



STAFF REPORT

Report To: Board of Supervisors **Meeting Date:** July 15, 2021

Staff Contact: Sheri Russell , Chief Financial Officer (srussell@carson.org)

Agenda Title: For Possible Action: Discussion and possible action regarding the Fiscal Year ("FY") 2022 Audit Work Program and audit services recommended by the Audit Committee to be performed by the City's retained internal auditor, Eide Bailly, LLP, for an amount not to exceed \$116,000. (Sheri Russell, srussell@carson.org)

Staff Summary: Eide Bailly, LLP made recommendations for future projects at the Audit Committee's June 22, 2021 meeting based on their risk assessment procedures performed. The Audit Committee discussed those recommendations and based on the budget available selected various projects that are being recommended to be included in the Fiscal Year 2022 Audit Work Program.

Agenda Action: Formal Action / Motion **Time Requested:** 15 Minutes

Proposed Motion

I move to direct Eide Bailly, LLP to proceed with the Fiscal Year 2022 Audit Work Program as discussed.

Board's Strategic Goal

Efficient Government

Previous Action

June 22, 2021 - The Audit Committee recommended moving forward with the FY 2022 Audit Work Program.

Background/Issues & Analysis

Eide Bailly, LLP was able to perform all selected audit programs for FY 2021, with a savings of \$6,000. Eide Bailly, LLP performed an updated risk assessment of Carson City and presented recommended procedures to the Audit Committee on June 22, 2021. For the FY 2022 Audit Work Program, the Audit Committee recommended a Citywide payroll process, a review of the insourcing vs. outsourcing of the Department of Community Development Building Division and Business License Division revenue, an update to the IT Vulnerability Study done in FY 2021 and end user and wireless vulnerability assessment, and consulting services for the American Rescue Plan Act (ARPA) grant spending.

The Payroll System under the new ERP System went live January 1, 2020 and the City has a full year of payroll data. FY 2022 is the perfect time to test the conversion and payroll processes under the new ERP System.

Because the Building Division has been outsourced since 2015, due diligence is needed to ensure that outsourcing this function is still the best course of action for the City. During the Audit Committee's discussion, a request was made that business licenses be reviewed for completeness, as EnerGov is part of the City's new ERP system, and therefore, it is important to ensure that data migrated is complete and accurate. Auditors agreed they could use a portion of this budget to perform the requested testing.

A large IT Vulnerability study was done as part of the FY 2021 Audit Work Program. The Audit Committee would like a follow-up performed later in the fiscal year to ensure all items are addressed. End User & Wireless Vulnerability Assessment also seemed like an excellent use of resources, as in the past year the City experienced increases in remote working environments due to COVID-19.

Lastly, the auditors recommended Grants procedures. The Audit Committee felt that City grants are scrutinized very frequently by the External Auditor as well as outside granting agencies. Instead, the Audit Committee suggested that a more efficient use of resources was for the auditor to act as consultants in the City's ARPA spending. It is extremely important that the City spends this Federal funding in accordance with the APRA guidelines, as failure to do so may result in a requirement to pay back the award. The auditor confirmed that they had been requested to perform similar engagements. Due to this change in scope, the Grant budget was reduced slightly to allow room for a final risk assessment in FY 2022 to prepare for the FY 2023 Audit Work Program. This was not included on the recommended procedures by the auditor, as this is the final year of the contract; however, if Eide Bailly is selected to continue as the City's internal auditor, a risk assessment will need to be performed.

The following are the recommended internal audit projects with the corresponding audit costs:

-Risk Assessment Evaluation FY 2023	\$10,000
-Citywide Payroll Process	28,000
- Insourcing vs. Outsourcing of Building Division and Business Licenses Revenue Review	40,000
-IT Vulnerability Audit - Follow-up	5,000
-End User & Wireless Vulnerability Assessment	7,500
-Grants (ARPA Eligible Expenses Consulting)	22,600
-Findings Follow-up	2,400
-Fraud, Waste & Abuse Monitoring	500
TOTAL	\$116,000

Applicable Statute, Code, Policy, Rule or Regulation

N/A

Financial Information

Is there a fiscal impact? Yes

If yes, account name/number: General Fund, Internal Audit, Professional Services Account 1010800-500309

Is it currently budgeted? Yes

Explanation of Fiscal Impact: \$110,000 budgeted for FY 2022, plus unspent \$6,000 in follow-up procedures from FY 2021 is proposed to be rolled forward into FY 2022, for a total budget of \$116,000. Should the roll-forward not be approved as part of this item, staff would work with the auditor to reduce the Grants Consulting procedures to \$16,600, or 140 hours, in order to fit within the approved budget.

