

Carson City Agenda Report

Date Submitted: July 26, 2011

Agenda Date Requested: August 4, 2011

Time Requested: 20 Minutes

To: Mayor and Supervisors

From: Lawrence A Werner P.E., P.L.S., City Manager
Nick Providenti, Finance Director

Subject Title: For Possible Action: Discussion and possible action to hire a contract type auditor vs. an actual employee of the city for the position of Internal Auditor (Bill Prowse, Audit Committee Chairman).

Staff Summary: The Audit Committee met on July 19 to discuss the future employment status of Carson City's Internal Auditor – either to hire a contract type auditor or an actual City employee for the position of Internal Auditor. After much discussion, the Committee voted 4-1 to recommend to the Board of Supervisors to hire a contract type auditor, rather than an actual employee to fill the role of Internal Auditor.

Type of Action Requested: (check one)

☐ Resolution

☐ Ordinance

☒ Formal Action/Motion

☐ Other (Specify)

Does This Action Require A Business Impact Statement: ☐ Yes ☒ No

Recommended Board Action: I move to direct staff to prepare a "Statement of Qualifications" and work with the Carson City Audit Committee to recommend to the Board of Supervisors a contract auditor to fill the role of Carson City Internal Auditor.

Explanation for Recommended Board Action: See Staff Summary

Applicable Statue, Code, Policy, Rule or Regulation: CCMC Section 2.14.

Fiscal Impact: n/a

Explanation of Impact: n/a

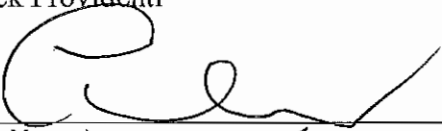
Funding Source: n/a

Alternatives: Not to fill the position of Carson City Internal Auditor with a contract auditor, rather fill the position with an actual City employee.

Supporting Material: minutes of the Audit Committee meeting of July 19, 2011.

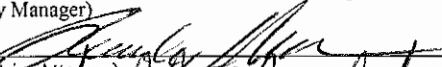
Prepared By: Lawrence A. Werner
Nick Providenti

Reviewed By:



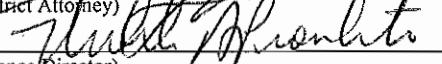
(City Manager)

Date: 7/26/11



(District Attorney)

Date: 7/26/11



(Finance Director)

Date: 7/26/11

Board Action Taken:

Motion: _____

1) _____

Aye/Nay

2) _____

(Vote Recorded By)

Carson City, Nevada, Code of Ordinances >> Title 2 - ADMINISTRATION AND PERSONNEL* >>
Chapter 2.14 - CARSON CITY AUDIT COMMITTEE >>

Chapter 2.14 - CARSON CITY AUDIT COMMITTEE

Sections:

- 2.14.010 - Introduction.
- 2.14.020 - Purpose of the Carson City audit committee.
- 2.14.030 - Composition of the Carson City audit committee.
- 2.14.040 - Responsibilities of the Carson City audit committee.
- 2.14.050 - Meetings of the Carson City audit committee.
- 2.14.060 - Organizational chart.

2.14.010 - Introduction.

As the demand for enhanced accountability and the increased examination of an adequate system of internal controls occurs in the public sector due to the Sarbanes-Oxley Act, so does the significance and importance of an audit committee.

The independence and objectivity between the Carson City audit committee and the city's management team ensures that internal controls are a key management objective of the city's operation. The Government Finance Officers Association and the Institute of Internal Auditors encourage the effective use of an audit committee in the public sector and considers this committee an integral element of public accountability and governance. The Carson City audit committee plays a key role with respect to integrity of the city's financial information; its systems of internal controls, the legal and ethical conduct of management and employees, and is an invaluable tool for ensuring that those responsible for financial management (management, auditors, and governing boards) meet the respective responsibilities for internal control compliance and financial reporting. Additionally, the Carson City audit committee provides a vehicle for open communications between the board of supervisors, the city management team, internal audit, and the independent external auditors.

(Ord. 2008-10 § 3, 2008)

2.14.020 - Purpose of the Carson City audit committee.

