

**CARSON CITY CONSOLIDATED MUNICIPALITY  
NOTICE OF MEETING OF THE  
AUDIT COMMITTEE**

**Day:** Thursday  
**Date:** May 9, 2019  
**Time:** Beginning at 1:00 pm  
**Location:** Community Center Sierra Room  
851 East William Street  
Carson City, Nevada

**AGENDA**

**1. Call to Order**

**2. Roll Call**

**3. Public Comments and Discussion:**

The public is invited at this time to comment on and discuss any topic that is relevant to, or within the authority of, the Carson City Audit Committee. In order for members of the public to participate in the Committee's consideration of an agenda item, the Committee strongly encourages members of the public to comment on an agenda item during the item itself. No action may be taken on a matter raised under public comment unless the item has been specifically included on the agenda as an item upon which action may be taken. The Committee Chair may limit public comment to three minutes per person.

**4. For Possible Action: Approval of Minutes - Meeting Minutes 01/29/19**

**5. For Possible Action: Adoption of Agenda**

**6. Meeting Items**

6.A For Possible Action: Discussion and possible action regarding the monitoring, review and closure of internal audit findings and/or recommendations included in the Audit Findings Tracking Report and provide a recommendation to the Board of Supervisors to close completed findings and/or recommendations. (Sheri Russell, SRussell@carson.org)

Staff Summary: City staff will discuss the monitoring, review and closure of the previous internal auditor findings and/or recommendations included in the Audit Findings Tracking Report.

6.B For Possible Action: Presentation by Eide Bailly on Fire Department Overtime Agreed Upon Procedures for the Audit Committee's consideration, discussion, and possible recommendation to the Board of Supervisors. (Sheri Russell, srussell@carson.org)

Staff Summary: The Board of Supervisors approved the 2019 internal audit plan on August 16, 2018. Eide Bailly completed the Fire Department Overtime agreed upon procedures as part of that plan, and they are prepared to present the results of the study.

6.C For Possible Action: Presentation by Eide Bailly on Temporary Staffing Agreed Upon Procedures for the Audit Committee's consideration, discussion, and possible recommendation to the Board of Supervisors. (Sheri Russell, srussell@carson.org)

Staff Summary: The Board of Supervisors approved the 2019 internal audit plan on August 16, 2018. Eide Bailly completed the Temporary Staffing agreed upon procedures as part of that plan, and they are prepared to present the results of their procedures.

6.D For Possible Action: Discussion and possible action to identify, discuss, and provide recommendations to the Board of Supervisors on projects to be performed by the Internal Auditor for the period ending June 30, 2020.

Staff Summary: Eide Bailly will provide recommendations for future internal audits for the period ending June 30, 2020.

6.E For Discussion Only: Discussion regarding dates for the next meeting of the Audit Committee.

## **7. Public Comment:**

The public is invited at this time to comment on any matter that is not specifically included on the agenda as an action item. No action may be taken on a matter raised under this item of the agenda.

## **8. For Possible Action: To Adjourn**

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Agenda Management Notice - Items on the agenda may be taken out of order; the public body may combine two or more agenda items for consideration; and the public body may remove an item from the agenda or delay discussion relating to an item on the agenda at any time.

Titles of agenda items are intended to identify specific matters. If you desire detailed information concerning any subject matter itemized within this agenda, you are encouraged to call the responsible agency or the City Manager's Office. You are encouraged to attend this meeting and participate by commenting on any agenda item.

Notice to persons with disabilities: Members of the public who are disabled and require special assistance or accommodations at the meeting are requested to notify the City Manager's Office in writing at 201 North Carson Street, Carson City, NV, 89701, or by calling (775) 887-2100 at least 24 hours in advance.

To request a copy of the supporting materials for this meeting contact Emily Toups at [etoups@carson.org](mailto:etoups@carson.org) or call (775) 887-2133.

This agenda and backup information are available on the City's website at [www.carson.org](http://www.carson.org), and at the Finance Office - City Hall, 201 N. Carson Street, Ste 3, Carson City, Nevada (775) 887-2133.

This notice has been posted at the following locations:

Community Center 851 East William Street

City Hall 201 North Carson Street

Carson City Library 900 North Roop Street

Community Development Permit Center 108 Proctor Street

<http://notice.nv.gov>

**CARSON CITY AUDIT COMMITTEE**  
**Minutes of the January 29, 2019 Meeting**  
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**DRAFT**

A regular meeting of the Carson City Audit Committee was scheduled for 3:30 p.m. on Tuesday, January 29, 2019 in the Community Center Bonanza Room, 851 East William Street, Carson City, Nevada.

**PRESENT:** Chairperson Stephen Ferguson  
Vice Chairperson Michael Bertrand  
Member Lori Bagwell  
Member Ernie Mayhorn  
Member Betsy Strasburg

**STAFF:** Nancy Paulson, City Manager  
Sheri Russell, Chief Financial Officer  
Todd Reese, Deputy District Attorney  
Kathleen King, Chief Deputy Clerk

**NOTE:** A recording of these proceedings, the committee's agenda materials, and any written comments or documentation provided to the Clerk, 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 (3:32:54)** - Chairperson Ferguson called the meeting to order at 3:32 p.m. Ms. King called the roll; a quorum was present.

**3. PUBLIC COMMENTS AND DISCUSSION (3:33:18)** - Chairperson Ferguson entertained public comment; however, none was forthcoming.

**4. POSSIBLE ACTION ON APPROVAL OF MINUTES - October 23, 2018 (3:33:54)** - Chairperson Ferguson introduced this item, and entertained a motion. **Member Bagwell moved to approve the minutes, as presented. Member Mayhorn seconded the motion. Motion carried 5-0.**

**5. POSSIBLE ACTION ON ADOPTION OF AGENDA (3:34:14)** - Chairperson Ferguson introduced this item, and entertained modifications to the agenda. When no suggested modifications were forthcoming, Chairperson Ferguson deemed the agenda adopted, as published.

**6. PUBLIC MEETING ITEMS:**

**6(A) DISCUSSION AND POSSIBLE ACTION REGARDING THE MONITORING, REVIEW, AND CLOSURE OF INTERNAL AUDIT FINDINGS AND / OR RECOMMENDATIONS INCLUDED IN THE AUDIT FINDINGS TRACKING REPORT, AND TO PROVIDE A RECOMMENDATION TO THE BOARD OF SUPERVISORS TO CLOSE COMPLETED FINDINGS AND / OR RECOMMENDATIONS (3:34:28)** - Chairperson Ferguson introduced this item, and Ms. Russell presented the agenda materials. In response to a question, Ms. Russell explained that certain modules of the new ERP System are being implemented at different times. She is "making sure that a key person, within that implementation team, is aware of what they need to make sure the system has. And if it doesn't, then we need to look at another solution. But we're definitely making sure that somehow we can address it with that ... implementation team." At Member Bagwell's request, Ms. Russell agreed to add the team contact's name to the spreadsheet. Chairperson Ferguson suggested ensuring that the ERP solution was on the requirements document used to select the ERP.

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In response to a question regarding the Capital Projects Process Review, City Engineer Dan Stucky explained that the Public Works Department has “a lot of procedures or guidelines or policies ... for ... various steps of the project process, from start of the project to finish. And a checklist would have ... brought those together in one place but they’d still be ... not in one manual. And when we started to look at best practices and we referenced the Project Management Institute (“PMI”) - that’s industry standard on how to manage projects - we started feeling like really to get in line with what we should do and what’s the proper way to do from an industry standpoint, it really makes a lot of sense to bring everything together in a project manual that’s available to all of our project managers and follow ... the process that PMI recommends. So that was ... the change as we got into it. It just made a lot of sense to do it right and that’s the right way to do it.” In response to a further question, Mr. Stucky stated, “We’re about a third of the way done right now. We have a working group that meets about every month. I’m taking the lead on drafting the manual but every month we check in. So ... as far as the progress we’ve made to date, July ... is a reasonable time line to get it done. ... a lot of these things we already have created and are following. It’s just bringing it together in one place essentially.” In response to a further question, Mr. Stucky advised of approximately eight different people that manage projects. Two of the eight are PMI certified “but it’s something that we’re very open to looking for and maybe getting more people certified.”

