

CARSON CITY AUDIT COMMITTEE
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A regular meeting of the Carson City Audit Committee was scheduled for 3:30 p.m. on Tuesday, January 29, 2019 in the Community Center Bonanza Room, 851 East William Street, Carson City, Nevada.

PRESENT: Chairperson Stephen Ferguson
Vice Chairperson Michael Bertrand
Member Lori Bagwell
Member Ernie Mayhorn
Member Betsy Strasburg

STAFF: Nancy Paulson, City Manager
Sheri Russell, Chief Financial Officer
Todd Reese, Deputy District Attorney
Kathleen King, Chief Deputy Clerk

NOTE: A recording of these proceedings, the committee's agenda materials, and any written comments or documentation provided to the Clerk, 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 (3:32:54) - Chairperson Ferguson called the meeting to order at 3:32 p.m. Ms. King called the roll; a quorum was present.

3. PUBLIC COMMENTS AND DISCUSSION (3:33:18) - Chairperson Ferguson entertained public comment; however, none was forthcoming.

4. POSSIBLE ACTION ON APPROVAL OF MINUTES - October 23, 2018 (3:33:54) - Chairperson Ferguson introduced this item, and entertained a motion. **Member Bagwell moved to approve the minutes, as presented. Member Mayhorn seconded the motion. Motion carried 5-0.**

5. POSSIBLE ACTION ON ADOPTION OF AGENDA (3:34:14) - Chairperson Ferguson introduced this item, and entertained modifications to the agenda. When no suggested modifications were forthcoming, Chairperson Ferguson deemed the agenda adopted, as published.

6. PUBLIC MEETING ITEMS:

6(A) DISCUSSION AND POSSIBLE ACTION REGARDING THE MONITORING, REVIEW, AND CLOSURE OF INTERNAL AUDIT FINDINGS AND / OR RECOMMENDATIONS INCLUDED IN THE AUDIT FINDINGS TRACKING REPORT, AND TO PROVIDE A RECOMMENDATION TO THE BOARD OF SUPERVISORS TO CLOSE COMPLETED FINDINGS AND / OR RECOMMENDATIONS (3:34:28) - Chairperson Ferguson introduced this item, and Ms. Russell presented the agenda materials. In response to a question, Ms. Russell explained that certain modules of the new ERP System are being implemented at different times. She is "making sure that a key person, within that implementation team, is aware of what they need to make sure the system has. And if it doesn't, then we need to look at another solution. But we're definitely making sure that somehow we can address it with that ... implementation team." At Member Bagwell's request, Ms. Russell agreed to add the team contact's name to the spreadsheet. Chairperson Ferguson suggested ensuring that the ERP solution was on the requirements document used to select the ERP.

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In response to a question regarding the Capital Projects Process Review, City Engineer Dan Stucky explained that the Public Works Department has “a lot of procedures or guidelines or policies ... for ... various steps of the project process, from start of the project to finish. And a checklist would have ... brought those together in one place but they’d still be ... not in one manual. And when we started to look at best practices and we referenced the Project Management Institute (“PMI”) - that’s industry standard on how to manage projects - we started feeling like really to get in line with what we should do and what’s the proper way to do from an industry standpoint, it really makes a lot of sense to bring everything together in a project manual that’s available to all of our project managers and follow ... the process that PMI recommends. So that was ... the change as we got into it. It just made a lot of sense to do it right and that’s the right way to do it.” In response to a further question, Mr. Stucky stated, “We’re about a third of the way done right now. We have a working group that meets about every month. I’m taking the lead on drafting the manual but every month we check in. So ... as far as the progress we’ve made to date, July ... is a reasonable time line to get it done. ... a lot of these things we already have created and are following. It’s just bringing it together in one place essentially.” In response to a further question, Mr. Stucky advised of approximately eight different people that manage projects. Two of the eight are PMI certified “but it’s something that we’re very open to looking for and maybe getting more people certified.”

Ms. Russell acknowledged that electronic signatures will be included in the ERP System implementation for Capital Projects Process Review. She provided background information on research conducted into electronic signatures and the conclusion that it was best to wait for ERP System implementation.

