Carson City Audit Committee
Agenda Report

Date Submitted: April 23, 2012 **Agenda Date Requested:** May 8, 2012

To: Chair and Members

From: Michael Bertrand, Chairman

Subject Title: For Possible Action: Presentation, discussion and acceptance of the Enterprise Risk Assessment for Carson City prepared by Moss Adams.

Summary: Moss-Adams has been contracted by the Carson City Audit Committee and the Board of Supervisors to provide Interal Audit Services to Carson City. Their first task was to prepare an Enterprise Risk Assessment for Carson City. Representatives from Moss Adams will be presenting the Assessment.

Type of Action Requested: (check one)

( ) Resolution ( ) Ordinance

(X) Formal Action/Motion ( ) Other (Specify)

Does This Action Require A Business Impact Statement: ( ) Yes (X) No

Recommended Committee Action: I move to accept the Enterprise Risk Assessment Report for Carson City and forward it to the Carson City Board of Supervisors.

Explanation for Recommended Committee Action: See Summary

Applicable Statute, Code, Policy, Rule or Regulation: N/A

Fiscal Impact: N/A

Explanation of Impact: N/A

Funding Source: N/A

Alternatives: N/A

Supporting Material: Enterprise Risk Assessment Report

Prepared By: Janet Busse, City Manager's Office

Reviewed By: _____ Date: 4/27/12
(Finance Director)

Board Action Taken:

Motion: _____

	Member	Aye/Nay
1)	_____	_____
2)	_____	_____
3)	_____	_____
4)	_____	_____
5)	_____	_____

_____
(Vote Recorded By)

MOSS-ADAMS LLP

DISCUSSION DRAFT

CARSON CITY

Enterprise Risk Assessment

April 2012

Prepared by

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MOSS-ADAMS LLP

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MOSS-ADAMS LLP

I. EXECUTIVE SUMMARY

In late 2011, Carson City initiated a process to strengthen its Internal Audit Program. As a first step, the City has conducted a City-wide risk assessment to identify areas of risk and develop a roadmap for performance improvements.

The enclosed risk assessment provides the City a way to measure uncertainty related to major and manageable City functions and processes. For the purpose of this assessment, risk is defined as the level of uncertainty that the City faces, in terms of the probability and impact of negative events occurring which could impair the City's ability to deliver on its defined goals and plans.

In aggregate, the City's overall risk level is gauged as being "moderate to high." Five factors have been gauged as having "moderate to high" or "high" levels of risk: economics, asset management, operations, emergency preparedness, and human resources. For all factors on the moderate, moderate to high, and high end of the risk scale, it is noteworthy that the City is positioned to mitigate risk in the near term via various means at its disposal. Mitigation actions are defined within this assessment to provide the City a path to enhance performance and reduce risk.

The following table identifies the 12 risk factor categories evaluated in this assessment, along with associated risk levels.

Risk Factor	Risk Level
Governance	**Low**
Economic	**Moderate-High**
Operations	**Moderate-High**
Human Resources	**High**
Asset Management	**Moderate-High**
Internal Control	**Low-Moderate**
Management	**Low - Moderate**
Emergency Preparedness	**Moderate-High**
Technology	**Moderate**
Compliance	**Low**
Risk Management	**Low - Moderate**
Procurement and Supply Chain	**Low**
OVERALL AGGREGATED RISK	**MODERATE-HIGH**

It should be recognized that risk trajectory is increasing for 6 of 12 factors analyzed, as opposed to decreasing in only 1 of 12 (the others being neutral). This means that the trend is moving towards more uncertainty, not less, and reinforces the wisdom behind instituting stronger risk mitigation actions. Even with mitigation actions initiated, it will take some time to slow, change, and reverse risk momentum.

The remainder of this report discusses the project approach and scope, specific assessment results, survey results, recommendations for enhancements and improvements, and recommended next steps in the City's risk management process.

II. PROJECT APPROACH AND SCOPE

This project was initiated to define the City's overarching risk at a point in time – April 2012. The enterprise risk assessment follows conventional Enterprise Risk Management (ERM) methodology defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and embraced by the Institute of Internal Auditors (IIA). The enterprise risk assessment evaluated risk for a comprehensive set of factors that define the City's business, and have been aggregated together to define an overarching risk level. Twelve risk factors comprise this risk assessment. Numerous processes have been evaluated within each of the factors.

The process followed to assess risk included three phases of work, beginning with fact finding, continuing through risk assessment, and ending with reporting. Fieldwork included process walkthroughs, documentation review, department manager interviews, and a Web-based survey. Analysis included evaluating the level of uncertainty associated with each factor, including potential for impact on the City's business. Reporting included development of formal draft and final deliverable in concert with follow-up discussion with management and the Internal Audit Committee.

All City departments are included in this risk assessment. This assessment includes both elected officials and administrative departments. This project was conducted from January through April 2012. Input was obtained from approximately 70 employees, including over 25 interviews and 69 employees/managers participating from all City Departments in a Web-based survey (with many of the survey respondents also being interviewed).

