

CARSON CITY AUDIT COMMITTEE
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A regular meeting of the Carson City Audit Committee was scheduled for 1:00 p.m. on Wednesday, October 10, 2012 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

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

STAFF: Larry Werner, City Manager
Nickolas Providenti, Finance Department Director
Randal Munn, Chief Deputy District Attorney
Kathleen King, Deputy Clerk / 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 (1:02:13) - Chairperson Bertrand called the meeting to order at 1:02 p.m. Roll was called; a quorum was present.

3. PUBLIC COMMENTS AND DISCUSSION (1:02:32) - Chairperson Bertrand entertained public comment. (1:03:03) Deputy District Attorney Mark Krueger introduced himself for the record, and advised of having been informed that item 8 would be deferred to a future meeting.

4. POSSIBLE ACTION ON APPROVAL OF MINUTES - August 14, 2012 (1:03:31) - Member Parvin moved to approve the minutes. Member McKenna seconded the motion. Motion carried 5-0.

5. POSSIBLE ACTION TO ADOPT THE AGENDA (1:04:14) - Chairperson Bertrand reiterated that item 8 would be deferred to a future meeting. He entertained a motion to adopt the agenda with that modification. **Member McKenna so moved. Member Brown seconded the motion. Motion carried 5-0.**

6. PRESENTATION AND DISCUSSION ON THE DEVELOPMENT PROCESSES AND REPORTING REGARDING FRAUD, WASTE, AND ABUSE (1:04:57) - Chairperson Bertrand introduced this item and, at his request, Vice Chairperson Prowse provided background information and reviewed the agenda materials. He advised of having met with Moss-Adams, LLP representatives and that "a general approach toward preparing this proposal" has been "roughed out." He invited the participation of one other committee member. Chairperson Bertrand entertained public comment; however, none was forthcoming.

7. PRESENTATION AND DISCUSSION OF THE COMMUNITY FACILITY COST RECOVERY STUDY STATUS REPORT, AS PREPARED BY MOSS ADAMS, LLP (1:08:01) - Chairperson Bertrand introduced this item. Mark Steranka, of Moss-Adams, LLP, provided background information and a status report on the studies which are the subject of items 7, 8, and 9. Chairperson Bertrand entertained public and committee member comments. None were forthcoming.

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8. PRESENTATION AND DISCUSSION OF THE PUBLIC DEFENDER COST AND UTILIZATION STUDY DRAFT REPORT PREPARED BY MOSS-ADAMS, LLP - Deferred.

9. PRESENTATION, DISCUSSION AND POSSIBLE ACTION ON ACCEPTANCE OF THE EAGLE VALLEY GOLF COURSE COST RECOVERY STUDY PREPARED BY MOSS ADAMS, LLP (1:10:49) - Chairperson Bertrand introduced this item. Mr. Steranka reviewed the draft report included in the agenda materials. Chairperson Bertrand entertained committee member questions or comments. Vice Chairperson Prowse expressed disappointment that the auditors were not permitted to examine the payroll records, and the opinion that the auditors should have full access to financial records. He expressed the further opinion, "It's impossible to do a fair and just audit without having access to the information." Vice Chairperson Prowse inquired as to the possibility of "the City exercis[ing] some effort to get ... compliance. Even after the fact, it might be beneficial. It would certainly give a better understanding of the golf course's financial status."

Mr. Providenti offered to request the information. He acknowledged the refusal to provide the payroll records is in violation of the lease, but suggested there are other violations. "It just depends on what we want to do about it. ... that's really the question." Vice Chairperson Prowse suggested the refusal "indicates a lack of cooperation and ... should be considered relative to the Board and their consideration of the recommendations and any other actions they may want to take." Mr. Werner pointed out that the Carson City Municipal Golf Corporation ("CCMGC"), as a private, non-profit organization, is independent of the City. "We're just contracting with them to provide us with the information. ... they do give us their financial information in terms of salaries spent, in terms of services provided ..." Mr. Werner questioned the City's right to "go into their books in absolute detail as a private, non-profit corporation." He offered to work with the CCMGC Board to "see if we can get the amount of details that we need if that detailed information is absolutely essential to the way it works today." Mr. Werner suggested that modifying the lease such that the City would assume budget preparation responsibility, "we have a much stronger position ..." Discussion followed, and Mr. Werner advised that should the City become involved in budget preparation, "we would know, in detail, what's going on with every expense item, not just that." He reiterated the offer to request the information. Mr. Steranka explained that the reason for requesting the payroll information was not "so much a concern that ... they were paying too much. We don't know that to be the case either way. ... what we have in the report, and ... were able to identify is that their payroll has been reduced over the past three years which is good. That's a good sign. Just a question ... becomes is there additional opportunity to do that. And the best example would be if they're paying a bonus in times when they can't meet their obligation to the City. ... as the City's representative, I wouldn't expect to see that happening. ... that's the type of question ... that, collectively, we should want to be able to answer."