The role of the Carson City audit committee is to maintain oversight of the auditing function, both internal and external resulting in increased integrity and efficiency of the audit processes for the city and the city's system of internal controls and financial reporting. The committee has three primary characteristics for it to successfully fill its obligations:

1. Independence. The Carson City audit committee will be independent both in fact and in appearance and requires processes to be in place to ensure such independence is maintained at all times.
2. Communication. The Carson City audit committee will maintain an open line of communication with the board of supervisors, city management, internal and external auditors; providing direction for the city's audit function and a framework of accountability.
3. Accountability. The Carson City audit committee contributes to the integrity of the financial reporting process and reinforces the culture of a strong system of internal controls throughout the city.

The Carson City audit committee shall provide oversight to the city's internal controls by assuring that the system of internal controls established by management are reviewed on a regular and systematic basis for functionality and effectiveness. The Carson City audit committee's duties shall include, but are not limited to, development of the risk assessment and annual work plan, review of all individual audit reports, review of the annual report of audits completed, review the status of corrective actions, the annual budget, and the performance of the internal auditor. Upon completion of these reviews, the Carson City audit committee will make appropriate recommendations to the board of supervisors.

(Ord. 2008-10 § 4, 2008)

2.14.030 - Composition of the Carson City audit committee.

1. The Carson City audit committee will be independent and objective in its collective mindset individually and as a group. The committee will reflect the following attributes:
 - a. Excellent communication skills with each other and with others;
 - b. A willingness to fully participate in complex and sensitive matters that require resolution;
 - c. Public accounting, governmental accounting and auditing experience.
2. The Carson City audit committee shall be comprised of five (5) members; one (1) member from the board of supervisors and four (4) members from the public at-large.
 - a. One (1) member of the Carson City audit committee will be selected from the board of supervisors. The board member shall be selected each January when the board of supervisors addresses board and commission assignments.
 - b. The four (4) members at-large of the Carson City audit committee will be interviewed and selected by the board of supervisors. These members should have experience in financial services, public accounting, and/or governmental auditing, and current knowledge of public laws and regulations governing an audit committee. The terms shall be for staggered two (2) years; expiring on each alternate year.
 - c. The members at-large shall not accept any consulting, advisory, or other compensatory fees from the city and may not be an affiliated person with the city or any subsidiary thereof.
3. Should a vacancy occur in any position on the Carson City audit committee, the board of supervisors must follow the procedure set forth above to select a new member for the committee. The selection must occur within one (1) month of the vacancy occurring.
4. When deemed necessary, the Carson City audit committee may request that the city manager and other management employees attend a Carson City audit committee meeting in an advisory capacity. This individual may be requested to provide necessary information relative to internal controls, data, and analysis related to the specific objectives of the Carson City audit committee.

(Ord. 2008-10 § 5, 2008)

(Ord. No. 2009-24, § 1, 10-1-2009)

2.14.040 - Responsibilities of the Carson City audit committee.

1. The Carson City audit committee will review and make recommendations to the board of supervisors regarding the annual financial audit, performance, compliance and efficiency audits, including specific issues of concern providing a higher level of accountability over the use of public funds. As appropriate, background documents related to specific audit issues will be sent to the committee during the course of each year.
2. The Carson City audit committee will:
 - a. Provide input into the annual risk assessment plan developed by the city auditor to identify areas of risk or exposure facing the city's organization; review and assess the steps necessary to minimize such risks in the future and improve operating efficiencies;
 - b. Identify with key directors significant risks or exposures facing their organizations/operations to develop a "risk plan" and "audit work plan" to prioritize the city auditor's work load and assess the need for professional services;
 - c. Annually review the audit scope and work plan of the city auditor in conjunction with the external auditors plan to address the coordination of audit efforts to ensure the completeness of coverage, reduction of redundant efforts and effective use of audit resources;
 - d. Discuss the fiscal health of the city in relation to the adopted budget with the city manager and the director of finance;
 - e. Consider matters related to the systems of internal controls, including overseeing compliance by management with applicable policies and procedures;
 - f. Review and make recommendations to the board of supervisors regarding audit findings including the status and implementation of recommendations for both internal and external audits;
 - g. Review and make recommendations to the board of supervisors pertaining to the internal audit budget for operating expenses and capital expenditures;
 - h. Oversee the appointment of the independent auditors to be engaged by the board of supervisors for external reporting and recommend to the board of supervisors the related audit fees;
 - i. Recommend to the board of supervisors to engage outside professional services when deemed appropriate for audit issues;
 - j. Review the internal audit charter and make recommendations to the board of supervisors when changes are deemed necessary;
 - k.

