

CARSON CITY AUDIT COMMITTEE
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A regular meeting of the Carson City Audit Committee was scheduled for 3:00 p.m. on Tuesday, March 11, 2008 in the City Hall Capitol Conference Room, 201 North Carson Street, Carson City, Nevada.

PRESENT: Chairperson Richard Staub
Vice Chairperson Ken Brown
Joe Eiben
Pete Livermore
Nick Providenti

STAFF: Sue Johnson, Internal Auditor
Melanie Bruketta, Chief Deputy District Attorney
Kathleen King, 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 public record, on file in the Clerk-Recorder's Office. These materials are available for review during regular business hours.

1. CALL TO ORDER AND DETERMINATION OF QUORUM (1-0007) - Ms. Johnson called the meeting to order at 3:06 p.m. Roll was called; a quorum was present.

2. SWEARING IN OF COMMITTEE MEMBERS (1-0014) - Previously covered.

3. AUDIT COMMITTEE MEMBER INTRODUCTIONS (1-0017) - At Ms. Johnson's request, each of the committee members and City staff provided personal and professional background information and discussed their vision for the committee.

4. DISCUSSION AND ACTION TO ELECT COMMITTEE CHAIR AND VICE CHAIR (1-0420) - Ms. Johnson introduced this item, and called for nominations. **Member Brown nominated Member Staub for chair. Member Livermore seconded the nomination, and moved to close nominations. Member Providenti seconded the motion. Motion carried 5-0.** Member Providenti nominated Ken Brown for vice chair. Member Eiben seconded the nomination. Chairperson-elect Staub called for additional nominations and, when none were forthcoming, closed nominations and called for a vote on the pending nomination. **Nomination carried 5-0.**

5. DISCUSSION AND ACTION TO SET THE MEETING SCHEDULE FOR CALENDAR YEAR 2008 (1-0453) - Chairperson Staub introduced this item. Ms. Johnson provided an overview of the tentative meeting schedule which was included in the agenda materials. Chairperson Staub entertained a motion to approve the meeting schedule. **Member Livermore moved to approve the 2008 meeting schedule. Member Eiben seconded the motion. Motion carried 5-0.**

6. DISCUSSION AND REVIEW OF CARSON CITY MUNICIPAL CODE CHAPTER 2.14 (1-0483) - Chairperson Staub introduced this item, and Ms. Johnson referred to the pertinent agenda materials. She reviewed the purpose and responsibilities of the audit committee, as provided in Section 2.14.020(1), (2), and (3), and Section 2.14.040, respectively. She further reviewed the composition of the committee, as provided in Section 2.14.030. She discussed the significance of having recommended the Finance Director as a committee member. She noted Mr. Providenti's background and experience, and discussed

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the importance of bridging audit functions with operations. She advised of the possibility of bringing other members of City management into the committee, as necessary at various times. Ms. Bruketta requested the committee members to review the Nevada open meeting law, and cautioned them against participating in walking quorums.

7. PRESENTATION BY KAFOURY, ARMSTRONG & CO. REGARDING “NEW AUDIT STANDARDS” (1-0588) - Chairperson Staub introduced this item. CPA Kristen Burgess, of Kafoury, Armstrong & Co., distributed to the committee members and staff a document entitled *The New Audit Risk Assessment Standards* and reviewed the same. She responded to questions of clarification, and discussion took place, regarding risk assessment. She acknowledged a requirement to “audit the auditor.” Discussion took place regarding a “whistle blower line.” Chairperson Staub called for additional questions or comments and, when none were forthcoming, thanked Ms. Burgess for her presentation.

8. DISCUSSION AND ACTION TO PROVIDE RECOMMENDATIONS TO THE BOARD OF SUPERVISORS REGARDING THE APPOINTMENT OF KAFOURY ARMSTRONG AS THE CITY’S INDEPENDENT AUDITORS TO PROVIDE AUDITING SERVICES FOR THE FISCAL YEAR 2008 - 2009 AND TO REVIEW THEIR PROPOSED CONTRACT AND AUDIT FEES OF \$118,350.00 (1-0898) - Mr. Providenti commented on the excellent working relationship between the City and Kafoury, Armstrong & Co. (“Kafoury”). In response to a comment, Ms. Burgess discussed the concept of auditor rotation as endorsed by Sarbanes-Oxley and the Public Company Oversight Board. She explained that the concept applies to the “public arena” and specifies a five-year rotation of auditors, not necessarily the audit firm. Ms. Johnson advised that former Finance Director Tom Minton had submitted the audit contract to the bid process approximately three years ago. Mr. Providenti advised of having received two bids as a result. In response to a question, Ms. Burgess estimated that Kafoury currently manages over 50 governmental contracts.