	Budget	Hours
-Risk Assessment Evaluation FY 2023	\$10,000	40
-Citywide Payroll Process	28,000	215
-Insourcing vs. Outsourcing of Building Division and Business Licenses Revenue Review	40,000	310
-IT Vulnerability Audit - Follow-up	5,000	35
-End User & Wireless Vulnerability Assessment	7,500	55
-Grants (ARPA Eligible Expenses Consulting)	22,600	190
-Findings Follow-up	2,400	20

-Fraud, Waste & Abuse Monitoring

500

5

TOTAL

\$116,000

NOTE: Eide Bailly estimated hours on all projects. Project will be billed by actual hours spent according to the bid proposal, at a not to exceed amount approved as part of this item.

Alternatives

Do not accept the recommendations, modify recommendations and/or provide alternative direction to staff.

Attachments:

[FY 2022 Audit Work Program.pdf](#)

Board Action Taken:

Motion: _____

1) _____

2) _____

Aye/Nay

(Vote Recorded By)

FY21/22 Proposed Internal Audits	Hours	Fees	Blended Rate	
<p>Citywide Payroll Process – To evaluate whether: 1) Internal controls and policies and procedures governing the City’s payroll processes provide reasonable assurance that payroll is processed accurately, timely and in the proper period; 2) Assess the adequacy and functionality of the current payroll system and related IT controls; 3) Identify opportunities for improving payroll controls, including recommendations for addressing control gaps and ineffective control design or operation; 4) Determine cause or contributing factors, as well as impact, for any identified deficiencies, where applicable; and 5) Determine whether improvements already planned by management are sufficient to address issues.</p>	215	\$28,000	\$130	✓
<p>Insourcing vs. Outsourcing of Building Division Activities – To assess the Building Division’s staffing, structure, and service levels to help inform the decision-making process of outsourcing (privatization) versus bringing activities inhouse (insourcing) with supplemental outsourcing of building permits and inspections. Additionally, to compare qualitative and quantitative data points with peer cities and benchmarks to inform the decision-making process, identify new ideas, and opportunities.</p>	310	\$40,000	\$130	✓
<p>Fire Prevention & Inspections – To determine whether Fire Prevention Division of the Fire Department operations are compliant with the established legal-regulatory environment. Additional objectives will consider the following: 1) Determine whether there are adequate controls to ensure an effective and efficient fire inspection program; 2) Determine to what extent the Fire Prevention Division has met the mandated inspection requirements; 3) Determine how the Fire Department manage fire inspections including methods and system software used for scheduling inspections; 4) Review of the adequacy of the staffing relative to the workload; and 5) Evaluate plan reviews and inspection specifically related to the effectiveness of cross-departmental functionality.</p>	270	\$35,000	\$130	
<p>IT Vulnerability Follow Up – To evaluate results of the FY20/21 Penetration Testing and Scanning to determine progress against prior year’s results and whether the reported vulnerabilities were properly remediated.</p>	35	\$5,000	\$140	✓
<p>IT Vulnerability Audit, Phase 2 – Perform internal and external Penetration Testing to assist the City in identifying and mitigating new vulnerabilities related to the City’s data network to ensure it is properly protected from unauthorized access. Additionally, to determine whether controls are effective in protecting network confidentiality, integrity, and availability.</p>	232	\$32,500	\$140	
<p>End-User & Wireless Vulnerability Assessment – Perform testing to assist the City in identifying and mitigating end user vulnerabilities. Testing to include: 1) end point security assessment (i.e., user workstations both remote and onsite); 2) wireless security assessment for corporate and guest networks.</p>	55	\$7,500	\$140	✓

Grants – To determine whether the cities financial control framework and related internal controls are effective and efficient to manage grant activity for: 1) CARES Act funding; 2) FEMA funding; and 3) funding associated with COVID-19 relief. Additionally, to determine whether city grants are in compliance with terms and expenditures.	230	\$28,000 \$22,600	\$120	✓
Follow-Up – Evaluate corrective action performed by city departments to determine whether identified risks from prior internal audit recommendations have been properly remediated.	20	\$2,400	\$120	✓
Fraud, Waste & Abuse Hotline – Receive complaints filled through the hotline, route and monitor cases for investigation, track and resolve cases.	5	\$500	\$100	✓
Totals	1,372	\$178,900	\$130	

2023 Risk Assessment

\$10,000

Σ ✓ = \$116,000