

CARSON CITY AUDIT COMMITTEE
Minutes of the July 8, 2008 Meeting
Page 1

A regular meeting of the Carson City Audit Committee was scheduled for 3:00 p.m. on Tuesday, July 8, 2008 in the City Hall Capitol Conference Room, 201 North Carson Street, Carson City, Nevada.

PRESENT: Vice Chairperson Ken Brown
Joe Eiben
Pete Livermore

STAFF: Sue Johnson, Internal Auditor
Nancy Paulson, Deputy Finance Director
Melanie Bruketta, Chief Deputy District Attorney
Kathleen King, 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 public record, on file in the Clerk-Recorder's Office. These materials are available for review during regular business hours.

1. CALL TO ORDER AND DETERMINATION OF QUORUM (1-0008) - Vice Chairperson Brown called the meeting to order at 3:00 p.m. Roll was called; a quorum was present. Chairperson Staub and Member Providenti were absent.

2. ACTION ON APPROVAL OF MINUTES - June 10, 2008 (1-0021) - Member Livermore moved to approve the minutes, as presented. Member Eiben seconded the motion. Motion carried 3-0.

3. DISCUSSION AND POSSIBLE ACTION ON PRESENTATION BY KAFOURY, ARMSTRONG & CO. REPRESENTATIVE REGARDING THE TIMING, SCOPE, AND PROCEDURES ASSOCIATED WITH THE YEAR-END FISCAL AUDIT FOR JUNE 30, 2008 (1-0027) - Vice Chairperson Brown introduced this item. Kafoury, Armstrong & Co. Shareholder Kristen Burgess provided an overview of the presentation, and introduced Contract Manager Dan Carter. Ms. Burgess discussed the purpose of this item to fulfill the requirement to communicate and clarify auditor responsibilities pursuant to the new audit standards. She advised of the further requirement to provide the City with a planned overview, audit timing and scoping; to obtain relevant information from this committee; and to advise that significant findings will be communicated "on the back end." In response to a question, she advised that this committee would be informed of significant issues.

Ms. Burgess clarified Kafoury, Armstrong & Co.'s responsibilities under generally-accepted auditing standards, as follows: Kafoury, Armstrong is engaged to issue an opinion on the basic financial statements which is to provide reasonable, but not absolute, assurance. Ms. Burgess advised of a risk that material misstatements could occur, but the goal and intention of the audit is to identify and assess risk. She further advised that internal controls will be considered, but that no opinion will be issued. The internal control assessment will be used to identify audit procedures. Ms. Burgess reiterated that significant audit findings will be communicated "on the back end" and throughout the process.

Mr. Carter advised of having met with various City department representatives to document processes and key controls over significant transaction classes in relation to the financial reporting. He further advised of having performed walk-throughs to ensure that internal controls are followed. He further advised of having met with Finance Director Nick Providenti to discuss entity-wide controls. He described the

CARSON CITY AUDIT COMMITTEE

Minutes of the July 8, 2008 Meeting

Page 2

foregoing as “getting an understanding of the entity.” From there, the understanding, together with preliminary analytic procedures and discussions with the engagement team, will be used to consider various risks affecting Carson City. Areas of possible material misstatements, either from errors or fraud, would then be considered. Audit procedures would then be performed, based on risk assessment, to reduce the risk to an acceptably low level. In response to a question, Mr. Carter advised of having talked with representatives of the Finance Department, the Assessor’s and Treasurer’s Offices, the Public Works Department, the landfill, the Sheriff’s Department, and the Municipal Court. He has yet to speak with Parks and Recreation Department representatives.

Ms. Burgess acknowledged that the described procedures are pursuant to the new audit standards. In response to a further question, she advised that the procedures are oriented toward “the goal of risk of material misstatement.” Mr. Carter acknowledged that disbursement processes will be reviewed. Ms. Burgess explained that the bid process and the unique threshold, outside of the state statute, established by the City will be reviewed. The auditors will conduct a “walk-through or an observation; a very small sample” to ensure processes are being followed. Ms. Burgess advised that the audit work has not yet been completed to “test the expense ... We’ve just kind of got our arms around what the City says they’re doing and whether or not they are.” Ms. Burgess acknowledged that items of concern would be analyzed. In response to a question, Mr. Carter advised he is still in the process of analyzing risks. There are identified issues such as a single, landfill employee who accepts cash, is able to make account adjustments, and conducts all the reconciling. Mr. Carter suggested improving internal controls and additionally segregating duties. He acknowledged that, but for the new audit standards, this issue would likely not have been identified in past years. He further acknowledged that existing procedures are being followed.

