

## **CARSON CITY AUDIT COMMITTEE**

### **Minutes of the May 13, 2008 Meeting**

**Page 1**

A regular meeting of the Carson City Audit Committee was scheduled for 3:00 p.m. on Tuesday, May 13, 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)** - Chairperson Staub called the meeting to order at 3:02 p.m. Roll was called; a quorum was present.

**2. ACTION ON APPROVAL OF MINUTES - April 8, 2008 (1-0012)** - Member Livermore moved to approve the minutes. Member Eiben seconded the motion. Motion carried 5-0.

**3. DISCUSSION AND POSSIBLE ACTION REGARDING APPROVED AUDIT WORK PLAN FOR THE PERIOD APRIL 2008 THROUGH JUNE 2009 (1-0044)** - Ms. Johnson reviewed the monthly status report, copies of which were distributed to the committee members and staff prior to the start of the meeting. In response to a question, she explained Supervisor Aldean's request for the committee to prioritize audits rather than designating them by "risk assessment." She advised of having received no response from the Board of Supervisors to the "initiating letter" sent in conjunction with the redevelopment authority audit. With regard to the letter initiating pre-conference sent to the City Manager and Business Manager Joe McCarthy, Ms. Johnson advised that Mr. Werner indicated he would not be in attendance at the pre-conference meeting. Mr. McCarthy has scheduled a 30-minute meeting with Ms. Johnson on May 14<sup>th</sup>. Ms. Johnson advised of having received an e-mail from Mr. McCarthy advising that his schedule is very full at this very busy time of the year. She suggested initiating a second audit with the anticipation that the redevelopment authority audit is going to proceed slowly. She responded to questions of clarification regarding the initiating letters. She advised of being approximately halfway through the benefit providers' quarterly review. She further advised that the monthly scope reviews appear to be working, and that in-house procedures have been endorsed and are being enforced.

Ms. Johnson reviewed the special request portion of the monthly status report. In response to a question, she reviewed details of the monthly sales tax report to the Mayor. Chairperson Staub advised of having participated in a recent meeting with Ms. Johnson and Mayor Teixeira. He suggested that the report should be provided to all members of the Board of Supervisors in order to ensure a clear understanding regarding revenue impacts to the City. Following a brief discussion, Ms. Johnson expressed a preference to incorporate the report with the information provided to the Board of Supervisors by Finance Director Nick Providenti. Additional discussion took place, and Member Providenti agreed to incorporate the requested

## **CARSON CITY AUDIT COMMITTEE**

### **Minutes of the May 13, 2008 Meeting**

**Page 2**

information in the report he provides to the Board of Supervisors. Ms. Johnson offered to provide him the report format, and Member Providenti agreed to provide Ms. Johnson a copy of the report. In response to a comment, he expressed a willingness to “discuss anything with anybody at any time.”

Ms. Johnson continued reviewing the monthly status report at the section entitled “Initial Projects Assigned in October 2007.” She advised of productive meetings with the City Manager regarding the P2K system. The City Manager’s direction to the Finance Director and the Human Resources Director included the need to identify primary processes and business critical functions from the payroll and human resources perspectives. Ms. Johnson advised that the P2K users have indicated the system is very complicated. She noted the issue of increasing complications “in terms of processing and maintaining the system from a user perspective.” She provided examples of processing complications, from the users’ perspective, and advised that the users have described the system as “a foreign language.” She advised of having discussed the proposal to visit another community and evaluate the system from a user’s perspective. She further advised of having received input, both from payroll and human resources user perspectives, that the system requires a “programmer-type mentality in the day-to-day operations.” The current payroll coordinator has the knowledge and ability, but Ms. Johnson pointed out these qualifications are “over and above” what would normally be required for the position. She advised that the human resources user does not possess the same qualifications.

In response to a comment, Ms. Johnson reiterated the requirement for a “programmer mentality” in order to operate the P2K system. She provided additional examples, and advised that the issues weren’t as apparent a year ago. She reiterated that the biggest user concern is how the operational problems seem to be compounding as time goes on. She advised that the P2K vendor has indicated to the City they will no longer support the existing release. She pointed out that an upgrade will require a financial commitment and, more importantly, a resource commitment. Member Providenti advised that the City is “actually paying for HTE anyway ...” because the old data is on the HTE system. He acknowledged there will be a great deal of work “either way;” data would have to be converted back to the HTE system and into the P2K system. He acknowledged that P2K is not a “one do it all system.” Member Eiben expressed the opinion there won’t be a “one do it all system.” He suggested considering the number of staff hours required to keep the system operational from the user and IT perspectives.

