

CARSON CITY AUDIT COMMITTEE
Minutes of the October 25, 2011 Meeting
Page 1

A regular meeting of the Carson City Audit Committee was scheduled for 3:00 p.m. on Tuesday, October 25, 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
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 (3:01:08) - Vice Chairperson Bertrand called the meeting to order at 3:01 p.m. Roll was called; a quorum was present. At Vice Chairperson Bertrand's request, the City staff persons introduced themselves for the record.

3. PUBLIC COMMENTS AND DISCUSSION (3:01:44) - Vice Chairperson Bertrand entertained public comment; however, none was forthcoming.

4. POSSIBLE ACTION ON APPROVAL OF MINUTES - September 27, 2011 (3:02:19) - At Member Parvin's request, the recording secretary agreed to review item 7 to ensure a complete record. Action was therefore deferred to the next meeting.

5. POSSIBLE ACTION TO ADOPT THE AGENDA (3:03:25) - Vice Chairperson Bertrand entertained modifications to the agenda and, when none were forthcoming, deemed it adopted.

6. POSSIBLE ACTION TO ELECT A COMMITTEE CHAIR (3:03:42) - Vice Chairperson Bertrand entertained nominations for chair. Member Prowse nominated Michael Bertrand as chair. Member Brown seconded the nomination. Vice Chairperson Bertrand called for a vote on the pending nomination. Nomination carried 5-0.

7. POSSIBLE ACTION TO ELECT A COMMITTEE VICE CHAIR (3:04:43) - Chairperson-elect Bertrand entertained nominations for vice chair. Member Parvin nominated Bill Prowse as vice chair. Member Brown seconded the nomination. Chairperson-elect Bertrand called for a vote on the pending nomination. Nomination carried 5-0. A brief discussion took place relative to the procedure for entertaining public comment on each agenda item.

8. POSSIBLE ACTION TO DISCUSS AND APPROVE THE PROCESS TO SELECT INTERNAL AUDITOR CANDIDATES (3:07:11) - Chairperson Bertrand introduced this item, and provided an overview of the agenda materials. Mr. Munn explained the purpose of, and options available under, this and the following agenda items.

CARSON CITY AUDIT COMMITTEE
Minutes of the October 25, 2011 Meeting
Page 2

Discussion followed relative to the committee's options, and Vice Chairperson Prowse expressed the opinion that the Board of Supervisors would be interested in the committee's input relative to the potential consultants. He suggested agendizing an interview process for the purpose of forwarding a recommendation to the Board of Supervisors. Member Brown agreed. Member Parvin suggested making clear that the committee supports contracting with an outside firm. He expressed concern over the lack of discussion relative to the "areas" the consultant would be "working in." He expressed further concern "that we don't get a situation where they're working in the same areas as our fiscal auditor ..." or Consultant Linda Ritter. He suggested defining the contract internal auditor's responsibilities, and discussion followed.

In response to a question, Ms. Belt advised that both applicants could be rejected by the committee and a different selection process determined. She acknowledged that the request for statement of qualifications advertisement suggested that the applicant interviews were tentatively scheduled for the November 17, 2011 Board of Supervisors meeting. In response to a further question, she advised that the interview date could be rescheduled at the committee's direction. In response to a further question, she advised of having received no other indications of interest relative to the statement of qualifications request which was published in the local newspaper and posted on the City's website. Vice Chairperson Prowse described the two applicants as "significantly different." In response to a question, Ms. Belt advised that a selection committee would negotiate with the selected contractor. A member of this committee could participate in the selection committee. In response to a question, Mr. Munn advised that two members of the committee serving on a negotiating team would constitute a subcommittee under the Open Meeting Law. He pointed out that this committee will make a recommendation to the Board of Supervisors, which ultimately will make the contractor selection. Vice Chairperson Prowse expressed an interest in "the fee basis" which is "often a subject of negotiations in a contract." Ms. Belt explained the usual process for City staff to negotiate a contract and submit a recommendation to the Board of Supervisors. Discussion followed, and Mr. Munn acknowledged the "most workable circumstance" would be for one committee member to be involved with City staff in negotiation of the contract to be presented to the Board of Supervisors.