Ms. Russell presented the Public Guardian Follow Up Review, and recommended closing all four items “just because [the Public Guardian] has a process of scanning paperless going forward. And the cost benefit of purchasing a \$3,000 fireproof safe we decided was ... not a good ... spend ... for three ... or four years of scanning.” Ms. Russell acknowledged that scanned documents are redundantly backed up. She responded to additional questions of clarification and a brief discussion followed. Consensus indicated the four items pertinent to the Public Guardian Follow Up Review should be closed.

Ms. Russell reviewed the FY 2017 Audit Findings. She explained that “the original finding on this was that we were drawing from an approved list of vendors and it was grant funded so we really needed to go and get a bunch of quotes for that to be in compliance with grant funding. But we drew from a list of vendors because it was a smaller amount. But the grants, anything over \$3,500, you have to get quotes whereas the City rules are a little different. ... it’s \$25,000, we require several quotes. So we have kind of a conundrum between NRS and the Uniform Guidance for Grants. So, NRS says we can’t just go get quotes for small amounts on architects and surveys. We actually have to do a SOQ. So we have to look at their qualifications first, then negotiate a price. So the SOQ process is just like the RFP process ... So we have implemented a procedure that, for grants, drops it down to \$3,500. We’re going to have to do an SOQ on anything over \$3,500. For the City, we’re sticking with our own policies. Now, of course, Uniform Guidance [for Grants] has another rule that says we can’t do that. But for everything else we do for grants, we do actually follow City policies ... This one, we’ve decided not to follow because it’s not cost effective. I mean, it probably takes \$5,000 to create a SOQ, look at it, review it, with all the peoples’ time and effort involved and, if we’re hiring somebody for \$5,000, how much are they going to want to put that effort into a \$5,000 SOQ. ... it’s not cost effective. It doesn’t really make sense.

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“I did reach out to all the other counties because I had heard several other [entities] had the same finding and ... they all said that they did not have this finding and they were interested in what we were going to do because it was a problem. It was an issue between the two and all of them said that they were not going to change their procedures and go down to \$3,500; that that was crazy. It just would be a lot of extra cost for the City unnecessarily.” Ms. Russell requested the committee to consider allowing that anything over \$3,500 would require the SOQ process if the project is grant funded, and then the City would stick with City policies. Eide Bailly Engagement Partner Dan Carter and Ms. Russell responded to questions of clarification, and discussion followed. Ms. Russell acknowledged that the procedure had been added into the Citywide Purchasing Manual as a reminder of the requirement to validate federal dollars. Ms. Russell advised that the current auditors had also cleared the findings. She requested to close the item “because there’s not a lot we can do until the legislature changes its rules or the Uniform Guidance for Grants is changed.” Ms. Russell responded to additional questions of clarification. Ms. Paulson explained that “part of the problem is that for ... architects and engineers ... NRS doesn’t allow you to go by cost. It’s based on qualifications. ... That’s why NRS says that you can do it that way but the federal guidelines are saying that you need to do it ... based on cost.” Ms. Paulson suggested that the District Attorney’s Office could be requested to look into the matter as well. Additional discussion followed.

Ms. Russell acknowledged that the item is closed from a grants perspective. She clarified and reiterated that until the pertinent statutes and the Uniform Guidance for Grants are changed, “there’s not a lot I can do.” Mr. Reese offered to look into the matter. Additional discussion followed. Member Bagwell expressed satisfaction with the fact that there was no “repeat finding, you’ve added it into the Purchasing Manual now, not just the Grants Manual, to indicate if it’s federal, you will comply with the federal ruling, and then we’ll have to wait for the D.A.’s office ... to tell us if there’s a hierarchy between the state law and the federal.” Consensus of the committee was to close the “FY 2017 Audit Findings” audit.

Ms. Russell reviewed the “FY 2018 Audit Findings,” and requested the committee’s direction. She explained that procedures have been implemented for items 2 and 3, as delineated in the agenda materials. She assured the committee she is “very involved in all the Board meetings and ... will know if a contract comes through and the departments are informing me of any contracts that come through. ... that one we’ve addressed but the auditor hasn’t seen it and closed that finding yet.” She responded to questions of clarification regarding the audit findings, and explained that a procedure has been added to the policy “to make sure that Purchasing prints out the suspension and debarment when she checks it so they can see that, before we issued that contract, it was checked. And so she’s keeping a .pdf copy in the file with the contract. And then, as far as I understand, Public Works is also keeping a copy when they request a contract. So we should have that one covered as well going forward. And it’s in the policy as well. It shouldn’t fall through the cracks again.” Ms. Russell responded to additional questions regarding the issue giving rise to the first listed audit finding. She acknowledged that the procedure has been changed.

