

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, November 29, 2011 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

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

STAFF: Nick Providenti, Finance Department Director
Kim Belt, Purchasing and Contracts Manager
Randal Munn, Chief Deputy District Attorney
Tamar Warren, Deputy Clerk / Recording Secretary
Transcribed by: Deputy Clerk / Recording Secretary Kathleen King

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 DETERMINATION OF A QUORUM (3:00:00) - Chairperson Bertrand called the meeting to order at 3:00 p.m. Member McKenna called the roll; a quorum was present.

3. PUBLIC COMMENT AND DISCUSSION (3:00:38) - Chairperson Bertrand entertained public comment; however, none was forthcoming.

4. POSSIBLE ACTION ON APPROVAL OF MINUTES - September 27, 2011 and October 25, 2011 (3:01:11) - Member McKenna moved to approve the minutes of September 27, 2011, as submitted. Vice Chairperson Prowse seconded the motion. Motion carried 5-0. Member McKenna moved to approve the minutes of October 25, 2011. Vice Chairperson Prowse seconded the motion. Motion carried 5-0.

5. POSSIBLE ACTION TO ADOPT THE AGENDA (3:02:42) - Chairperson Bertrand entertained a motion to adopt the agenda. **Vice Chairperson Prowse so moved. Member Parvin seconded the motion. Motion carried 5-0.**

6. INVITATION TO INTERNAL AUDITOR CANDIDATES LORRAINE BAGWELL, PIERCY BOWLER TAYLOR AND KERN, AND MOSS-ADAMS, LLP, TO GIVE A BRIEF, THREE-MINUTE STATEMENT AND TO ANSWER QUESTIONS FROM THE AUDIT COMMITTEE; COMPETING CANDIDATES SHALL BE EXCLUDED FROM THE PUBLIC MEETING UNTIL THEY HAVE COMPLETED THEIR QUESTION AND ANSWER PERIOD; and 7. POSSIBLE ACTION FOR EACH COMMITTEE MEMBER TO PUBLICLY RANK THE CANDIDATES; FOR THE CHAIRMAN TO TALLY THE RANKING, AND TO CALL FOR A MOTION AND A VOTE TO RECOMMEND TO THE BOARD OF SUPERVISORS THE HIGHEST-RANKED CANDIDATE; THE PROCESS WILL BE REPEATED UNTIL ONE CANDIDATE RECEIVES A MAJORITY VOTE FOR RECOMMENDATION (3:03:16) - Chairperson Bertrand introduced this item, and commended Ms. Belt on the request for statements of qualification processes. He expressed the hope that one of the three candidates would be recommended to the Board of Supervisors. At his request, Ms. Belt and Mr. Munn provided an overview of the interview process.

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At Mr. Munn's request, Ms. Belt advised that staff will request Board of Supervisors' authorization to negotiate, together with one member of the Audit Committee, with the recommended candidate. In response to a question, Mr. Munn requested the committee members to write their names on the scoring sheets in order that they could be provided to the Clerk for inclusion in the public record. He provided an overview of the tally process to be conducted by the chairperson. "... the chairman would tally those, determine whether he's got someone who's falling as the highest recommended candidate, and then call for a vote on that. If the ... committee members can't agree with the majority on that recommendation, then you would move to the second highest scored candidate and try the same process until you either agree or come to a complete impasse." He acknowledged there will be no rescoring of the candidates.

In response to a question, Ms. Belt advised that the request for statements of qualification process included notification of the \$110,000 budget allocation. Chairperson Bertrand summarized the interview, deliberation, ranking, and recommendation process. He requested the committee members to ask the same questions of every candidate, unless questions of clarification are necessary. Mr. Munn advised that questions specific to a candidate's statement of qualification would be appropriate. He agreed that general qualification questions should be consistent for every applicant.

