

CARSON CITY AUDIT COMMITTEE
Minutes of the January 10, 2012 Meeting
Page 1

DRAFT

A regular meeting of the Carson City Audit Committee was scheduled for 3:00 p.m. on Tuesday, January 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: Nickolas 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 (3:00:43) - Chairperson Bertrand called the meeting to order at 3:00 p.m. Roll was called; a quorum was present.

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

4. POSSIBLE ACTION ON APPROVAL OF MINUTES - November 29, 2011 (3:01:40) - Vice Chairperson Prowse moved to approve the minutes. Member Brown seconded the motion. Motion carried 5-0.

5. POSSIBLE ACTION ON ADOPTION OF THE AGENDA (3:02:15) - Chairperson Bertrand entertained a motion to adopt the agenda. **Member Brown so moved. Vice Chairperson Prowse seconded the motion. Motion carried 5-0.**

6. POSSIBLE ACTION TO DIRECT STAFF TO START THE REQUEST FOR STATEMENT OF QUALIFICATIONS ("SOQ") PROCESS FOR THE APPOINTMENT OF THE INDEPENDENT AUDITORS TO BE ENGAGED BY THE BOARD OF SUPERVISORS FOR EXTERNAL REPORTING AND TO RECOMMEND TO THE BOARD OF SUPERVISORS THE RELATED AUDIT FEES (3:02:51) - Chairperson Bertrand introduced this item, and entertained discussion. In response to a comment, Mr. Providenti directed the committee members to the recommended board action, as outlined in the agenda report. Chairperson Bertrand entertained public comment; however, none was forthcoming.

In response to a question, Mr. Providenti expressed confidence that there is sufficient time to accommodate the SOQ process and make a recommendation to the Board of Supervisors by the end of March. In response to a further question, he discussed the benefits of conducting the SOQ process every five to six years. In response to a further question, he expressed reluctance to appoint an auditor based solely on cost, and advised that the SOQs would be carefully evaluated. In response to a further question, he advised of

CARSON CITY AUDIT COMMITTEE
Minutes of the January 10, 2012 Meeting
Page 2

DRAFT

no anticipation that the number of Finance Department staff will increase over the next few years. He expressed appreciation for the City's relationship with Kafoury, Armstrong & Co., and provided background information with regard to the same.

Vice Chairperson Prowse commended the "good job" that Kafoury, Armstrong & Co. does for the City, and expressed support for the SOQ process in consideration of private sector economic trends. In response to a question, Mr. Providenti discussed the intent to enter into a three-year contract with the external auditor. In response to a comment, Member McKenna discussed concerns relative to costs to the City, and the Finance Department in particular, incurred as a result of hiring a new external auditor. He suggested, "It's a good time to be frugal." Mr. Providenti expressed a willingness to forego the SOQ process and to simply negotiate with Kafoury, Armstrong & Co. Discussion followed.

Chairperson Bertrand called again for public comment and, when none was forthcoming, a motion to direct staff to start the Request for Statement of Qualifications process for 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. **Vice Chairperson Prowse so moved. Member Brown seconded the motion. Motion carried 5-0.**

7. POSSIBLE ACTION TO APPROVE CHAIRMAN BERTRAND'S RECOMMENDATION FOR CONTRACT AWARD TO MOSS-ADAMS, LLP FOR THE CARSON CITY 2011 INTERNAL AUDIT FUNCTION AND TO AUTHORIZE STAFF TO PREPARE A CONTRACT AND BOARD ACTION FORM FOR BOARD OF SUPERVISORS APPROVAL (3:14:16) - Chairperson Bertrand introduced this item. He advised that since he had not received any written material until this morning, he was not prepared to provide a recommendation. He advised of having talked with Tom Krippaehne, at Moss-Adams, LLP, prior to the start of the meeting. He reviewed the internal audit risk assessment project scope developed by Moss-Adams, copies of which had been provided as late material prior to the start of the meeting. He noted that the SOQ required the consultant's availability for an average of 25 hours per week over the contract period. He advised that Mr. Krippaehne had expressed a willingness to adjust "how much they're using for risk assessment or try to work with us in other ways. He ... brought up the fact that they're trying to put this together based on the deliverables ..."