Mr. Carter inquired as to the roles of and distinctions between management and the audit committee. Member Livermore expressed the opinion that department heads have established policies and procedures and “don’t need the audit committee” to intervene inappropriately “into the law that they’re allowed to do.” He expressed the further opinion that the audit committee’s eventual role will be recommending internal audits based on the Kafoury, Armstrong report “regarding facts and findings of potential weaknesses or threats.” Vice Chairperson Brown inquired as to the autonomy of the committee in relation to the City Manager and the department heads. Member Livermore referred to the ordinance which created the committee, and advised that this committee reports to the Board of Supervisors not to the City Manager. In response to a further question, Member Livermore advised that the Internal Auditor is an at-will employee who “works at the pleasure of the Board” of Supervisors.

Member Eiben expressed the opinion that department heads “shouldn’t be above being audited” in their procedures. He expressed the further opinion that “everybody should have somebody look over their shoulder once in a while.” Ms. Johnson discussed the issue of the City’s “aged work force,” noting the number of recent retirements, and the importance of clearly documented procedures. In response to a question, Member Livermore expressed the opinion that this committee should review policies and procedures, and make recommendations to management accordingly. He noted the importance of “connection and collaboration” to establish good policies and control. Member Eiben agreed that cooperation and collaboration are key.

Mr. Carter inquired as to identified risks or other matters relevant to the audit. Ms. Johnson advised that the “first full audit” of the redevelopment authority is in the preliminary stages. Member Livermore advised that the Board of Supervisors will receive a status report on the City’s revenue at its next meeting.

CARSON CITY AUDIT COMMITTEE

Minutes of the July 8, 2008 Meeting

Page 3

“We’re all conscious that the revenue stream has decreased and about where expenditures are being allocated.” Member Livermore noted the priority ranking of public safety. Mr. Carter inquired as to risks associated with declining revenue. Ms. Johnson advised that City management provides the Board of Supervisors with a monthly update on sales revenues as compared to the original budgets. Trends are considered and budgets adjusted accordingly. Ms. Johnson advised that this provides the Board of Supervisors and the Internal Auditor confidence that, in these volatile times, revenues and expenses are consistently evaluated and in the forefront of everyone’s mind.

Mr. Carter inquired as to the audit committee’s oversight of internal controls, financial reporting, and grant compliance. Member Livermore expressed the opinion there are never enough internal controls, and that they should be constantly evaluated. Vice Chairperson Brown suggested Ms. Johnson could help to evaluate internal controls, and provide recommendations to the committee. Member Livermore advised of having recommended an audit of the recreation division “cash handling procedures at its public facilities that have snack bars and gate revenue ...” He discussed incidents of embezzlement which have taken place in association with some of the non-profit organizations utilizing City parks and recreation facilities.

Mr. Carter inquired as to developments in relation to ordinances or other corporate governments that may affect the audit. Neither the committee members nor City staff were aware of any. Mr. Carter inquired as to significant communications with regulators. Member Livermore advised of five committee meetings held thus far, and suggested that City management will need to coordinate and disseminate information about which the committee would not otherwise be sensitive. He suggested this could be a recommendation from the external auditor.

With regard to timing of the audit, Mr. Carter reiterated that the internal control evaluation is already in process. The auditors will be testing controls on disbursements, payroll, etc. Field work is scheduled to begin October 13th, and this will be coordinated with the Finance Department. Mr. Carter advised that the final audit report is due to the Department of Taxation by November 30th. The auditors will meet with City representatives prior to that date to discuss significant deficiencies and material weaknesses. Ms. Burgess acknowledged a preference to meet with the audit committee prior to finalizing the audit report. In response to a further question, she expressed a preference to meet with the committee on November 18th. Ms. Burgess and Mr. Carter acknowledged that the audit is on schedule.