In response to a question, Mr. Steranka expressed the belief that the increase in players from 2010 to 2011 does not represent a trend. National information "has tended to show that golf has ... leveled out ... Certainly, the economy has impacted golf as slightly more of a luxury recreational sport." In response to a question, Eagle Valley Golf Course Manager Jim Keplar clarified statistical information included in the table at page 8 of the report included in the agenda materials.

Chairperson Bertrand entertained additional questions or comments of the committee members. In response to a question, Mr. Werner reviewed the method by which recommendations will be forwarded to the Board with a time table for implementation and periodic status reports. He acknowledged that the committee will

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be included in periodic status reports. Chairperson Bertrand discussed concerns over the lease default and the need to “come up with a working plan ... that everybody agrees with.”

Chairperson Bertrand entertained comments of the committee members relative to additions or revisions to the draft report prior to forwarding it to the Board of Supervisors. **Vice Chairperson Prowse moved to forward the report, in its entirety, to the Board of Supervisors for consideration.**

Chairperson Bertrand entertained public comment. (1:43:52) CCMGC Board President Gordon Allen advised of having operated a Carson City business for the past 37 years. He further advised that he is well acquainted with the economic downturn which has taken place over the past four or five years. “Before the [CCMGC] Board was enacted in 1997, ... this was a nightmare situation for the [Board of Supervisors.] That’s why [former] Mayor [Teixeira] ... put this together.” Mr. Allen advised of having served as a CCMGC Board member for the past six years. “But back in the heyday, we were doing 90,000 to 100,000 rounds of golf. ... We’re down to 50,000 rounds of golf. Part of that is due to the fact that we’ve had competition which ... when everything’s blooming, it’s wonderful. The roses look great. So we had actually two and a half, three golf courses added, plus we had Carson Valley, we had Dayton ... There was Thunder Canyon. All of these things put in place a downturn in play at Eagle Valley Golf. ... so basically, we had the addition of the golf courses. We had a period of five years or so that everybody was doing wonderful. People were all happy and making lots of money. Eagle Valley was doing okay under the [CCMGC] Board and then we had a downturn in the economy. So what we’ve done on the [CCMGC] Board, is we look at all those numbers. We dropped \$200,000+ in revenue. What did we do? We reduced our costs and, if you look at these numbers, just on page 19, we’ve dropped our ... costs commensurate with our drop in revenue. We’re running it like a business now. And I will tell you, before I was on the [CCMGC] Board, it was not run like a business. ... Unfortunately, for a period of time, it was run ... like a good ol’ boys club. It’s not like that anymore. It’s run like a business. Now, unfortunately, we’ve been strapped with this debt for the City that, when ... everything was running great, we were able to make those payments. We now have hit a brick wall in a sense, but because we made these adjustments, we’re making it better and better and better. So our numbers are coming back ... because we’ve improved the product of the golf course. So we’re getting all this revenue coming in again and I’m seeing it as an increase. Not great, but it’s increasing. ... We’re here to take care of our community, do the best possible job, provide the best possible product at a fair price for our citizens. That’s why we have the 80 and over get free. I think that’s a wonderful thing.” Mr. Allen advised of having solicited business from around the area “at the same time as we improve the product.” He discussed positive feedback for the 50-Mile Club and for the golf course in general.

Mr. Allen expressed the opinion that the CCMGC is “doing a heck of a job.” He discussed the drawback of the bond, and expressed a willingness “to pay every penny to the City that we owe.” He discussed problems with infrastructure which the CCMGC has addressed in order to improve the product. He listed other benefits to the community “beyond just paying a bond for \$120,000. ... It’s a big deal.” Mr. Allen advised that Mr. Keplar “gets paid less than most golf course superintendents do by a substantial margin. ... He was brought in to bring it back to where it was ... and he’s improved the product.” Mr. Allen suggested that the City “should be thankful.” He expressed gratitude “because the other two guys that were before me that were running that golf course were going downhill quick. ... they took advantage of their situation.” Mr. Allen invited questions, and advised that he “sign[s] every check that goes out of that place.”

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In response to a question, Mr. Allen advised that the payroll information was not provided “because it’s not ... mandated ... in our contract. ... We run it on a fiscally smart basis. I look at every single penny ... and I’ve been doing it ever since I’ve been on the [CCMGC] Board.” Mr. Allen explained that when Mr. Keplar was first hired, “we gave him a base salary and then if he brought in certain tournaments, then he got a little bit of that tournament as a bonus. ... And this is common practice in the golf industry. But now, ... he hasn’t had much of a bonus ... because things have gone down.” Mr. Allen advised that small bonuses were provided to golf course employees last Christmas. In response to a comment, he expressed understanding for the auditors wanting to know the specifics. He assured the committee that “we shopped and we made sure we got the best guy for the job in Carson City and he’s doing an awesome job.”

