand introduced this item, and Moss Adams, LLP Policy and Planning Director Mark Steranka, by teleconference, provided status reports on the public defender costs and utilization study, the community facilities cost recovery analysis "which ... was ... broken up into two pieces; one piece focusing just on the golf course and the other focusing on the other three community facilities that were part of the original scope of work which are the community center, the aquatic center, and the ice rink."

Mr. Steranka reported that the golf course analysis "is ... moving along well. We've got a lot of good information. What we're trying to do is ... stitch together a number of different aspects relative to golf, including but not limited to, the role that the golf courses play in dealing with the ... wastewater effluent, bond payments associated with the golf course, overall bottom line operations, its standing competitively in the Carson City marketplace, what its current rate structure / fees are, what level of subsidy is 'typical' for municipal courses. ... we're trying to stitch those elements together to ... tell a story and paint a picture that we're hoping ... once and for all the City has all the relevant data assembled ... that then decisions can

be made about moving forward." "We're still receiving some ... key information in responses to questions we're posing. Our plan is to have a draft report ready for your review next month and ... we're on good course to do that."

Chairperson Bertrand inquired as to cost drivers at the golf course. Mr. Steranka advised that costs for the golf course "are, in general, ... typical. ... we [don't] see anything there that is out of the ordinary." He noted, as caveats, the debt service and that the golf course isn't managed by the City to an annual operating budget. In response to a further question, Mr. Steranka reiterated the intent to present draft reports for the public defender and golf course audits at the next committee meeting.

Chairperson Bertrand entertained additional questions or comments of the committee members; however, none were forthcoming. He entertained public comment. (3:19:56) Ward 2 Supervisor Candidate Dennis Johnson advised of having compared the current golf course lease to a lease he "did back in 1987, working for a public agency that's still in place ..." He inquired as to whether a comparison was done between using effluent "versus the golf course operator having to go out and purchase water to take care of the property. Is there going to be a study of the comp golf that's given to whomever? ... Have you studied the salaries for the golf course and to whom they are paid as well as looking at the merchandising?" Mr. Johnson advised of having reviewed documents provided by City staff, and of "trying to figure out ... the relationship of debt service to the lease obligations that the operator is failing to meet as far as paying the costs that they agreed to pay." Mr. Steranka advised that the history of the debt service is being studied "originally from the east course and retirement of the initial debt and then use of a reserve or sinking fund for subsidizing or paying for a portion of ... the replacement debt." He explained the intent to display a time line "of when the debt was issued, each piece of debt ..., and identify the ... purpose of each of the three debt components. The part that will still be the City's decision ... [is] what level of debt is assigned to the golf course operation. What is current today is what's reflected in the lease agreement which includes a debt service payment ... That would represent what's currently on the books as far as being assigned to golf course operations, but that is a reduction of what it was originally. And, so, whether the City decides to continue with the current payment schedule, which is reflected in the lease, or at such time that the lease is up to revisit that ... that is certainly up to the City and they have full discretion to determine what that level should be." Chairperson Bertrand entertained additional public comments; however, none were forthcoming.

7. DISCUSSION ONLY OF RECENT FISCAL EMERGENCIES IN HARRISBURG, PENNSYLVANIA; SAN BERNARDINO, CALIFORNIA; STOCKTON, CALIFORNIA; VICTORVILLE, CALIFORNIA; AND OTHER MUNICIPALITIES IN CALIFORNIA FOR THE PURPOSE OF PROVIDING MEMBERS WITH INFORMATION ABOUT THE CAUSES OF THESE EMERGENCIES (3:24:52) - Chairperson Bertrand introduced this item. Mr. Steranka acknowledged that Moss Adams, LLP has assisted various communities experiencing serious financial problems. In response to a further question, he requested to reserve suggestions until a later date.

Member McKenna explained the purpose for requesting this item to be agendized. He advised of having been informed by a bankruptcy lawyer that "three does not make a trend. ... [Bankruptcy] is just a tool that certain counties in California and other places are using to deal with creditors." Member McKenna suggested that the committee members familiarize themselves with Chapter 9 bankruptcy. He was uncertain that any Nevada county had ever filed Chapter 9 bankruptcy, and expressed the opinion that Carson City is nowhere near needing to file bankruptcy. He clarified "we wouldn't know that unless we

knew what causes municipal bankruptcy." He advised that California has "strange rules such as for municipal contracts," which he described. He reviewed specific information relative to the circumstances surrounding the financial emergencies in Victorville, California and Harrisburg, Pennsylvania. He reiterated no knowledge that Carson City is on the verge of bankruptcy, noting that "Carson City can always remove services."