The City's Audit Committee has placed priority use on the risk assessment to:

- Strengthen performance through increased efficiency and effectiveness
- Reduce exposure areas in City operations and service delivery

The following framework includes four conventional risk reporting elements including assessment of likelihood, impact, trajectory, and risk level. Such elements are industry standard and defined by COSO's ERM methodology, embraced by the IIA. This same framework provides the City a methodology to reduce risk by focusing on moderate or higher risk levels. Definitions of the risk elements include:

- Likelihood – probability of negative event occurring
- Impact – level of significance should a negative event occur
- Trajectory – direction of where risk is headed in the future
- Risk level – level of uncertainty

Residual risk is the likely risk that remains should risk be mitigated through specific actions taken.

III. ASSESSMENT

1. RISK FACTOR	Governance
RISK LEVEL:	Low
LIKELIHOOD:	Low
IMPACT:	High
TRAJECTORY:	 Decreasing
CONDITION:	Carson City is chartered as a City/County government operating under the state laws of Nevada. Incorporated in 1969, the City is officially known as Carson City Consolidated Municipality. The Board of Supervisors, a five-member elected body, comprised of the Mayor and four Supervisors, oversees City operations and operates under an official charter. Governance provided at the Board level is structured to address policy, strategy, fiscal accountability, risk management, and performance monitoring, among other functions. Seventeen departments comprise the City with seven elected officials and ten appointed department directors. The Board appoints a City Manager, charged with administering the City's business affairs and jointly working with the Elected Officials to coordinate City business. The City's other elected officials are the Assessor, Clerk-Recorder, District Attorney, Treasurer, Sheriff, and two Justices of the Peace. Recent emphasis at the City has been placed on strengthening accountability through reestablishment of an Internal Audit Committee. This committee is comprised of five members appointed by the Board. This recent move has increased City transparency through scrutiny, reporting, and ongoing communication. The City Manager has been in place for the past 4 years. City governance includes 39 boards, commissions, and committees. Of these groups, 9 are regulatory, 15 are advisory, 6 are legislative, and 9 are member representatives appointed to other bodies. Terms vary between 2, 3, and 4 years. Groups are right-sized and meet with appropriate frequency. Almost all have "chairpersons," and most are elected from within their respective groups. The City governance function is said to be operating at its strongest levels in years. The tone at the top appears to be sound. At the Executive Management level, the team operates in an integrated manner with ongoing communications and clear decision processes. Given the region's economic climate, and recent lack of funding, the Board is

1. RISK FACTOR	Governance
	taking steps to strengthen City performance and accountability. Carson City citizens should be reassured with the recent increased emphasis on accountability.
RISK MITIGATION:	• Continue to strengthen governance with an emphasis on reporting and transparency. • Establish, monitor, and report on performance metrics on a regular basis. • Report to the Board significant performance issues and events as such issues occur. • Conduct high priority performance audits targeting high-impact areas. • Study whether governance consolidation will result in streamlined governance and cost savings.
RESIDUAL RISK:	Low

2. RISK FACTOR	Economic
RISK LEVEL:	Moderate to High
LIKELIHOOD:	High
IMPACT:	Moderate to High
TRAJECTORY:	 Increasing
CONDITION:	Based upon information available as of March 2012, revenues appear to have bottomed out in 2009. Carson City's General Fund accounts for 47% of the $120 million budget and is significantly tied to the consolidated tax and property taxes. The consolidated tax and property taxes account for approximately 64% of general fund revenues. Service charges, licenses, and permits account for another 31% of the general fund. The primary tax source that can be partially controlled includes property taxes. Taxes are not yet at the maximum allowable level of 3.66%. Taxes can be increased another .57% with Board approval. This level appears to have enough funding capacity to alleviate the City's anticipated 2012 -2013 budget shortfall. This is good news in terms of the City potentially being able to maintain operations at current levels for another year. The Board of Supervisors will need to act to increase the tax level. Beyond property taxes, there are no other major revenue sources that can be tapped to provide significant fiscal relief. The alternative response to revenue increases will be to cut expenditures. The challenge here is that any substantial cuts will directly affect service delivery. Some services are already considered to be provided at minimum levels (e.g., "minimum manned" fire department). Resourcing options require prioritization by City management and weighing against needs. If such action is required, then tough tradeoff decisions will need to be made. Beyond the general fund, there are several other fund types relevant to the City's finances, including capital projects, debt service, and enterprise funds. Non-general fund department revenues are tied to direct funding. An example of such funding is utility rates. This funding allows for continuing operation of water and wastewater facilities and services. Other revenue sources include direct service charges (e.g., landfill), licenses, and permits. Between the consolidated tax, property tax, service changes, and licenses/permits, such funding accounts for 95% of City revenues. As mentioned above, the City is in process of addressing its near term financial problem in the 2012-2013 budget, currently dealing with a $2 million to $2.5 million shortfall. Financial reserves are currently at a Board approved 5% of