Vice Chairperson Prowse expressed concern over no cost estimate for travel "which could be substantial." In response to a question, Chairperson Bertrand advised of not having discussed travel costs with Mr. Krippaehne, and offered to place a follow-up telephone call. In response to a question, Mr. Providenti advised that approval of the Moss-Adams contract was agendaized for the January 19th Board of Supervisors meeting. In response to a question, Ms. Belt advised that a sample draft Moss-Adams contract would be attached to the Board of Supervisors agenda report. "... right now, Moss-Adams is reviewing that contract. It's basically the Purchasing and Contracts standard contract for professional services for an independent contractor." In response to a further question, Mr. Providenti reiterated that the contract to be submitted to the Board of Supervisors is the standard City contract requiring the contractor to carry "certain amounts of insurance and ... just basically the standard things." He suggested that the committee's input would be toward the scope of work. He advised of the intent to request the Board of Supervisors to approve a task-based contract, which he explained. The first task is the risk assessment. Ms. Belt provided additional clarification, and advised that the remainder of the contract tasks would be determined later. In response to a question, she advised that the auditor's work will be provided to the committee for review. She responded to additional questions of clarification and, in response to an additional question, advised there

CARSON CITY AUDIT COMMITTEE
Minutes of the January 10, 2012 Meeting
Page 3

DRAFT

are termination provisions in the contract. Vice Chairperson Prowse expressed concerns relative to avoiding the “problems we had with the last contract ...” He reiterated concern relative to travel costs.

In response to a question, Mr. Providenti advised that the auditor will be “basically ... working for you folks. You need to ... approve the work before they can go forward. Basically, all we’re going to do, as staff, is provide them with the information they request to do their work. ... They’ll report it to you and then you folks will either approve it, disapprove it.” In response to a question, Chairperson Bertrand advised that Mr. Krippaehne had assured him the risk assessment would be taken very seriously. “... he’s there to work with us.” Chairperson Bertrand noted that one third of the budget is currently allocated to risk assessment. He expressed an interest in “some real results” by the end of the year. He related additional details of his conversation with Mr. Krippaehne.

Member Parvin expressed no concern over the number of hours, but agreed with the concern over travel costs. In response to a question, Ms. Belt advised that the total budget amount was listed at \$110,000. Mr. Providenti advised that the \$110,000 is allocated through June 30th. “So, on July 1st, ... the new budget year, ... we’ll be budgeting another \$110,000 from July 1st of 2012 to June 30th of 2013.” Mr. Providenti assured the committee that the contract auditors will not spend \$110,000 in the current fiscal year. Vice Chairperson Prowse reiterated a request for the contract auditors to provide an estimate of travel costs. Discussion followed, and Member McKenna suggested “buy[ing] into the fact that these people are professionals. The risk assessment’s probably the most important thing they will do. If it takes the entire budget to do an adequate risk assessment, including travel, ... that’s fine ... and we’ll figure out how to deal with the risk assessment in the future. ... We hired these people because of their professional qualifications. ... we have to get out of their way and let them ... try to do the job. ... Until we actually get somebody in here looking at Carson City, starting this internal audit, we haven’t done a thing.”

