

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, September 27, 2011 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

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

STAFF: Nick 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 DETERMINATION OF QUORUM (2:59:40) - Chairperson Prowse called the meeting to order at 2:59 p.m. Roll was called; a quorum was present. At Chairperson Prowse's request, City staff introduced themselves for the record.

3. PUBLIC COMMENTS AND DISCUSSION (3:00:36) - Chairperson Prowse entertained public comment; however, none was forthcoming.

4. POSSIBLE ACTION ON APPROVAL OF MINUTES - June 14, 2011 and July 19, 2011 (3:01:30) - Vice Chairperson Brown moved to adopt the June 14, 2011 minutes. Member Bertrand seconded the motion. Motion carried 5-0. Member Parvin moved to adopt the minutes of July 19, 2011. Vice Chairperson Brown seconded the motion. Motion carried 5-0.

5. POSSIBLE ACTION ON ADOPTION OF AGENDA (3:02:38) - Chairperson Prowse entertained modifications to the agenda and, when none were forthcoming, deemed it adopted. (4:18:20) At Mr. Munn's suggestion, items 12 and 13 were combined for discussion and deliberation.

6. POSSIBLE ACTION TO ELECT A COMMITTEE VICE CHAIRPERSON (3:02:58) - Chairperson Prowse thanked Vice Chairperson Brown for his service, and called for nominations for vice chair. **Vice Chairperson Brown nominated Michael Bertrand for vice chair. Member Parvin seconded the nomination.** Chairperson Prowse entertained additional nominations and, when none were forthcoming, called for a vote on the pending nomination. **Nomination carried 5-0.**

7. DISCUSSION ONLY RELATIVE TO INTRODUCTION OF CPA SHAREHOLDER KRISTEN BURGESS, KAFOURY, ARMSTRONG & CO., THE CPA FIRM PERFORMING THE CARSON CITY ANNUAL FINANCIAL AUDIT FOR FY 2011 (3:03:43) - Chairperson Prowse introduced Ms. Burgess and provided an overview of this item. (3:04:36) Ms. Burgess referenced an August 4th letter from Kafoury, Armstrong & Co., a copy of which was provided for the record, and reviewed the same. At Chairperson Prowse's request, Ms. Burgess explained the concept of materiality, from an auditor's perspective. Ms. Burgess responded to questions of clarification relative to the contents

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of the letter during the course of her review. In response to a further question, she listed the Kafoury, Armstrong personnel who will be assigned to the subject audit, and their corresponding responsibilities. Member Parvin inquired as to the method by which the cost of the annual audit is calculated. Ms. Burgess advised that Kafoury, Armstrong has contracted with the City over several years. "... we have a pretty good feel of what it should take to accomplish a financial statement audit and a single audit, knowing that there are eight major programs, and also knowing the sophistication levels of the Finance Department." She commended the Finance Department staff who "prepare[s] their own statements; they don't have Kafoury prepare them ... which is cost savings. So weighing all that into consideration, we can come up with a number of hours we think it's going to take by level ..., we apply that against our billing rates, and then we discount it. In response to a further question, Ms. Burgess explained that the fee is established at "not to exceed a certain dollar amount and then if it comes in less, we only bill ... up to what it actually cost." In response to a further question, she expressed the belief that not-to-exceed figure is \$94,000. The six additional major programs are \$4,500 a piece, or \$27,000.

At Chairperson Prowse's further request, Ms. Burgess reviewed audit compliance standards. In response to a question, Ms. Burgess expressed support for the "Tone at the Top" article, included in the agenda materials in consideration of a "very proactive and communicative stance in connection with taking charge of the government. ... It sends a very important message to us, as the auditors, that you take this seriously and that the financial statements ..., the financial reporting and health of the City matter." Ms. Burgess requested the committee members and City staff to bring to the attention of the auditors any concerns as the audit process begins. "And then be proactive in considering any weaknesses that we identify in internal controls." In response to a question, she clarified that "issues" would be "something that's a result of a risk of material misstatement to your financial reporting mechanisms. And that misstatement is a result of error. So are your people adequately trained? Do they know the standards? Or do they understand the concept of accruals or getting P.O.s issued timely? ... material misstatements because they don't know any better. Error. And then the concept of fraud which is obviously a biggie and we don't audit for fraud. Again, we look at it big picture, but from a material standpoint ... we develop risk assessment procedures and do have concern about material risk of fraud." She acknowledged the request for the committee members to contact her directly with issues or concerns.