Mr. Carter advised that communication of significant audit findings will include the auditors’ views on the qualitative aspects of the City’s significant accounting practices, accounting policies as part of the audit, accounting estimates, and financial statement disclosures. Difficulties encountered during the audit will be outlined in the letter, together with a schedule of uncorrected misstatements and material corrected misstatements. Disagreements with management, identification of control deficiencies, and other items such as grant violations will also be included. In response to a question, Ms. Burgess advised of a distinct possibility of findings of material misstatements due to the new audit standards. Mr. Carter anticipates meeting with Ms. Johnson to update the internal audit work program and to discuss any findings during the field work portion of the audit.

Ms. Burgess requested the audit committee members to communicate possible significant risks or “items to mention.” She acknowledged that the audit committee members have direct contact with Kafoury, Armstrong & Co. auditors. Vice Chairperson Brown suggested that the Kafoury, Armstrong auditors communicate jointly with Ms. Johnson and Chairperson Staub. He summarized the presentation, as

CARSON CITY AUDIT COMMITTEE

Minutes of the July 8, 2008 Meeting

Page 4

follows: That updates will be provided throughout the audit through Ms. Johnson and Chairperson Staub; and that the November 11th meeting will be changed to November 18th. In response to a question, Ms. Johnson advised that no formal action was necessary. Vice Chairperson Brown thanked Ms. Burgess and Mr. Carter for their presentation.

4. DISCUSSION AND POSSIBLE ACTION REGARDING THE CURRENT STATUS OF ONGOING AUDITS AND OTHER ACTIVITIES OF THE CITY AUDITOR (1-0567) - Vice Chairperson Brown introduced this item. Ms. Johnson provided background information on the monthly status report, and advised of having provided it to the committee members prior to the meeting date. She further advised of having subsequently revised the initial monthly status report following an e-mail from City Manager Larry Werner expressing concern over comments relative to the redevelopment authority audit. She distributed copies of the revised monthly status report to the committee members and staff, and reviewed that portion of the report pertinent to the redevelopment authority audit. She explained the purpose of the status report to inform this committee as to how her time is spent and the status of each audit. She invited recommendations from the committee members with regard to possible revisions to the status report format and content.

Vice Chairperson Brown expressed the opinion that the committee should not be required to provide preliminary findings to the City Manager and the department heads. Ms. Johnson advised that the monthly status report was sent only to the five committee members. The City Manager received the report from one of the audit committee members. Member Livermore expressed concern over keeping audit findings confidential until such time as an audit report is ready to be published. Ms. Bruketta was unaware of any law providing for the auditor's records to remain confidential. In response to a further question, she advised that an argument for keeping the records confidential during the course of the audit may be made; however, the records would be publicly accessible at the conclusion of the audit. Ms. Bruketta suggested differentiating between a monthly status report to the committee and the internal auditor's "internal investigation." In response to a question, she expressed surprise that the internal auditor would include details of her internal investigation in a monthly status report. Vice Chairperson Brown advised that the format and content of the monthly status report is "what he had in mind." Ms. Johnson described the information contained in the monthly status report as preliminary. "What ends up in the final audit report depends on the final conclusions that are made after you've looked at all the information." Ms. Johnson advised of being approximately 25 percent into the redevelopment audit, and discussed details of the audit process. She described the monthly status report as her "ability to communicate to the audit committee" preliminary findings with open discussion possibly resulting in additional direction from the committee.

In response to a question, Ms. Johnson advised that her preliminary findings, pertinent to the redevelopment authority audit, have been from a combination of documentation and interviews. Following discussion, Ms. Bruketta advised that the documentation being reviewed as part of the audit is public information. Ms. Johnson requested committee direction with regard to the format and content of the monthly status report. She acknowledged the importance of fulfilling the needs of the committee while, at the same time, protecting the City until a final audit report is ready to be published. Discussion took place regarding differences between the original and revised monthly status reports. Vice Chairperson Brown expressed a preference to have preliminary findings included in the monthly status report. In response to a question, Ms. Johnson advised of having received no request from City Manager Larry Werner to keep him informed

CARSON CITY AUDIT COMMITTEE
Minutes of the July 8, 2008 Meeting
Page 5

on a monthly basis. She was uncertain as to the reason Finance Director Nick Providenti had forwarded a copy of the monthly status report to Mr. Werner. Ms. Paulson advised that Mr. Providenti had provided her a copy of the report, as the Finance Department representative to this meeting.