At Chairperson Bertrand's request, the candidates present left the meeting room. (3:08:52) Ms. Belt introduced Moss-Adams, LLP Advisory Services Managing Partner Tom Krippaehne, who was present by telephone conference call. Mr. Krippaehne provided background information on Moss-Adams, LLP Advisory Services, as outlined in the statement of qualifications included in the agenda materials. In response to a question, Mr. Krippaehne discussed the intent to develop an annual scope of what you hope to accomplish. "Based upon the scope of work, the particular engagements or projects, we then write work plans for each and scope the number of hours and identify the particular staff that are required to work on those particular projects. If we can staff locally, we do so. If you require specialists, we bring the specialists to the table but, as you can tell, my answer is partially scope driven. If we can staff locally, the out-of-pocket costs are often in the range of five percent. If we staff out of the region, it can be upwards of 15 percent. The amount of travel is heavily dependent on the scope; that's for sure. We usually don't camp out at cities, whether we're in the same city or not, for weeks on end. We usually are in and out in a matter of days but, again, it's heavily scope dependent. The field work is especially important ... for us to be on site. The analysis and reporting can often be done ... from a distance. ... We typically attend Audit Committee once ... a month ..." In response to a question, Mr. Krippaehne advised that if expenses can be shared among clients, he does so appropriately. He advised that consideration has been given to hiring more people in Nevada, but no decision has yet been made.

Chairperson Bertrand inquired as to the differences in approach between a performance and a financial audit. Mr. Krippaehne advised that "every single project, whether it's a performance audit, a financial audit, or an internal control audit all have work programs or a work plan that we produce. It depends on ... the complexity of your environment, the particular subject matter and numbers of issues, the numbers of locations that we visit, the numbers of people we talk to ... So, again, when we put together particular work plans, we're identifying all the tasks involved for that particular engagement or project as well as the staff. We estimate hours by task, total up the hours, and arrive at a fee. When we block projects, we're able to give you more discounted rates. So ... for the proposal ..., I estimated a regional governmental rate structure that we thought would be competitive and that we could live with for Carson City."

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In response to a question, Mr. Krippaehne advised that there is usually no need to request access to the City's technology system. He discussed exceptions, however. Vice Chairperson Prowse advised that the City currently has no adequate risk assessment process or annual audit plan. In response to a question, Mr. Krippaehne expressed the opinion that "that is the place to start and that is normally the place we start with our governmental clients. ... We can easily accommodate that. In fact, we often teach our clients, in the governmental space, how to go about doing that. There would need to be discussions about how formal and extensive you want to go through in that process." Mr. Krippaehne acknowledged that his staff is trained in IIA Standards. "Again, it is noteworthy, ... that you want to stay true to the principles of IIA. They provide you a great framework, but that framework is meant to be scaled to your environment as long as you stay true to the intent and basic principles and standards in their methodology." In response to a further question, Mr. Krippaehne expressed a willingness to provide performance audit samples and preparatory records to the City. "It is worth noting that a future discussion that we'll have to have if you select Moss-Adams ... is to understand your goals in how much ... internal audit infrastructure you want to set up. ... if you follow the standards closely, you will build a document retention system that supports the internal audit. That is where ... you could provide access to whoever's involved. ... You'll need to make some decisions of how extensive of a document and computing infrastructure you want to build within the City to support that. If you don't want to build it in the City, ... we do that for you ... at our firm and we'll have to talk about how you share documents there. That's a discussion yet to come ..."

At Chairperson Bertrand's request, Mr. Krippaehne described previous engagements that best "fit what our situation is and what we're requesting here in Carson City ..." He expressed the understanding that Carson City is more focused on performance audits for the purpose of improving efficiency and effectiveness. In response to a question, Mr. Krippaehne provided background information on the figures reflected on page 20 of the statement of qualifications. He emphasized that the figures represent "a stake in the ground, a benchmark, a starting point. It was kind of a shot in the dark not knowing your work scope." Vice Chairperson Prowse advised that there is currently no internal audit function in the City, and provided background information with regard to the same. He discussed the City's direction toward performance measures relative to the strategic plan.

Chairperson Bertrand entertained additional questions and, when none were forthcoming, thanked Mr. Krippaehne for his participation. Ms. Belt advised Mr. Krippaehne of the option to stay on the line and listen to the other interviews. Mr. Krippaehne thanked the committee for the opportunity to interview.