Member McKenna inquired as to Ms. Burgess' opinion relative to an employee or an outside contractor to fill the internal auditor position. Ms. Burgess acknowledged the "tough situation" in consideration of "limited resources, limited dollars." She expressed the personal opinion that "in times when there are limited resources so segregation of duties can't be as strong as you want them to because there just aren't as many people there to do what needs to get done for the City, at least an internal auditor, if properly directed, can help monitor those smaller-type items that could rise to the level of serious problems that we would hopefully then catch in an audit when it reaches a material standpoint. But an internal auditor can definitely hone in on a much more detailed level than your external auditor would look at."

Chairperson Prowse provided background information on discussions relative to an internal auditor as an employee or as a contractor, noting the possible \$110,000 available to fund the position. In response to a question, Ms. Burgess advised that few of the local governments for which she has audit responsibility have an internal audit department "given the limited resources." In response to a further question, Ms. Burgess reviewed the formal communication points which will take place during the audit process. Chairperson Prowse thanked Ms. Burgess for her presentation. Ms. Burgess advised that she would report back to the committee in November.

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Chairperson Prowse entertained public comment. (3:32:15) Mary Magic inquired as to which local governments have an internal auditor. Ms. Burgess reiterated that none of the local governments for which she has audit responsibility have an internal auditor. She offered to provide information on which local governments have internal audit departments.

8. DISCUSSION ONLY RELATIVE TO PRESENTATION BY LINDA RITTER, OF RITTER CONSULTING ASSOCIATES, ON THE STATUS OF THE STRATEGY EXECUTION PROJECT WHICH WILL LINK PERFORMANCE AND PRODUCTIVITY MEASURES TO BUDGETS (3:33:07) - Chairperson Prowse introduced this item, and Ms. Ritter referred to the Quarterly Business Review, copies of which were distributed to the committee members and staff prior to the start of the meeting. She advised that the business review is posted on the City's website, and she demonstrated the method by which to access it. She narrated a status report on the strategy execution project in conjunction with displayed slides.

In response to a question, Ms. Ritter referred anyone interested in reviewing a performance management report to the Miami-Dade County website. She responded to questions of clarification, and discussion followed. Vice Chairperson Bertrand expressed support for performance-based budgeting. Ms. Ritter acknowledged that performance and productivity measures will be tied to actual cost per service. She explained, "That's part of the efficiency ... of it ... Part of the program scorecard will have a budget component and be able to break that down for every person that uses the swimming pool," for example. At Vice Chairperson Bertrand's request, Ms. Ritter offered to provide samples of efficiency measures for review and feedback by the committee members. Chairperson Prowse entertained public comment; however, none was forthcoming.

9. DISCUSSION ONLY RELATIVE TO DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE (3:45:40) - Chairperson Prowse introduced this item and reviewed the agenda materials. He entertained comments or questions of the committee members and of the public; however, none were forthcoming.

10. DISCUSSION ONLY RELATIVE TO INTERNAL AUDIT ORGANIZATIONAL STRUCTURE (3:50:06) - Chairperson Prowse introduced this item, and reviewed the agenda materials. He invited Washoe County School District Internal Auditor Paula Ward to the podium, and provided background information on her qualifications and experience. (3:54:25) Ms. Ward provided an overview of the Washoe County School District Audit Committee, and the Washoe County School District's annual audit by Kafoury, Armstrong & Co. She expressed support for an internal auditor employee, noting "you'll find that people won't ... talk as well to external auditors." She advised that her office supports a "Silent Whistle Program." She expressed support for performance audits being conducted "in-house ... because you kind of get a feel for what you're looking at. You're looking at efficiencies and effectiveness."

She acknowledged that some efficiencies have been quantified as a result of performance auditing. She advised that the Washoe County School District Audit Committee supports "the focus on internal controls." She further acknowledged that the internal audit function is "paying for itself ... as far as the savings and the efficiencies" identified. She discussed the importance of continual follow up after an audit is published. At Chairperson Prowse's request, Ms. Ward reviewed details of the previously-mentioned Silent Whistle

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Program. She responded to questions relative to associated costs and management of the program. Chairperson Prowse entertained committee member and public questions or comments; however, none were forthcoming.

11. POSSIBLE ACTION TO AUTHORIZE THE COMMITTEE CHAIR TO DRAFT A REVISED AUDIT COMMITTEE ORDINANCE FOR FUTURE CONSIDERATION BY THE COMMITTEE (4:03:11) - Chairperson Prowse introduced this item and reviewed the agenda materials. In reference to his September 20th memo, included in the agenda materials, he expressed a preference for committee membership qualifications to include governmental managerial and budgetary experience. He discussed the importance of compliance with professional standards in consideration of an audit produced by the City.