In response to a question, Mr. Allen advised of having reviewed the draft report. He acknowledged the legitimacy of the questions posed to Mr. Keplar, and advised that they had “brought up some things that ... were good ideas. We do have some revenue streams that we can look into.” He expressed a willingness to pay a \$10 cart fee “or whatever it is because that’s okay. That ... helps us take care of the carts.” He expressed reluctance to “start charging [his] 80-year-old friends to play golf.” He expressed the opinion that Eagle Valley Golf Course fees are competitive, and advised that he and Mr. Keplar have discussed increasing fees for certain passes. He noted the CCMGC’s mandate to “keep it affordable ...” He acknowledged general agreement with the recommendations in the final report. “There’s a lot of things that we’ve been doing that has cost us money ...; infrastructure ..., irrigation systems, things like that. ... We’ve had to fix, in the last five or six years, a lot of problems.”

Member Parvin reviewed public comment indicating concern with regard to the City “subsidizing” the Eagle Valley Golf Course to the detriment of private area courses. Mr. Allen reviewed the history of the Eagle Valley Golf Course relative to development of Empire Ranch Golf Course and Silver Oak Golf Course. He suggested that the private developers “made a business decision ... If you’re willing to compete with a public entity and you can do a better job or a good job, so be it.” He reviewed statistical information relative to the average number of golf rounds per year at the Eagle Valley Golf Course. “We’re doing everything we can for Carson City to keep it fair, affordable, best we can.” Member Brown expressed appreciation for Mr. Allen’s optimism, and the opinion “it would have benefitted your case to provide the payroll analysis.” Mr. Allen advised that the “bulk analysis” provided indicates 40 percent of the revenue is allocated to payroll. “... on a cost basis, if you look at an average golf course, that’s below the average by about seven or eight percent. ... We’re below, on a par basis, across the country with costs ...” Mr. Allen advised of having recently made the first cut for the season. “As the season winds down, ... we’ll get down to a skeleton crew, probably 10 to 12 people, from 50.” Mr. Allen acknowledged that the report does not reflect a \$2 million bond.

Chairperson Bertrand suggested that the issue “comes down to ... a contract that the City has awarded and, if ... the Golf Course is able to meet those obligations. And, if not, it really needs to be renegotiated.” In response to a question, Mr. Allen expressed the opinion that “with the economic situation that it is today, it’s unreasonable. If we make the adjustments, some of the recommendations that they’ve come up with, ... starting next season, ... it’s probably a doable number.” He suggested a graduated payment scale until such time as the golf course is able to get back to paying the \$120,000 per year. He expressed a willingness to adjust the fee structure, but was unable to commit to paying \$120,000 to the City next year. Extensive discussion took place regarding the purpose of golf course revenues to pay off the bonds which constructed the golf courses, and the current default situation.

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Chairperson Bertrand entertained additional public comment. (2:08:38) Doug Sever provided background information on his previous work experience, and commended Moss-Adams, LLP on their comprehensive report. He expressed agreement with many of the “well-thought out” recommendations outlined in the report, and read a prepared statement into the record. He concluded his remarks by strongly urging the committee to recommend keeping the golf course open “by any means.”

Chairperson Bertrand entertained additional public comment and, when none was forthcoming, a second on the pending motion. Following a brief discussion, Vice Chairperson Prowse restated his motion, as follows: **move to accept the Moss-Adams cost recovery study on the Eagle Valley Golf Course, and forward it to the Board of Supervisors for action. Member Brown seconded the motion.** Chairperson Bertrand requested Vice Chairperson Prowse to consider amending his motion to indicate “there would need to be a new operating budget detailed and agreed upon ... and that there’d be monthly reporting to the City staff, as well as a copy of that sent to this Audit Committee so that we can monitor what is happening there. And if, at any point, they’re not meeting the requirements or it appears that they’re not going to meet that budget, ... we can step in and make some changes, if need be.” Following discussion, Chairperson Bertrand acknowledged his intent to clarify the committee’s recommendation and withdrew his request for amendment. Chairperson Bertrand entertained additional discussion of the committee members and, when none was forthcoming, called for a vote on the pending motion. **Motion carried 5-0.**

10. POSSIBLE ACTION TO SCHEDULE NEXT AUDIT COMMITTEE MEETING (2:18:28) - Chairperson Bertrand introduced this item, and a brief discussion took place regarding future agenda items. Consensus of the committee was to schedule the next meeting for Tuesday, November 20th at 3:00 p.m.

11. PUBLIC COMMENT (2:23:33) - Chairperson Bertrand entertained public comment; however, none was forthcoming.

12. ACTION TO ADJOURN (2:23:40) - Member Brown moved to adjourn the meeting at 2:23 p.m. Vice Chairperson Prowse seconded the motion. Motion carried 5-0.

The Minutes of the October 10, 2012 Carson City Audit Committee meeting are so approved this 20th day of November, 2012.

MICHAEL BERTRAND, Chair