Member Eiben expressed concern with regard to the monthly status reports being misinterpreted by the press. He suggested presenting the monthly status report in summary form in order that the committee members could follow up with questions and requests for more detailed information during the meetings. Ms. Johnson requested clarification, and advised that the existing format represented a summary from her perspective. Discussion followed.

Ms. Johnson provided background information on creation of the audit committee, and the importance of autonomy. She noted the “pros and cons” of having a department manager as a committee member. She expressed the opinion that the finance director, as a committee member, brings value because of operational experience. She expressed the further opinion that serving as a committee member may also place the finance director in a “very difficult position” because of reporting responsibilities to the City Manager. Vice Chairperson Brown suggested agendaizing the various audits as items for discussion by the committee. Having read both versions of the monthly status report, Member Livermore advised of having had no problem with the verbiage of the original report. He expressed a preference for the original version of the monthly status report “because it really spoke to the point.” He expressed concern that the committee won’t be able to provide specific direction without a detailed monthly status report. He noted that the monthly committee meetings have been set aside “to understand the depth and scope” of each audit. Vice Chairperson Brown suggested utilizing less definite language in reporting preliminary findings, and providing the department head an opportunity to respond. Ms. Johnson advised that redevelopment is “a very sensitive issue right now within the context of City Hall and also on the streets of Carson City.” She agreed to use different verbiage in the monthly status report. Member Eiben suggested inviting City Manager Larry Werner to a committee meeting, and the possibility of providing him with copies of the monthly status reports. In response to a comment, Ms. Johnson advised of having provided Mr. Werner with a copy of the annual audit work plan. Additional discussion took place, and Ms. Bruketta suggested specifically agendaizing an item for the next committee meeting.

In response to a question, Ms. Bruketta advised that the audit committee is not required by state law or the City charter. In response to a further question, she advised that other jurisdictions have audit committees. Ms. Johnson advised of having spoken with a Washoe County representative prior to organizing the committee. Said representative highly recommended not having any management representatives serve as committee members “because it was very difficult to keep the autonomy; that it made it very difficult on that individual.” She suggested the possibility of re-evaluating this at a future meeting. In reference to previous comments, she advised that the redevelopment authority audit will continue to be sensitive until the final audit report is published. She further advised of her obligation, pursuant to the provisions of the ordinance, to report to the committee her work activities. Member Eiben suggested that the redevelopment authority audit represents a learning experience, and noted the negative connotation usually associated with audits. He further suggested that “finding a way to smooth out the rough spots on this one” will make future audits easier.

Vice Chairperson Brown noted the issue of “keeping everybody advised” while maintaining the committee’s autonomy. Member Eiben commented that the committee is autonomous, but should “expect the flack.” Member Livermore noted that the final audit report will be presented to the Board of

CARSON CITY AUDIT COMMITTEE

Minutes of the July 8, 2008 Meeting

Page 6

Supervisors. Vice Chairperson Brown noted that management would have the opportunity to correct issues in the final audit report “by answering questions in the appropriate manner.” Ms. Johnson advised that management has the ability to agree or disagree with the audit findings. Member Livermore expressed the opinion that Ms. Johnson had responded appropriately with regard to the monthly status report and modified it accordingly. He agreed with Member Eiben’s comments that the committee and the internal auditor will have better guidelines once the redevelopment authority audit is complete. He suggested that the issues associated with the original monthly status report were “just issues.” “Understanding the issues, we’ll have to sort them out as we go.” Vice Chairperson Brown expressed a preference to have upcoming issues included in the monthly status report.

Ms. Johnson described the status of the redevelopment authority audit as “behind,” and reviewed the reasons as outlined in the status report. She responded to questions of clarification, and advised there is no central location for cataloguing contracts. Vice Chairperson Brown suggested this may be a good audit recommendation. In response to a question, Ms. Johnson advised the findings, thus far, have revealed that contract authorization has been through the department director. In response to a question, Ms. Bruketta advised that state statute provides for contract authorization. Ms. Johnson advised that the City’s purchasing policies and procedures manual also provides for contract authorization. In response to a question, she reiterated that the audit is behind “based on the situation.” She acknowledged the need to “sort some more of this out.” She responded to questions of clarification regarding the list of items to be completed, and advised that the information she has requested has been provided in a timely manner. She acknowledged that the department head has been cooperative.