Chairperson Bertrand invited Lorraine Bagwell to the podium. (3:31:30) At Chairperson Bertrand's request, Ms. Bagwell reviewed her experience, qualifications, and interest in the position, as outlined in the response to the statement of qualifications included in the agenda materials. At Chairperson Bertrand's request, she described an experience, as Deputy Director of the Department of Corrections, which parallels the City's needs relative to an internal auditor. In response to a question, Ms. Bagwell advised that "the State had the required documentation that we had to do for internal control reviews and reports for performance and so I've done four of those ... And then while I worked for the State Budget Office, I actually worked in an environment in which I was a part of a response ..." In response to a further question, she expressed a willingness to provide documentation if the records are in the public domain.

Vice Chairperson Prowse advised that Carson City does not currently have an audit plan. In response to a question, Ms. Bagwell advised of having attended "several Board of Supervisors meetings since [she's] been retired. I've been spending a lot of time at the boards. I've been reviewing documents, looking at contract proposals, and I would say I definitely have a beginning plan. Whether or not it will be the ultimate end result ... I think that you have a strategic plan in the City. I think that you have a scorecard

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... I think that you have some great department heads, and I think I would start with trying to marry the documents to find any gaps right off the top and then come to you, as the Audit Committee, as my team to say, 'Do we want to fill in the gaps and make sure that every department or activity in the City has a performance?;' how to even measure if they're doing a good job. We could start there and oftentimes when you start doing that, then things will develop that might change the original plan that you had. But I certainly would try to find the gaps first and then I would use your scorecard that ... already has red lights or stop signs that tell you those may be potential problem areas that need some work. So maybe we could start with the red stop signs."

Vice Chairperson Prowse inquired as to Ms. Bagwell's experience with the Institute of Internal Audit Standards. Ms. Bagwell advised that she is not a licensed CPA, but "I definitely have worked in governmental accounting my entire career and ... I've seen Bill in a state audit. ... and I've had no audit findings. So, no, I have not actually prepared them, but I can do the work in a manner." She acknowledged she would "bring herself up to speed with the internal audit standards." Vice Chairperson Prowse inquired as to records and documents prepared "toward putting together both an audit plan and preparing audit programs," and whether these would be available for the City. Ms. Bagwell expressed a willingness to share all documentation absent any confidentiality provisions. In response to a question, she advised that there would be no associated travel costs.

Chairperson Bertrand entertained additional questions from the committee members; however, none were forthcoming. Ms. Bagwell wished the committee members good luck in their deliberations, and Chairperson Bertrand thanked her for her attendance and participation.

(3:45:55) At Chairperson Bertrand's request, Tom Donahue, of Piercy Bowler Taylor & Kern, introduced himself for the record and reviewed the statement of qualifications included in the agenda materials. At Chairperson Bertrand's request, Mr. Donahue described a "specific engagement ... that most closely matches what we're asking for ... as far as a performance and [an] internal controls audit."

Vice Chairperson Prowse advised that the City currently has no audit plan, and provided background information on the history of the City's internal auditors. He inquired as to Mr. Donahue's approach to "those first steps before you then would make audit proposals." Mr. Donahue suggested the first step "would be to sit down with the committee and find out if there's any areas or departments that you'd like to prioritize over others. From that, the process would be a risk assessment approach. We would basically come out, do walk throughs ... where we interview people in the departments, do observations of people doing their duties ... and, from that, we develop ... a risk assessment to determine ... what procedures are necessary and where, and the timing of such procedures. It's a very general approach that you start with and then you refine it down into the areas that ... we would think need the most attention ..." Vice Chairperson Prowse advised that Carson City is approximately two years into a strategic planning process with an emphasis on performance measures. In response to a question, Mr. Donahue advised that his firm would want to first understand the strategic plan "and the various benchmarks and criteria by which staff are being evaluated ... to test for compliance ..." In response to a further question, Mr. Donahue advised that his firm has issued performance audit reports; however, he was not involved in either audit process and would have difficulty producing copies of the reports. Mr. Donahue acknowledged that his firm would absorb travel costs and that his staff would be traveling from Las Vegas. In response to a further question, he suggested that "the game plan would be to probably have people on site maybe one to two weeks a month, depending upon the various phases of the audit ... We've divided it up into various phases by department area and we would ... tackle them systematically one by one ... with a monthly report to the committee about the progress we've made to date, any findings, etc."