Ms. Johnson discussed a recommendation to clearly define processing in human resources and payroll, take that information, and submit it to P2K and HTE as part of a request for proposal process. Based on the responses to the requests for proposal, the City Manager would provide a recommendation to the Board of Supervisors. Ms. Johnson noted that either option will require hiring resources to assist in implementation. She anticipates the City Manager will submit the recommendation to the Board of Supervisors at the second meeting in June. In response to a comment, Member Providenti advised that the hardware and software is already in place for both systems. In response to a question, Ms. Johnson advised that staff of the Information Technology, Finance, and Human Resources Departments will be involved in the process in addition to hiring staff. She further advised that “it’s going to cost some money either direction ...” A long-term solution needs to be determined. Member Eiben discussed the importance of each of the involved departments budgeting extra time for the project. Ms. Johnson advised that the subject issue has been designated, by the Information Technology Director, as one of three top priorities.

## **CARSON CITY AUDIT COMMITTEE**

### **Minutes of the May 13, 2008 Meeting**

**Page 3**

Chairperson Staub expressed concern with regard to the method by which to evaluate the P2K system when no one really knows how it works. Ms. Johnson expressed the belief there may never be an answer to the question because the City doesn't have the in-house sophistication to properly operate or utilize the system. In response to a question regarding the possibility of outsourcing, Member Providenti noted the six or seven bargaining units which would pose an additional difficulty. Member Livermore suggested outsourcing to another municipality. Chairperson Staub advised that ADP has expressed an interest in providing a demonstration. He noted that the previous suggestion to send City users to a similar municipality to see a P2K demonstration is precluded by the fact that no one knows how to operate the system. Member Eiben noted that every city will have unique aspects to its system, as pointed out by Member Providenti. He expressed support for outsourcing unless the City chooses to go back to a very basic system. Ms. Johnson advised that the users have expressed a preference for the HTE system. Discussion followed, and she expressed the opinion that the primary user is the payroll division of the Finance Department. Based on research and analysis, she expressed the belief that the finance function needs to direct the remedy to the problem. She expressed the further belief that payroll software should be on the same platform as the rest of the City's financial systems. She expressed the further belief that the system should be converted back to HTE "because their software does provide ... the same capabilities that the current P2K system does." Chairperson Staub discussed the importance of having conducted due diligence to determine the capabilities of the P2K system and the cost-effectiveness of converting back to HTE or outsourcing. He expressed support for the recommendation to pursue the request for proposal process. Member Eiben suggested including the possibility of outsourcing in the RFP.

Member Providenti acknowledged that one reason for purchasing the P2K system was to provide human resources and self-reporting access to the employees. Member Livermore noted that the HTE system does not have these capabilities, and suggested the P2K system may need further evaluation. Member Providenti advised that none of the P2K human resources modules are being used. Following a brief discussion, Ms. Johnson reviewed costs associated with purchase of the P2K system. Member Providenti provided additional information, and noted that the system was "built from the bottom up." He acknowledged it was not a "canned program." Chairperson Staub inquired as to the value of the license in consideration of the possibility of selling it. Member Providenti offered to check into the possibility. In response to a question, Ms. Johnson reiterated that the RFP recommendation will be presented to the Board of Supervisors.

Ms. Johnson reviewed the Travel and Training Policy portion of the monthly status report. She advised that the City Manager has indicated he will use a hybrid of the three travel policies, listed in the report, to create a new draft policy.

Ms. Johnson reviewed the PERS Audit Compliance portion of the monthly status report. She advised of having met last week with the PERS auditors, who provided guidance with regard to the call-back pay documentation. The audit will be completed on June 15<sup>th</sup>. She advised of a meeting, scheduled for Wednesday, May 21<sup>st</sup>, to discuss PERS revised policy as pertinent to call-back pay. Representatives from the City's Human Resources, Finance, and Fire Departments will attend the meeting together with Ms. Johnson. Ms. Johnson anticipates the proposed revisions will be complicated in terms of enforcement, and advised that she would discuss the detail with the committee at the next meeting. She advised that PERS auditors have indicated they will be performing another three-year audit of the City beginning next year. She acknowledged that a Firefighters Union representative will attend the meeting with the PERS auditors.

