CARSON CITY CONSOLIDATED MUNICIPALITY
NOTICE OF MEETING OF THE
AUDIT COMMITTEE

Day: Tuesday
Date: March 8, 2022
Time: Beginning at 1:30 pm
Location: Community Center, Robert "Bob" Crowell Board Room
851 East William Street
Carson City, Nevada

AGENDA

NOTICE TO THE PUBLIC:

• **Members of the public who wish only to view the meeting but do NOT plan to make public comment may watch the livestream of the Audit Committee meeting at www.carson.org/granicus and by clicking on "In progress" next to the meeting date, or by tuning in to cable channel 191. Livestream of the meeting is provided solely as a courtesy and convenience to the public. Carson City does not give any assurance or guarantee that the livestream or cable channel access will be reliable. Although all reasonable efforts will be made to provide livestream, unanticipated technical difficulties beyond the control of City staff may delay, interrupt, or render unavailable continuous livestream capability.**

• **The public may provide public comment in advance of a meeting by written submission to the following email address: publiccomment@carson.org. For inclusion or reference in the minutes of the meeting, your public comment must include your full name and be submitted via email by not later than 3:00 p.m. the day before the meeting. Public comment during a meeting is limited to three minutes for each speaker.**

1. **Call to Order**

2. **Roll Call**

3. **Public Comments and Discussion:**
The public is invited at this time to comment on and discuss any topic that is relevant to, or within the authority of, the Carson City Audit Committee. In order for members of the public to participate in the Committee's consideration of an agenda item, the Committee strongly encourages members of the public to comment on an agenda item during the item itself. No action may be taken on a matter raised under public comment unless the item has been specifically included on the agenda as an item upon which action may be taken.

4. **For Possible Action: Approval of Minutes -** December 7, 2021

5. **For Possible Action: Adoption of Agenda**

6. **Meeting Items**

6.A   For Possible Action: 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 providing a recommendation to the Board of Supervisors to close completed findings and/or recommendations. (Sheri Russell, SRussell@carson.org)

Staff Summary: Staff will discuss the monitoring, review and closure of the previous internal auditor findings and/or recommendations included in the Audit Findings Tracking Report.

6.B   For Presentation Only: Discussion regarding Fiscal Year ("FY") 2022 audit work program update and Hotline activity. (SRussell@Carson.org)

Staff Summary: Representatives from Eide Bailey, LLP will be discussing the progress of the FY 2022 audit work program as well as any items received through the Fraud, Waste & Abuse Hotline.

6.C   For Discussion Only: Discussion regarding the draft annual risk assessment and internal audit plan for Fiscal Year ("FY") 2023. (Sheri Russell, SRussell@Carson.org)

Staff Summary: Carson City Internal Auditor Eide Bailly will provide an updated risk assessment and recommendations for future internal audits for the period ending June 30, 2023, and will be asking the Audit Committee for input and guidance on projects to be performed. This item will return to the Audit Committee at the next scheduled meeting for discussion and possible action before a recommendation is made to the Board of Supervisors.

6.D   For Discussion Only: Discussion regarding dates for the next meeting of the Audit Committee.

7.   Public Comment:

The public is invited at this time to comment on any matter that is not specifically included on the agenda as an action item. No action may be taken on a matter raised under this item of the agenda.

8.   For Possible Action: To Adjourn

Agenda Management Notice - Items on the agenda may be taken out of order; the public body may combine two or more agenda items for consideration; and the public body may remove an item from the agenda or delay discussion relating to an item on the agenda at any time.

Titles of agenda items are intended to identify specific matters. If you desire detailed information concerning any subject matter itemized within this agenda, you are encouraged to call the responsible agency or the Finance Department. You are encouraged to attend this meeting and participate by commenting on any agendized item.

Notice to persons with disabilities: Members of the public who are disabled and require special assistance or accommodations at the meeting are requested to notify the Finance Department in writing at 201 North Carson Street Ste 3, Carson City, NV, 89701, or by calling (775) 887-2133 at least 24 hours in advance.

To request a copy of the supporting materials for this meeting contact Amanda Fencl at afencl@carson.org or call (775) 887-2133.

This agenda and backup information are available on the City's website at www.carson.org, and at the Finance Office - City Hall, 201 N. Carson Street, Ste 3, Carson City, Nevada (775) 887-2133.

This notice has been posted at the following locations:
www.carson.org
http://notice.nv.gov

Audit Committee Agenda Item Report

Meeting Date: March 8, 2022
Submitted by: Sheri Russell
Submitting Department: Finance
Item Type: Formal Action / Motion
Agenda Section:

Subject:
December 7, 2021

Suggested Action:
I move to approve the minutes of December 7, 2021

Attachments:
12-7-21 DRAFT minutes .pdf

A regular meeting of the Carson City Audit Committee was scheduled for 1:30 p.m. on Tuesday, December 7, 2021 in the Community Center Robert "Bob" Crowell Board Room, 851 East William Street, Carson City, Nevada.

PRESENT: Chairperson Stephen Ferguson
Member Lori Magwell
Member Ernie Mayhorn
Member James Wells

STAFF: Sheri Russell, Chief Financial Officer
Mihaela Neagos, Deputy District Attorney
Danielle Howard, Public Meetings 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

(1:32:32) – Chairperson Ferguson called the meeting to order at 1:34 p.m. Roll was called, and a quorum was present. Member Molina was absent during this meeting.

3.   PUBLIC COMMENT:

(1:32:52) – Chairperson Ferguson entertained public comments; however, none were forthcoming.

4.   FOR POSSIBLE ACTION: APPROVAL OF MINUTES – SEPTEMBER 7, 2021

(1:33:36) – Chairperson Ferguson introduced the item and entertained comments, questions, and a motion.