Chairperson Bertrand entertained a motion. **Member McKenna moved to approve the internal risk assessment project scope. Vice Chairperson Prowse seconded the motion.** Chairperson Bertrand entertained public comment; however, none was forthcoming. He entertained further discussion from the committee members. Vice Chairperson Prowse suggested identifying a member of the committee “to function as the ... representative during the period of the contract when the audit committee is not in session.” Member McKenna expressed opposition “simply because that makes one of us different than the others and [we], generally, try to do everything in public. So, if we need to talk to the auditor, we can call them on the phone and have a conference call or Nick ... could bring information to us.” Vice Chairperson Prowse expressed concern over holding up the process. “If questions come up ... between audit committee meetings, rather than have the contractor then halt action pending resolution of a question, perhaps we can ask that they then discuss it with the Finance Director and that he notify the committee and that we have, potentially, a special meeting, as an alternative.” Member McKenna discussed the difference between managing the engagement versus supervising the engagement. Mr. Providenti advised of the intent to simply provide requested information to Moss-Adams representatives. Discussion followed, and Mr. Providenti advised of having discussed the process with City Manager Larry Werner. He assured the committee, “You have full buy-in from the City Manager.” In response to a question, Mr. Providenti advised that he and Ms. Belt will serve as the points of contact for the contract auditors.

In response to a question, Mr. Munn explained “this is a contract with the City. ... You oversee the appointment and quasi-supervision of the contract. However, you are a public body. Certainly, they could call any one of you and ask you questions and get a feel for whatever information they want to get from

CARSON CITY AUDIT COMMITTEE
Minutes of the January 10, 2012 Meeting
Page 4

DRAFT

you. What you can't do is deliberate together to tell them what it is they want to do unless you have a meeting. So, in that process, if they call, let's say the chairman and they have an issue, the chairman would have to essentially say, 'Well, I think maybe you could do 'x.' If it's a concern and you feel it's a concern that the entire body should be chiming in on, then it certainly ... should be agendized before you deliberate horizontally amongst yourselves. It's not like they can't get answers to their questions from the committee. You just can't deliberate unless you put it on an agenda and come and meet and talk about it." Member McKenna suggested that the contract auditor "may have to call five people to get an answer they can depend upon and they still can't depend upon that answer because if we appoint one person to be the contact person we, in effect, create a subcommittee and that subcommittee ... would have to be agendized to have any public discussion on this thing." Member McKenna reiterated a preference for "either the five of us or none of us. It's just the way Nevada law is." Mr. Munn acknowledged Member McKenna's accurate description of the provisions of Open Meeting Law. "It's not the most efficient way to do business but that's what the Legislature decided we will do." In response to a further question, Mr. Munn reviewed the circumstances and the method by which a special meeting would be convened. He acknowledged the appropriateness of the contract auditor contacting City staff with "basic questions that are not specific to whatever they're auditing and get assistance from staff ... whether we need to have a public meeting to get an answer ..." Ms. Belt advised that she is designated as contract administrator for all City contracts. Additional discussion followed to clarify the circumstances under which a public meeting would have to be convened.

Member Brown expressed agreement with Member McKenna's earlier comments relative to having the contract auditor get started on the scope of work. "They have the experience. ... they'll know how to address certain issues that are a problem." Chairperson Bertrand agreed with earlier comments, "... they're professionals and we all have other jobs and other things to do. We just want to get somebody in here that can do it and just ... give the minimal amount of direction." Chairperson Bertrand reviewed the previously stated motion, and Member McKenna provided additional clarification. Chairperson Bertrand called for a vote on the pending motion. **Motion carried 5-0.**

8. POSSIBLE ACTION TO SCHEDULE THE NEXT MEETING OF THE CARSON CITY AUDIT COMMITTEE (3:44:00) - Chairperson Bertrand introduced this item, and expressed the opinion that monthly meetings are important for the time being. He suggested designating the second Tuesday of each month as the regular meeting date, noting that the next meeting would fall on February 14th. Chairperson Bertrand entertained a motion to designate February 14th as the next meeting date. **Vice Chairperson Prowse so moved. Member Brown seconded the motion. Motion carried 5-0.**

9. PUBLIC COMMENT (3:44:51) - Chairperson Bertrand entertained public comment; however, none was forthcoming.

10. ACTION TO ADJOURN (3:45:11) - Member Brown moved to adjourn the meeting at 3:45 p.m. Vice Chairperson Prowse seconded the motion. **Motion carried 5-0.**

The Minutes of the January 10, 2012 Carson City Audit Committee meeting are so approved this _____ day of February, 2012.

MICHAEL BERTRAND, Chair