Chairperson Bertrand thanked Member McKenna for requesting this item to be agendized, and discussed specifics of the circumstances surrounding the current financial situation in Stockton, California. He discussed concerns regarding the importance of ensuring the City's contracts are flexible and can be paid. He suggested requesting feedback from Moss Adams, LLP representatives relative to "getting [the City's] financial house in order." He inquired of Mr. Providenti as to upcoming risks and the City's preparedness. In consideration of the severe economic downturn over the past five years, Mr. Providenti advised that City department heads continue to work together with the City Manager to reduce costs. "... what we're seeing now is that things are starting to stabilize. ... it's tough for us to look forward and determine if things are going to go down ten or fifteen percent. We just basically have to get back together and put our thinking caps on. We're not at that point right now because ... our projections are ... fairly conservative and we're seeing what we projected ... mainly in sales tax. ... We've adjusted. Now we're at this base level and we're seeing it creep up a little bit and that's ... what we're really going after."

Chairperson Bertrand expressed concerns regarding fire suppression costs and heart / lung liability. Mr. Providenti advised that the City no longer has $4 to $5 million in reserves, based on the Board of Supervisors' policy to use the reserves before raising taxes. "We used reserves. Right now, we're at the point ... where maintaining the services required the tax increase that we had ... We're at the point now where we're stabilized and if things continue the way we see them in the next three or four years, ... instead of restoring positions and services, what we want to do is restore fund balances ..." Vice Chairperson Prowse expressed an interest in the committee being involved in the external auditor's work plan. In response to a question, Mr. Providenti provided an overview of Kafoury, Armstrong & Co.'s processes.

Mr. Steranka echoed Mr. Providenti's comments relative to reserves. "... what Carson City has done is very common among cities and special purpose districts over the past two years relative to spending down reserves, but that also can be where governmental entities get in trouble because when the unforeseen happens, then reserves have been spent down and that's why it's important as, hopefully, the economy continues to improve ever so slightly, to build those reserves back up." Mr. Steranka agreed that recent land acquisitions through the federal lands bill contribute to the City's risk and the importance of reserves. He reiterated his agreement with Mr. Providenti's description of the City's approach. The committee members and Mr. Providenti thanked Mr. Steranka for his participation.

Following discussion, Member McKenna suggested the committee members review the Moss Adams risk assessment. Mr. Providenti advised that Kafoury, Armstrong & Co. representatives were provided a copy of the Moss Adams risk assessment. Based on his School Board experience, Member McKenna cautioned the committee members against contacting Kafoury, Armstrong & Co. to ask individual questions, thereby incurring additional costs to the City.

Chairperson Bertrand entertained public comment. (3:46:28) Ward 2 Candidate Dennis Johnson discussed his opinions of the cities listed in the agenda item title. "The problem is they didn't know when to say when. That's where the real issue is." He expressed the further opinion, "the solution is very, very simple.

Just stop spending. We all do it at home. Why shouldn't we do it with the public's money?" Chairperson Bertrand entertained additional public comment; however, none was forthcoming.

8. DISCUSSION ONLY REGARDING THE STATUS OF PROPOSED REVISION TO CARSON CITY CHARTER RELATIVE TO THE CARSON CITY INTERNAL AUDITOR (3:47:57) - Chairperson Bertrand introduced this item. Vice Chairperson Prowse provided background information and reviewed the agenda materials. In response to a question, he discussed concerns regarding the audit committee being arbitrarily disbanded. He expressed reluctance to "lose momentum," but a willingness to involve the committee in the subject matter. Member McKenna expressed a preference for advisory committees to "work together and ... try to come up with majority decisions ... that give staff direction." He expressed understanding "that's not always the most timely, but ... it does have a way of allowing us to build in other items ... We may want to modify the charter in a different way." He compared the City Charter to the U.S. Constitution in that "it's very, very difficult to change and it's very, very difficult to interpret. So, once this gets into the charter, ... it [may] take away from this committee's significant abilities to find out where we really want to go." Vice Chairperson Prowse reiterated a willingness to involve the committee, and expressed the opinion the charter should be updated.

