

CARSON CITY AUDIT COMMITTEE
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A regular meeting of the Carson City Audit Committee was scheduled for 4:30 p.m. on Wednesday, March 24, 2010 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

PRESENT: Chairperson Pete Livermore
Vice Chairperson Ken Brown
Member Michael Bertrand
Member John McKenna
Member William Prowse

STAFF: Larry Werner, City Manager
Nick Providenti, Finance Department Director
Melanie Bruketta, Chief Deputy District Attorney
Nicola Neilon, CPA, Contract Internal Auditor
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 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 (4:30:37) - Chairperson Livermore called the meeting to order at 4:30 p.m. Roll was called; a quorum was present. Member Prowse arrived at 4:34 p.m.

3. ACTION ON APPROVAL OF MINUTES - November 10, 2009 (4:31:09) - Vice Chairperson Brown moved to approve the minutes. Member McKenna seconded the motion. Motion carried 4-0.

4. ADOPTION OF AGENDA (4:31:46) - Chairperson Livermore entertained modifications to the agenda and, when none were forthcoming, deemed it adopted.

5. PUBLIC COMMENTS AND DISCUSSION (4:32:07) - None.

6. REVIEW AND DISCUSSION OF THE NEVADA OPEN MEETING LAW (4:32:17) - Chairperson Livermore introduced this item. Ms. Bruketta invited the committee members to attend the Ethics in Government and Open Meeting Law presentation scheduled for Tuesday, March 30th. She reviewed the provisions of the Nevada Open Meeting Law, emphasizing the definition of a public body, and the requirement for a quorum in order to conduct an official meeting. She reviewed the definition of "deliberation," as follows: "discussing or acquiring or exchanging facts on an issue." [Member Prowse arrived at 4:34 p.m.] Ms. Bruketta cautioned the committee members against serial communications, as these are considered "constructive quorums." She provided an explanation of the same. She discussed the requirement for the meeting agenda to set forth "clearly and concisely what you intend to discuss" at the open meeting. She cautioned the committee members against serial communications via e-mail, and requested them to avoid communicating with each other by e-mail. She clarified that City staff may send e-mail to the committee members. She requested the committee members to refrain from responding to e-mail from City staff, but clarified, if there is a need to respond, to do so directly to the individual who sent the e-mail without replying to all the e-mail recipients. She reiterated the invitation to attend the Ethics in Government and Open Meeting Law presentation scheduled for Tuesday, March 30th. She re-emphasized the importance of refraining from serial communications, especially via e-mail.

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Discussion followed, and Ms. Bruketta advised that Open Meeting Law complaints are processed by the Nevada Attorney General. Mr. Werner emphasized the committee's business is public record, and cautioned "there is no confidentiality in anything that we do." Additional discussion followed, and Chairperson Livermore thanked Ms. Bruketta and Mr. Werner.

7. DISCUSSION AND POSSIBLE ACTION ON THE AUDIT COMMITTEE'S ROLE IN WORKING WITH A CONTRACT INTERNAL AUDITOR (4:39:07) - Chairperson Livermore introduced this item. Ms. Neilon introduced herself and provided background information on her experience. Chairperson Livermore reviewed the agenda report. Mr. Werner introduced himself, and explained his role and the role of the internal auditor relative to the committee. Chairperson Livermore noted discussion, at the November 2009 committee meeting, regarding a committee charter and the need for a risk assessment. He suggested these items "will be the driving responsibility of what the process will take place ..." He invited the committee members to provide input with regard to the process.

Vice Chairperson Brown expressed the opinion that the risk assessment, to be conducted by Ms. Neilon, should address internal control issues. He suggested that interviews with various department heads will provide a sufficient overview of department procedures. He suggested working together with Ms. Neilon "to get a view of what she has in mind."

Member Prowse expressed an interest in "the process; the interaction between the internal auditor and the audit committee in this open environment." In response to a question, Ms. Bruketta explained that the committee is advisory to the Board of Supervisors. Using risk assessments as an example, she explained that the committee would develop a proposed risk assessment and forward it as a recommendation for adoption by the Board of Supervisors. She expressed the understanding that the internal auditor would then begin working on an audit. Member Prowse explained the process of an internal audit, with its defined components, and expressed a preference for "at least periodic interaction with the auditor during the process ..." Ms. Bruketta advised that the internal auditor will keep the committee apprised as to the status of each ongoing audit. Any action by the committee to discontinue an audit would need to be forwarded to the Board of Supervisors as a recommendation. Discussion followed, and Member Prowse noted the importance of "fluidity" from the cost / benefit standpoint of the audit process. Additional discussion took place with regard to the committee's role in working with the internal auditor.