Review and make recommendations to the board of supervisors for special requests for audit projects and have the authority to perform other duties as may be delegated to it by the board of supervisors;

3. Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards require an independent auditor to evaluate the city's internal controls in connection with determining the extent of their audit procedures. The external auditors are required to alert the Carson City audit committee and the governing body regarding material matters. The Carson City audit committee will:
 - a. Review and make recommendations to the board of supervisors pertaining to the external auditors annual audit plan and inquire into external audit matters as deemed appropriate;
 - b. Oversee the appointment of the independent auditors to be engaged by the board of supervisors for external reporting and establish the related audit fees; review and evaluate the performance of the independent auditors and establish a regular schedule for periodically re-bidding the annual audit;
 - c. Review and make recommendations to the board of supervisors regarding all significant written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

(Ord. 2008-10 § 6, 2008)

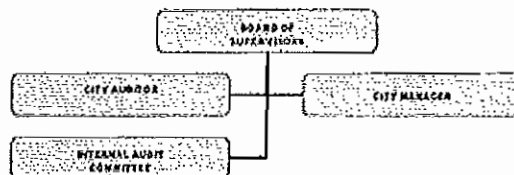
2.14.050 - Meetings of the Carson City audit committee.

1. The Carson City audit committee will meet quarterly. All members are expected to attend on a regular basis.
2. The Carson City audit committee may ask members of management or others to attend meetings and to provide pertinent information when necessary.
3. Meetings are scheduled in accordance with the state's open meeting laws. The city auditor shall establish the agenda for meetings and will provide to members in advance, all appropriate briefing material.

(Ord. 2008-10 § 7, 2008)

(Ord. No. 2009-24, § II, 10-1-2009)

2.14.060 - Organizational chart.



(Ord. 2008-10 § 8, 2008)

CARSON CITY AUDIT COMMITTEE
Minutes of the July 19, 2011 Meeting
Page 1

DRAFT

A regular meeting of the Carson City Audit Committee was scheduled for 3:00 p.m. on Tuesday, July 19, 2011 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

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

STAFF: Nick Providenti, Finance Department Director
Tina Russom, 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 (3:00:43) - Vice Chairperson Brown called the meeting to order at 3:00 p.m. Roll was called; a quorum was present.

3. PUBLIC COMMENTS AND DISCUSSION (3:01:08) - In reference to the presentation made, as item 26 on the July 7, 2011 Board of Supervisors meeting agenda, Andrea Engleman expressed the opinion that "some of the facts" provided by City Manager Larry Werner were incorrect. She requested the committee members to consider, as part of their role, "what are the checks and balances in Carson City ..." In response to a question, she advised of having spoken with Charles Perry, "the head of the nursing home association ..." and that nursing home fees "are capped by Medicaid and Medicare. They cannot charge over those amounts. Those bills go directly to Medicare and ... Medicaid." Ms. Engleman further advised that Mr. Werner had conveyed that "the rates on utilities for the fees, the franchise fees up in Reno were at the very maximum at 5 percent. They're not. They're at four percent." Vice Chairperson Brown entertained additional public comment; however, none was forthcoming.

4. POSSIBLE ACTION ON APPROVAL OF MINUTES - June 14, 2011 (3:03:40) - None.

5. POSSIBLE ACTION TO ADOPT THE AGENDA (3:03:59) - Vice Chairperson Brown inquired as to the possibility of electing a vice chair as part of item 6. Ms. Russom suggested specifically agendaizing election of a vice chair during the next committee meeting. Vice Chairperson Brown entertained a motion to adopt the agenda. Member Bertrand moved to adopt the agenda. Member Prowse seconded the motion. Motion carried 5-0.