(1:33:55) – MOTION: Member Bagwell moved to approve the September 7, 2021 meeting minutes as presented. Member Mayhorn seconded the motion. The motion carried 4-0-0.

5.   FOR POSSIBLE ACTION: ADOPTION OF AGENDA

(1:34:11) – Ms. Russell noted that there were no changes to the agenda.

6.   MEETING ITEMS

6.A   FOR POSSIBLE ACTION: DISCUSSION AND POSSIBLE ACTION REGARDING THE CITYWIDE PAYROLL PROCESS INTERNAL AUDIT AND RECOMMENDATIONS.

(1:34:22) – Chairperson Ferguson introduced the item. Eide Bailly LLP Senior Manager Audrey Donovan and Eide Bailly Manager Nick Sidikovich, both appearing remotely via WebEx, referenced the Staff Report and the accompanying documents, all of which are incorporated into the record. Mr. Sidikovich, Ms. Donovan, and Ms.

Russell also responded to clarifying questions throughout discussion on the item.

(2:13:00) – MOTION: Member Mayhorn moved to approve the Citywide Payroll Process Internal Audit Report and direct Staff to work on the recommendations as discussed. Member Bagwell seconded the motion. The motion carried 4-0-0.

6.B FOR POSSIBLE ACTION: 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 PROVIDING A RECOMMENDATION TO THE BOARD OF SUPERVISORS TO CLOSE COMPLETED FINDINGS AND/OR RECOMMENDATIONS.

(2:13:20) – Chairperson Ferguson introduced the item. Ms. Russell referenced the Staff Report and the Audit Findings Tracking Report, both of which are incorporated into the record.

(2:16:36) – Chairperson Ferguson entertained Member questions, comments, and a motion.

(2:16:45) – MOTION: Member Mayhorn moved to close Revenue Accounts Receivable Item #1 and Payroll Item #2 based on the correction of findings and recommendations included in the Audit Findings Tracking Report. Member Bagwell seconded the motion. The motion carried 4-0-0.

6.C FOR PRESENTATION ONLY: DISCUSSION REGARDING FISCAL YEAR ("FY") 2022 AUDIT WORK PROGRAM UPDATE AND HOTLINE ACTIVITY.

(2:17:03) – Chairperson Ferguson introduced the item. Ms. Donovan reported on the following updates:

- A couple audits were approved to move forward in the proposed Internal Audit Plan.
- Eide Bailly LLP had recently delivered the Citywide Payroll Process on time and on budget.
- Eide Bailly LLP began working on the "Insourcing Versus Outsourcing of the Building Division's Activities" that will include the permitting inspections [and] billing/revenue, and the "planning process," which includes the initial round of interviews and data gathering, has started. Additionally, the expectation was for the report to be delivered in approximately April 2022 or May 2022.
- The IT Vulnerability follow up was scheduled for April 2022, and Eide Bailly LLP would be in contact with the IT group in March 2022.
- Eide Bailly LLP had "earmarked" 20 hours for follow-up activities and five hours for the Fraud, Waste, and Abuse Hotline.
- The American Rescue Plan Act (ARPA) subject matter expert had set aside funds to discuss different questions with the City as needed.
- There were six cases that were opened through the Fraud, Waste, and Abuse Hotline, which were all internal incidences related to Human Resources (HR), and all the cases were forwarded to the City Manager, Nancy Paulson, to be resolved.

6.D FOR DISCUSSION ONLY: DISCUSSION REGARDING DATES FOR THE NEXT MEETING OF THE AUDIT COMMITTEE.

(2:21:08) – Chairperson Ferguson introduced the item, and based on the meeting dates suggested by Ms. Russell, the consensus among the Members was to tentatively schedule the next AC meeting for March 8, 2021 at 1:30 a.m.

7. PUBLIC COMMENT

(2:23:04) – Chairperson Ferguson entertained public comments. Ms. Russell introduced Bonnie Duke as the newly appointed AC Member and noted that she would be participating in the March 2022 AC meeting.

(2:23:26) – Member Bagwell indicated that she would request for someone else to be considered for the AC besides herself during the January 2022 Carson City Board of Supervisors (BOS) meeting. She added that she has enjoyed working with everyone involved with the Committee, and she commented that she was "super excited to have such an engaged Audit Committee. I don't think other communities are that lucky, from both an internal review and an external review." She was proud that the Carson City AC "takes it very seriously" in regards to how the government is operating.

8. FOR POSSIBLE ACTION: TO ADJOURN

(2:25:50) – Chairperson Ferguson adjourned the meeting at 2:25 p.m.

The Minutes of the December 7, 2021 Carson City Audit Committee meeting are so approved this day 8th of March 2022.

Audit Committee Agenda Item Report

Meeting Date: March 8, 2022
Submitted by: Sheri Russell
Submitting Department: Finance
Item Type: Formal Action / Motion
Agenda Section:

Subject:
For Possible Action: 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 providing a recommendation to the Board of Supervisors to close completed findings and/or recommendations. (Sheri Russell, SRussell@carson.org)

Staff Summary: Staff will discuss the monitoring, review and closure of the previous internal auditor findings and/or recommendations included in the Audit Findings Tracking Report.

Suggested Action:
Action will depend on the discussion. I move to [continue the monitoring and review of the items as discussed or] recommend to the Board of Supervisors closing the items discussed based on the correction of findings and recommendations included in the Audit Findings Tracking Report.