Ms. Russell summarized the committee’s discussion as follows: She will keep the Capital Projects Process Review “green” but “we won’t close anything with the Board of Supervisors yet. But I’ll take the Public Guardian Update and we’ll close that all out. And then I’ll close the FY 17 Audit Finding as well.” The committee members concurred. Chairperson Ferguson entertained a motion. **Member Strasburg moved closure of the internal audit findings and recommendations included in the Audit Findings Tracking Report, as presented and agreed to by the Audit Committee.** Member Bagwell specifically noted the Public Guardian Update and the FY 2017 Audit Finding would be closed. **Member Strasburg so amended her motion. Member Bagwell seconded the motion. Motion carried 5-0.**

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6(B) POSSIBLE ACTION ON PRESENTATION BY EIDE BAILLY ON THE RISK ASSESSMENT FOR THE AUDIT COMMITTEE’S CONSIDERATION; DISCUSSION, AND POSSIBLE RECOMMENDATION ON FUTURE PROCEDURES (4:07:37) - Chairperson Ferguson introduced this item. Eide Bailly LLP Engagement Partner Dan Carter presented the agenda materials, and responded to questions of clarification. Extensive discussion took place regarding items listed in the 2019 Proposed Internal Audit Plan; the Fraud, Waste, and Abuse hotline; the status of performance measures. Chairperson Ferguson entertained additional discussion and, when none was forthcoming, a motion. **Member Mayhorn moved to accept the Risk Assessment, as presented. Member Strasburg seconded the motion. Motion carried 5-0.**

6(C) DISCUSSION TO PROVIDE AN UPDATE ON AGREED-UPON PROCEDURES PERFORMED BY EIDE BAILLY REGARDING THE FIRE OVERTIME STUDY AND THE TEMPORARY STAFFING STUDY (5:03:08) - Chairperson Ferguson introduced this item, and Eide Bailly LLP Engagement Partner Dan Carter presented the agenda materials. Mr. Carter reported that both the fire overtime study and the temporary staffing study are complete. He advised of additional room in the budget if there is direction for additional work to be done on either of the studies.

With regard to the Fire Overtime Study, Mr. Carter advised of having interviewed “a whole handful of people. We obtained a significant amount of documentation from the City ... and then went out and did our internal controls testing; pulled samples and verified them back to the various documentation or contracts that we had. For Fire specifically, from a high level, we found lots of good documentation and lots of ... good, solid policies and procedures in place and we did test a sample of 20 overtime transactions and found all ... but one to be in compliance with policies and procedures. So, basically, we did a judgmental sample of 20 people we selected; seven employees where they had call back and overtime on the same day. And we had 13 where employees had multiple overtime entries in the system in one day. It just looked unusual to us and, based on our original audit program, we thought that those should be an area focus. We verified the overtime to the staffing call-back procedures and then also ... there’s training law ... for National Fire Incident and Dispatch reports. And so, again, found ... 19 of the 20 transactions to be in compliance with policies and to be supported by documentation. The one error we did find was more of a calculation error so, in the staffing and call-back procedure, firefighters aren’t allowed to work more than 24 hours of overtime. But there is a lot of data that goes into that and some of those people are in training and then pulled out of training to cover a shift ... at a fire station and then switch fire stations. So some of those people can have multiple entries as far as their overtime and they all need to be added up to ensure that they don’t go over 24. We did find that to be the case, with the exception of one, that ended up hitting 27 hours of overtime and it was just an exception. The business manager out of the Fire Department normally checks those. It slipped through the cracks.” Mr. Carter responded to questions of clarification. He advised of having documented the isolated incident and that the details are available. “... the other 19 transactions we found to be in line with policies and procedures and supported by documentation.”