In response to a question, Ms. Belt advised the committee of the option to reject the current proposals, and send requests directly to accounting firms by e-mail or by certified mail, return receipt requested. Chairperson Bertrand suggested ranking the two submittals, using the criteria provided by Ms. Belt, and determining whether to move forward or not. Member McKenna suggested either "get[ting] more people to apply or ... rethink[ing] our process and go with an internal ... auditor if we're not committed to having an outside, independent company do this. If we have an outside, independent company do this," Member McKenna suggested developing "a plan as to what we want and they've stated their hourly rates and we would pay their hourly rates to get our plan done." He was uncertain as to negotiating a contract in consideration of the rates provided in the proposals. "What we need to do is tell these people what we want done and they're going to bill out at a certain amount." Member McKenna discussed the qualifications of the respondents, and expressed a preference "to either scrap the idea of an external, internal auditor or to go out in a letter format, a specific request, to Northern Nevada accounting firms so that we get perhaps more input on this thing." He expressed concern over "having the options for something this important limited to two people that picked it up off the standard advertising method."

Vice Chairperson Prowse discussed the crucial importance of developing a plan "as to what we would like these people to do." He explained this as "part of his bias toward hiring an employee because then we have a learning process that we will benefit from over the period of the employee's employment as an internal auditor. If we're going to have a contractor do this, then the contractor needs to do something along that line." He discussed the importance of sufficient information "to make a reasoned judgment as to where

CARSON CITY AUDIT COMMITTEE
Minutes of the October 25, 2011 Meeting
Page 3

limited audit resources should go. ... on the one hand, right now if we hire a contractor, we're basically ... at their mercy. ... Another option might be to have a separate contract, ... a contract to do a risk assessment-type process, make recommendations of what should be audited. Then another contract to actually perform selected audits."

Chairperson Bertrand expressed a preference for a contract internal auditor. In consideration of the volunteer nature of the committee, he expressed the further preference to "get a good professional in here that we can rely [on] and trust that knows how to do the work and that can go ahead and do that."

Member Brown suggested that once the position is filled, "we can direct them to what areas of concern we have. We're not subject to them deciding what they want to look at." Member Brown expressed agreement with Member McKenna's suggestion to "reject these and send some letters out and see if we can't get a few more applications in." Member Brown expressed a preference for a contract internal auditor.

Member Parvin expressed uncertainty relative to the word "reject." Member Brown expressed the understanding that the current applicants would be invited to participate in the selection process. "We just want to ... see if we can't get a few more options available." In response to a question, Mr. Munn advised that the current applicants would be required to reapply under the new process. Ms. Belt confirmed the accuracy of the statement. She acknowledged that the request for statements of qualifications would be revised, republished, and sent directly to CPA firms, pursuant to the committee's direction.