2. RISK FACTOR	Economic
	fund balance, which is down from 8% only two years ago. The Board's mandate to City executives has been to spend down reserves before taking other action to increase taxes. The state's legal minimum mandate is 4%, so Carson City is getting close to its limits. Given that this reserve covers one month's operating revenues, this is not much of a buffer and considered minimal protection to conduct the City's ongoing business. Given that sales tax revenues are directly tied to the health of the economy, and such revenues have been declining, the predictability of this funding flow has been somewhat uncertain. However, recent sales tax revenue is stabilizing, giving forecasters more confidence in future revenue streams. Further, softening property values are contributing to uncertainty in tax revenue totals. Unknowns in the economic future of the City include unplanned costs that may be passed down from the state (which could occur again in 2013/14) and further cuts in federal funding and grants that could have a direct impact on social programs, such as the Health Department. In summary, the economic climate continues to be uncertain at national, state, and local levels. Such factors contribute to continuing uncertainty related to funding levels. Much of this circumstance is out of the control of Carson City, including federal support of City services through grants. Therefore, while the City's economic situation is not dire, it is not full of good news either. If financial capacity is needed, there is capacity on both revenue and expenditure sides of the ledger. A property tax increase can fend off the next wave of need, at least for one more year. Labor cuts can deal with another wave if needed. The City has fiscal maneuverability for the next two fiscal cycles if all things stay steady. Beyond two years, it is difficult to anticipate economic trends.
RISK MITIGATION:	• The City has additional financial capacity if it can increase property taxes. User fees can also be increased. • Personnel layoffs are an option, although public services will be affected. • Barriers to improved economics risk include the autonomy of elected official and public support.
RESIDUAL RISK:	Moderate

3. RISK FACTOR	Operations
RISK LEVEL:	Moderate to High
LIKELIHOOD:	Moderate to High
IMPACT:	High
TRAJECTORY:	 Increasing
CONDITION:	Operations include all aspects of City business. The core mission of every department has operational service delivery elements. These include, but are not limited to: firefighting, policing, election administration, parks maintenance, wastewater treatment, roads maintenance, community health services, business licensing, courts administration, and public records. City operations have been negatively impacted by the economic downturn. As discussed in the Human Resources assessment, City staffing has decreased by 15% since FY 07/08, and every department has lost staff in recent years. The impact of less money for maintenance and operations has decreased asset condition across the City, as discussed in the Asset Management section of this report. Both general fund and enterprise fund revenues have decreased, although the staff reports service levels have remained mostly intact. As discussed in the Human Resources assessment, the City is relying increasingly on grants (approximately 50% of Health and Human Services positions) in order to provide essential services. The City's management and staff are working hard to do more with less, but they are stretched thin. While the City is getting by, any additional budget cuts would likely result in significant cuts to services. As an additional noteworthy operations risk, the City has acquired approximately 6,000 acres of open space through Question 18 funding. This added acreage presents an increased risk for responding to fires, without any reimbursement for associated fire response costs. Prior to Questions 18's passage, the City responded to fires and was reimbursed by land owners, such as the Bureau of Land Management, for expenses.
RISK MITIGATION:	• Establish baseline service level definition for all City functions; align with staffing levels and budgets. • Prioritize resource allocation for the highest impact. • Explore options for, and feasibility of, alternative revenue sources. • Perform an analysis of existing (user) fees and their capacity to cover service levels.
RESIDUAL RISK:	Moderate to High

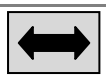
4. RISK FACTOR	Human Resources
RISK LEVEL:	High
LIKELIHOOD:	High
IMPACT:	High
TRAJECTORY:	 Increasing
CONDITION:	As of March 2012, Carson City employs 559 full-time equivalent (FTE) positions in 17 departments, with the greatest percentage of employees (40%) in public safety functions. Seventy-five percent (75%) of City positions are supported by the General Fund, including grants, with the remaining 25% supported by public works and utilities enterprise funds. The City Manager, Human Resources (HR) Manager, and individual department heads all perform human resource functions. The HR Department oversees employee recruitment, hiring, salaries, benefits, and training; manages vendors providing benefits to City employees and retirees; negotiates and oversees contracts with six employee unions; and oversees the performance management program. The availability of human capital is dropping in parallel to the payroll. The current human capital environment is directly tied to hiring, management, training, and compensation practices: • Hiring is down and attrition is up, reducing overall staff counts. FTE count Citywide has decreased by 82 positions (15%) since FY 07/08, with decreases of 19% in public safety, 28% in general government, and 41% in cultural and recreational functions. The HR Department has lost two of its five positions in the last 18 months. • Decreases in staffing have been offset somewhat by an increase in the number of grant-funded positions. In 2013, the City is expected to have 25 grant-funded positions. Most of these personnel work in Health & Human Services, for which staffing is now approximately 50% grant-funded. Funding such a large proportion of a critical department with grants presents a high risk to City operations. • The City's ability to offer training is minimal. HR's mandatory online training on workplace harassment and integrity is delivered by a vendor. Departments provide job-specific training, and HR is equipped to provide other training as requested, but funding is not readily available. • City staff report compensation levels are lower compared to the State of