In response to a question, Mr. Werner provided background information on the request for proposals process relative to hiring the contract internal auditor. He explained that each audit will be conducted based on submittal of tasks. He acknowledged that the committee can begin to define the internal auditor's tasks at the next meeting, and discussed a possible approach. Member Prowse acknowledged that Mr. Werner's description would address the developmental aspects of the audit process. Chairperson Livermore suggested that, as the agenda is completed, "there will be direction given to the auditor to accomplish this and that and, at that point in time, she'll bring that back and we'll agree to the tasks" as outlined in the contract. Mr. Werner acknowledged that tasks assigned to the internal auditor must also be submitted as recommendations to the Board of Supervisors.

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In response to a question, Ms. Bruketta advised that all communication relative to committee business is required to be compliant with the provisions of the Nevada Open Meeting Law. She clarified that the committee members are allowed to contact Ms. Neilon with questions which she is allowed to answer. She reiterated the recommendation to avoid communicating via e-mail, and reiterated the caution against serial communications. Member McKenna expressed no problem with the committee members contacting Ms. Neilon with questions. He expressed opposition to any committee member providing any type of direction to Ms. Neilon outside of a formal open meeting. He suggested there should be very little interaction between Ms. Neilon and individual committee members. He further suggested that Ms. Neilon was hired because of her expertise and professional credentials; that she will address tasks as assigned by the committee.

In response to a question, Mr. Werner advised that, relative to establishing meeting agendas, he will be in contact with Ms. Neilon and Chairperson Livermore. In response to a further question, he advised that, in the event Ms. Neilon met with resistance from any department head in conjunction with conducting an audit, she should contact the City Manager. Beyond that, she would need to contact the Board of Supervisors. Discussion followed, and Mr. Werner acknowledged that the committee chair has the responsibility to approve the agenda prior to posting. Ms. Bruketta advised that "if the internal auditor feels it necessary to brief one member of the audit committee, then she should brief the entire audit committee."

Member Prowse reiterated the importance of periodic interaction between the committee and the internal auditor during the process of each audit. He explained that internal audits "almost always identify issues that are not anticipated. To expect the auditor to pursue the original topic when that is determined to be inconsequential and another topic comes up that is significant, is a waste of public money." Discussion followed, and Ms. Bruketta offered to research the method by which other municipalities conduct internal audits.

In consideration of the committee being advisory to the Board of Supervisors and supervisory to the internal auditor, Member Bertrand expressed concern with regard to micro-managing the internal auditor. He suggested the role of the committee should essentially be to "set the task and get some feedback." He further suggested that Ms. Neilon could bring to the committee's attention any need for a change in the process of an internal audit via progress reports.

Member McKenna reiterated concern over anyone providing direction to Ms. Neilon outside a formal committee meeting in consideration of "the appearance of impropriety." He discussed the importance of "rigidity" in consideration of the public's trust; "not just normal public trust, but we're the audit committee." Ms. Neilon suggested that the audit program can be designed to include exploratory tasks. "If those tasks don't identify any issues, they stop at that point." She suggested that tasks can be designed with "some fluidity ... and a graduated process so that it doesn't mean we're going to go in and do a full-blown audit ... It'll be more of a progressive audit ..."

Member Prowse expressed agreement with Member McKenna's suggestions in that "there should be one body, as a group, making a decision." Member Prowse reiterated the importance of periodic progress reports in order to address issues during the progress of an audit. He expressed concern over creating a rigid structure. Chairperson Livermore acknowledged that the committee's purview includes operational and management issues.

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Mr. Werner acknowledged sufficient direction from the committee. At Chairperson Livermore's request, Mr. Werner agreed to work with Ms. Neilon to develop a flow chart and an action plan. Chairperson Livermore requested Mr. Werner to agendize a corresponding item for the next meeting's agenda. Consensus of the committee was that no formal action was necessary.