Vice Chairperson Prowse reiterated concern over being unable to "give any definition to the consultants as to what we would like them to do specifically." He noted that one applicant had submitted a list of suggested audits. He reiterated the opinion that "more definitive guidance" should be provided "such as, the first step, the risk assessment. Then to provide the committee the risk assessment and have the committee provide input as to which audits would be performed and to what depth ..." Vice Chairperson Prowse expressed the opinion that "a couple of contracts" may be necessary. He inquired of Mr. Munn his opinion of a request for statement of qualifications "with two parts; the first part being a risk assessment - analysis and recommendation of areas in Carson City to be audited; and then to perform those audits as part of a second part of a contract." Mr. Munn characterized the suggestion as follows: "You're looking for an expert to tell you what we should be auditing; for the most part, making recommendations to you as well. That's part of the dialogue of your internal auditor and this [committee.] ... [U]nless that's established and the committee's voted and this is what we're going to include in the SOQ," Mr. Munn was uncertain as to what was being requested of staff. "If you want to get this back out on the street to more sources, then we have something drafted. If there's something that needs to be added to that, you need to tell us." Vice Chairperson Prowse reiterated a weakness in the request for statement of qualifications. "... [W]e're letting the contractor decide what to audit rather than having us have input and, by having them do a risk assessment initially, that would then give the committee input into what audits would be performed." Mr. Munn expressed uncertainty as to the method by which an auditor would conduct a risk assessment if they don't know the organization. Vice Chairperson Prowse expressed the opinion that "any good internal auditor would be able to perform a risk assessment. It's a separate and distinct product. It is a process and the company would work closely with Linda Ritter, who has actually performed a lot of the basic work that would be involved in a risk assessment. ... it would be a separate deliverable with recommendations ... and anybody that would come in, be it an employee or a contractor, would have to learn the City."

Ms. Belt suggested that the risk assessment could be designated as phase one, with phase two being determined after the risk assessment is completed; i.e., "... what audit functions you want utilized." In

CARSON CITY AUDIT COMMITTEE
Minutes of the October 25, 2011 Meeting
Page 4

response to a question, she suggested submitting a revised request for statement of qualifications to the committee at which time specific language can be added.

Chairperson Bertrand entertained a motion. **Member McKenna moved to use, as a process to select internal auditor candidates, the advertisement SOQ 1112-102. Member Brown seconded the motion.** In response to a question, Member McKenna explained that the pending motion would “in essence limit the ... further discussion and selection to either none or the two people who applied under that particular SOQ.” Chairperson Bertrand called for a vote on the pending motion; **motion carried 3-2.** Member McKenna noted there were no citizens present for public comment.

9. POSSIBLE ACTION TO CONSIDER ANY WRITTEN APPLICATION FOR EMPLOYMENT RECEIVED AND SELECT NONE OR ONE OR MORE INTERNAL AUDITOR CANDIDATE(S), AS THE COMMITTEE DESIRES, FOR COMMITTEE INTERVIEW AT A FUTURE PUBLIC MEETING OF EITHER THE AUDIT COMMITTEE OR WITH THE CARSON CITY BOARD OF SUPERVISORS (3:35:16) - Chairperson Bertrand introduced this item, and entertained discussion. Member McKenna expressed the opinion that “we need to move this along. We’ve spent way too much time talking about it. Let’s get something out there and make it work. There’s always a chance it won’t work but ... we’re much further ahead if we get someone on, ... at least helping us define our processes.” Member McKenna moved to hire Percy Bowler Taylor & Kern, Certified Public Accountants from Las Vegas, as the internal auditor. Chairperson Bertrand called for a second on the motion. Motion died for lack of a second.

Chairperson Bertrand entertained additional discussion or a motion. Vice Chairperson Prowse reviewed the committee’s options relative to the request for statement of qualifications process. In response to a question, Mr. Munn advised that, based on the previous motion, the request for statement of qualifications would be republished as it is. Vice Chairperson Prowse moved to extend the time and request Ms. Belt to issue e-mails to local CPA firms and potential interested parties, alerting them to the fact that the date for this has been extended. In response to a question, Mr. Munn advised rejecting all existing applications and republishing the request for statement of qualifications; starting the process over again, not extending it. **Vice Chairperson Prowse retracted his previous motion and moved to reject both applicants and to reissue the request for statement of qualifications. Member Brown seconded the motion.** In response to a question, Ms. Belt advised that the number assigned to the statement of qualifications will be different. Member McKenna expressed uncertainty with regard to rejecting both candidates in consideration of the motion made under item 8. In response to a question, Mr. Munn advised that the committee is not bound to accept any applicant, even if qualified. “You can reject all the bids and start over ...” Discussion took place with regard to the intent of the motion under item 8.