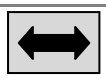
4. RISK FACTOR	Human Resources
	Nevada and neighboring Washoe County, where HR reports many recently resigned City staff have been hired. A review of selected City salaries shows that State positions have salary ranges with higher ceilings than that of Carson City (e.g., IT Manager salary ceiling is $88,491 at the City versus $95,150 at the State). Staffing is spread thin across the City, and employee morale has been impacted by layoffs and increasing workloads. The HR Department is considering reintroducing merit pay increases and a recognition program to help boost employee morale. Turnover in recent years has been low. Since 2009, 60 full-time employees have voluntarily left their jobs with the City, which is a rate of about 3% a year. The low turnover rate is due in part to the economy. Carson City's unemployment rate has been above 10% since January 2009, and the most recent unemployment rate was gauged at 12.2% (December 2011). The economy has especially impacted Carson City's government sector, which has lost 7% of jobs within the past year. While low turnover is, on the whole, good for the City, it does present some risks. For instance, career development opportunities are limited, and valuable, ambitious employees may move on. A high number of City employees are eligible for, or nearing retirement, presenting a risk to the City that institutional knowledge will be lost. There have been 22 retirements in the past three years. Currently, 46 salaried employees, about 10% of the City's permanent workforce, have 22 years or more of experience. Many of these personnel hold leadership positions in public safety functions. The HR Manager negotiates vendor contracts for employee benefits. Rising health insurance costs are a risk for the City, which has limited options. There are only three health insurance plans available to employers in Northern Nevada. The City uses an insurance broker and is reviewing the broker's performance. An additional HR risk is the rising cost of the state-sponsored health plan, which covers some City retirees and for which the City covers some of the premium.
RISK MITIGATION:	• Increase revenue and funding directed toward hiring and maintaining current staffing levels. • Establish baseline FTE counts associated with minimum service levels for mission critical functions. • Conduct an updated compensation and classification study. • Perform succession planning for executive and management positions.

4. RISK FACTOR	Human Resources
	• Prioritize mission critical services and corresponding service levels. • Establish and coordinate multi-jurisdictional arrangements (inter-local agreement). • Explore outsourcing of nonessential City functions. • Investigate the stability of grant funding sources and establish a plan for reductions of the most risky sources.
RESIDUAL RISK:	Moderate

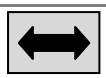
5. RISK FACTOR	Asset Management
RISK LEVEL:	Moderate to High
LIKELIHOOD:	High
IMPACT:	Moderate to High
TRAJECTORY:	 Increasing
CONDITION:	Asset management includes procurement, supply, deployment, and maintenance of City resources. Asset management especially focuses on the capital program and maintenance and repair of assets. Carson City's asset management program is led by Public Works, which manages the capital program, transportation, and utilities maintenance, as well as Parks and Recreation, which is responsible for facilities maintenance. Many of the City's assets are aging, including both fleet and facilities. Assets in need of replacement include: • Wastewater treatment plant: The plant is in need of an estimated $14 million, five-year upgrade project. • City vehicle fleet: The City's fleet, including fire and police vehicles, is aging with many vehicles nearing replacement. The City once maintained a replacement schedule for all vehicles, but it is outdated. • Pavement: The annual estimated cost to maintain the City's roads at their current condition is $3 million, and the amount budgeted is $800,000. • Sidewalks: Many sidewalks in the City are in poor condition and are a risk under ADA regulations. The City is currently conducting a condition assessment of all sidewalks. • Facilities: The City is currently conducting a series of upgrades to buildings based on a Department of Justice (DOJ) ruling that many facilities were ADA non-compliant. The City's Public Works and maintenance staff conducts the projects as funds allow, and the Risk Coordinator reports upgrades quarterly to the DOJ. The Risk Coordinator conducts quarterly building inspections with department heads and building maintenance, with a focus on safety issues. The City's asset management program is in its infancy. While some condition assessments exist, the full cost to maintain and repair the City's buildings, roads, sidewalks, fleet, sewers, and other infrastructure is not known. The City is in the final year of the current Capital Improvement Program, and most projects are complete or nearing completion. Staffing has decreased in

5. RISK FACTOR	Asset Management
	Public Works, Sanitation, and Utilities by 13.5 FTEs, or about 13%, since 2007. Maintenance budgets have decreased since 2009, by 12% for facilities maintenance and 29% for parks maintenance. As resources decline, the amount of deferred maintenance and upgrades will increase and conditions will degrade incrementally. This presents a financial and liability risk to the City, as routine maintenance almost always costs less than extraordinary or corrective maintenance or replacement. When routine maintenance is deferred, it shortens the life of an asset and means facilities will have to be rebuilt earlier than the expected useful life. If funding is not available to rebuild, then infrastructure, buildings, bridges, and roads may have to be closed due to safety concerns. The City's assets are funded by a mix of general fund and enterprise fund revenues. These funds include the City's share of the federal and state gas tax, water, stormwater, and sewer fees, as well as building permit fees. In recent years, rates have been increased for water, sewer, stormwater, and permits. Operating revenues in the stormwater, sewer, and water funds have increased by 9%, 11%, and 21%, respectively, since 2009. However, revenues are down in the permitting funds by 33%, also since 2009. This decline is mostly due to the decrease in construction activities due to the recession. At the same time that the City's capacity to maintain its assets is declining, the amount of land and infrastructure the City owns has grown through the Question 18 quality of life initiative. Question 18 funds are distributed by a 40:40:20 scenario: 40% to open space, 40% to recreational facilities, and 20% to maintenance. Assets to be replaced or constructed, including the Community Center Theater, Athletic Complex, and Carriage House, will add to the City's maintenance responsibilities. Lands acquired from the Bureau of Land Management and improvements promised under Question 18 will also increase the maintenance workload.
RISK MITIGATION:	• Evaluate the need for hiring a dedicated Asset Manager. • Establish asset condition policies and standards, and develop a supporting asset tracking system. • Revisit Question 18 funding allocation scenario, as needed, based on the asset management plan. • Coordinate program management, preventative maintenance, and repair. • Plan, monitor, and execute an asset replacement program. • Review DOJ settlement status and determine the ability to fully comply.
RESIDUAL RISK:	Moderate to High

6. RISK FACTOR	Internal Control
RISK LEVEL:	Low to Moderate
LIKELIHOOD:	Low
IMPACT:	Moderate
TRAJECTORY:	 Same
CONDITION:	In simple terms, internal controls provide appropriate checks and balances over the City's business processes set up to ensure accountability, accuracy, and transparency. For internal audit purposes, internal controls are defined as processes and procedures. Internal controls are highly dependent on the quality of management and rigor of ongoing oversight. This means internal controls are dependent on people. Carson City's internal controls are not comprehensively documented or complete. Further, a number of managers are not well trained regarding controls. There is overreliance on the Controller to administer this environment. There is some lack of oversight, especially over elected departments (Sherriff and the District Attorney). This is a structural matter, as Elected Officials are responsible to oversee and manage their own functions. Very little testing occurs over business processes in terms of compliance. Primary exposures include cash handling, single points of failure (e.g., Treasury), wasted expenditures, and capital program and spending.
RISK MITIGATION:	• Establish an internal control training program for managers, periodically updated and delivered. • Define and establish key preventative and detective controls. • Increase the level of ongoing oversight and monitoring, especially over high dollar, complex, and high exposure transactions. • Establish a more rigorous analytical review and testing program over ongoing operations, possibly supported through business intelligence. • Establish and monitor monthly performance metrics.
RESIDUAL RISK:	Low

7. RISK FACTOR	Management
RISK LEVEL:	Low to Moderate
LIKELIHOOD:	Low
IMPACT:	Moderate to High
TRAJECTORY:	 Same
CONDITION:	For the purposes of this risk assessment, management is defined to include planning, organization, control, monitoring, follow-up, and delegation activities. Carson City's management includes seven elected department heads and eight department heads who report to the City Manager. The experience level of departmental leadership appears to be sufficient to deliver City mandates and plans, and the management team appears to work well together. The City's reasonable size lends itself to being managed in a nimble manner in terms of organization and control. Based on the current management team, ongoing City management is considered to be adequate. The City Manager is in close touch with City affairs, the administrative team, and elected officials. As discussed in the Human Resources section of this assessment, the aging City workforce presents a risk for the City. Of the 46 current employees nearing or eligible for retirement, 20 are managers or supervisors. The City lacks a communications officer to handle day-to-day public relations and communications within City government and to residents, media, businesses, and municipal partners. Public safety communications protocols and Incident Command System are effective. A contracted lobbyist, who is a former City employee, represents the City's interests (and other cities) at the state level. Some high-level City functions rely on outside contractors for leadership. As mentioned above, government relations are contracted, as well as the City's strategic plan and performance measurement development. Reliance on external resources for management functions presents a risk that City managers will not develop or retain these important skills.
RISK MITIGATION:	• Hire a communications officer or integrate communications and requisite training into another leadership position. • Develop a communications plan and conduct outreach to enhance relationships with residents, businesses, and community groups. • Develop a transition plan for City staff to manage the performance measurement program.

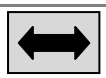
7. RISK FACTOR	Management
	• Maintain up-to-date plans for all departments, with some reasonable level of planning occurring annually. • Build on the existing performance measurement program to establish a manageable, practical performance scorecard for each department. • Conduct annual management training to meet service levels.
RESIDUAL RISK:	Low

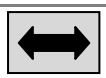
8. RISK FACTOR	Emergency Preparedness
RISK LEVEL:	Moderate to High
LIKELIHOOD:	Moderate
IMPACT:	High
TRAJECTORY:	 Same
CONDITION:	Emergency preparedness in the City is overseen by the Fire Chief, who also functions as the Emergency Manager; the Risk Coordinator, who is also the City's Safety Director; and departmental managers and safety coordinators. The Citywide safety manual was revised in 2010, and each department supplements it with its own safety policies and procedures, including emergency preparedness procedures. Departmental safety coordinators liaison with the Risk Coordinator to develop the supplements. The City's responders use the Incident Command System (ICS) to prepare for, respond to, and manage incidents. ICS is a best practice, FEMA-developed National Incident Management System (NIMS) that provides a standardized, flexible mechanism for cross-agency, cross-jurisdictional response. ICS consists of procedures for controlling personnel, facilities, equipment, and communications. It is designed to be applied or used from the time an incident occurs until the requirement for management and operations no longer exists. The City appears to implement ICS well, as evidenced by the response to the September 2011 IHOP shooting, and it is compliant with FEMA regulations. The City's insurance policies provide coverage for earthquakes, flood, fire, windstorms, acts of terrorism, and other emergency situations. This coverage is detailed in the Risk Management section. The City has comprehensive Emergency Operations (EOP) and Continuity of Operations Plans (COOP). Both documents were developed according to NIMS guidelines. The EOP adheres to ICS and corresponds to the National Response Plan and the State of Nevada Comprehensive Emergency Management Plan. The EOP was last updated in May 2006 and is scheduled to be updated in 2012, following a standards update from the U.S. Department of Homeland Security (DHS). The COOP aligns with DHS and FEMA guidelines and was last updated in August 2009.

8. RISK FACTOR	Emergency Preparedness
RISK MITIGATION:	• Ensure departments have COOP. • Ensure the City has an IT disaster recovery plan. • Ensure ICS training and exercise participation by all relevant City employees.
RESIDUAL RISK:	Moderate

9. RISK FACTOR	Technology
RISK LEVEL:	Moderate
LIKELIHOOD:	Low to Moderate
IMPACT:	Moderate
TRAJECTORY:	 Increasing
CONDITION:	The City's network and applications architecture is said to have been reasonably stable for some time. The technology architecture is comprised of many components including infrastructure, data, and applications. Also relevant to the City's IT successes are processes, personnel, operations, and maintenance. In a normal environment, technology has inherent risk. The City's technology situation is no exception. Technology risk is heavily tied to resourcing, complexity, and change. Technology environments are typically risky, because technology is complicated, ever changing, requires technical know-how to operate, and is tough to implement and operate systems. The City has not been recently active in development or new system implementation. Over the past few years, the City has had many challenges associated with technology service delivery, especially from the people standpoint. Recently, the IT Manager has improved service delivery. The City has a mixture of technology, some old, and some new. Infrastructure includes Cisco (network equipment, routers/switches), Dell, and IBM AS/400 servers, as well as database architecture and MS SQL server. From an applications standpoint, third-party commercial-off-the-shelf (COTS) packaged software systems support departmental functions. The City's current technology is not being used to its fullest capacity. Software currently in use includes HTE, Active Strategy, and Fixed Asset. Current systems have more capabilities available than most departments currently use related to resource planning, budgeting, and program management. For example, City finance staff report that many tasks that could be performed in HTE are instead performed manually in Excel. The City staff who use the software's expanded set of capabilities largely train themselves. As long as technology is stable and without much change, risk is manageable. Looming on the 2012 horizon is a change from Novell's GroupWise user platform to Microsoft Exchange. This migration will be a major change for the City, which has relied on GroupWise for over a decade. Other relevant risk issues facing technology include continuation of the fiber project, and any

9. RISK FACTOR	Technology
	other contemplated changes associated with system replacement. The technology risk is assessed as moderate, based on the following factors impacting the IT Department's ability to deliver: • Lack of formal long range planning. • Lack of defined and documented implementation and service delivery methodologies. • Lack of standards. • Mixed history regarding the provision of hardware support. • Lack of IT oversight beyond IT Department, especially on large scale projects. • Significant scope of pending system upgrades (e.g., Sherriff's Tiburon system). • Lean staffing model with some single point of failure issues. • Dated architecture, including Novell GroupWise and HTE ERP systems. • No formal disaster recovery planning. • Lack of ownership over Website content, lacking eGovernance. • Ad-hoc vendor management (e.g., not supported by formal SLAs).
RISK MITIGATION:	• Develop a formal IT plan. • Establish performance metrics, including vendor/department SLAs. • Establish IT oversight function and use over significant systems and processes. • Develop and execute project plans for major projects. • Establish project management methodology and proper resourcing (e.g., for Novell conversion). • Conduct training and explore opportunities for enhancements to leverage existing technologies. • Properly resource and fund upcoming projects.
RESIDUAL RISK:	Low to Moderate

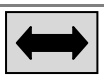
10. RISK FACTOR	Compliance
RISK LEVEL:	Low
LIKELIHOOD:	Low
IMPACT:	Low to Moderate
TRAJECTORY:	 Same
CONDITION:	As a government, the City is required to comply with numerous laws and regulations, both at the state and federal levels, including OSHA, NIOSH, NFPA, etc. Department managers and directors report that compliance is at a high level. Department managers understand laws and regulations and seek to be in compliance. This is true throughout the organization and hierarchy. There are occasions where compliance is tested, and some business is not fully documented. There is uniform concurrence at the City Manager level that compliance is strong.
RISK MITIGATION:	• Develop and disseminate compliance requirements for every department • Periodic additional compliance testing
RESIDUAL RISK:	Low

11. RISK FACTOR	Risk Management
RISK LEVEL:	Low to Moderate
LIKELIHOOD:	Low
IMPACT:	High
TRAJECTORY:	 Same
CONDITION:	Like any organization, the City faces risk on a daily basis, as risk is inherent to a multi-function organization. For example, Police, Fire, and Justice have risk, as does the Health Department and Public Works. Risk Management is a function that the entire City employee base pays attention to. Employees state that risk mitigation is embedded within the City's culture. All levels of the City have personal responsibility for managing risk. Responsibility is shared by the City Manager, Executive Management Team, Elected Officials, Department Heads, Safety Coordination, Human Resources, and other Supervisors. The City's Finance Director also serves as the Risk Manager and is supported by the Risk Coordinator. The Risk Coordinator is responsible for managing the City's insurance policies and claims. The City moved from pooled insurance to self-insured for all policies in 2010, reducing premiums by approximately half to $731,000 per year. Premiums are kept low through high deductibles. For example, the City's basic deductible for vehicles is $25,000, so the City rarely makes claims. The Risk Coordinator works directly with insurance companies on individual claims. The Safety Committee meets monthly to review workers' compensation and liability claims. The City approaches risk management through a combination of training, supervision, control, defined processes and procedures, cost and scope management, etc. However, significant risk remains at all times, especially where occupational risks reside. The City's risk programs can be further strengthened through various means. Chief among these include increased training, higher staffing levels, established policy, standard of procedures, risk awareness, inspection and testing, risk mitigation, and infrastructure maintenance. To this end, 62.9% of the City's managers indicated that they have received no formal risk management training, though 96.9% of managers indicated that they have responsibility for risk management. Our read on the situation is that the majority of employees possess a solid assessment of City risks. The City has comprehensive insurance coverage. The City's insurance limits and deductibles include (excluding limits for self-insured employees):

11. RISK FACTOR	Risk Management

	• Automobile physical damage, including flood, earthquake, and windstorm: Limit $5 million, deductible $25,000
	• Commercial property:
	  o Earthquake: Limit $50 million, deductible $100,000
	  o Flood: Limit $100 million, deductible $100,000 (separate provisions for some City buildings)
	• Workers' compensation, each accident: Limit $1 million
	• Government crime: Limit $1 million, deductible $50,000
	• Landfill pollution liability, new and pre-existing pollution: Limit $2 million, deductible $25,000
	• Tenants and permitees general liability: Limit $1 million, deductible $50,000
	• Various including general liability and umbrella liability: Limits range from $1 million to $10 million
	The State of Nevada (NRS 617.455, 457) requires municipalities to presume that all heart and lung diseases of public safety workers occur because of their occupation. The City is liable for lifetime benefits for any covered worker (i.e., police officers, arson investigators, and fire fighters) with at least five years' tenure who becomes ill or dies from heart or lung disease. A provision of the "Heart and Lung" law requires the City to schedule and pay for physical examinations of fire fighters and police officers every three years. These exams are managed by the respective departments, and the Risk Coordinator checks that exams have been conducted for compliance. Currently, the Fire Department is in compliance with Heart and Lung exams, but the Sheriff's Department is not. There has been one Heart and Lung claim in Carson City since the passage of the law.

RISK MITIGATION:	• Require adherence to State of Nevada regulations. • Establish consequences for noncompliance. • Fully developed Standard Operating Procedures (SOPs). • Establish definitive policies. • Conduct inspections and audits in higher risk areas. • Train personnel regularly versus assessment and plans.
RESIDUAL RISK:	Low

12. RISK FACTOR	Procurement and Supply Chain
RISK LEVEL:	Low
LIKELIHOOD:	Low
IMPACT:	Moderate to High
TRAJECTORY:	 Same
CONDITION:	Because of the City's current economic condition, the City has not been procuring many goods or services over the past couple years. Budgets, therefore, are keeping procurement risk at low levels. This comment is separate and apart from the City's ongoing capital program. The City's procurement function is operated out of the Finance Department. The Contracts and Purchasing Manager is charged with procurement responsibility and is performing adequately. The City appears to be following appropriate methodologies, including procurement and contracting, and adheres to and abides by relevant laws and regulations. There appears to be good oversight and controls in this area. Risk appears to be at a minimum and is gauged at low levels. Supply and inventory management also appears to be under control, though there is a trend for suppliers to maintain lean stock levels, which impacts wait and lead times. The City's contracting process is improving. Internal policies and procedures are in place and, for the most part, followed.
RISK MITIGATION:	• Conduct periodic condition assessment. • Develop annual procurement budgets and plans. • Monitor expenditures versus plan (variances) and report at Executive level monthly.
RESIDUAL RISK:	Low

13. AGGREGATED RISK	OVERALL
RISK LEVEL:	Moderate to High
LIKELIHOOD:	Moderate to High
IMPACT:	Moderate to High
TRAJECTORY:	 Increasing
CONDITION:	When risk factors are aggregated together, the City's risk level is assessed as being at a moderate to high level. This assessment is driven by economic, human resources, operations, emergency preparedness, and asset management factors. By far, the City's economic factor is the driving force behind this risk level. The likelihood of a negative event occurring is presumed to be moderate to high, which will impact the City's ability to meet its goals and plans (defined in the City's Master and Departmental Plans). The potential for economics to affect other City functions results in a domino effect on other factors, including staffing, service delivery, operations, human resources, and asset management. If downward economics continue over the next 12 months, the City may be forced to make another round of cutbacks including labor cutbacks and possibly increase taxes. Services levels could be impacted if this occurs. Examples of such impacts include fewer FTEs in general fund departments (e.g., Fire and Sheriff). The consequences of reduced funding could be significant in terms of long-term impact on the City's capability to deliver services. The City would likely need to scale back its operations and cut services. The corresponding impact on supporting infrastructure (e.g., plant, and equipment) could also be significant, as asset deterioration and the lead time to respond could be directly affected in terms of asset preservation. If this cycle continues, there may come a point when the City will be required to focus solely on its core mission.
RISK MITIGATION:	• Aggressively pursue additional funding sources if current service levels are desired. • Should additional funding sources not be pursued, scale down the scope of City's operations, focusing on mission critical functions; downsize the scope of government services to align with a "pay as you go" fiscal approach.
RESIDUAL RISK:	Moderate

IV. RISK SURVEY

As part of the risk assessment process, Moss Adams surveyed a cross-section of City employees about their views and impressions regarding risks. Sixty-nine (69) supervisors and program managers responded from throughout the City. Respondents rated 12 risk categories on a scale of low (1) to high (5) risk and provided detailed explanations for their ratings.

City employees interpreted the City's overall risk level as being low-to-moderate. Only two categories, Human Resources and Economic, were given average ratings above 3. Respondents were most concerned with the impact of the economy on City operations, as declining revenues have significantly impacted staffing and services over the past five years. Survey respondents were also concerned with the City's increasing reliance on grant funding to continue operations. Within the Human Resources category, respondents reported risks related to succession planning and upcoming retirements in leadership positions, as well as risks associated with limited staffing and budget cuts. The composite risk ratings resulting from the survey are shown below.

City Survey Composite Risk Ratings

Risk Area	Average Rating (scale 1 to 5, 1 = low risk)	Total Responses	Number of "Moderate-High" Ratings	Number of "High" Ratings
Governance	Low-to-Moderate (2.50)	50	8	3
Economic	Moderate-to-High (3.66)	46	8	16
Operations	Moderate (2.90)	48	5	9
Human Resources	Moderate (3.05)	46	10	5
Asset Management	Moderate (2.81)	49	7	8
Internal Control	Low-to-Moderate (2.35)	51	6	4
Management	Low-to-Moderate (2.22)	46	6	1
Technology	Moderate (2.65)	46	8	4
Compliance	Low-to-Moderate (2.49)	50	10	4
Procurement and Supply Chain	Low-to-Moderate (2.20)	47	3	3

There is significant, but not total, correlation of responses between the City's employee risk assessment and the consultant risk assessment. There is high correlation regarding economic and human capital factors. Two additional risk factors that also correlate (at a slightly reduced level) include asset management and operations. Additionally, numerous low risk factors have high correlation, including governance and management.

V. RECOMMENDATIONS FOR EFFICIENCY AND EFFECTIVENESS IMPROVEMENTS

The areas of City business listed below were identified through interviews and the risk survey as having potential for significant efficiency and effectiveness improvements. This list should be used as a focal point for discussion in terms of assessing potential for positive business impact.

- Conduct training to leverage capabilities of existing technology, including Active Strategy, Fixed Asset, and HTE. Explore investing in enhancements to existing technology to maximize the effectiveness of these programs.
- Expand the use of City's document management system to improve document storage, access, and retrieval.
- Strengthen IT security.
- Review construction costs in the capital program prioritization process.
- Prioritize resource allocation to those areas providing the highest impact services to public.
- Review Question 18 obligations, define the full scope of maintenance and operations obligations associated with Question 18 assets, and determine the appropriate allocation of Question 18 funds to support those obligations.
- Establish baseline service levels for all City functions. Use existing performance measurement data to develop service levels, tie to budget items, and determine the baseline personnel and resource commitment for each function.
- Develop comprehensive maintenance and operations plans for all City assets.
- Document processes and standards, including SOP/ISO procedures, to ensure consistency and continuity in City operations. The documentation process also ensures quality in operations, as efficiencies, improvements, and completeness can be identified.
- Analyze classification and compensation to review City job descriptions, job titles, pay grades, and compensation levels, and compare to the State of Nevada and neighboring cities and counties.
- Conduct an asset management assessment to analyze asset use, optimization, and best practices resource allocation.
- Implement a maintenance management system to track City assets, their condition, service levels, and the cost of maintenance and operations.
- Determine the capacity of the City to hire a Deputy City Manager responsible for City communications and strategic planning functions.
- Establish an internal controls training program to ensure that employees have adequate awareness and understanding of internal control standards and procedures.

- Develop a strategic communications plan for the City. The plan should address day-to-day communications and PR operations, specific situations, audiences, and communications tactics.
- Using the existing performance measurement program, develop a regular (quarterly or annual) City performance report. Develop a selection of effective, understandable metrics to track, report, and manage City and departmental performance.

VI. RECOMMENDATIONS FOR REVENUE ENHANCEMENTS AND EXPENDITURE REDUCTIONS

The areas of City business listed below were identified through interviews and the survey as being potential areas for the City to enhance revenues and/or reduce expenditures.

- Analyze current fee structure for potential increases, especially user fees.
- Explore outsourcing of nonessential government services.
- Automate manual processes, especially workflow.
- Eliminate redundancies in reporting.
- Analyze use of overtime and move to tighten use if possible.
- Investigate the use of online utility billing.
- Expand eGovernment, including City forms, services, and e-commerce.
- Explore automating time entry and payroll.
- Consider using electronic deposit for both accounts payable and payroll.
- Review City landfill fees and explore opportunities for revenue generation.
- Investigate the potential of privatizing the City golf course.
- Explore moth-balling non-essential buildings or functions.

VII. NEXT STEPS

The goal of risk assessment is to identify and prioritize areas of risk that pose a threat to the City's operations and achievement of objectives. Additionally, this risk assessment will provide the City a means to pursue opportunities for improvement. The risk-based approach to auditing will position the City to use the results of the enterprise risk assessment to prepare a prioritized audit schedule. Together with the Audit Committee and City management, the process will continue with a review of the target areas for efficiency, effectiveness, revenue enhancement, and expenditure reduction, and development of a prioritized list of work items.