8. DISCUSSION AND POSSIBLE ACTION ON CONDUCTING A RISK ASSESSMENT
(5:09:25) - Chairperson Livermore introduced this item. Ms. Neilon advised of risk assessments developed by Kafoury, Armstrong & Associates. She discussed decentralized operations as a potential consideration for the risk assessment. In response to a question, Member McKenna expressed concern over the pending budget cuts and "removal of people from positions that they've occupied." He discussed specific concerns over "the change in knowledge and the contraction of offices" creating "inherent risk." He suggested a critical need to review changes that are taking place in City government to ensure there is no increased vulnerability. Member Prowse agreed this would represent an aspect of risk. In consideration of operational risk, he noted the importance of efficient and effective performance. He noted the "huge potential for fraud as organizations contract." He noted the purpose of operational audits to ensure an organization's purpose is being met and that services are being provided to the public. Member Bertrand expressed a preference to consider performance, service effects and accomplishments, the cost of services, and to develop key indicators "so that in the future we can know a percentage or when things may be incongruous." At Chairperson Livermore's request, Mr. Werner provided an overview of the balanced scorecard process to understand roles and costs. He advised that the project is still "in its infancy," and that data is in the process of being gathered. He expressed support for considering "whether we're doing our checks and balances correctly."

Vice Chairperson Brown expressed agreement with previously-expressed concerns over safeguarding assets as the organization contracts. Mr. Werner provided an overview of City structure with regard to the elected and appointed officials and their respective departments. Member McKenna expressed support for tasking the internal auditor with "look[ing] over our shoulder upon this transition." He reiterated that the City will change operationally and financially. He expressed the opinion that the best use of an internal auditor's time is to advise the City Manager on how best to make the transition to fewer employees; "not who should go but how the new departments operate." Mr. Werner commended the suggestion, expressed appreciation, and advised that he would seriously consider it.

Member Prowse inquired as to whether the internal auditor would have access to elected officials' departments. Ms. Bruketta suggested that the internal auditor and the audit committee "would want to get cooperation from the elected officials." She further advised of certain areas in the District Attorney's Office that are confidential and to which the contract internal auditor would not have access. She advised that the confidential information is audited by another entity, and cited criminal history backgrounds as an example.

Chairperson Livermore suggested a motion to direct the City Manager to work with the internal auditor to bring back to the committee a risk assessment with the guidelines discussed during this meeting. Member McKenna suggested a motion that the City Manager work with the contract internal auditor to review and identify vulnerabilities that occur because of the reduction in staff. Mr. Werner suggested this could be reduced into a task to be ratified by the committee. Ms. Neilon suggested, "as we're going through and identifying areas of concern to bring back to the committee, we could look at departments that have had a significant staffing shortage and include that as part of the risk assessment component so that as we bring

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these potential areas to you for decision, that is one of the criteria" upon which to base a decision. Member McKenna discussed the importance of utilizing the contract internal auditor's fees as efficiently as possible to ensure a smooth transition. Mr. Werner discussed the method by which to accomplish reducing Member McKenna's suggestion to a internal audit task. Member Prowse suggested considering Member McKenna's suggestion as a task, "but go through the risk assessment process ..." Chairperson Livermore suggested recommending to direct the City Manager to work with the internal auditor to develop and bring back to the committee a risk assessment with identified tasks which the committee could eventually agree to present to the Board of Supervisors for audit function. Mr. Werner acknowledged understanding of the direction.

Chairperson Livermore entertained a motion. **Member Prowse so moved. Member Bertrand seconded the motion.** At Member McKenna's request, the recording secretary read the following motion into the record: "move to direct the City Manager to work with the internal auditor to develop and present to the committee a risk assessment with tasks that the committee can recommend to Board of Supervisors." Chairperson Livermore entertained additional discussion and, when none was forthcoming, called for a vote on the pending motion. **Motion carried 5-0.** Chairperson Livermore advised "that will be the subject of discussion for our next audit committee ..."

9. DISCUSSION AND ACTION TO SCHEDULE THE NEXT AUDIT COMMITTEE MEETING (5:30:34) - In response to a question, Mr. Werner explained that the ordinance creating the committee requires quarterly meetings, but advised that meetings can be scheduled more often, if necessary. Chairperson Livermore requested input of the committee members with regard to the best day and time for committee meetings. Following a brief discussion, consensus of the committee was to schedule meetings at 4:30 p.m. on Mondays or Tuesdays depending upon meeting room availability.

10. ACTION TO ADJOURN (5:32:18) - Member Prowse moved to adjourn the meeting at 5:32 p.m. Member Bertrand seconded the motion. Motion carried 5-0.

The Minutes of the March 24, 2010 Carson City Audit Committee meeting are so approved this _____ day of June, 2011.