Member Providenti requested committee approval of the contract prior to presenting it for approval by the Board of Supervisors. He advised that, pursuant to statute, Board of Supervisors approval of the contract is required prior to March 31, 2008. He provided an overview of the contract, copies of which were included in the agenda materials. Ms. Johnson and Mr. Providenti reviewed the contract funding sources, as outlined in the agenda materials. Ms. Johnson explained the differences in fees between last year and this year. Mr. Providenti acknowledged the funding is available to cover the contract fees. Ms. Johnson noted that the new audit standards are “here to stay. Therefore, the impact is increased audit fees” regardless of the audit firm used by the City. Ms. Johnson acknowledged that the new audit standards are included in the contract. In addition, the engagement letters from Kafoury will be included and cited in the contract. In response to a question, Mr. Providenti advised that the contract is fairly standard. Chairperson Staub expressed appreciation for the list of funding sources included with this agenda item. He expressed the belief that the Finance Director or the City Manager should sign off on all contracts. Discussion followed, and Ms. Johnson offered to agendize an item for discussion at a future committee meeting.

Chairperson Staub entertained a motion. **Member Livermore moved that the audit committee recommend to the Board of Supervisors approval of the contract with Kafoury, Armstrong & Co. as the City’s independent auditor for an amount not to exceed \$118,350.00. Member Providenti seconded the motion. Motion carried 5-0.**

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The committee members thanked Ms. Burgess for her attendance and participation. Discussion took place regarding the amount of liability insurance coverage required by the contract. Member Providenti advised that the recommendations outlined in the contract are typical, and additional discussion followed. Chairperson Staub suggested clarifying, in the future, that general liability includes errors and omissions.

9. DISCUSSION AND REVIEW OF “INTERNAL AUDITING HISTORY AND BACKGROUND” ARTICLE PUBLISHED BY THE INSTITUTE OF INTERNAL AUDITORS (1-1202) - Chairperson Staub introduced this item, and Ms. Johnson reviewed the pertinent agenda materials. She noted the differences between operational and financial audits, and operational and program audits. She suggested that the subject article could help shape the audit work plan, and requested the committee members to review the same.

10. DISCUSSION AND ACTION TO DEVELOP THE INTERNAL AUDIT WORK PLAN FOR THE PERIOD APRIL 1, 2008 THROUGH DECEMBER 1, 2008. THE COMMITTEE WILL REVIEW THE STATUS OF THE CURRENT WORK PLAN AND CONSIDER FUTURE AUDITS IDENTIFIED FOR CONSIDERATION (1-1256) - Ms. Johnson provided background information on this item, and reviewed the pertinent agenda materials. She noted that since the audit committee had been established, she would add a completed date to the work plan. She provided background information on the PERS audit, and advised that the compliance requirements for the holiday pay element had been completed. She explained the overtime / call-back element of the audit, and advised that required compliance adjustments for the firefighters had been completed. She anticipates receiving a refund check from PERS in the amount of \$79,713.66. Mr. Providenti advised that a special general fund account has been established to receive the refund. In response to a question, Ms. Johnson explained the difference between overtime and call-back pay, and the circumstances associated with the PERS audit. She reiterated that the compliance requirements for the firefighters have been completed. The audit is proceeding for the rest of the City employees. Ms. Johnson anticipates the largest exposure will be Public Works and the Animal Shelter. She acknowledged the expectation of additional adjustments. Chairperson Staub provided additional explanation of the circumstances surrounding the PERS audit. Discussion took place regarding the method by which to prevent future discrepancies, and consensus of the committee was that oversight should be a departmental function. Chairperson Staub noted the importance of the payroll management system in preventing future discrepancies. Ms. Johnson reiterated that the PERS audit is proceeding for the remaining City employees. At her request, PERS granted an extension of time from March 31st to April 30th. She discussed cooperation between the Finance Department and the Fire Department to accomplish the compliance requirements. In response to a question, Chairperson Staub advised there is a Citywide procedure for time reporting.

Ms. Johnson provided background information on and reviewed the travel and training policy audit, as outlined in the agenda materials. In response to a question, Ms. Bruketta anticipated that the City Manager and the Internal Auditor would attempt to achieve consensus among the elected officials prior to adopting a travel and training policy. She acknowledged that the Library Board of Trustees and the CAMPO would technically be exempt from the policy. Ms. Johnson noted the complexity associated with creating a policy, and pointed out the need for “creating a policy for policies.” She noted the challenge of holding everyone accountable to policies implemented to ensure internal controls. Chairperson Staub advised of constitutional and political issues to consider. He suggested the only thing to do, from a government standpoint, is adopt a prudent policy after having worked with all individuals in order to achieve consensus.

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Chairperson Staub referred to the recommended work in process for the travel and training policy, and entertained a motion to adopt the same, as presented. **Member Eiben so moved. Member Livermore seconded the motion. Motion carried 5-0.**

Ms. Johnson provided background information on the “Audits for Consideration” section of the proposed work plan. Chairperson Staub requested Ms. Johnson to assign risk factors to each of the proposed audits, and to provide an estimate of man hours necessary to complete each audit. Ms. Johnson advised she would provide information on the high risk audit considerations from her perspective. In response to a comment, she suggested discussing the listed audits for consideration at this meeting; that she would prioritize them for review by the committee at the next meeting.

Ms. Johnson provided background information on the proposed audit of the Office of Business Development and Redevelopment. She reviewed the audit work plan, as outlined in the agenda materials, and identified the proposed audit as high risk. The committee members agreed, and discussion followed. Mr. Providenti acknowledged he is the City’s controller by proxy. He noted that Joe McCarthy serves as the redevelopment manager. He further noted there hasn’t been much money in the redevelopment budget for the past five to six years. “It’s basically just paying for some minor programs.” Ms. Johnson discussed the importance of understanding the implications, from a property tax perspective, of extending the redevelopment area. Chairperson Staub advised that the redevelopment audit would be more operational than fiscal. He expressed concern over the lack of operational policies and procedures in conjunction with the redevelopment authority citizens committee, and the method by which expenditures are reviewed and approved. He discussed additional concerns over effective monitoring of the “back side of an incentive package.” He noted the importance of establishing a written process with assigned responsibilities. He agreed that the audit should be prioritized as high risk. Member Eiben noted that the redevelopment authority is bound by the provisions of the City’s comprehensive master plan. Discussion followed.

Ms. Johnson reviewed the proposed audit of the Finance Operation, as outlined in the agenda materials. She discussed the benefits of updated policies and procedures in light of the new auditing standards. Chairperson Staub emphasized the importance of addressing processes and procedures. Member Eiben discussed the possibility of monthly peer meetings. Following discussion, Ms. Johnson referred to the proposal to work with the City Manager and the District Attorney to establish policy and procedure for development, amendment, coordination, and issuance of the City’s administrative policies and procedures manual. She suggested assigning a high risk to the proposal, and discussion followed.

Chairperson Staub reviewed the proposed audits of compensation and benefits policies and procedures, P-card expenditures, follow-up review of call-back coding issues, and the parks and recreation revenues and expenses. Ms. Johnson recommended including the P-card audit with the travel and training policy. Member Livermore advised of three separate incidents of embezzlement by youth sports concessionaires. Discussion regarding the proposed parks and recreation revenue and expenditures audit followed.

In response to a question, Mr. Providenti discussed the proposed ambulance billing and receivables audit. In response to a question, Ms. Johnson advised that the proposed review of charges and payments for the NDOT - Carson City Freeway project was included in the work plan at Supervisor Williamson’s request. Following discussion, Ms. Johnson suggested designating the item for further discussion with Transportation Manager Patrick Pittenger to assess the need for an audit.

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In response to a comment, Mr. Providenti expressed the belief that the external auditors will review the Carson City Airport budget and procedures associated with the \$25 million FAA grant. Chairperson Staub expressed the belief the proposed audit should be designated as a high priority as the Airport Authority does not have sufficient staff to administer \$25 million in grant funding. In response to a question, Ms. Johnson explained the proposed audit for the health and human services grants. Following a brief discussion, consensus of the committee was to include the proposed audit as part of item 11.

Ms. Johnson advised that the P2K system should have been included in item 3 of the list of proposed audits. She provided background information on purchase and implementation of the system, and discussed various options for addressing the subsequent payroll system issues. She advised that “something has to be done ... It is a very large and ... expensive project” that will require a dedicated resource. She discussed the need to resolve a tremendous number of issues associated with policies and procedures, automation, capturing and collecting time, and forecasting budgets and FTEs. She described the overall problem as one of limited resources. Discussion followed, and Ms. Johnson discussed the high risk nature of the proposed audit. Chairperson Staub entertained a motion to direct the internal auditor to review the work plan, as presented, and to report back at the next meeting with additional information regarding the audit plan priorities, potential budget, and time necessary to complete the audits. **Member Livermore so moved.** **Member Providenti seconded the motion. Motion carried 5-0.**

11. DISCUSSION AND ACTION TO RECOMMEND THAT THE BOARD OF SUPERVISORS APPROVE THE PROPOSED FISCAL BUDGET FOR THE INTERNAL AUDIT FUNCTION FOR FISCAL YEAR 2008 - 2009 (1-3062) - Chairperson Staub introduced this item, and Ms. Johnson reviewed the pertinent agenda materials. **Member Livermore moved to recommend adoption of the budget preparation worksheet for the internal audit position.** **Member Eiben seconded the motion.** Chairperson Staub suggested making the recommendation based upon the City’s current fiscal constraints. Ms. Johnson provided background information on the method by which the proposed budget was formulated. She expressed understanding of the City’s financial constraints, and advised of no problem reducing the budget by the five percent merit, given other consideration. Chairperson Staub suggested making the recommendation and dealing with any issues at the Board of Supervisors level. He called for a vote on the pending motion. **Motion carried 5-0.**

12. PUBLIC COMMENT (1-3179) - None.

13. ACTION ON ADJOURNMENT (1-3192) - Member Providenti moved to adjourn the meeting at 5:27 p.m. Member Livermore seconded the motion. Motion carried 5-0.

The Minutes of the March 11, 2008 Carson City Audit Committee meeting are so approved this 8th day of April, 2008.

RICHARD STAUB, Chair