Attachments:

SR - Internal Audit Findings Tracking Report.docx

Audit Findings Summary 3-8-2022.pdf

STAFF REPORT

Report To: Audit Committee   Meeting Date: March 8, 2022

Staff Contact: Sheri Russell, Chief Financial Officer

Agenda Title: For Possible Action: 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 providing a recommendation to the Board of Supervisors to close completed findings and/or recommendations. (Sheri Russell, SRussell@carson.org)

Staff Summary: Staff will discuss the monitoring, review and closure of the previous internal auditor findings and/or recommendations included in the Audit Findings Tracking Report.

Agenda Action: Formal Action/Motion   Time Requested: 20 minutes

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Proposed Motion
Action will depend on the discussion. I move to [continue the monitoring and review of the items as discussed or] recommend to the Board of Supervisors closing the items discussed based on the correction of findings and recommendations included in the Audit Findings Tracking Report.

Board's Strategic Goal
 Efficient Government

Previous Action
N/A

Background/Issues & Analysis
Staff is recommending the following items to the Audit Committee for closure:

Fleet Item #1 - Validated by Auditor – Final Closure of all Fleet Recommendations/Findings
Payroll Item #1 & #3 are completed – Final Closure of all Payroll Recommendations/Findings

Staff is recommending validation of all IT Volatility procedures. IT Management feels they have addressed the findings and are ready for follow-up procedures to validate closure. These validation procedures would take place in April 2022, once validated, they will be brought back to the Audit Committee for review and closure recommendation.

Staff will take the items that the Audit Committee recommends for closure to the Board of Supervisors for final closure.

Applicable Statute, Code, Policy, Rule or Regulation
N/A

<u>Financial Information</u>
Is there a fiscal impact? ☐ Yes ☒ No

If yes, account name/number:

Is it currently budgeted? ☐ Yes   ☐ No

Explanation of Fiscal Impact:

<u>Alternatives</u>
N/A

Board Action Taken:

Motion: _____   1) _____   Aye/Nay
                                                    2) _____   _____
                                                                                   _____
                                                                                   _____
                                                                                   _____
                                                                                   _____

_____
   (Vote Recorded By)

Carson City
Internal Audit Summary
Updated - 6/22/21

Carson City - Audit Findings Tracking Summary Report (revised 12-7-21)

Report Name	Report Submittal	AC/BOS Report Approval	Reporting Entity	Report Findings	Completed Findings	AC Approval	BOS Approval	Notes
Payroll Internal Controls Testing	7/27/2016	12/21/2017	Internal Auditor	2	2	8/8/2016	11/15/2018	
P-card Internal Controls Testing	7/27/2016	12/21/2017	Internal Auditor	2	2	8/8/2016	11/15/2018	
Small Works Projects Review	2/17/2017	12/21/2017	Internal Auditor	4	4	2/14/2017	12/21/2017	
Public Guardian Review	5/1/2017	12/21/2017	Internal Auditor	13	13	5/9/2017	11/15/2018	
Purchasing and AP Internal Controls Testing	7/6/2017	12/21/2017	Internal Auditor	12	12	7/12/2017	11/15/2018	
HTE Access Controls Testing	9/26/2017	12/21/2017	Internal Auditor	7	7	10/3/2017	12/21/2017	
FY 2014 CAFR	12/18/2014	12/18/2014	External Auditor	5	5	3/22/2016	12/18/2014	
FY 2015 CAFR	12/17/2015	12/17/2015	External Auditor	5	5	3/22/2016	12/17/2015	
Capital Projects Process Review	5/3/2018	8/20/2020	Internal Auditor	8	8	6/15/2020	8/20/2020	
Public Guardian Follow Up Review	5/3/2018	3/7/2019	Internal Auditor	8	8	5/10/2018	3/7/2019	
FY 2017 CAFR and Single Audit	11/30/2017	12/21/2017	External Auditor	4	4	5/10/2018	8/20/2020	
FY 2018 CAFR and Single Audit	12/6/2018	12/6/2019	External Auditor	3	3	6/15/2020	8/20/2020	
Temporary Staffing Audit	5/9/2019	5/6/2019	Internal Auditor	5	5	6/22/2021	10/3/2019	
Fire Department Overtime Audit	5/9/2019	10/3/2019	Internal Auditor	2	2	5/9/2019	10/3/2019	
FY2019 CAFR and Single Audit	12/5/2019	12/5/2019	External Auditor	1	1	6/15/2020	8/20/2020	
Cash Handling 2019	12/3/2019	1/6/2020	Internal Auditor	20	20	6/22/2021	8/20/2020	
Social Media Study	11/25/2019	1/6/2020	Internal Auditor	13	12	6/22/2021		
HR Administration - Eligible EE Group Ins.	12/3/2019	1/6/2020	Internal Auditor	4	4	6/15/2020	8/20/2020	
AP and P-Card Audit Program	4/1/2020	3/4/2021	Internal Auditor	4	4	8/4/2020	3/4/2021	
IT Volatility Audit	10/30/2020	12/8/2020	Internal Auditor	10				All items recommended for validation
Fleet Audit	3/30/2021	3/30/2021	Internal Auditor	6	5	6/22/2021	7/1/2020	#1 recommneded for closure
Revenue and Receivables Audit	5/25/2021	6/22/2021	Internal Auditor	3	3	12/7/2021	7/1/2020	
Payroll Internal Controls Testing	11/22/2021	12/7/2021	Internal Auditor	3	1	12/7/2021		#1 and #3 recommended for closure
Total (including archived reports)				273	259			

Legend:
  Report Submittal = date report submitted to City
  BOS Report Approval = date report adopted by BOS
  Reporting Entity = organization that prepared the report
  Report Findings = number of findings in the report
  Completed Findings = number of findings completed by management
  AC Approval = Audit Committee approval of completed findings
  BOS Approval = Board of Supervisors approval of completed findings
  Notes = notes about findings

Finding Corrected?