Member McKenna requested a clear statement from each committee member relative to their preferences. He expressed a preference for being able to “have, at a November meeting, somebody standing here that we can put to work ... on what this committee is designed to do and not have meeting after meeting after meeting trying to figure out what we want.”

Chairperson Bertrand entertained discussion, and Mr. Munn reminded the committee of the pending motion. Member Brown advised that he would stand by the second made to the pending motion. Vice Chairperson Prowse acknowledged that the effect of his motion would delay the process. “... we’re talking about spending a fair amount of the City’s money here.” Vice Chairperson Prowse expressed the opinion that “getting an internal audit function in the City that works is worth a little bit of a delay. It’s just inherent in this type of action because we’re dealing with a lot of imponderables ...” He expressed a

CARSON CITY AUDIT COMMITTEE
Minutes of the October 25, 2011 Meeting
Page 5

preference for more applicants and “a better idea of people that might truly fit our needs.” Chairperson Bertrand expressed the opinion that the purpose of the motion is to have more time to “get an opportunity to get some more people in here before we make a decision on it.” He summarized the pending motion, and called for a vote. **Motion carried 4-1.**

Ms. Belt acknowledged that the same request for statements of qualification will be published with an extended time period. In response to a question, she suggested extending the time period an additional three weeks. She advised that the request would be sent to CPAs, published in the local newspaper, and posted on the City’s website. Ms. Belt acknowledged that the two applicants will be notified.

10. DISCUSSION AND POSSIBLE ACTION TO BE TAKEN IF NO APPLICATIONS ARE RECEIVED FOR THE INTERNAL AUDITOR (3:46:49) - Chairperson Bertrand introduced this item and, in response to a question, Mr. Munn advised that the previous motion covered this item.

11. POSSIBLE ACTION TO SCHEDULE THE NEXT MEETING OF THE CARSON CITY AUDIT COMMITTEE (3:47:15) - Chairperson Bertrand suggested scheduling a meeting following the request for statements of qualifications application deadline. (3:47:49) Vice Chairperson Prowse suggested contacting Kafoury, Armstrong & Co. to request a presentation at the November meeting. Mr. Providenti advised that Kafoury, Armstrong & Co. representatives are in the process of conducting their field work. The usual procedure is to agendize a presentation to the Board of Supervisors at their second meeting in December. Mr. Providenti advised that the Board of Supervisors is required to accept the comprehensive annual financial report by December 31st. A presentation to this committee would need to be scheduled prior to the Board of Supervisors presentation. Discussion took place with regard to the next committee meeting date in consideration of the time frame necessary for publishing the request for statement of qualifications. Vice Chairperson Prowse suggested that the Chairman and staff work together to coordinate the next meeting date. Chairperson Bertrand expressed a preference for focusing on hiring the internal auditor as soon as possible. In response to a comment, Vice Chairperson Prowse suggested the Kafoury, Armstrong report “could very well have an impact on what we want to audit.” He reiterated the importance of hearing their report as a committee. In response to a question, Mr. Providenti provided an overview of the anticipated Kafoury, Armstrong report. Additional discussion took place regarding the next committee meeting, and Mr. Providenti expressed the opinion that Kafoury, Armstrong representatives would likely be able to provide a presentation to the committee. In response to a question, Ms. Belt advised that the request for statement of qualifications could be published and sent out to CPA firms by Thursday, October 27th. The 21-day period would end November 18th, after which the committee members could review any applications received. Mr. Providenti suggested scheduling the next committee meeting for the week of November 28th or the week of December 5th.

12. PUBLIC COMMENT (3:47:36) - Chairperson Bertrand entertained public comment; however, none was forthcoming.

13. ACTION TO ADJOURN (3:56:34) - Member Brown moved to adjourn the meeting at 3:56 p.m. Member McKenna seconded the motion. Motion carried 5-0.

The Minutes of the October 25, 2011 Carson City Audit Committee meeting are so approved this 29TH day of November, 2011.

MICHAEL BERTRAND, Chair