6. POSSIBLE ACTION TO ELECT A COMMITTEE CHAIRMAN (3:04:59) - Vice Chairperson Brown expressed appreciation for the opportunity to have served as committee vice chair, and nominated Michael Bertrand for committee chair. Member Parvin seconded the nomination. Member Bertrand accepted the nomination. Vice Chairperson Brown entertained additional nominations. Member Bertrand nominated Member Prowse as chair. Member McKenna seconded the nomination. Vice Chairperson Brown called for a vote on the nomination for Member Bertrand, resulting in two ayes. Vice Chairperson Brown called for a vote on the nomination for Member Prowse, resulting in three ayes. Nomination carried

CARSON CITY AUDIT COMMITTEE
Minutes of the July 19, 2011 Meeting
Page 2

DRAFT

3-0. In response to a question, Ms. Russom advised passing the gavel to Chairperson-elect Prowse. Vice Chairperson Brown passed the gavel and congratulated Chairperson-elect Prowse.

7. DISCUSSION AND POSSIBLE ACTION TO DETERMINE THE FUTURE ROLE OF THE AUDIT COMMITTEE (3:07:30) - Chairperson Prowse introduced this item, and entertained comment. Member McKenna suggested allowing staff to make their presentation. Special Projects Coordinator Linda Ritter reviewed the agenda materials. She noted that the committee was established by the Carson City Board of Supervisors, pursuant to Chapter 2.14 of the Carson City Municipal Code, and advised that committee recommendations would be forwarded to the Board.

Chairperson Prowse thanked Ms. Ritter for her presentation, and entertained committee member comments. Member Bertrand thanked Ms. Ritter for the comprehensive agenda materials, and advised of having been previously unaware of how specifically the committee's role was "spelled out" in the Carson City Municipal Code. He recommended accepting the committee's role "as it's been laid out for us and not make any changes to that." Vice Chairperson Brown concurred. In response to a question, Ms. Ritter interpreted CCMC Chapter 2.14 as "focused on the financial ... It really doesn't talk about performance as much in a broader scope of audit having to do with effectiveness ..." She suggested that if the committee's direction is toward performance audits, the code may need to be amended.

Chairperson Prowse advised of a background in internal audits. In reference to Section 2.14.040(1), he noted the "annual financial audit, performance, compliance, and efficiency audits which would seem to me to give us a very broad fiat." In reference to the June committee meeting, he noted that Mr. Providenti had discussed the annual financial audit which considers internal controls. Chairperson Prowse expressed the opinion that the committee having "as broad a set of responsibilities as possible" will be to the City's benefit "so that we can adjust and change as we move forward." He concurred with Members Bertrand and Brown relative to leaving Chapter 2.14 as it is. He suggested that Sections 2.14.020 and 2.14.040 may be duplicate, and discussion ensued. In response to a question, Ms. Russom expressed the opinion that Section 2.14.040 "is pretty clear in that it does allow for performance, compliance, and efficiency audits. So, even though there is 2.14.020 that's more narrow, ... when you read them together, ... it clarifies any confusion." Additional discussion ensued and, in response to a question, Vice Chairperson Brown suggested "leav[ing] it where we've got a little broader scope rather than narrow it down." Member McKenna suggested that Chapter 2.14 "gives us a lot of responsibility," but was uncertain as to whether "it gives us a method ... or resources to meet that responsibility." He further suggested considering a method by which to be involved in the funding of performance, financial, compliance, and efficiency audits "and possibly some type of mechanism where perhaps we get involved with where the auditing of the City goes; more direct contact." He discussed concerns that, relative to government, "the day-to-day control over financial information is pretty rigid and it's pretty difficult to modify ..." In reference to Section 2.14.040(2)(g), Member Bertrand noted the committee's role to provide recommendations relative to the budget for audits. **Member Bertrand moved to accept the role of the audit committee, as provided in the City's ordinance. Vice Chairperson Brown seconded the motion.** Chairperson Prowse expressed agreement with Member McKenna's comments in that "there is some lack of definition as to ... authority ... Ultimately, ... this ordinance could be improved on," but he expressed concern over timing and "dealing with it piece meal." Chairperson Prowse called for a vote on the pending motion. **Motion carried 5-0.**

CARSON CITY AUDIT COMMITTEE
Minutes of the July 19, 2011 Meeting
Page 3

DRAFT

Chairperson Prowse expressed the opinion that the committee's function should be further clarified. He noted that the committee had agreed, at the June meeting, to meet on a monthly basis for an indefinite period of time. He advised that City staff is interested in performance audit as it relates to the strategic plan. He entertained discussion of the committee members relative to "going forward with performance audits as our focus ..." Member Bertrand expressed support for hiring an internal auditor and then considering how to proceed after the auditor has the opportunity to develop a risk analysis. Vice Chairperson Brown concurred, and suggested following up on previous areas of concern and committee recommendations. Chairperson Prowse admitted a bias, in the short-term, toward performance audit.

In response to a question, Member Bertrand discussed the importance of an internal auditor, and expressed concern that the position has been vacant for some time. He suggested "starting up with a typical internal audit engagement and moving into maybe performance from that point." He reiterated that once the internal auditor has developed a risk analysis and an audit plan, consideration can be given as to how to proceed. Discussion followed and, in response to a question, Member Bertrand expressed the opinion that "part of the internal audit function is to go back and take a look and test ... compliance with those recommendations." He expressed the further opinion that an internal auditor could review the details and report to the committee. In consideration of the available funding, Chairperson Prowse expressed the opinion that hiring a qualified internal auditor would be impossible. He suggested "combin[ing] the two situations" with "an internal audit assistant; someone to support the committee and to get involved with the performance measure process which would allow that person to do an overlook of the entire City government which would, *de facto*, be a type of risk assessment." He expressed agreement with Member Bertrand's opinion relative to the need for an internal auditor. "Frauds occur when people are not as concerned about getting caught. That is one of the conditions of fraud and so the City does need to have somebody out there asking the questions, and the sooner, the better." In consideration of the available funding, he suggested combining this process for the short term until the City's financial situation improves. Vice Chairperson Brown expressed support for an independent internal auditor "than any member of any department. It's hard for a member of a department to come up and point out any shortcomings in that department." He acknowledged the limited funding, and expressed the opinion that more funding is necessary.

In response to a question, Mr. Providenti advised that the Board of Supervisors would determine whether to increase the internal audit budget. He acknowledged the benefits of an internal auditor, and advised that contingency funds were included as part of the internal audit budget. He reiterated that increasing the budget would be within the Board of Supervisors' purview. Member McKenna inquired as to whether the committee's role should be one of seeking information and deciding upon recommendations or one of receiving information that is presented by "a hired person." In response to a question, Ms. Russom offered to research whether the committee members would be authorized to talk to people directly. Chairperson Prowse expressed a preference for the internal auditor or audit assistant to work for the committee "and help ... us prepare recommendations for the Board of Supervisors rather than having that position subject to another City director." He expressed concern over an "independence issue." With regard to following up on previous audit recommendations, he advised that most audit organizations have a formal follow-up process. Member Bertrand agreed, and noted that the ordinance provides for an independent internal audit position that reports to the Board of Supervisors. Chairperson Prowse reiterated an interest in whether or not the committee members could "talk or not with individuals and whether ... we are entitled to have a staff member reporting to us."

CARSON CITY AUDIT COMMITTEE

Minutes of the July 19, 2011 Meeting

Page 4

DRAFT

8. DISCUSSION AND POSSIBLE ACTION REGARDING THE FUTURE EMPLOYMENT STATUS OF THE INTERNAL AUDIT EMPLOYEE OR CONTRACTOR (3:38:06) - Chairperson Prowse introduced this item, and Mr. Providenti advised that the budget includes \$54,000. Based on the previous discussion, he advised that the committee could make a recommendation to the Board of Supervisors to increase the budget. He emphasized that the decision would be the Board of Supervisors'.

Chairperson Prowse entertained discussion of the committee members. Vice Chairperson Brown expressed a preference for an independent internal auditor "rather than trying to establish a position inside the City." He recommended increasing the budget to \$100,000. Member Bertrand agreed and responded to corresponding questions of clarification. Member Parvin expressed concern over justifying the budget increase recommendation to the Board of Supervisors, and discussion ensued. Chairperson Prowse expressed concern over a contract internal auditor based on the City's recent experience, and the opinion that "an in-house person would likely be less expensive for ... the product we would be looking for." He expressed additional concern that a contract relationship "would be ... seeking to have them produce a product. We would have much less input in terms of how the process is done." In consideration of performance audits relative to the City's strategic plan, "having somebody onboard full time would allow a better understanding of City operations and processes than an external auditor coming in on a specific assignment basis." Chairperson Prowse expressed a bias for an internal auditor employed by the City. With regard to the necessary funding, he expressed the opinion that "if we went that way, we could have some potential of doing something regardless of the funding that's available. We'd be able to get somebody at almost any level. ... we would be more productive and efficient with somebody with good experience."

In response to a question, Mr. Providenti discussed various attempts to contact Contract Internal Auditor Nicola Neilon. "She hasn't returned any of our e-mails or phone calls." Mr. Providenti advised of a meeting between Ms. Neilon and Mr. Werner in January, and "we haven't heard from her since." In response to a further question, Mr. Providenti advised that no payment has been made by the City. Vice Chairperson Brown advised of having spoken with Darci Casey, of Casey, Neilon and Associates, who informed him that Ms. Neilon would call him later in the day; he never heard from her. Vice Chairperson Brown expressed the understanding that the last City internal auditor's salary was \$70,000. "If we hire somebody for \$70,000, then you have to consider the benefits that that employee would receive. ... that'd put it up to about \$100,000. And then you also have to consider additional overhead, space, and any administrative assistance that might be required ..." Vice Chairperson Brown reiterated a preference for a contract internal auditor at an increased budget "of around \$100,000." In response to a question, Mr. Providenti advised that an internal auditor would work for the committee and, ultimately, the Board of Supervisors. He noted the City Charter requirement for an internal auditor, which does not have to be a City employee.

Chairperson Prowse entertained public comment. (3:48:13) Mary Magic inquired as to the possibility of hiring "an employee of the City who is not responsible to the City Manager or to anyone but the Board ..., in other words, an autonomous position within the City." Mr. Providenti acknowledged that the internal auditor would not be responsible to any other City department head. "They're directly hired by the Board of Supervisors and they work just for the Board of Supervisors. They don't work for the City Manager." Ms. Magic clarified that the person should only work for the Audit Committee. Mr. Providenti explained that the Audit Committee is advisory to the Board of Supervisors. Member Bertrand provided additional clarification.

CARSON CITY AUDIT COMMITTEE
Minutes of the July 19, 2011 Meeting
Page 5

DRAFT

(3:49:55) Clarence Southard expressed disappointment “that the budget for an auditor was set at such a low cost.” He pointed out that hiring an internal auditor, “with the pay and the benefits and, eventually, ... a retirement, ... the cost would be higher than an external auditor. With an external auditor, they are responsible to the corporation which they work for and you have a contract with them and, where a City employee or a government employee can be threatened to be fired if they don’t oblige the people they’re auditing, an external auditor, you would have to deal with a contract.” He expressed the hope that “everything is on the level but, as we know, in government, everything does not necessarily run that way.” He expressed “deep concerns that anytime where a previous auditor has been dismissed, that there’s something to be hidden. And the only way to prove that there isn’t anything to be hidden is that an auditor is allowed to audit the flow of money and the situations as they are.” He expressed a preference for the committee to recommend to the Board of Supervisors to contract with an auditor “and let them go to work. The funding can be found ...” Chairperson Prowse commented “there is no perfect solution to this. ... We’re going to have to make a decision one way or the other without perfect satisfaction that we’ll resolve [everything].” Chairperson Prowse advised that the committee’s “goal is to have an honest, upright, and thorough audit function.” He thanked Mr. Southard for his comments.

Chairperson Prowse entertained a motion. **Member Bertrand moved to recommend to the Board of Supervisors a budget of \$110,000 for a contract internal auditor. Vice Chairperson Brown seconded the motion. Motion carried 4-1.**

PUBLIC COMMENT (3:55:45) - Chairperson Prowse entertained additional public comment; however, none was forthcoming.

9. ACTION TO ADJOURN (3:56:15) - Discussion took place regarding the next meeting date. Chairperson Prowse entertained a motion to adjourn. **Vice Chairperson Brown moved to adjourn the meeting at 4:00 p.m. Member Bertrand seconded the motion. Motion carried 5-0.**

The Minutes of the July 19, 2011 Carson City Audit Committee meeting are so approved this ____ day of _____, 2011.

WILLIAM PROWSE, Chair