Y	Findings Addressed - Audit Committee closed
P	Partially Addressed items
N	Not yet addressed

Y	For Discussion today

Item No.	BOS Closure	Recommendation	Remediation Plan (Course of Action & Expected Benefits)	Finding corrected? (Y, N, Partial)	Expected Compl. Date	Actual Compl. Date	Auditor Validation (Y,N)	Status Comments
13		The City does not have an Information Security Response Plan	Create a Information Security Response Plan to include procedures for responding to security incidents, communication protocol and determine system impact.	P	6/30/2022			CIO will create an Information Security response Plan. **UPDATE:** Plan is in review process.

Item No.	BOS Closure	Recommendation	Remediation Plan (Course of Action & Expected Benefits)	Finding corrected? (Y, N, Partial)	Expected Compl. Date	Actual Compl. Date	Auditor Verified? (Y, N)	Status Comments
		NOTE: 12 Findings - External						
1		Update all systems that are currently running on outdated software: Lack of support implies that no new security patches for the product will be released by the vendor. As a result, the unsupported operating systems are likely to contain vulnerabilities. These systems should either be updated to run a supported operating system or shut down in order to protect the security, availability, and integrity of Carson City's perimeter network.	Staff is actively working on updating outdated systems and adjusting operations to be in line with industry best practices, such as automatic updates based on how critical a system is. Some legacy systems that cannot be updated will be isolated using a combination of identity based access rules and network security zones to mitigate the risk of their ongoing operation. Some of these systems may be decommissioned if our customer agency's business needs support this outcome. This will increase security, availability, and integrity of Carson City's infrastructure and data.	Y	3/31/2022			Staff is making progress on resolving issues. IT has been updating systems on a continuous basis. Some systems will require funding to stay current, extended support has been purchased for endpoint security to protect legacy systems. Maintenance will be performed with approval from the affected department(s).
2		System hardening processes should be in place across all systems: Misconfiguration and insecure deployment issues were discovered across various systems. The vulnerabilities that arose can be mitigated through the use of change control processes on all systems.	Most issues identified in the external test were expected. Some sites do not use encryption as they don't warrant it with their purpose, others host apps that there are very few options for replacing/updating. Staff has implemented system hardening processes on many systems and will continue to expand on those efforts. Staff is working towards robust change management procedures that could prevent a misconfiguration from occurring as a standard risk management step. Staff's current approach requires a scope of work and review by at least two employees when performing work on critical infrastructure.	Y	3/31/2022			Staff has continued to make progress on system hardening, changing default accounts and passwords and change management including the use of automated deployment tools and templates. Work is being conducted to update patch deployment systems.
3		Web development processes: Ensure coding of website and web applications follow OWASP standards. The OWASP Top 10 is a standard awareness document for developers and web application security. Carson City should adopt this document and start the process of ensuring that their web applications minimize these risks.	External findings that would fall under OWASP guidelines are Commercial Off The Shelf (COTS) applications under which the City has little control over development. The City can add OWASP as a procurement requirement for COTS applications, however this may limit the scope and range of options for the City as a whole when considering vendors of specialized software, such as the software from which this item stems. Staff will review this recommendation and consider how to implement it.	Y	3/31/2022			Staff does not have the recommendation yet, but has begun to approach new vendors with this requirement. **Update:** Staff will work with external vendors to ensure that these standards are being followed for the Carson City websites they host.
4		Recommend remediation scanning be performed: Based on the number of issues identified we would recommend Carson City IT staff work toward remediating issues working on the most critical items first. Retesting should be performed within 6 months of this report.	Carson City systems are regularly scanned and most by MS-ISAC / CIS as part of a federal program intended to harden local government systems. Most issues identified by the external audit were also identified by the MS-ISAC / CISC scanning effort and were known/expected. Staff will either remediate or document exceptions to all findings.	Y	3/31/2022			In the December 2020 Audit Committee meeting, it was decided to re-test in August 2021. This was pushed to the last quarter of FY22, as we have a new CIO.
		NOTE: 103 - Internal						
1		Update all systems that are currently running on unsupported operating systems: Lack of support implies that no new security patches for the product will be released by the vendor. As a result, the unsupported operating systems are likely to contain security vulnerabilities. These systems should either be updated to run a supported operating system or shut down in order to protect the security, availability, and integrity of Carson City's infrastructure and data.	Staff is actively working on updating outdated systems and adjusting operations to be in line with industry best practices, such as automatic updates based on how critical a system is. Some legacy systems that cannot be updated will be isolated using a combination of identity based access rules and network security zones to mitigate the risk of their ongoing operation. Some of these systems may be decommissioned if our customer agency's business needs support this outcome. This will increase security, availability, and integrity of Carson City's infrastructure and data.	Y	3/31/2022			Staff is making progress on resolving issues; **Current Status 11.24.2021**: IT has been updating systems on a continuous basis. Some systems will require funding to stay current, extended support has been purchased for endpoint security to protect legacy systems. Maintenance downtime will be performed with the approval from the affected department(s).