Member McKenna expressed concern with regard to authorizing the chair to draft a revised ordinance in consideration of the draft becoming “an official act of the committee ...” He expressed a preference for agendaing the ordinance as a discussion item at a regular committee meeting, and suggesting revisions at that time. Discussion followed, and Mr. Munn offered to review and revise any proposed changes to the ordinance presented by an individual committee member prior to agendaing the same for review by the committee.

Chairperson Prowse entertained committee member comments. Member McKenna expressed no problem with reviewing and discussing the current ordinance, and no desire to review a revised ordinance presented by any individual committee member. “In other words, let’s have an open, public discussion on the ordinance.” Vice Chairperson Bertrand agreed, and referenced discussion and action, from the last committee meeting, which indicated the committee’s willingness to “accept ... our responsibility ... as it’s outlined in the ordinance. And, if down the road we’re wanting to change things, we can always have that discussion.” He expressed the opinion that the most important “task at hand is getting that internal auditor ... position filled as soon as possible. ... I would recommend that we focus on that task in front of us and make these second to that.” Member Brown agreed with the priority of getting “the internal auditor established ...” He expressed agreement with Member McKenna’s suggestion to review the current ordinance, as a full committee, and discuss any proposed revisions at that time. Chairperson Prowse entertained additional committee member comments; however, none were forthcoming. Based on the discussion, Chairperson Prowse suggested reagendaing this item for a future committee meeting. He called for public comment; however, none was forthcoming.

12. POSSIBLE ACTION TO APPROVE AND DIRECT THE DRAFTING AND PUBLICATION OF A POSITION ANNOUNCEMENT FOR A CITY EMPLOYEE TO BE EMPLOYED TO FILL THE CARSON CITY INTERNAL AUDITOR POSITION; and 13. POSSIBLE ACTION TO APPROVE AND DIRECT THE DRAFTING AND PUBLICATION OF A REQUEST FOR STATEMENT OF QUALIFICATIONS (“SOQ”) FOR A CONTRACTOR TO PERFORM INTERNAL AUDIT DUTIES (4:13:57) - Chairperson Prowse introduced this item, and expressed the opinion that the City should employ an internal auditor. He listed “efficiency, effectiveness, security, flexibility, costs” as the basis for his opinion. He advised of having conducted “a brief survey of internal [audit] functions in northern Nevada” involving ten organizations, and reviewed his findings. He suggested “the problem with contracts is going to be contract negotiations and it’s very difficult to know how long

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that process might last.” He discussed the “benefits of ... an in-house internal auditor,” and the drawbacks of a contract internal auditor. Based on the discussion, Mr. Munn suggested combining items 12 and 13 for discussion and deliberation and taking action on one or the other.

In reference to previous committee action, as reflected in the minutes, Vice Chairperson Bertrand expressed a preference to “move forward and discuss the contractor position and the SOQ ...” In response to a question, Vice Chairperson Bertrand read the motion from item 8 of the July 19th committee minutes. Discussion followed, and Vice Chairperson Bertrand suggested moving forward with locating a contractor. He further suggested that “if we have problems finding a contractor that’s satisfactory ... maybe, at that point, we ... take a look at putting together an SOQ for an employee.” In response to a previous question, Ms. King read into the record the title of item 17(C) and the corresponding motion from the August 4th Board of Supervisors minutes. Chairperson Prowse expressed the opinion that to request a statement of qualifications for a contract internal auditor “is a terrible decision.” He resigned his position as chair “to let the members of the committee that wish to do this do it.” He suggested taking action on item 13. **Vice Chairperson Bertrand moved to pursue taking a look at the statement of qualifications and discuss that for a contract auditor for Carson City.**

Member McKenna expressed concern relative to this item not having yet been opened to public comment. He reviewed the titles of both items 12 and 13, and discussion took place regarding the same relative to the appropriate action. In response to a question, Mr. Munn advised that “whenever you have an action item to ‘approve and direct,’ implicit in that deliberation process is considering what you’re approving and directing.” In response to a further question, he expressed the opinion that, “based on the motion [read by the recording secretary], and the decision of the Board of Supervisors, it appears that you’re authorized to direct this process forward. An action item on this would begin the employment process for ... searching for a contractor, depending upon the approach you took.” Discussion followed and, in response to a further question, Ms. King reiterated the Board of Supervisors’ action from their August 4th meeting.