Mr. Carter further advised of having done “high level budget analysis and labor burden analysis and ... the City does pay a lot of money in overtime benefits to employees. The ... original budget ... has historically been the same number for the last four or five years and ... that’s the one that gets augmented. ... we did not check ... the revenue side of this. That wasn’t in our original audit program and that could be an area to focus on a go-forward basis is how much of the expenditures for overtime were reimbursed by another

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agency or the federal government. We could look into that process a little bit. So the original budget, typically, is in the \$700,000 to \$800,000 range and actual overtime ends up being in the \$1.2 million to \$1.4 million range. So we're talking about forty percent more than original budget and it's increasing."

Ms. Russell responded to questions regarding the method by which reimbursements are recorded. She explained that "typically, we budget just \$775,000 ... in overtime every year and then, during our final augmentation, we look at what the fire season has done over the year and what revenues we've gotten from sending our guys to other districts to fight fires. And that is what we add to the overtime budget. The last couple of years, that hasn't quite been enough so we've needed a little bit of contingency to cover the difference." In response to a question, she estimated \$100,000 to \$200,000 in contingency. She clarified that the contingency isn't reimbursed from other areas. "Most of it, like \$500,000 or \$600,000, depends upon the year, ... is collections from sending our guys out." Ms. Russell responded to questions of clarification, and discussion followed.

In response to a question, Mr. Carter expressed the understanding that the "categorization of those overtime hours ... isn't being broken out at this point. That's a recommendation we have to utilize that subcategory function to differentiate training versus mutual aid. That is not something we were able to test because we had talked about that in the last Audit Committee to test the federal reimbursement versus the City-paid. It's our understanding that we can't get that data." Ms. Russell responded to questions of clarification regarding overtime coding and overtime procedures, and discussion followed. In response to a question, Mr. Carter advised of time available in the budget to do more detailed work. Discussion followed, and Mr. Carter and Ms. Russell responded to additional questions of clarification.

In response to a question, Mr. Carter explained that "based on the information that we were provided, we were able to trend the overtime by person and the majority of the dollars that we're talking about are earned by somewhere between five and ten people in the system. And, based on our analysis of their base pay versus overtime pay, and not knowing the intricacies of the vacation and doing that math - that's not something that went into our audit procedures - it does look like the City has the ability to fund multiple additional positions based on just the overtime that's being paid. ... when you're talking about \$1.4 million in overtime, that's a lot of additional firefighters." Following a brief discussion, Ms. Paulson explained "there are just a few individuals that like to go out to those out of town fires so that's why it probably ends up being ... just five or ten individuals that are getting the overtime."

Member Bagwell expressed disappointment "we don't have the codes for the non-reimbursable to know why they're working." She suggested ensuring that the new ERP System includes the data. Ms. Paulson offered to talk with Sheriff Furlong about his procedures relative to Telestaff. Mr. Von Schimmelmman advised that Telestaff has been upgraded. Chairperson Ferguson suggested breaking out the reimbursables "so that you ... can know exactly where we stand with ... the overtime incurred and the amount of billings we get outstanding to make sure that we're at least breaking even on that stuff." Ms. Russell expressed support for Mr. Carter reviewing the billing. Ms. Paulson expressed confidence that "we always come out ahead on the billings because we also bill a rate for the equipment and several other things." Ms. Russell suggested that Mr. Carter could confirm that the same people accruing overtime are "on those wildland bills. If they're not, then what's going on? Why are they getting so much overtime?" She expressed further support for separate codes.

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Mr. Von Schimmelmenn stated, "... we're in the middle of the implementation of the new Telestaff system ... They're not changing the codes currently." He requested input from Ms. Russell regarding new codes as soon as possible. In response to a question, Mr. Carter estimated \$10,000 in available audit fees. Mr. Carter advised of "various other analyses" but was uncertain as to whether "it plays into our recommendations or findings but we have the data and it was easy to do as far as trending overtime." He offered to provide the information to the committee members.

With regard to the Temporary Staffing Study, Mr. Carter advised of having tried to accumulate policies and procedures "in order to test against. We really found there aren't citywide policies over the use of temporary staffing. We were able to obtain the contract obviously and test against that and review that for some potential recommendations ... Once we didn't find a citywide policy, we went to the individual departments and asked and they have loose policies on how that works and who gets approved to be a temporary staff person and so ... lots of our procedures were based on the policies in place and testing against that. And when there weren't any, we moved on pretty quickly. We talked as a group last time about FLSA and some of the other PERS stuff and ... so just wanted to throw this out there. There is some fine lines in FLSA for contract employers and independent contractors versus employees and the contract ... seems to be very clear that they are independent contractors. But from the documentation that we looked at and from ... some of the conversations we had, I think it's grey and I'm not sure where the DOL would fall if there was an issue with the economic reality of what's going on if these people are truly independent contractors or if they're more acting as employees.