9. DISCUSSION ONLY REGARDING THE STATUS OF AUDIT COMMITTEE RECOMMENDED AMENDMENTS TO TITLE 2, CHAPTER 2.14, SECTION 2.14.040, OF THE CARSON CITY MUNICIPAL CODE (3:57:42) - Chairperson Bertrand introduced this item. Vice Chairperson Prowse provided background information and reviewed the agenda materials. In response to a question, Ms. Russom advised that the ordinance becomes effective upon publication. Vice Chairperson Prowse advised of having met with Moss Adams, LLP Policy and Planning Director Mark Steranka on August 7th to discuss the amendments. Vice Chairperson Prowse reviewed statistical information relative to fraud, waste, and abuse. In response to a question, he discussed applicable laws and policies. Discussion followed.

10. POSSIBLE ACTION TO ADOPT THE INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING, AS PROMULGATED BY THE INSTITUTE OF INTERNAL AUDITORS, FOR GUIDANCE TO THE CARSON CITY INTERNAL AUDITOR IN REVIEWS AND RECOMMENDATIONS (4:11:03) - Chairperson Bertrand introduced this item. Vice Chairperson Prowse provided background information and reviewed the agenda materials. Member McKenna discussed concerns with regard to the potential for creating conflicts, and suggested taking time to review and discuss the standards to ensure a good fit for Carson City. He expressed the opinion that the Board of Supervisors should not adopt anything "until we have a total audit plan ... as to where and how Carson City internal audit is going to go because it's difficult to change things once they're in place and ... it's costly." Vice Chairperson Prowse disagreed and, in reference to the agenda materials, suggested researching the professional standards. He expressed support for requesting input from the Moss Adams, LLP representatives at the next meeting, and opposition to any delay beyond that. He suggested that the contract internal auditor may change, and advised that the City's existing internal audit manual is "incomplete, out of date, and it doesn't address issues and standards that should be a basic guideline for how you operate." He advised of having suggested the Institute of Internal Audit Standards because "there is some flexibility ... in terms of how they work and we need to adopt one or the other or both." He reiterated support for requesting input from the Moss Adams, LLP representatives, and the anticipation that the City will have other contract internal auditors over the years. He expressed the opinion that adopting standards of professional practice "is ... good management."

Member McKenna acknowledged understanding of Vice Chairperson Prowse's comments. He suggested that the City's contract internal auditor will most likely use a set of professional standards and, therefore, disagreed with comments that not adopting a set of professional standards is irresponsible. He expressed opposition to a "piecemeal" approach in consideration of not having a "goal ... as to where we're going to end up." He suggested that the City's internal audit manual is not being used because of having hired the contract internal auditor. In response to a question, Mr. Providenti expressed a preference for the committee to discuss the matter with the contract internal auditor. He expressed no preference relative to the set of professional standards adopted by the contract internal auditor. "... we're going to follow generally accepted accounting principles and NRS ... and they're not going to tell us not to do that. ... As long as they have a professional set of standards, ... it doesn't make that much of a difference to [the City's] day-to-day operations ..." Discussion took place regarding the language of the internal auditor's contract, and Member Parvin suggested discussing the matter further with the Moss Adams, LLP representatives at the next meeting. Consensus of the committee was to reagendize this item for the next meeting.

11. POSSIBLE ACTION TO SCHEDULE NEXT MEETING OF THE CARSON CITY AUDIT COMMITTEE (4:27:11) - Chairperson Bertrand introduced this item and, based on Mr. Steranka's discussion, suggested waiting until the draft audit reports are ready to be presented. Following a brief discussion, consensus was to schedule the meeting for the second week in October.

12. PUBLIC COMMENT (4:28:50) - Chairperson Bertrand noted there were no public citizens present in the meeting room.

13. ACTION TO ADJOURN (4:28:51) - Member McKenna moved to adjourn the meeting at 4:28 p.m. Vice Chairperson Prowse seconded the motion. Motion carried 5-0.

The Minutes of the August 14, 2012 Carson City Audit Committee meeting are so approved this _____ day of October, 2012.

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MICHAEL BERTRAND, Chair