Ms. Russell acknowledged that electronic signatures will be included in the ERP System implementation for Capital Projects Process Review. She provided background information on research conducted into electronic signatures and the conclusion that it was best to wait for ERP System implementation.

Ms. Russell presented the Public Guardian Follow Up Review, and recommended closing all four items “just because [the Public Guardian] has a process of scanning paperless going forward. And the cost benefit of purchasing a \$3,000 fireproof safe we decided was ... not a good ... spend ... for three ... or four years of scanning.” Ms. Russell acknowledged that scanned documents are redundantly backed up. She responded to additional questions of clarification and a brief discussion followed. Consensus indicated the four items pertinent to the Public Guardian Follow Up Review should be closed.

Ms. Russell reviewed the FY 2017 Audit Findings. She explained that “the original finding on this was that we were drawing from an approved list of vendors and it was grant funded so we really needed to go and get a bunch of quotes for that to be in compliance with grant funding. But we drew from a list of vendors because it was a smaller amount. But the grants, anything over \$3,500, you have to get quotes whereas the City rules are a little different. ... it’s \$25,000, we require several quotes. So we have kind of a conundrum between NRS and the Uniform Guidance for Grants. So, NRS says we can’t just go get quotes for small amounts on architects and surveys. We actually have to do a SOQ. So we have to look at their qualifications first, then negotiate a price. So the SOQ process is just like the RFP process ... So we have implemented a procedure that, for grants, drops it down to \$3,500. We’re going to have to do an SOQ on anything over \$3,500. For the City, we’re sticking with our own policies. Now, of course, Uniform Guidance [for Grants] has another rule that says we can’t do that. But for everything else we do for grants, we do actually follow City policies ... This one, we’ve decided not to follow because it’s not cost effective. I mean, it probably takes \$5,000 to create a SOQ, look at it, review it, with all the peoples’ time and effort involved and, if we’re hiring somebody for \$5,000, how much are they going to want to put that effort into a \$5,000 SOQ. ... it’s not cost effective. It doesn’t really make sense.

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“I did reach out to all the other counties because I had heard several other [entities] had the same finding and ... they all said that they did not have this finding and they were interested in what we were going to do because it was a problem. It was an issue between the two and all of them said that they were not going to change their procedures and go down to \$3,500; that that was crazy. It just would be a lot of extra cost for the City unnecessarily.” Ms. Russell requested the committee to consider allowing that anything over \$3,500 would require the SOQ process if the project is grant funded, and then the City would stick with City policies. Eide Bailly Engagement Partner Dan Carter and Ms. Russell responded to questions of clarification, and discussion followed. Ms. Russell acknowledged that the procedure had been added into the Citywide Purchasing Manual as a reminder of the requirement to validate federal dollars. Ms. Russell advised that the current auditors had also cleared the findings. She requested to close the item “because there’s not a lot we can do until the legislature changes its rules or the Uniform Guidance for Grants is changed.” Ms. Russell responded to additional questions of clarification. Ms. Paulson explained that “part of the problem is that for ... architects and engineers ... NRS doesn’t allow you to go by cost. It’s based on qualifications. ... That’s why NRS says that you can do it that way but the federal guidelines are saying that you need to do it ... based on cost.” Ms. Paulson suggested that the District Attorney’s Office could be requested to look into the matter as well. Additional discussion followed.

Ms. Russell acknowledged that the item is closed from a grants perspective. She clarified and reiterated that until the pertinent statutes and the Uniform Guidance for Grants are changed, “there’s not a lot I can do.” Mr. Reese offered to look into the matter. Additional discussion followed. Member Bagwell expressed satisfaction with the fact that there was no “repeat finding, you’ve added it into the Purchasing Manual now, not just the Grants Manual, to indicate if it’s federal, you will comply with the federal ruling, and then we’ll have to wait for the D.A.’s office ... to tell us if there’s a hierarchy between the state law and the federal.” Consensus of the committee was to close the “FY 2017 Audit Findings” audit.

Ms. Russell reviewed the “FY 2018 Audit Findings,” and requested the committee’s direction. She explained that procedures have been implemented for items 2 and 3, as delineated in the agenda materials. She assured the committee she is “very involved in all the Board meetings and ... will know if a contract comes through and the departments are informing me of any contracts that come through. ... that one we’ve addressed but the auditor hasn’t seen it and closed that finding yet.” She responded to questions of clarification regarding the audit findings, and explained that a procedure has been added to the policy “to make sure that Purchasing prints out the suspension and debarment when she checks it so they can see that, before we issued that contract, it was checked. And so she’s keeping a .pdf copy in the file with the contract. And then, as far as I understand, Public Works is also keeping a copy when they request a contract. So we should have that one covered as well going forward. And it’s in the policy as well. It shouldn’t fall through the cracks again.” Ms. Russell responded to additional questions regarding the issue giving rise to the first listed audit finding. She acknowledged that the procedure has been changed.

Ms. Russell summarized the committee’s discussion as follows: She will keep the Capital Projects Process Review “green” but “we won’t close anything with the Board of Supervisors yet. But I’ll take the Public Guardian Update and we’ll close that all out. And then I’ll close the FY 17 Audit Finding as well.” The committee members concurred. Chairperson Ferguson entertained a motion. **Member Strasburg moved closure of the internal audit findings and recommendations included in the Audit Findings Tracking Report, as presented and agreed to by the Audit Committee.** Member Bagwell specifically noted the Public Guardian Update and the FY 2017 Audit Finding would be closed. **Member Strasburg so amended her motion. Member Bagwell seconded the motion. Motion carried 5-0.**

**6(B) POSSIBLE ACTION ON PRESENTATION BY EIDE BAILLY ON THE RISK ASSESSMENT FOR THE AUDIT COMMITTEE’S CONSIDERATION; DISCUSSION, AND POSSIBLE RECOMMENDATION ON FUTURE PROCEDURES (4:07:37)** - Chairperson Ferguson introduced this item. Eide Bailly LLP Engagement Partner Dan Carter presented the agenda materials, and responded to questions of clarification. Extensive discussion took place regarding items listed in the 2019 Proposed Internal Audit Plan; the Fraud, Waste, and Abuse hotline; the status of performance measures. Chairperson Ferguson entertained additional discussion and, when none was forthcoming, a motion. **Member Mayhorn moved to accept the Risk Assessment, as presented. Member Strasburg seconded the motion. Motion carried 5-0.**

**6(C) DISCUSSION TO PROVIDE AN UPDATE ON AGREED-UPON PROCEDURES PERFORMED BY EIDE BAILLY REGARDING THE FIRE OVERTIME STUDY AND THE TEMPORARY STAFFING STUDY (5:03:08)** - Chairperson Ferguson introduced this item, and Eide Bailly LLP Engagement Partner Dan Carter presented the agenda materials. Mr. Carter reported that both the fire overtime study and the temporary staffing study are complete. He advised of additional room in the budget if there is direction for additional work to be done on either of the studies.

With regard to the Fire Overtime Study, Mr. Carter advised of having interviewed “a whole handful of people. We obtained a significant amount of documentation from the City ... and then went out and did our internal controls testing; pulled samples and verified them back to the various documentation or contracts that we had. For Fire specifically, from a high level, we found lots of good documentation and lots of ... good, solid policies and procedures in place and we did test a sample of 20 overtime transactions and found all ... but one to be in compliance with policies and procedures. So, basically, we did a judgmental sample of 20 people we selected; seven employees where they had call back and overtime on the same day. And we had 13 where employees had multiple overtime entries in the system in one day. It just looked unusual to us and, based on our original audit program, we thought that those should be an area focus. We verified the overtime to the staffing call-back procedures and then also ... there’s training law ... for National Fire Incident and Dispatch reports. And so, again, found ... 19 of the 20 transactions to be in compliance with policies and to be supported by documentation. The one error we did find was more of a calculation error so, in the staffing and call-back procedure, firefighters aren’t allowed to work more than 24 hours of overtime. But there is a lot of data that goes into that and some of those people are in training and then pulled out of training to cover a shift ... at a fire station and then switch fire stations. So some of those people can have multiple entries as far as their overtime and they all need to be added up to ensure that they don’t go over 24. We did find that to be the case, with the exception of one, that ended up hitting 27 hours of overtime and it was just an exception. The business manager out of the Fire Department normally checks those. It slipped through the cracks.” Mr. Carter responded to questions of clarification. He advised of having documented the isolated incident and that the details are available. “... the other 19 transactions we found to be in line with policies and procedures and supported by documentation.”