"Just a recommendation to throw out, because it's not really our area of expertise to figure that out, but there are rules about people taking lunches and breaks and documentation of some of these people where it looks like they're salaried employees ..." Chairperson Ferguson inquired as to whether the City has ever conducted an FLSA audit. Ms. Paulson advised that the Human Resources Department has job descriptions for every position. The Pontifex study helped to determine that employees are in the right categories. Human Resources Department staff checks, on an ongoing basis, to ensure compliance. In response to a question, Ms. Russell advised that the temporary staffing vendors ensure compliance with FLSA. Ms. Russell and Mr. Carter responded to questions of clarification, and discussion followed.

Ms. Russell acknowledged that City management approves the time sheets submitted by temporary staff. Mr. Carter advised of having found time sheets "not always being approved properly; definitely not documenting the FLSA stuff of lunches and breaks. So whether that falls to [the temporary staffing vendors], it's tough to tell based on the contract. The contract seems to be very clear that it's their responsibility but we did find that economic reality language." Chairperson Ferguson suggested legal review to ensure "a good separation there." Mr. Reese offered to look into the City's obligations. Ms. Russell and Mr. Carter responded to questions of clarification. Mr. Carter advised that the "biggest concern is documentation of the FLSA stuff, making sure that if someone came back and looked at that, ... Marathon isn't questioning when they get a 40-hour straight work week timesheet that's signed off on. Seems like that needs to be documented a little bit better." Chairperson Ferguson reiterated the importance of ensuring compliance with FLSA, on both the part of the City and the temporary staffing vendors.

In response to a question, Mr. Carter explained "our testing consisted of reviewing those time sheets and tying them back to the information submitted ... Our sample was the actual invoices for Marathon which ... we ended up pulling 70 time sheets and tying them back as far as what's the right information submitted to Marathon and our primary issues were in just the approval of time sheets. We did also compare

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temporary employees to permanent employees of the City based on information obtained from HR. We found some potential issues. We could look into these further if need be but ... we found some potential double pay of employees, people who appeared on both lists ... a permanent employee and a temporary employee. ... And then ... we found certain people who ... had left their position, became temporary employees, and some of them were paid more based on their temporary payment. And some of them paid less. It wasn't consistent ... everyone always becomes a temporary employee and gets paid more. But there are a significant amount of people on that temporary employee roster and then, with the additional 21 to 23 percent Marathon cut, ... there should be additional analysis of whether those people should actually be employees. But, again, ... not a lot of policies and procedures or rules surrounding that." In response to a question, Mr. Carter advised that "of the 70 we tested, we had 8 issues that ... met that ... criteria."

Chairperson Ferguson suggested "we've got some issues with our contractors around making sure they're in compliance with Fair Labor Standards Act, exempt / non-exempt classifications, documented breaks, and then length of time they're a temp for the City. Those are things that we might want to take a look at, from a risk management standpoint." Discussion followed. Member Bagwell expressed concern regarding whether potential temporary employees are checked against a "do not hire list" and whether a 90-day period should be observed prior to retired or separated City employees being hired back as temporary employees.

Mr. Carter offered to "provide the details along the way and come back with final reports on all these areas ... final product being the full report with the findings and recommendations ..." He requested input of the committee members. He acknowledged that scheduling the next committee meeting within the next quarter would be sufficient time.

6(D) DISCUSSION TO CONSIDER DATES FOR THE NEXT MEETING (6:04:39) -

Chairperson Ferguson introduced this item, and consensus of the committee was to schedule the next meeting for 3:00 p.m. on Tuesday, May 7th.

7. PUBLIC COMMENT (6:06:04) - Chairperson Ferguson noted there were no other citizens present in the meeting room.

8. ACTION TO ADJOURN (6:06:24) - Chairperson Ferguson adjourned the meeting at 6:06 p.m.

The Minutes of the January 29, 2019 Carson City Audit Committee meeting are so approved this 9th day of May, 2019.

STEPHEN FERGUSON, Chair