2		Implement and enforce implementation of change control across all systems: Misconfiguration and insecure deployment issues were discovered across various systems. The vulnerabilities that arose can be mitigated through the use of change control processes on all systems.	Most issues identified in the external test were expected. Some sites do not use encryption as they don't warrant it with their purpose, others host apps that there are very few options for replacing/updating. Staff has implemented system hardening processes on many systems and will continue to expand on those efforts. Staff is working towards robust change management procedures that could prevent a misconfiguration from occurring as a standard risk management step. Staff's current approach requires a scope of work and review by at least two employees when performing work on critical infrastructure.	Y	3/31/2022		Staff is continuing to make progress on system hardening and change management including the use of automated deployment tools and templates. **Update:** A new application is being setup to track all changes and approvals within the environment.
3		Implement a patch management program: Operating a consistent patch management program per the guidelines outlined in NIST SP 800-40 is an important component in maintaining good security posture. This will help to limit the attack surface that results from running unpatched internal services.	Staff has deployed tools such as inventory, deployment, and recently endpoint management software (EMS) to assist with this effort. Inventory and deployment systems allow staff to track and update software. EMS allows staff to scan endpoints for known security issues that require a patch and force the patch to be installed as part of network policy. Staff is continually working towards further automating and integrating these tools into our workflow. At last count our inventory of applications has more than 6251 software packages and components, which makes this an evergreen maintenance item for staff, requiring much in the way of time and resources.	Y	3/31/2022		A new application is being setup to track all managed systems within the environment. These managed systems will have regular patching cycles based on the manufacturer's recommendations. Staff expects to be able to demonstrate significant progress at the time of the audit follow-up.
4		Change default credentials upon installation: To reduce the risk of security breaches through default credentials which have been left configured on network devices, it's best to implement a process to change the passwords, and if possible, account names, when new equipment is installed.	Staff will change the identified systems with default credentials where possible. Some examples identified by the audit do not support credentials for their regular operation. For these devices, staff is working towards isolating in a similar fashion to devices that cannot be reasonably patched as a compensating control.	Y	3/31/2022		An existing application is being utilized to ensure default credentials are changed on all managed systems. Staff expects to be able to demonstrate significant progress at the time of the audit follow-up.
5		Conduct regular vulnerability assessments: As part of an effective organizational risk management strategy, vulnerability assessments should be conducted on a regular basis. Doing so will allow the organization to determine if the installed security controls are installed properly, operating as intended, and producing the desired outcome. Consult NIST 800-30 for guidelines on operating an effective risk management program	Staff believes that regular third party auditing of IT systems is valuable and will contribute to increased security of Carson City systems and data. Performing audits such as this one regularly would likely require additional resources to obtain the audit and then act upon the results of the audit in a timely fashion.	Y	3/31/2022		A new application is being utilized to conduct vulnerability assessments on an established cadence. Staff expects to be able to demonstrate significant progress at the time of the audit follow-up.
6		Recommend remediation scanning be performed: Based on the number of issues identified we would recommend Carson City IT staff work toward remediating issues working on the most critical items first. Retesting should be performed within 6 months of this report.	Some issues identified in this report require a small effort to remediate and staff will remediate them in a timely fashion. Others are systemic issues that have already been identified by staff and require large-scale efforts to address in the long term. Additional resources would contribute towards addressing all of the identified issues in a more timely fashion.	Y	3/31/2022		Staff expects to be able to demonstrate progress at the time of the re-test. **Update:** Using the results from the new vulnerability scanning application, critical and high vulnerabilities will be able to be addressed. Legacy systems are still planned for a migration to more modern operating systems with the permission of each department.

Note: In this audit staff gave maximum access to the auditors to simulate an attacker gaining access to a sensitive area of the network. Many of the identified issues were discovered because we bypassed our usual security controls to allow the penetration tester greater access. The findings are valuable, but do not necessarily represent vulnerabilities that could be exploited from any part of the City network.

Item No.	BOS Closure	Recommendation	Remediation Plan (Course of Action & Expected Benefits)	Finding corrected? (Y, N, Partial)	Expected Compl. Date	Actual Compl. Date	Auditor Verified? (Y, N)	Status Comments
1		FINDING 1 - Inventory Security and Tracking: RECOMMENDATION: Short-term solution - restrict access to Inventory to Fleet Services personnel by installing facility locks if feasible. Long-term solution - incorporate a tracking mechanism by implementing parts tracking sheet where Fleet personnel can sign, date, and identify the parts used and removed from inventory. Consider bar code technology or one designated Fleet Technician responsible for tracking fleet.	This was a recommendation in the last Internal Audit as well. The Fleet Facility is secured within the Public Works Corporate Yard and restricted to badge-only access. To date, there is no known instance of inventory loss; however, management agrees that there are opportunities to reduce risk and improve security over inventory. Management will submit a supplemental budget request for the position with the FY22 budget requests for consideration by the Board of Supervisors.	P	1/31/2022	7/1/2021	Y	Tracking sheet has been implemented. Facilities Division is installing additional restrictions on inventory access concurrent with hiring of Fleet Warehouse Coordinator (new FY22 position). Anticipated to be completed August 2021. **STATUS:** Requested Internal Audit Validation once position is up and running (5-6 Months). **STATUS UPDATE:** Auditor has validated process in place, procedures working as intended. Recommend Closure

Item No.	BOS Closure	Recommendation	Remediation Plan (Course of Action & Expected Benefits)	Finding corrected? (Y, N, Partial)	Expected Compl. Date	Actual Compl. Date	Auditor Verified? (Y, N)	Status Comments
1		FINDING 1 - No formalized tracking mechanism or process for a preiodic review and assessment of payroll related statutory changes. - Intenral Auditor recommends that the City implement a tracking mechanism with appropriate documentation or payroll related regulatory changes. Including sign-off from HR Director and Chief Financial Officer.	Staff agree with the finding and plan to create an internal memo with necessary support, annually, likely in December/January when Regulatory Changes primarily occur. This memo will be routed to HR Director and CFO for signature, and retained by Finance.	Y	2/28/2022	2/28/2022		This is working as intended, Melanie and I signed off on the Memo that Jamie circulated regarding IRS and contract changes. Recommend Closure
3		FINDING 3 - It was noted that HR employees in User Key Roles have full access to payroll related functions in Munis including the role permissions in "Pay Type Maintenance" and "proection run number Maintenance Access" functions. - Internal Auditor recommends that the City's IT department perform further review and modifications, where needed of Munis system functionality pertaining to user role and permissions granted to HR adn Finance employees to ensure proper segregation of duties.	Management agrees, IT Application Team will work with HR and Finance to test permissions for existing HR Roles in the Munis Test Environment. Role will be tested against operational and department responsibilities and updated to comply with the principle of least privilege.	Y	12/31/2021	12/31/2021		IT has corrected this issue and removed access that was not necessary. Recommend Closure