Mr. Carter further advised of having done “high level budget analysis and labor burden analysis and ... the City does pay a lot of money in overtime benefits to employees. The ... original budget ... has historically been the same number for the last four or five years and ... that’s the one that gets augmented. ... we did not check ... the revenue side of this. That wasn’t in our original audit program and that could be an area to focus on a go-forward basis is how much of the expenditures for overtime were reimbursed by another

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agency or the federal government. We could look into that process a little bit. So the original budget, typically, is in the \$700,000 to \$800,000 range and actual overtime ends up being in the \$1.2 million to \$1.4 million range. So we're talking about forty percent more than original budget and it's increasing."

Ms. Russell responded to questions regarding the method by which reimbursements are recorded. She explained that "typically, we budget just \$775,000 ... in overtime every year and then, during our final augmentation, we look at what the fire season has done over the year and what revenues we've gotten from sending our guys to other districts to fight fires. And that is what we add to the overtime budget. The last couple of years, that hasn't quite been enough so we've needed a little bit of contingency to cover the difference." In response to a question, she estimated \$100,000 to \$200,000 in contingency. She clarified that the contingency isn't reimbursed from other areas. "Most of it, like \$500,000 or \$600,000, depends upon the year, ... is collections from sending our guys out." Ms. Russell responded to questions of clarification, and discussion followed.

In response to a question, Mr. Carter expressed the understanding that the "categorization of those overtime hours ... isn't being broken out at this point. That's a recommendation we have to utilize that subcategory function to differentiate training versus mutual aid. That is not something we were able to test because we had talked about that in the last Audit Committee to test the federal reimbursement versus the City-paid. It's our understanding that we can't get that data." Ms. Russell responded to questions of clarification regarding overtime coding and overtime procedures, and discussion followed. In response to a question, Mr. Carter advised of time available in the budget to do more detailed work. Discussion followed, and Mr. Carter and Ms. Russell responded to additional questions of clarification.

In response to a question, Mr. Carter explained that "based on the information that we were provided, we were able to trend the overtime by person and the majority of the dollars that we're talking about are earned by somewhere between five and ten people in the system. And, based on our analysis of their base pay versus overtime pay, and not knowing the intricacies of the vacation and doing that math - that's not something that went into our audit procedures - it does look like the City has the ability to fund multiple additional positions based on just the overtime that's being paid. ... when you're talking about \$1.4 million in overtime, that's a lot of additional firefighters." Following a brief discussion, Ms. Paulson explained "there are just a few individuals that like to go out to those out of town fires so that's why it probably ends up being ... just five or ten individuals that are getting the overtime."

Member Bagwell expressed disappointment "we don't have the codes for the non-reimbursable to know why they're working." She suggested ensuring that the new ERP System includes the data. Ms. Paulson offered to talk with Sheriff Furlong about his procedures relative to Telestaff. Mr. Von Schimmelmann advised that Telestaff has been upgraded. Chairperson Ferguson suggested breaking out the reimbursables "so that you ... can know exactly where we stand with ... the overtime incurred and the amount of billings we get outstanding to make sure that we're at least breaking even on that stuff." Ms. Russell expressed support for Mr. Carter reviewing the billing. Ms. Paulson expressed confidence that "we always come out ahead on the billings because we also bill a rate for the equipment and several other things." Ms. Russell suggested that Mr. Carter could confirm that the same people accruing overtime are "on those wildland bills. If they're not, then what's going on? Why are they getting so much overtime?" She expressed further support for separate codes.

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Mr. Von Schimmelmänn stated, "... we're in the middle of the implementation of the new Telestaff system ... They're not changing the codes currently." He requested input from Ms. Russell regarding new codes as soon as possible. In response to a question, Mr. Carter estimated \$10,000 in available audit fees. Mr. Carter advised of "various other analyses" but was uncertain as to whether "it plays into our recommendations or findings but we have the data and it was easy to do as far as trending overtime." He offered to provide the information to the committee members.

With regard to the Temporary Staffing Study, Mr. Carter advised of having tried to accumulate policies and procedures "in order to test against. We really found there aren't citywide policies over the use of temporary staffing. We were able to obtain the contract obviously and test against that and review that for some potential recommendations ... Once we didn't find a citywide policy, we went to the individual departments and asked and they have loose policies on how that works and who gets approved to be a temporary staff person and so ... lots of our procedures were based on the policies in place and testing against that. And when there weren't any, we moved on pretty quickly. We talked as a group last time about FLSA and some of the other PERS stuff and ... so just wanted to throw this out there. There is some fine lines in FLSA for contract employers and independent contractors versus employees and the contract ... seems to be very clear that they are independent contractors. But from the documentation that we looked at and from ... some of the conversations we had, I think it's grey and I'm not sure where the DOL would fall if there was an issue with the economic reality of what's going on if these people are truly independent contractors or if they're more acting as employees.

"Just a recommendation to throw out, because it's not really our area of expertise to figure that out, but there are rules about people taking lunches and breaks and documentation of some of these people where it looks like they're salaried employees ..." Chairperson Ferguson inquired as to whether the City has ever conducted an FLSA audit. Ms. Paulson advised that the Human Resources Department has job descriptions for every position. The Pontifex study helped to determine that employees are in the right categories. Human Resources Department staff checks, on an ongoing basis, to ensure compliance. In response to a question, Ms. Russell advised that the temporary staffing vendors ensure compliance with FLSA. Ms. Russell and Mr. Carter responded to questions of clarification, and discussion followed.

Ms. Russell acknowledged that City management approves the time sheets submitted by temporary staff. Mr. Carter advised of having found time sheets "not always being approved properly; definitely not documenting the FLSA stuff of lunches and breaks. So whether that falls to [the temporary staffing vendors], it's tough to tell based on the contract. The contract seems to be very clear that it's their responsibility but we did find that economic reality language." Chairperson Ferguson suggested legal review to ensure "a good separation there." Mr. Reese offered to look into the City's obligations. Ms. Russell and Mr. Carter responded to questions of clarification. Mr. Carter advised that the "biggest concern is documentation of the FLSA stuff, making sure that if someone came back and looked at that, ... Marathon isn't questioning when they get a 40-hour straight work week timesheet that's signed off on. Seems like that needs to be documented a little bit better." Chairperson Ferguson reiterated the importance of ensuring compliance with FLSA, on both the part of the City and the temporary staffing vendors.

In response to a question, Mr. Carter explained "our testing consisted of reviewing those time sheets and tying them back to the information submitted ... Our sample was the actual invoices for Marathon which ... we ended up pulling 70 time sheets and tying them back as far as what's the right information submitted to Marathon and our primary issues were in just the approval of time sheets. We did also compare



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temporary employees to permanent employees of the City based on information obtained from HR. We found some potential issues. We could look into these further if need be but ... we found some potential double pay of employees, people who appeared on both lists ... a permanent employee and a temporary employee. ... And then ... we found certain people who ... had left their position, became temporary employees, and some of them were paid more based on their temporary payment. And some of them paid less. It wasn't consistent ... everyone always becomes a temporary employee and gets paid more. But there are a significant amount of people on that temporary employee roster and then, with the additional 21 to 23 percent Marathon cut, ... there should be additional analysis of whether those people should actually be employees. But, again, ... not a lot of policies and procedures or rules surrounding that." In response to a question, Mr. Carter advised that "of the 70 we tested, we had 8 issues that ... met that ... criteria."