Chairperson Prowse entertained public comment and, when none was forthcoming, called for a second on the pending motion. **Member Brown seconded the motion.** Chairperson Prowse provided background information on the agenda materials relative to item 13. In response to a question, he reviewed his September 20th memo, attached as backup material to agenda item 14.

Following discussion, Purchasing and Contracts Manager Kim Belt reviewed the statement of qualifications process. Mr. Munn provided additional clarification relative to the requirements of the Nevada Open Meeting Law and options regarding whether to designate a subcommittee. In response to a further question, Ms. Belt provided additional clarification of the statement of qualifications review process.

Chairperson Prowse entertained additional committee member comments or questions and, when none were forthcoming, called for a vote on the pending motion. Mr. Munn clarified the motion, as follows: “... [item] 13, the motion on the table was for approval for the issuance of the SOQ.” Chairperson Prowse requested the committee members to indicate their vote audibly and by a show of hands. **Motion carried 4-1.**

14. POSSIBLE ACTION TO APPROVE THE PROCESS TO REVIEW AND SELECT INTERNAL AUDITOR CANDIDATES (4:37:26) - Chairperson Prowse introduced this item and reviewed the agenda materials. Member McKenna read from the “Recommendation for Award” section

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of the Request for Statement of Qualifications included in the agenda materials. In reference to Ms. Belt's comments, under item 13, he inquired as to the method for appointing members of this committee to the review and selection committee. He expressed concern that three members of the Audit Committee serving on the review and selection committee "in essence ... possibly makes that a done deal when they bring people forward."

In response to a question, Ms. Belt suggested designating two Audit Committee members and a City staff person to the review and selection committee. She would participate as a non-voting member to tabulate the results. She responded to questions of clarification, and explained that the next step would be to forward the review and selection committee's recommendation to the full Audit Committee for action on a recommendation to the Board of Supervisors. Discussion followed, and Ms. Belt suggested that a citizen could serve on the review and selection committee rather than a City staff person. In response to a question, Mr. Munn advised that "even a two-person subcommittee would be a public meeting." He suggested that three to five applicants could be easily reviewed by the full Audit Committee, thereby avoiding the review and selection committee. In response to a further question, he provided additional clarification of the Nevada Open Meeting Law requirements relative to a subcommittee.

Chairperson Prowse formally resigned as chair and passed the gavel to Vice Chairperson Bertrand. He reiterated the opinion "this is a major mistake ..." At Mr. Munn's request, he clarified he was not resigning from the committee, just as chairman. In response to a question, Mr. Munn recommended publishing the request for statement of qualifications and, "if it's too large, create a subcommittee to sift through. But ... just bring them all back to this committee, the full body, and go through the process and make your decision later based on how many applications you get." Member Brown suggested that staff provide the written responses to the request for statement of qualifications to each committee member in sufficient time to review them prior to the committee meeting at which action would be agendized.

Vice Chairperson Bertrand entertained additional questions or comments and, when none were forthcoming, a motion. Member Brown moved to proceed with collecting the SOQs and then reviewing them individually, by committee member, and at that time determine whether we need to expand to a subcommittee. Motion died for lack of a second. Following discussion, Member McKenna expressed a preference for a "list of names and qualifications of people." Once the number of submittals is determined, a decision can be made whether or not to have them reviewed by a subcommittee or by the full Audit Committee. He emphasized the importance of publishing the statement of qualifications. "And then we can decide how we want to go places." Mr. Munn suggested that staff had sufficient direction to proceed without any additional actions. Vice Chairperson Bertrand reviewed the direction, as follows: "Staff is going to move forward, we're going to release the SOQ, we're going to get applications and we're all going to get copies of what comes back." Ms. Belt acknowledged the accuracy of the statement, and offered to publish the statement of qualifications by Friday, September 30. Consensus of the committee was to direct Ms. Belt to publish the statement of qualifications. Vice Chairperson Bertrand entertained public comment; however, none was forthcoming.

15. POSSIBLE ACTION TO SCHEDULE THE NEXT MEETING OF THE CARSON CITY AUDIT COMMITTEE (4:51:08) - Vice Chairperson Bertrand introduced this item and, following a brief discussion, noted committee consensus to schedule the next meeting for Tuesday, October 25th at 3:00 p.m.

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16. PUBLIC COMMENT (4:51:38) - Vice Chairperson Bertrand entertained public comment; however, none was forthcoming.

17. ACTION TO ADJOURN (4:51:42) - Vice Chairperson Bertrand adjourned the meeting at 4:51 p.m.

The Minutes of the September 27, 2011 Carson City Audit Committee meeting are so approved this 29TH day of November, 2011.

MICHAEL BERTRAND, Chair