Audit Committee Agenda Item Report

Meeting Date: March 8, 2022
Submitted by: Sheri Russell
Submitting Department: Finance
Item Type: Other / Presentation
Agenda Section:

Subject:
For Presentation Only: Discussion regarding Fiscal Year ("FY") 2022 audit work program update and Hotline activity. (SRussell@Carson.org)

Staff Summary: Representatives from Eide Bailey, LLP will be discussing the progress of the FY 2022 audit work program as well as any items received through the Fraud, Waste & Abuse Hotline.

Suggested Action:
N/A

Attachments:
SR - Internal Auditor work program update.docx

STAFF REPORT

Report To: Audit Committee   Meeting Date: March 8, 2022

Staff Contact: Audrey Donovan, Senior Manager, Eide Bailly, LLP

Agenda Title: For Presentation Only: Discussion regarding Fiscal Year ("FY") 2022 audit work program update and Hotline activity. (SRussell@Carson.org)

Staff Summary: Representatives from Eide Bailey, LLP will be discussing the progress of the FY 2022 audit work program as well as any items received through the Fraud, Waste & Abuse Hotline.

Agenda Action: Formal Action/Motion   Time Requested: 10 minutes

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Proposed Motion
N/A

Board's Strategic Goal
 Efficient Government

Previous Action
N/A

Background/Issues & Analysis
Standing item for discussion and update.

Applicable Statute, Code, Policy, Rule or Regulation
Carson City Charter Chapter 3.075, CCMC 2.14.040

Financial Information
Is there a fiscal impact? ☐ Yes   ☒ No

If yes, account name/number:

Is it currently budgeted? ☐ Yes   ☐ No

Explanation of Fiscal Impact: N/A

Alternatives
N/A

Board Action Taken:
Motion: _____   1) _____   Aye/Nay

2) _____   _____
                      _____
                      _____
                      _____
                      _____

_____
(Vote Recorded By)

Audit Committee Agenda Item Report

Meeting Date: March 8, 2022
Submitted by: Sheri Russell
Submitting Department: Finance
Item Type: Other / Presentation
Agenda Section:

Subject:
For Discussion Only: Discussion regarding the draft annual risk assessment and internal audit plan for Fiscal Year ("FY") 2023. (Sheri Russell, SRussell@Carson.org)

Staff Summary: Carson City Internal Auditor Eide Bailly will provide an updated risk assessment and recommendations for future internal audits for the period ending June 30, 2023, and will be asking the Audit Committee for input and guidance on projects to be performed. This item will return to the Audit Committee at the next scheduled meeting for discussion and possible action before a recommendation is made to the Board of Supervisors.

Suggested Action:
For Discussion Only.

Attachments:
SR - FY 23 Internal Audit Program.docx

Draft FY22_23 Risk Assessment Report_Carson City.pdf

STAFF REPORT

Report To: Audit Committee   Meeting Date: March 8, 2022

Staff Contact: Sheri Russell, Chief Financial Officer & Steve Ferguson, Audit Committee Chairman

Agenda Title: For Discussion Only: Discussion regarding the draft annual risk assessment and internal audit plan for Fiscal Year ("FY") 2023. (Sheri Russell, SRussell@Carson.org)

Staff Summary: Carson City Internal Auditor Eide Bailly will provide an updated risk assessment and recommendations for future internal audits for the period ending June 30, 2023, and will be asking the Audit Committee for input and guidance on projects to be performed. This item will return to the Audit Committee at the next scheduled meeting for discussion and possible action before a recommendation is made to the Board of Supervisors.

Agenda Action: Formal Action/Motion   Time Requested: 20 minutes

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Proposed Motion
For Discussion Only.

Board's Strategic Goal
 Efficient Government

Previous Action
N/A

Background/Issues & Analysis
N/A

Applicable Statute, Code, Policy, Rule or Regulation
CCMC 2.14.040

Financial Information
Is there a fiscal impact? ☒ Yes   ☐ No

If yes, account name/number: General Fund Internal Auditor / Professional Services

1010800-500309

Is it currently budgeted? ☒ Yes   ☐ No

Explanation of Fiscal Impact: $110,000 has been budgeted for FY 23.

Alternatives
N/A

Board Action Taken:

Motion: _____   1) _____   Aye/Nay

2) _____   _____

_____

_____

_____

_____

_____
   (Vote Recorded By)

Citywide Risk Assessment & Annual Audit Plan
FY 2022 – 2023

March 2022

CARSON CITY, NEVADA

Submitted By:

Eide Bailly LLP

Audrey Donovan, CIA, CGAP, CRMA
Senior Manager, Risk Advisory Services

RISK ASSESSMENT

Internal Audit departments operate using guidance provided by the International Professional Practices Framework (IPPF) published by the Institute of Internal Auditors. Standards of the IPPF address planning and indicate that risk-based plans should determine the priorities of the internal audit activity, consistent with the organization's goals. The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the Audit Committee must be considered in this process.