Chairperson Ferguson suggested "we've got some issues with our contractors around making sure they're in compliance with Fair Labor Standards Act, exempt / non-exempt classifications, documented breaks, and then length of time they're a temp for the City. Those are things that we might want to take a look at, from a risk management standpoint." Discussion followed. Member Bagwell expressed concern regarding whether potential temporary employees are checked against a "do not hire list" and whether a 90-day period should be observed prior to retired or separated City employees being hired back as temporary employees.

Mr. Carter offered to "provide the details along the way and come back with final reports on all these areas ... final product being the full report with the findings and recommendations ..." He requested input of the committee members. He acknowledged that scheduling the next committee meeting within the next quarter would be sufficient time.

**6(D) DISCUSSION TO CONSIDER DATES FOR THE NEXT MEETING (6:04:39) -**

Chairperson Ferguson introduced this item, and consensus of the committee was to schedule the next meeting for 3:00 p.m. on Tuesday, May 7<sup>th</sup>.

**7. PUBLIC COMMENT (6:06:04) -** Chairperson Ferguson noted there were no other citizens present in the meeting room.

**8. ACTION TO ADJOURN (6:06:24) -** Chairperson Ferguson adjourned the meeting at 6:06 p.m.

The Minutes of the January 29, 2019 Carson City Audit Committee meeting are so approved this \_\_\_\_\_ day of May, 2019.

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STEPHEN FERGUSON, Chair

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# STAFF REPORT

Report To: Audit Committee

Meeting Date: May 9, 2019

Staff Contact: Sheri Russell, Chief Financial Officer

Agenda Title: For Possible Action: Discussion and possible action regarding the monitoring, review and closure of internal audit findings and/or recommendations included in the Audit Findings Tracking Report and provide a recommendation to the Board of Supervisors to close completed findings and/or recommendations. (Sheri Russell, SRussell@carson.org)

Staff Summary: City staff will discuss the monitoring, review and closure of the previous internal auditor findings and/or recommendations included in the Audit Findings Tracking Report.

Agenda Action: Formal Action/Motion

Time Requested: 10 minutes

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## Proposed Motion

Action will depend on the discussion. I move to [continue the monitoring and review of the items as discussed or] recommend to the Board of Supervisors closing the items discussed based on the correction of findings and recommendations included in the Audit Findings Tracking Report.

## Board's Strategic Goal

Efficient Government

## Previous Action

N/A

## Background/Issues & Analysis

January 1, 2019 - Staff brought the list of findings and/or recommendations to the Committee, and several of the items were deemed corrected, and closed at the March 7, 2019 Board of Supervisors meeting.

## Applicable Statute, Code, Policy, Rule or Regulation

N/A

## Financial Information

Is there a fiscal impact?  Yes  No

If yes, account name/number:

Is it currently budgeted?  Yes  No

Explanation of Fiscal Impact:

## Alternatives

N/A

**Board Action Taken:**

Motion: \_\_\_\_\_

1) \_\_\_\_\_

2) \_\_\_\_\_

Aye/Nay

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
(Vote Recorded By)

Carson City  
Internal Audit Summary  
January 29, 2019

**Carson City - Audit Findings Tracking Summary Report (revised 5-2-19)**

Report Name	Report Submittal	BOS Report Approval	Reporting Entity	Report Findings	Completed Findings	AC Approval	BOS Approval	Notes
Community Facility Cost Recovery Study	11/28/2012	1/17/2013	Internal Auditor	15	15			
Community Facility Cost Recovery Eagle Valley Gol	10/3/2012	5/16/2013	Internal Auditor	4	4			
Fleet Management Efficiency Study	6/22/2013	7/18/2013	Internal Auditor	24	24			
Fleet Utilization Study	1/30/2014	4/3/2014	Internal Auditor	12	12			
Employee Efficiency Study	11/25/2014	12/4/2014	Internal Auditor	27	27			
Internal Controls Review	3/31/2015	6/4/2015	Internal Auditor	42	42	4/21/2015	11/15/2018	
Performance Measures Development	6/3/2015		Internal Auditor	1	0	6/7/2016		1 open finding
Policy and Procedures Review	3/22/2016		Internal Auditor	5	5		12/21/2017	
Payroll Internal Controls Testing	7/27/2016	12/21/2017	Internal Auditor	2	2	8/8/2016	11/15/2018	
P-card Internal Controls Testing	7/27/2016	12/21/2017	Internal Auditor	2	2	8/8/2016	11/15/2018	
Small Works Projects Review	2/17/2017	12/21/2017	Internal Auditor	4	4	2/14/2017	12/21/2017	
Public Guardian Review	5/1/2017	12/21/2017	Internal Auditor	13	13	5/9/2017	11/15/2018	
Purchasing and AP Internal Controls Testing	7/6/2017	12/21/2017	Internal Auditor	12	12	7/12/2017	11/15/2018	
HTE Access Controls Testing	9/26/2017	12/21/2017	Internal Auditor	7	7	10/3/2017	12/21/2017	
FY 2014 CAFR	12/18/2014	12/18/2014	External Auditor	5	5	3/22/2016	12/18/2014	
FY 2015 CAFR	12/17/2015	12/17/2015	External Auditor	5	5	3/22/2016	12/17/2015	
Capital Projects Process Review	5/3/2018		Internal Auditor	8	0	5/10/2018		
Public Guardian Follow Up Review	5/3/2018		Internal Auditor	8	8	5/10/2018	3/7/2019	
FY 2017 CAFR and Single Audit	11/30/2017	12/21/2017	External Auditor	4	3	5/10/2018	3/7/2019	DA needs to update BOS on #4
FY 2018 CAFR and Single Audit	12/6/2018		External Auditor	3		12/6/2018		
<b>Total (including archived reports)</b>				203	190			

Legend:

Report Submittal = date report submitted to City

BOS Report Approval = date report adopted by BOS

Reporting Entity = organization that prepared the report

Report Findings = number of findings in the report

Completed Findings = number of findings completed by management

AC Approval = Audit Committee approval of completed findings

BOS Approval = Board of Supervisors approval of completed findings

Notes = notes about findings

Findings Addressed - project closed

Partially Addressed items

Not yet addressed

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Carson City  
Capital Projects Process Review  
05-02-18

Item No.	BOS Acceptance /Approval	BOS Direction to Implement	Recommendation	Dept.	Owner	Remediation Plan (Course of Action & Expected Benefits)	Est. Cost	Est. Savings	Finding corrected? (Y, N, Partial)	Expected Compl. Date	Actual Compl. Date	Status Comments
1	5/3/2018		Develop and utilize a scorecard that establishes objective criteria to assist in the evaluation of capital projects during the capital planning selection process.	PW		<p><b>Course of Action-</b> Use current scorecard for sewer CIPs and modify and determine objective criteria to evaluate water and stormwater CIPs (Feb 2019). Scorecards will be prepared for utility project CIPs in time for each year's budget planning period (typically around January/February). We will also plan on developing a scorecard for facility projects (Feb 2020). Ultimate goal is to use data collected through asset management program (work orders, maintenance costs, condition, etc.) to feed CIP decisions</p> <p><b>Expected Benefits-</b> Use of objective data/criteria will help us make effective data driven decisions and improve transparency in the CIP planning process.</p>			P	Feb 2020		<p>We have developed a scorecard for sewer CIP projects and are in the process of developing scorecards for water and stormwater capital projects to be ready for next FY budget planning period (Feb 2019). These scorecards evaluate projects and rank/prioritize using objective data such as age of pipe, material, condition, capacity, maintenance cost, street classification, risk of failure, consequence of failure, etc.</p> <p><u>January 2019 Update-</u> On track with scorecards for sewer, water and stormwater projects to prioritize CIPs for this coming fiscal year (FY 2020). Scorecard for facility projects to be developed in Feb. 2020.</p> <p>-May 2019 Update- Developed scorecards for water and sewer pipeline replacement/rehabilitation projects and small stormwater projects that consider probability of failure and consequence of failure criteria to help objectively prioritize future CIPs. These scorecards will continue to be refined and advanced in the future, particularly as our asset management program develops. Scorecard for facility projects to be developed in Feb. 2020</p>
2	5/3/2018		Cultivate a Project Management Manual that provides standardized templates, checklists, forms, and best practice guidance.	PW		<p><b>Course of Action-</b> Create a project management checklist that guides PMs through all required steps to successfully complete a project. This checklist will reference other project management related documents that offer more detail on specific stages of project management (project initiation forms, guidelines to setting up project in Smartsheet, creating project schedules, QA/QC for projects, project closeout). The checklist will be placed in the project folder and be required to be completed for each CIP.</p> <p>The checklist in combination with specific documents and forms related to project management will be located in a central site on the network and be considered the "Project Management Manual". There is no plan at this time to create an actual manual.</p> <p><b>Expected Benefits-</b> Lead to better management of capital projects</p>			P	PM Manual (July 2019)		<p>In process of developing a project management checklist for project managers to complete for each CIP. This checklist will track from project initiation to closeout. This checklist will reference to other PM documents related to different stages of the project (project initiation forms, guidelines to setting up project in Smartsheet, creating project schedules, QA/QC for projects, project closeout). A draft of checklist has been developed and is currently in circulation for comments. We anticipate checklist to be completed and in-use by Jan 2019.</p> <p>After completion of PM checklist, the checklist in combination with specific documents and forms related to project management will be located in a central site on the network and be considered the "Project Management Manual". There is no plan at this time to create an actual manual.</p> <p><u>January 2019 Update-</u> The decision was made in December 2018 to create a formal project management manual. A working group, consisting of different personnel across public works that is involved with various stages of capital projects, was formed to help develop the contents of the manual. The manual is about 1/3 of the way done and will be complete in time to manage next fiscal year's capital projects (July 2019). This manual will include standardized templates, checklists, forms and best practice guidance as initially recommended by auditor. (See all PM Manual References Below)</p>