## **CARSON CITY AUDIT COMMITTEE**

### **Minutes of the May 13, 2008 Meeting**

**Page 4**

Ms. Johnson provided an overview of the regular meetings she attends as well as her time allocation, as outlined in the monthly status report. She advised of the target to have direct time allocated at approximately 50%, and noted she is “on schedule for that objective.” Chairperson Staub thanked Ms. Johnson for her report.

(1-1161) Chairperson Staub provided background information on his questions regarding the Kafoury, Armstrong annual audit. He noted that audit ground rules are usually established, and anticipated that the City Manager would want to provide direction regarding appropriate responses from department heads. He pointed out that a request for information was made, on April 29<sup>th</sup>, to the Economic Development / Redevelopment Department. He further noted that there has been no response as of this date. He suggested meeting with the department head to establish a time line within which the department will respond to the various items listed in the April 29<sup>th</sup> letter. He expressed concern there may be little or no response from the auditee prior to the next meeting. He expressed opposition to allowing any individual or department to “stonewall [the committee’s] charter obligation.” Ms. Johnson reviewed the process for scheduling the pre-audit meeting, and advised that she would, in the future, be scheduling pre-audit meetings personally. She advised of having hand-delivered the pre-conference letter. She expressed a preference to have had a two-hour block of time, but expressed a willingness to meet with the department head for the allotted thirty minutes.

Vice Chairperson Brown expressed concern that the audit may drag out based on the auditee’s response thus far. He expressed confidence that Ms. Johnson could communicate the audit program to Business Development Manager Joe McCarthy and that he could provide all the necessary information. He suggested Mr. McCarthy didn’t need to be directly involved in the audit process until such time as Ms. Johnson needs to meet with him again. Discussion took place with regard to reaching a time line agreement between the auditor and the auditee. Chairperson Staub suggested that he and Member Livermore meet with the City Manager regarding the issues associated with the redevelopment audit. He entertained a motion. **Member Eiben moved for Supervisors Livermore and Staub to converse with the City Manager in respect of moving forward with an audit and to establish time lines for the current and future audits. Vice Chairperson Brown seconded the motion. Motion carried 5-0.**

**4. UPDATE PERTAINING TO KAFOURY, ARMSTRONG & CO.’S ANNUAL AUDIT FOR THE FISCAL YEAR ENDING JUNE 30, 2008** (1-0999) - Ms. Johnson advised that Kafoury, Armstrong & Company representatives have been at the City offices this week to perform the risk assessment portion of their audit. In terms of the City Auditor’s function, the Kafoury, Armstrong representative has asked to review the work plan and detail of the projects discussed as part of agenda item 3. Ms. Johnson will be providing summaries of the travel and training policy, the P2K system, and the PERS audit.

Member Providenti advised that the Kafoury, Armstrong auditor has met with staff of the Public Works Department, the courts, the Building Division, the Sheriff’s Office, and the Fire Department. He speculated that the auditor is familiarizing himself with each department’s procedures. He advised of having spoken with the auditor regarding the method by which the City issues debt. The Kafoury, Armstrong auditor will speak with Finance Department staff regarding payroll processes, and the Treasurer’s Office staff regarding collection processes. The auditor is in the process of documenting internal control processes. Member Providenti acknowledged there will be a management letter at the end of the audit process “depending upon what he finds.” He advised of having requested the auditor to share his work papers. In response to a question, he advised that Kafoury, Armstrong is performing “a normal financial audit ... just expanded”

**CARSON CITY AUDIT COMMITTEE**  
**Minutes of the May 13, 2008 Meeting**  
**Page 5**

based on the new auditing standards. He advised that City management has been informed of the audit. He responded to questions regarding the auditor's process. In response to a further question, Ms. Johnson advised that the October audit will be established based on the details identified by the Kafoury, Armstrong auditor as part of the risk assessment. Member Providenti anticipates providing an update at the June committee meeting.

**5. PUBLIC COMMENT (1-1382) - None.**

**6. ACTION ON ADJOURNMENT (1-1384) - Member Livermore moved to adjourn the meeting at 4:16 p.m. The motion was seconded and carried 5-0.**

The Minutes of the May 13, 2008 Carson City Audit Committee meeting are so approved this 10<sup>th</sup> day of June, 2008.

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RICHARD S. STAUB, Chair