Discussion took place with regard to inviting City Manager Larry Werner to a future committee meeting, and consensus of the committee was to agendaize an item, for discussion and possible action, regarding the method by which to inform the City Manager and / or department heads of audits in progress.

Ms. Johnson continued reviewing the monthly status report, and advised that the PERS Audit Compliance will be designated as complete on the next monthly status report. She further advised of having met with Supervisor Shelly Aldean to discuss concerns raised at a recent Board of Supervisors meeting regarding redevelopment. The committee members commended Ms. Johnson on her report. Vice Chairperson Brown suggested a revision to item 2 of the status report, and entertained a motion to accept the internal auditor’s monthly status report. **Member Livermore so moved. Member Eiben seconded the motion. Motion carried 3-0.**

5. DISCUSSION AND ACTION TO RECOMMEND TO THE BOARD OF SUPERVISORS APPROVAL OF THE CITY AUDITOR’S SIX-MONTH PERFORMANCE EVALUATION, FROM SEPTEMBER 20, 2007 THROUGH MARCH 20, 2008, CONDUCTED BY CHAIRPERSON RICHARD STAUB AND MEMBER PETE LIVERMORE (1-0016) - Member Livermore advised that this item would be deferred. (1-1649) In response to a question, Member Livermore explained the reason for deferring this item to a future meeting. He agreed to contact Ms. Bruketta after discussing the matter further with Chairperson Staub.

6. DISCUSSION AND POSSIBLE ACTION TO ESTABLISH A TIME LINE FOR PROVIDING AUDIT COMMITTEE REPORTS TO THE BOARD OF SUPERVISORS (1-1725) - Vice Chairperson Brown introduced this item. In response to a question, Ms. Johnson referred to discussion at a previous meeting which indicated consensus to provide a quarterly report to the Board of

CARSON CITY AUDIT COMMITTEE

Minutes of the July 8, 2008 Meeting

Page 7

Supervisors. She requested direction from the committee regarding the time line and the format by which to provide the report. She advised of having submitted the audit work plan to the Board of Supervisors in April. Member Livermore suggested providing quarterly reports to the Board of Supervisors in the following format: A completed audit plan, the priority of each audit, the status of each audit, and hours invested. Member Livermore suggested a twenty-minute presentation, allowing for questions from the Board. He further suggested agendizing the report for the first Board of Supervisors meeting in August. **Member Livermore moved to direct the internal auditor to present a quarterly report to the Board of Supervisors at its first meeting in August. Member Eiben seconded the motion.** Ms. Johnson requested to present a draft of the quarterly report for review at the next committee meeting and suggested, therefore, to defer presentation of the report to the Board of Supervisors to the second meeting in August. **Member Livermore so amended his motion. Member Eiben continued his second. Motion carried 3-0.**

7. DISCUSSION AND POSSIBLE ACTION TO REVISE THE COMMITTEE'S MEETING SCHEDULE TO QUARTERLY (1-1677) - Ms. Johnson reviewed the meeting schedule approved at the first audit committee meeting, which calls for an August 12th meeting. Given the report by Kafoury, Armstrong & Co. representatives, provided earlier in the meeting, and the "sensitivity of the redevelopment audit," Ms. Johnson suggested continuing to meet on a monthly basis. **Member Eiben so moved. Member Livermore seconded the motion. Motion carried 3-0.**

8. FUTURE AGENDA ITEMS (1-1817) - Vice Chairperson Brown noted the previously-discussed future agenda item. Member Livermore advised that he would discuss agendizing the internal auditor's performance evaluation with Ms. Bruketta following the meeting.

9. PUBLIC COMMENT (1-1828) - None.

10. ACTION ON ADJOURNMENT (1-1830) - Member Livermore moved to adjourn the meeting at 4:34 p.m. Member Eiben seconded the motion. Motion carried 3-0.

The Minutes of the July 8, 2008 Carson City Audit Committee meeting are so approved this 12th day of August, 2008.

RICHARD S. STAUB, Chair