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Carson City  
Capital Projects Process Review  
05-02-18

Item No.	BOS Acceptance /Approval	BOS Direction to Implement	Recommendation	Dept.	Owner	Remediation Plan (Course of Action & Expected Benefits)	Est. Cost	Est. Savings	Finding corrected? (Y, N, Partial)	Expected Compl. Date	Actual Compl. Date	Status Comments
3	5/3/2018		Subscribe to Electronic Signature Services to expedite the contract approval process.	PW		<p><b>Course of Action-</b> Public Works will have the discussion with Purchasing &amp; Contracts to see what options are available for electronic signature implementation. Discussion will occur in Fall 2018 and then decision will be made on whether to pursue or not</p> <p><b>Expected Benefits-</b> If implemented, the contract approval process would be expedited</p>			N	October 2019		<p>We do spend a great amount of time collecting signatures and passing documents around, so exploring electronic signature options may be beneficial. Public Works will have the discussion with Purchasing &amp; Contracts to see what options are available. Discussion will occur in Fall 2018. - New ERP System will definitely have electronic approvals as well as some electronic signature options. We would like to wait until we are farther along in the implementation process.</p> <p><u>January 2019 Update-</u> Meeting was held in Fall 2018 and decision was made to wait until new ERP system is rolled out. The ERP system will include electronic approvals as well as some electronic signature options. Implementation Team - Purchasing Administrator - Carol Akers</p>
4	5/3/2018		Utilize a single unique identifier for projects to ensure documentation clearly references each project.	PW		<p><b>Course of Action-</b> Modify documents internal to public works to include project number along with contract number. The Public Works Financial Analyst does currently keep a contract register which does relate all contracts back to their unique project numbers, so the current method does work for searches/tracking, but could be improved. Discuss with Finance, Purchasing &amp; Contracts and Public Works Financial Analyst to discuss options to be consistent with our project naming and unique identifier. Review ERP system capabilities to see if new system may lead to better tracking and streamline document searches in future.</p> <p><b>Expected Benefits-</b> Improve project document tracking and searches</p>			Y	Nov 2018		<p>We currently assign single unique identifiers to projects, however these project numbers don't get referenced in all construction documents such as design or construction contracts (only contract numbers used). The Public Works Financial Analyst does keep a contract register, which links all contracts back to their associated unique project numbers. Therefore, everything can be searched and tracked with some effort.</p> <p>We are in the process of modifying public works related construction documents (i.e. project completion memos and other documents used for construction management during construction) to reference both project numbers and contract numbers. We will plan on discussing with Finance, Purchasing &amp; Contracts and Public Works Financial Analyst to discuss options to be consistent with our project naming and unique identifier. Plan on holding these discussions in fall of 2018. This process may also be improved with the capabilities/features of the new ERP system.</p> <p>The project number assigned by Finance is supposed to be included on contracts with the account number. The new ERP system will allow for contract, payments, purchase orders, payroll and grants to be tied to specific projects. It also has the ability to store pertinent documents with the project.</p> <p><u>January 2019 Update-</u> All contract documents have been modified to make reference to contract number and project number to easily help Finance, Contracts and Public Works Department clearly track public works related construction documents through life of a project. The new ERP system will help make this tracking even better.</p>

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Carson City  
Capital Projects Process Review  
05-02-18

Item No.	BOS Acceptance /Approval	BOS Direction to Implement	Recommendation	Dept.	Owner	Remediation Plan (Course of Action & Expected Benefits)	Est. Cost	Est. Savings	Finding corrected? (Y, N, Partial)	Expected Compl. Date	Actual Compl. Date	Status Comments
5	5/3/2018		Explore system support for staff payroll on capital projects to enable more efficient and effective tracking of Public Works staff time.	PW		<b>Course of Action-</b> Continue to learn more about the capabilities of the new ERP system. When ERP system is implemented and staff is trained, we will have the capabilities to provide more efficient and effective tracking of Public Works staff time. Anticipate ERP implementation to occur in next 12 months <b>Expected Benefits-</b> Enable more efficient and effective tracking of Public Works staff time.			N	July 2020		The new ERP system will allow time entry for projects directly in the system. This will eliminate the necessity for the current method of keeping a separate project time sheet and then doing a journal entry to do the direct billing for Public Works Staff time. Implementation Team - Accounting Manager - Jamie Stevenson  In the meantime, we will work to update project timesheets more regularly to better track project costs in "real time"
6	5/3/2018		Clearly identify and separate capital project documents to properly track contract modifications.	PW		<b>Course of Action-</b> Modify or create new guidelines/policy that outline and clearly specify bid, conformed and contractual documents for each project. These guidelines will integrate with the project management checklist referred to in item #2. <b>Expected Benefits-</b> Improve organization of project documents			P	(PM Manual) July 2019		Public Works staff is currently working on modifying project management procedural documents to clearly define and distinguish between bid documents, conformed documents and contract documents and to specify the location of where each of these document types should be filed in the project folder. These procedures will integrate with the project management checklist referred to in item #2. Properly designating the contract documents will help identify and track any changes made or modified via addenda <b>January 2019 Update-</b> Public Works has completed developing specific folder locations and guidelines for project managers to follow to place bid documents, conformed documents and contract documents. This process will also be added to the PM Manual to be completed in July 2019
7	5/3/2018		Expand capital project close-out processes to include a review of project costs, deliverables, and required documentation.	PW		<b>Course of Action-</b> Create step-by-step procedure document outlining proper project close-out. These guidelines will integrate with the project management checklist referred to in item #2. <b>Expected Benefits-</b> Improve close-out of projects and improve organization and how we manage projects in the future			P	(PM Manual) July 2019		A draft step-by-step procedure document outlining proper project close-out has been created and is currently in circulation for comments. We anticipate this close-out procedure to be completed and in-use by Jan 2019. This will be added as step in the project management checklist <b>January 2019 Update-</b> Public Works has completed developing document outlining proper project close-out. This will formally be included as part of the PM Manual to be completed in time for next fiscal year projects.
8	5/3/2018		Create a project postmortem process to continuously improve capital project efficiencies.	PW		<b>Course of Action-</b> Create a standard form that addresses lessons learned related to construction issues, quality control, external department coordination (for projects where public works PMs run a project for Parks department), comparing final outcomes to scope, cost outcomes, performance measures, and project objectives (such as milestones/targets). This document will integrate with the project management checklist referred to in item #2.  This postmortem form will be required to be completed by PMs before a project can be closed out. <b>Expected Benefits-</b> Improve future management of projects			P	(PM Manual) July 2019		This will be added as a step in the project management checklist and be required for PMs to complete before closing out project. A standard form will be developed that addresses lessons learned related to construction issues, quality control, external department coordination (for projects where public works PMs run a project for Parks department), comparing final outcomes to scope, cost outcomes, performance measures, and project objectives (such as milestones/targets). This postmortem form will be required to be completed by PMs before a project can be closed out  <b>January 2019 Update-</b> A draft document outlining proper project debrief process has been created by Public Works. This will formally be included as part of the PM Manual to be completed in time for next fiscal year projects.

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Carson City  
FY 2018 Audit Findings  
November 30, 2018

Item No.	BOS Acceptance /Approval	BOS Direction to Implement	Finding No.	Finding	Recommendation	Dept.	Owner	Remediation Plan (Course of Action & Expected Benefits)	Est. Cost	Est. Savings	Finding corrected? (Y, N, Partial)	Expected Compl. Date	Actual Compl. Date	Status Comments
1			2018-001	Financial Statements may be materially misstated s a result of ineffective review of complicated and/or non-reoccurring journal entries and other similar transactions	More attention and thoughtful consideration be given to the suprvision and review of complicated, individually material and/or non-reoccurring journal entries.			Carson City will ensure that implementations of new standards which can be challenging or non-recurring transactions are implemented and reviewed by the appropriate staff level	\$ -	0	N	6/30/2019		FY19 should be a much smoother process as the appropriate staff will be able to take on new GASB implementations and it will be reviewed by the CFO instead of prepared by the CFO.
2			2018-002	Financial Statements may be materially misstated as a result of the failure to appropriately, and timely, communicate significant transactions and/or contractual changes between various operational departments and the Finance Department.	Finance Department attend and or review minute of various meeting and committees to ensure awareness of what is going on. As well as a greater degree of person to person communication between finance and other departments.			Management will be more involved in the meetings and committees to ensure we are aware of new agreements, in addition, the fire department is updating their SOP's to ensure Finance is aware of all new agreements within 5 days of the execution of a new agreement or amended agreement.	\$ -	0	P	6/30/2019		An amendment was done on a Medicare Contract which significantly increased the amount of revenue the City was going to receive. The agreement was executed on November 17th, and we issued our FY17 audit report on November 30th. The auditor maintains that we should have known and accrued the revenue as a receivable. Finance did not receive a copy of the amended contract until October 2018. We are now attending meetings and Fire is aware that Finance needs to be notified of any such contracts.
3			2018-003	Failure to appropriately verify entity status and not dearrred, suspended, or otherwise excluded from or ineligible for partiipation in Federal assistance programs or acivities prior to entering into a covered transaction	City should verify that an entity is not debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activity before entering into a covered transaction.			Purchasing & Contracts Department will verify debarment and suspension status on the System for Award Management (SAM) website. Moving forward a pdf print screen will be saved electronically and a paper copy will be included in the contract project file as supporting documentation. The contract will not be executed until the verification is complete.	\$ -	0	P	6/30/2019		We have updated procedures for the purchasing and contracts position to indicate that this must be completed and documented prior to executing the contract.

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# STAFF REPORT

Report To: Audit Committee

Meeting Date: May 9, 2019

Staff Contact: Sheri Russell, Chief Financial Officer & Dan Carter, Eide Bailly

Agenda Title: For Possible Action: Presentation by Eide Bailly on Fire Department Overtime Agreed Upon Procedures for the Audit Committee's consideration, discussion, and possible recommendation to the Board of Supervisors. (Sheri Russell, srussell@carson.org)

Staff Summary: The Board of Supervisors approved the 2019 internal audit plan on August 16, 2018. Eide Bailly completed the Fire Department Overtime agreed upon procedures as part of that plan, and they are prepared to present the results of the study.

Agenda Action: Formal Action/Motion

Time Requested: 20 minutes

## Proposed Motion

I move to accept the report prepared by Eide Bailly and direct staff to work on recommendations provided.

## Board's Strategic Goal

Efficient Government

## Previous Action

N/A

## Background/Issues & Analysis

## Applicable Statute, Code, Policy, Rule or Regulation

## Financial Information

Is there a fiscal impact?  Yes  No

If yes, account name/number:

Is it currently budgeted?  Yes  No

Explanation of Fiscal Impact:

## Alternatives

N/A

**Board Action Taken:**

Motion: \_\_\_\_\_

1) \_\_\_\_\_

2) \_\_\_\_\_

Aye/Nay

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
(Vote Recorded By)





Fire Department Overtime Audit  
Carson City, Nevada



## EXECUTIVE SUMMARY

Eide Bailly LLP performed an internal audit of Carson City Fire Department's overtime hours for Fiscal Year 2017 through Fiscal Year 2018. The objective of this audit was to determine if overtime hours were properly recorded and to identify areas of risk and opportunities for potential savings.

During the internal audit, it was noted that the Fire Chief and his staff were very knowledgeable about their processes and procedures and attentive to any improvements that may be needed.

The internal audit resulted in two recommendations to further improve the Fire Department's controls over overtime.

## BACKGROUND

As it pertains to the use of overtime labor, reasonable and necessary expenditures enable the Fire Department to continue to provide services despite labor shortages due to vacancies, injuries, mandated services levels, and operational and seasonal workload spikes. However, long-term overtime or uncontrolled uses of overtime represent significant risks of increased direct and indirect costs.

Unnecessary overtime may be avoided through management control activities such as pre-approval of overtime, adjusting staffing levels to service demand levels, and regular management monitoring of overtime.

Total overtime expense for Fiscal Year (FY) 2017 and 2018 was \$1,310,707 and \$1,409,287 respectively. Total budgeted overtime for FY17 and FY18 totaled \$772,646. Resulting in 41% and 45% budget shortfall for respective years.

Total mutual aids overtime, which is fully reimbursed by the federal or other state governments was \$469,101 for FY17 and \$405,874 for FY18. Overtime shortfall for mutual aids was 9% for FY17 and 30% for FY18.

Total overtime hours for FY17 totaled 35,660 and increased 3% for FY18 with total overtime hours of 36,849.

## OBJECTIVE & SCOPE

To assess the Fire Department's administration and use of overtime and identify areas of risk and opportunities for potential savings. The scope of the audit was from FY 2017 through FY 2018.

## METHODOLOGY

Procedures performed during this internal audit included the following:

- Reviewed historical budget reports and dispatch data.
- Reviewed department policies and procedures.
- Performed data analysis on system generated reports from Telestaff to the Carson City payroll system.
- Conducted walkthroughs of selected transactions and related controls.

- Interviewed key personnel of the Fire Department and of those charged with recording and payment of overtime. Interviews were conducted to gain an understanding of the processes and key risks, to assess responsibilities related to the overtime processes in place, identify key controls, and opportunities for improvement. The personnel we interviewed were as follows:
  - Sean Slamon – Fire Chief
  - David Aurand – Business Manager
  - Lorelei Barr – Administrative Assistant
  - Jamie Stevenson – Accounting Manager of Carson City

## **AUDIT RESULTS**

We evaluated the adequacy of controls and processes related to overtime processes in place through the following procedures:

- We obtained the system-generated reports for calendar year 2016, 2017 and 2018 from the Telestaff application and extracted overtime data related to FY17 and FY18.
- We obtained the Fire Department Cumulative Register for FY17 and FY18 from Carson City payroll.
  - A cumulative difference of 67 hours was noted equating to less than 0.1% of the total hours. This was deemed immaterial and no further testing performed.
- We selected all overtime transactions where an employee incurred both callback and overtime on the same day and all transactions where an employee incurred multiple entries of overtime that did not sum to 24 hours (one full shift). For each transaction, we verified Staffing and Callback Procedures were followed, overtime was properly approved, and supporting documentation was obtained including Telestaff Roster, training logs, and National Fire Incident Report/Dispatch reports.
  - We noted one instance where one employee incurred 27 hours of overtime in one day. After further investigation, we believe this was an isolated misstatement and the process in place appears to be working as designed and functioning as expected. No further testing was performed.
- We calculated the labor burden by comparing the overtime pay to regular salary for employees with the highest overtime hours for each job category (captain, driver, and firefighter). We noted the following:
  - 10 employees incurred over 40% of total overtime in both fiscal years.
  - Total overtime for firefighter category equals approximately 6 full time employees at the highest pay grade.
  - 2 Captains overtime pay exceeded their regular pay by 90%.
  - 5 Captains overtime pay exceeded their regular pay by 70%
  - 2 driver operators overtime pay exceeded their regular pay by 100%.
  - 5 driver operators overtime pay exceeded their regular pay by 40%
  - 5 firefighters operators overtime pay exceeded their regular pay by 49%.

## **RECOMMENDATIONS**

While the procedures performed indicated that controls were operating as designed, we noted two general recommendations, which are presented below.

**Observation 1:**

We noted the initial budget of overtime expense of \$772,646 remained the same from FY16 through FY19. This amount did not incorporate the increased salaries defined in the Collective Bargaining Agreement, and the increase in total overtime hours.

**Recommendation 1:**

We recommend the Fire Department utilize a sub-category function in Telestaff to track different types of overtime, such as training and mutual aids. This will allow the department more visibility into the various overtime activities and provide for better budget oversight. Additionally, we recommend the Fire Department budget for total hours and have the finance department calculate the amounts based on the pay rate of employees. Prior year actual hours or a three-year average may be used as a starting point until sufficient historical data is built.

**Observation 2:**

We noted extensive usage of overtime in the Fire Department to provide continued service. This excessive overtime could potentially lead to reduced employee productivity, burn out, and increased litigation costs arising from unsafe conditions.

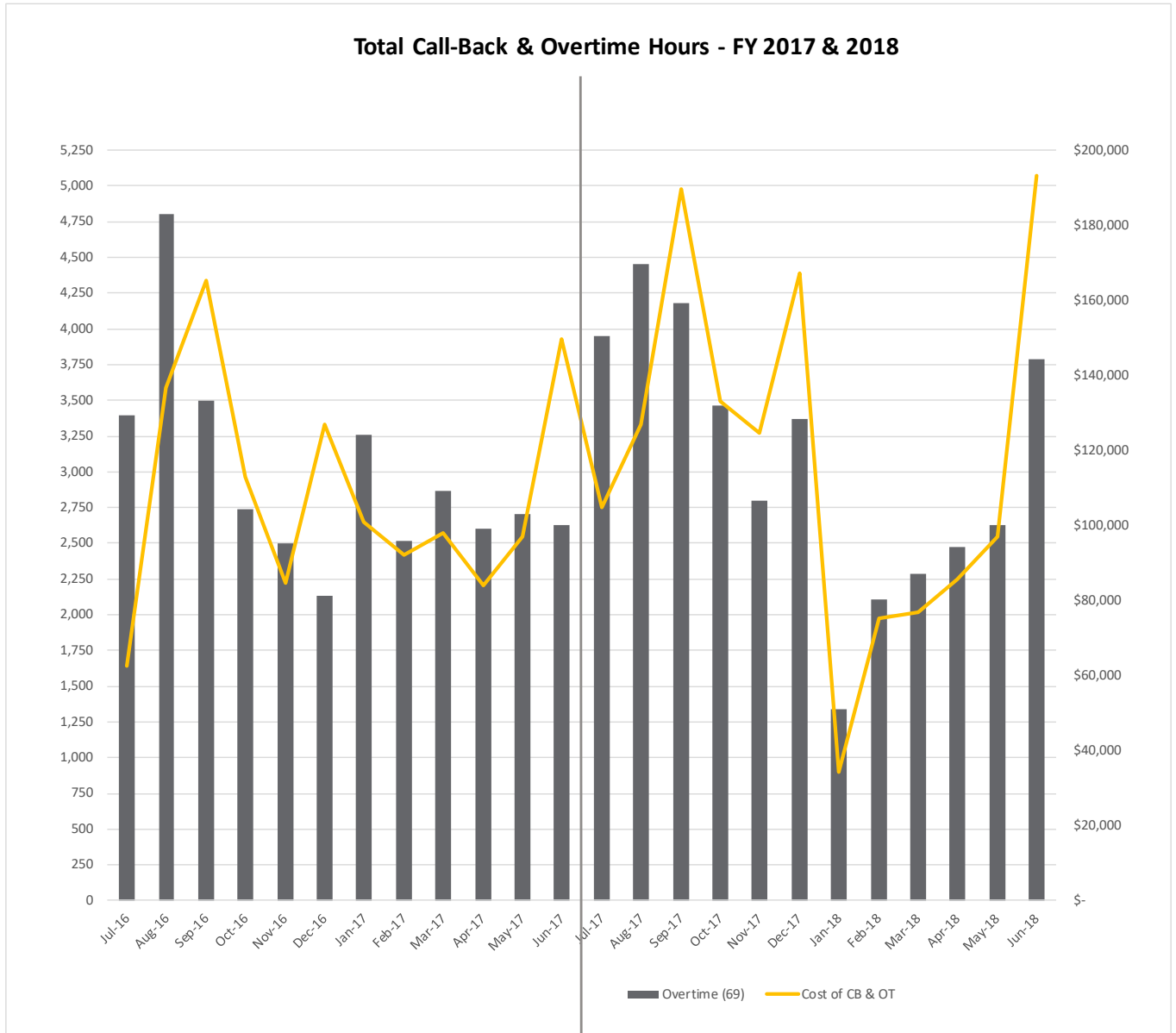
**Recommendation 2:**

Per discussion with Sean Slamon, Fire Chief, the department is currently operating at 51 personnel. The Fire Department determined that six (6) additional firefighters are needed to offset the increase in the number of personnel allowed off each day.

Based on the calculations performed and noted above, the overtime expense incurred appears to be greater than the salaries for 6 full-time fire fighters to fill the needed overtime positions. We recommend that the City's Finance Department work with the Fire Department to conduct a cost benefit analysis to determine whether additional full-time fire fighters outweigh the overtime expense and associated risks.

The graph shown below depicts the total hours and associated overtime cost for FY17 and FY18 by month.

**Graph 1**



**Source:** Created by Eide Bailly from data provided from system-generated reports from Telestaff and Carson City Payroll.

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# STAFF REPORT

Report To: Audit Committee

Meeting Date: May 9, 2019

Staff Contact: Sheri Russell, Chief Financial Officer & Dan Carter, Eide Bailly

Agenda Title: For Possible Action: Presentation by Eide Bailly on Temporary Staffing Agreed Upon Procedures for the Audit Committee's consideration, discussion, and possible recommendation to the Board of Supervisors. (Sheri Russell, srussell@carson.org)

Staff Summary: The Board of Supervisors approved the 2019 internal audit plan on August 16, 2018. Eide Bailly completed the Temporary Staffing agreed upon procedures as part of that plan, and they are prepared to present the results of their procedures.

Agenda Action: Formal Action/Motion

Time Requested: 20 minutes

## Proposed Motion

I move to accept the report prepared by Eide Bailly and direct staff to work on recommendations provided.

## Board's Strategic Goal

Efficient Government

## Previous Action

N/A

## Background/Issues & Analysis

## Applicable Statute, Code, Policy, Rule or Regulation

## Financial Information

Is there a fiscal impact?  Yes  No

If yes, account name/number:

Is it currently budgeted?  Yes  No

Explanation of Fiscal Impact:

## Alternatives

N/A

**Board Action Taken:**

Motion: \_\_\_\_\_

1) \_\_\_\_\_

2) \_\_\_\_\_

Aye/Nay

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
(Vote Recorded By)





Temporary Staffing Audit  
Carson City, Nevada



## EXECUTIVE SUMMARY

Eide Bailly LLP performed an internal audit of Carson City usage and management of temporary staff for the period of July 1, 2016 through June 30, 2018. The internal audit focused on temporary staff usage and compliance with applicable policies, regulations, and contract terms. Additionally, the audit evaluated whether Carson City's temporary workforce is effectively and efficiently managed.

During the internal audit, it was noted that department heads and procurement staff were very knowledgeable about their processes and procedures and attentive to any improvements that may be needed.

During our review, we identified five recommendations that would improve Carson City's management of temporary workforce.

## BACKGROUND

As it pertains to the use of temporary labor, seasonal assistance is required for departments with established peak seasons such as Parks and Recreation Department and Fire Department. However, long term usage of temporary employees presents risks in the form of legal and compliance, as well as, increased administrative costs.

These risks can be minimized through a thorough examination of compliance issues, improved documentation of temporary worker activities, strategic training and policy development, as well as thorough cost analysis of highly skilled and experienced temporary contractors.

## OBJECTIVE & SCOPE

To assess the processes and controls surrounding the use and management of temporary workers as it relates to time tracking and invoice processing. Additionally, to identify potential opportunities to strengthen internal controls related to the use of temporary staffing with the City. Lastly, to identify operational efficiencies and effectiveness within the City.

The scope of the audit was from July 1, 2016 through June 30, 2018.

## METHODOLOGY

Procedures performed during this internal audit included the following:

- Reviewed relevant laws, regulations, policies and procedures applicable to temporary staff usage.
- Evaluated the planning and monitoring procedures performed over budgeted temporary staffing needs and actual expenditures.
- Examined transaction documentation for proper review and approval procedures.
- Evaluated the pay rates and period of employment for permanent employees who were prior temporary employees.
- Reviewed payroll records, contracts, invoices, pay and bill rates, procurement and budgetary activities, and legal and compliance considerations.
- Obtained and evaluated the performance measures and compliance considerations outlined by the temporary agency contracts.

- Research on workforce and temporary staffing best practices.
- Interviewed Carson City personnel and officials to obtain an understanding of its temporary staffing. Numerous interviews were conducted to obtain an understanding of the processes, key controls, key risks, and opportunities for improvement. The personnel we interviewed were as follows:
  - Karen Leet – Business Manager, Public Works Department
  - Darren Schulz – Director of Public Works
  - Patti Liebespeck – Business Manager, Parks and Recreation Department
  - David Navarro – Parks Superintendent
  - Diane Baker – Business Manager, Library
  - David Aurand – Business Manager, Fire Department
  - Carol Akers – Purchasing and Contracts Administrator
  - Alana Mills – Human Resources Generalist

## AUDIT RESULTS

We evaluated the adequacy of controls and processes related to the usage and management of temporary staff as well as related operational efficiencies and effectiveness in place by performing the following procedures:

- **Compliance**

We obtained and reviewed the applicable laws, regulations, policies, and procedures pertaining to the use of temporary staff and independent contractors. Our initial review noted potential risks with regards to Nevada PERS laws designated in NRS 286, Nevada Labor laws designated in NRS 608, and the Fair Labor Standards Act (FLSA).

*No instances of non-compliance were noted*, however a legal determination of an “employment relationship” existing between Carson City and its temporary workers may indicate non-compliance with both FLSA and NRS 608.

- Specifically, Carson City under NRS 608.19, is subject to Department of Labor considerations involving the “economic reality” of a temporary employee’s relationship to the City. These considerations include items such as permanency of the relationship and the extent that services rendered are integral to Carson City operations.
- FLSA and state laws mandate specific break periods.

This raised potential concerns after an additional evaluation was performed on the 55 of the 77 temporary employees who were not hired. We noted four individuals who had completed two or more assignments over a five-year period with one individual having completed six assignments during that time. Among those individuals, the average down time between assignments was noted as 65 days and the average number of weeks on assignment in total was 111. We further noted, during our review of transaction level activity, concern regarding the lack of documented employment relationship. In this instance, two temporary workers were undergoing unpaid training for a permanent position while also working on temporary assignments.

- **Contract Provisions**

We obtained the two relevant contracts between Carson City and the temporary staffing agency Marathon Staffing for the period of 8/1/2016 to 7/30/2018 and noted that defined performance measures for individual temporary workers were not established. The only performance measure noted between Carson City and Marathon was for periodic communications which were found to have been followed.

- **Planning and Monitoring**

We reviewed the planning and budgeting of temporary staffing needs performed on a department level. This included a review of the monitoring procedures performed as a control over the final amounts spent. Through interviews we noted best practices in place for budgeting and monitoring activities performed on the department level. On a city-wide level finance and procurement staff monitored budgeted amounts appropriately without exception.

- **Transaction Level Activity**

We obtained a system generated report of payments made to the contracted temporary staffing agency over a two-year period from 8/1/2016 to 7/30/2018. We judgmentally selected 20 transactions related to temporary staffing after the population of temporary staffing expenditures were evaluated for risk based on expenditure amounts. We obtained support for the 20 transactions including timesheets, invoices, and purchase orders. We found isolated instances of missing documentation and missing sign offs which were resolved by means of alternative supporting documentation.

Other observations made during our review of transaction level activity found that in one instance 32 hours of overtime was approved for a temporary worker over a one-week period. We also noted the usage of two different timesheet formats across four departments. Break times were also found to have been inconsistently recorded on these timesheets along with seven instances where break times were not recorded at all.

- **Temporary Versus Permanent Staffing**

From the transactional level activity testing (noted above), we identified a total of 77 temporary employees. The review of the 77 temporary employees revealed 22 individuals as either former employees or employees hired to permanent positions after their temporary work. We compared temporary pay rates to permanent pay rates as well as periods of employment. Minor inconsistencies were noted and later cleared after review of pay period detail.

Our analysis of the pay rates given to temporary employees who also served as permanent employees prior to their temporary assignments showed one instance where the bill rate of the employee on temporary contract exceeded the employees former pay rate by \$35 dollars an hour. At an average rate of approximately 10 hours worked per week and a total of 212 weeks worked over a four-year period, we noted an additional cost of approximately \$74,000 dollars for this one employee during the four-year period. We noted that this individual performed executive functions as a department head before moving to a temporary consulting assignment.

An additional cost analysis was performed on the temporary staff not hired to a permanent position with the assumption of an average 20-hour work week being performed by these individuals. Our analysis noted that approximately \$78,000 of additional administrative costs were incurred on 17 temporary employees over a five-year period (performed more than one assignment). Of the 17, approximately \$38,700 or 50% of the cost was incurred by 4 temporary employees who worked more than two assignments. This represents nearly half of the total additional costs incurred.

## **RECOMMENDATIONS**

While the procedures performed indicated that controls were operating as designed, we noted five general recommendations which are presented below, to assist management and the City in strengthening internal controls related to the use of temporary staffing, improving operational efficiencies and effectiveness, and reducing legal risk.

### **Observation 1:**

We noted Department of Labor considerations which may indicate an “employment relationship” between Carson City and the temporary employees the City hires. We noted four contracted individuals who had completed two or more assignments over a five-year period with one individual having completed six assignments altogether.

### **Recommendation 1:**

We recommend the City conduct further evaluation by a legal professional on the legal risks identified from this internal audit.

### **Observation 2:**

We noted a lack of uniformity with regards to format and break time recording among the timesheets reviewed.

### **Recommendation 2:**

We recommend that a single timesheet format be used by temporary workers and for management to implement the requirement to accurately record break periods.

### **Observation 3:**

We noted one instance where 32 hours of overtime was performed by a temporary worker over a one-week period. Policy does not specify the allowable overtime.

### **Recommendation 3:**

We recommend that city-wide policy and individual department policy involving the use of temporary employees in an overtime capacity be included to address the pre-approval needed and a specified number of hours allowed.

### **Observation 4:**

We noted one instance where a former employee was billed at a rate of \$35 more an hour as a temporary employee compared to what the employee was paid as a permanent staff. This is estimated to have cost approximately \$74,000 in additional expenditures over a four-year period.

### **Recommendation 4:**

We recommend that a cost analysis be performed when executive level former employees are brought on as temporary consultants. In such instances an independent contractor arrangement established directly with the employee may be more cost effective than using a temporary staffing agency.

### **Observation 5:**

We noted only one instance where a policy specific to the usage of temporary workers existed, and we found that no training specific to this topic was provided.

**Recommendation 5:**

We recommend city wide policies be drafted to include best practices in planning, budgeting, and management of temporary workers. This recommendation includes the use of training to ensure proper implementation of these policies.