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Vice Chairperson Prowse expressed the belief that the committee would like to have input and make decisions on the specific audits that would be performed. "That would be one of our functions to approve those." In response to a comment, Mr. Donahue advised that the "time line ... is kind of ... hypothetical. These types of engagements always seem to be very fluid and they kind of morph and evolve as time goes on. It would be a collaborative effort between the internal auditor and the audit committee ..."

Chairperson Bertrand expressed concern over focusing on performance auditing. In response to a question, Mr. Donahue advised that PBTK's philosophy is "generally ... to keep our eyes peeled for operational efficiencies ... It seems efficiency is the buzz word of the day. ... places are looking to do things more efficiently and to do more with less. ... as a firm, we're trained to always have our eyes and ears looking for ways to operate more efficiently, whether we're issuing a report on it or if it's a management-type comment as part of an audit. We pride ourselves on trying to find those efficiencies ... that help pay our fees. ... our firm culture is such that we're always trained for ... operational efficiency-type comments, no matter what type of engagement it is." In response to a further question, Mr. Donahue described the different approaches to performance and internal controls audits.

In response to a question, Mr. Donahue provided background information on the figures reflected in Appendix A of the Statement of Qualifications. "This is the most thorough ... starting point from which you would whittle back things after talking to the committee and finding out ... the direction ..."

Chairperson Bertrand entertained additional questions and, when none were forthcoming, requested the committee members to score the candidates using the scoring sheet provided in the agenda materials. He provided an overview of the tally process, and Member McKenna advised that the scoring sheets would be provided to the Clerk to be incorporated into the record.

Chairperson Bertrand recessed the meeting at 4:01 p.m. and reconvened at 4:14 p.m. He read into the record the scores, as follows: PBTK: 348; Lorraine Bagwell: 373; and Moss-Adams: 377. He entertained a motion to recommend to the Board of Supervisors Moss-Adams, LLP as the internal auditor. **Vice Chairperson Prowse moved that the Audit Committee recommend the selection of the firm Moss-Adams for the Carson City audit function for the next year. Member McKenna seconded the motion. Motion carried 3-2.**

(4:17:00) At Mr. Munn's request, Chairperson Bertrand read into the record the committee members' total individual scores. **Robert Parvin:** Lorraine Bagwell - 93; PBTK - 73; Moss-Adams, LLP - 82; **Bill Prowse:** Lorraine Bagwell - 75; PBTK - 68; Moss-Adams, LLP - 85; **John McKenna:** Lorraine Bagwell - 60; PBTK - 60; Moss-Adams, LLP - 60; **Michael Bertrand:** Lorraine Bagwell - 85; PBTK - 52; Moss-Adams, LLP - 65; **Ken Brown:** Lorraine Bagwell - 60; PBTK - 95; Moss-Adams, LLP - 85.

8. POSSIBLE ACTION TO SCHEDULE THE NEXT MEETING OF THE CARSON CITY AUDIT COMMITTEE (4:16:20) - Chairperson Bertrand advised that the meeting room would be available on Tuesday, January 10th at 3:00 p.m. Consensus of the committee was to schedule the meeting for that date and time.

9. PUBLIC COMMENT (4:16:50) - Chairperson Bertrand entertained public comment; however, none was forthcoming.

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10. ACTION TO ADJOURN (4:18:40) - Member Brown moved to adjourn the meeting at 4:18 p.m. Vice Chairperson Prowse seconded the motion. Motion carried 5-0.

The Minutes of the November 29, 2011 Carson City Audit Committee meeting are so approved this _____ day of January, 2012.

MICHAEL BERTRAND, Chair