This report describes how Internal Audit analyzed the City's risk environment, prioritized audit areas, and prepared the annual Audit Plan. The contents of this report are based on the following:

- Risk, control and governance largely determine the City's ability to achieve its objectives.
- City management is responsible for managing risk by implementing internal controls and providing reasonable assurance that they are operating as intended.
- Internal Audit is responsible for assessing risk by analyzing conditions that can impair the City's ability to achieve its objectives.
- Internal Audit is responsible for developing audit plans to review controls that City management has implemented to address risks.

What is a Citywide Risk Assessment?

The risk assessment is a means to assess various areas of the City. An auditor assessing risks to develop an audit plan or schedule while considering risks to programs and departments in a silo approach, this is designed to identify audits of a single department, program, or process. Additionally, we assess risks across the entire city to identify the risks to achieving overall City objectives. A Citywide risk assessment does not validate data or go into the same level of detail as an internal audit and should not be viewed as such.

The risk assessment and annual audit plan was developed through the completion of the following activities:

- Reviewing external financial auditors' results.
- Assessing current and historical financial performance.
- Reviewing the City's Strategic Plan and alignment with objectives and goals.
- Discussions with Audit Committee, Senior Management, City personnel, and external financial auditors.
- Eide Bailly's general knowledge and observations of the City.
- Past internal audits performed.
- Information provided by the City.

Risk assessment is a systematic process for utilizing professional judgments to evaluate probable adverse conditions and/or events and their potential effects on the City. The process starts with identifying risks associated with business objectives linked through all levels of the City whether it is entity or process level.

- ➢ Entity level is the cornerstone for effective control. These objectives provide guidance on what the entity wants to achieve and should be consistent with budget, strategy, and business plans.

> ➤ Process level should align with entity level objectives but differ in that they relate directly to goal setting with specific targets and deadlines. It provides guidance for management focus.

Risk Assessment Methodology

The risk assessment is the first step in determining which areas of the City has high risk factors that should be considered for inclusion in the annual audit plan. Eide Bailly developed a risk assessment approach specifically tailored for the departments, programs, and processes of the City. We began by planning and gathering data to facilitate the direction of the risk assessment and to establish the risk types.

Planning and Data Gathering: We began by understanding the City's operations by gathering the City's objectives, goals, and strategies in addition to the key financial, operational, and IT processes. Eide Bailly reviewed past financial audit reports for significant deficiencies or material weaknesses for financial risks. In addition, we took into consideration documentation provided to us, past audit work performed, along with status of remediated risks noted from past audits.

We facilitated detailed phone discussions with senior management to gain an understanding of the current controls, process structure, personnel involved, and supporting technology. Additionally, we discussed their roles, responsibilities, and concerns they have with the City or their operations overall.

Develop Risk Types: We began by defining risk and creating a risk framework. Risk is an event or condition that can negatively affect the ability of an organization to achieve its objectives. Risks are generally thought to be associated with taking actions; however, risks can also occur when no action is taken in the form of missed opportunities. This risk assessment incorporated ten (10) types of risks:

1. Public Exposure / Health & Safety Risks: This measure assesses risk in terms of keeping employees and citizens data safeguarded, as well as protection from serious injury. The measure takes into consideration that protecting the safety and health of Carson City citizens and employees is the highest priority and most significant responsibility of City government.

2. Governance and Stakeholder Risks: Risks derived from the attitude and actions of elected officials and executive management related to accountability, transparency and continuous improvement. This measure presumes that risk is decreased based on effective internal controls, management oversite and audit frequency, both internal and external audits.

3. Business / Operational Risks: Risks derived from core business practices, which rely on systems, practices, programs, and people. Within this risk domain are risks associated with a diverse number of operational areas. Risks associated with business objectives not being met due to poorly defined business strategies, poorly communicated strategies, or the City's inability to execute these strategies due to inadequate organizational structure, infrastructure or alignment. Strategic risk is managed by appropriate organizational governance. Failure to adequately plan and execute against organizational goals may result in significant financial impact to the City along with damage to the City's reputation.

4. Reputational Risks: Risk in terms of potential negative public relations impacts caused by the level of visibility and/or public interest in conjunction with financial or operational performance exposure resulting in the City's reputation being impaired or damaged. Reputation risk includes the risk that the City may be subject to lawsuit, poor management of an operational crisis, event or specific reputation issue, or City not meeting stakeholder expectations.

5. Liquidity and Negotiability Risks: Risk that processes may not be effective or efficient to meet the City's regulatory obligations and liquidity needs. Failure to maintain liquidity levels and manage cash flows within established amounts to meet known and reasonable unforeseen funding requirements. City is unable to meet its commitments, including debt maturities. This measure assesses risk based on the nature and volume of cash transactions and the ease of converting assets into cash.

6. Performance Risks*:* Risks in terms of improved planning and performance management process may not be effective, efficient, or focused on core business service delivery. Performance indicators do not align with performance indicators of the City. Failure to adequately monitor and respond to third party inferior service or lack of performance.

7. Legal and Regulatory Risks: Risks associated with a variety of federal, state, and local laws and regulations. Failure to follow prescribed directives may result in substantial fines, restrictions, loss of business, and/or legal action.

8. Size of Audit Unit / Human Capital Risks: Risks associated with the type of behaviors encouraged by management; the methods used to reward employees; the approach to consistently enforce policies and procedures; the selection, screening, and training of employees; and the reason and frequency of turnover.

9. Revenue Risk: Risks associated with the City's financial reporting being inaccurate, incomplete, or untimely due to a variety of factors including the pace of change, the amount of uncertainty, the presence of a large error, or the pressure on management to meet certain expectations.

10. Budgeted Expense Risk: This measure assesses risk based on the magnitude of an entity in terms of expenditures, the amount and volume of financial transactions and the number of employees.

Deliver Measures and Insights: The risk assessment uses a systematic approach that ranks the most important risks to the City. The most important risks determined by senior management are documented in the City's Strategic Plan with a focus on the strategic goals and objectives of the organization. A common way to determine the relative significance of each risk is to "measure" it as a combination of the likelihood or probability of it occurring, and the impact if it does occur. Using the department data, discussions with City management, input from external financial auditors, past audits performed, and financial data and reports, an impact and likelihood of "low", "medium" or "high" is assigned to map the risk for each auditable area.

- o **Likelihood**: is calculated using several factors including.
    - Complexity of process
    - Volume of transactions
    - Known issues
    - Changes in personnel or processes
    - Level of monitoring and oversight
- o **Impact:** is calculated using several factors including
    - Financial materiality
    - Degree of regulatory compliance

- Operational and strategic impact to City objectives
- Number of key IT systems
- Fraud risk

Risk Scores: Risks are summarized by assigning "low", "medium" or "high" to both impact and likelihood. However, judgment is involved in evaluating whether a risk's likelihood and impact are low, medium, or high.

A high-risk score does not mean that a department is ineffectively managed, that sufficient controls are not in place, or that the function is not performing properly. A high-risk score simply means that a negative event in that area would be particularly damaging or more likely to occur in the absence of effective controls.

The City's Audit Committee, senior management, and leadership are the responsible authority to prioritize which risks get the most attention and resources. Those charged with governance know their entity best and how best to manage the risks identified.

AUDIT PLAN

Internal audit was set up with an annual budget not to exceed $110,000 annually. We have structured our internal audit plan to fit within proximity to this budget. The internal audit budget also includes audit hours to administer the audit function, update the risk assessment annually, and conduct follow up audits to determine if agreed upon management actions have been satisfactorily completed.

The Audit Plan provides the City with a great deal of flexibility to address emerging issues in a timely manner, hours for specially requested audits not originally captured on the plan, and for urgent audit issues that arise throughout the year. Great care is given in the selection of these audits to ensure that there is widespread audit coverage in terms of both types of audits performed and in terms of the City's vast array of departments, service areas, activities and contracts.

The hours included for each audit are an estimate. Quarterly, the plan will be reassessed and adjusted to account for unanticipated requests and progress on current audits. Audit Committee will be briefed quarterly on the status of work completed to the approved Audit Plan and any adjustments that need to be made to hours and anticipated completion dates.

Based on the results of the risk assessment, professional judgment, findings from previous audit work, and information provided by city staff, the following areas are potential audit topics for FY22/23.

FY22/23 Proposed Internal Audits	Estimated Hours	Estimated Fees
FY23-24 Risk Assessment – Perform citywide risk assessment and develop the annual audit plan based on developed risk types and a combination of likelihood and impact.	60	12,000
Utility Billing (Water, Sewer & Storm Water) – To assess the current state of operational efficiency and effectiveness with the new utility billing program related to following activities: billing, pricing structure, refunds, discounts, adjustments, and customer outreach. Additionally, to identify opportunities for improving utility billing controls, including recommendations for addressing control gaps and ineffective control design or operation. Lastly, to determine whether improvements planned by management are sufficient to address issues, where applicable. *Specific items identified for testing and review include:* (1) Ensure that new accounts are opened accurately; (2) Ensure that the on-going servicing of accounts complies with established policy and procedure, and with City Code; (3) Review basic system and operational control processes; (4) Ensure that performance monitoring and reporting are occurring; (5) Ensure that accounting data is captured accurately and timely, and that it is properly reconciled; and, (6) Review the Utility Rate Payor Assistance Program (URAP) to ensure donations are properly captured and amounts are applied to qualified accounts.	200 hours – Light Review 280 hours – Full Review	$35,000 - $50,000
Sheriff Mobile & Body Worn Video Recording Equipment – To determine whether mobile and body worn cameras and respective programs were being used and executed in accordance with Nevada Revised Statutes (NRS) and policies, and internal controls are adequately designed, administered, and monitored since the initial issuance. *Specific items identified for testing and review include:* (1) Ensure body worn camera policy that focuses on the use of equipment and software aligns with the sheriffs program and related Nevada Revised Statutes; (2) Review current system user access and related monitoring; (3) Evaluate the effectiveness of internal controls sounding the management of data requests; (4) Ensure proper training and written material are provided for mobile video and body worn camera; (5) Determine whether internal controls are in place to ensure body camera footage is properly collected, maintained, and monitored by appropriate personnel and whether the appropriate audit trail is captured when information is accessed; (6) Evaluate the adequacy of video retention and storage (juvenile detention and potentially alternative sentencing); and (7) Perform sample testing to ensure Start Up, Activation, Usage, Deactivation, Categorization & Case Number – including non-evidence, and Upload of body cameras is effectively being performed.	250 hours – Light Review 340 hours – Full Review	$45,000 - $60,000

Special Projects – Time to perform other procedures not otherwise associated with a specific audits, special request audits or consulting engagement (e.g. ARPA consulting) not originally captured on the plan, and for urgent audit issues that arise throughout the year.	TBD	TBD
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
Fraud, Waste & Abuse Hotline – Monitor complaints filled through the hotline, assist the city with resolving cases where needed, and communicate results to the Audit Committee.	5	$500
Estimated Totals	**535 – 705**	**$94,900 - $124,900 ($177 blended rate)**

Audit Committee Agenda Item Report

Meeting Date: March 8, 2022
Submitted by: Sheri Russell
Submitting Department: Finance
Item Type: Other / Presentation
Agenda Section:

Subject:
  For Discussion Only: Discussion regarding dates for the next meeting of the Audit Committee.

Suggested Action:
Discussion only.

Attachments: