

**City of Carson City  
Agenda Report**

**Date Submitted:** 12-8-08

**Agenda Date Requested:** 12-18-08

**Time Requested:** 6:00 P.M.

**To:** Mayor and Supervisors

**From:** City Audit Committee

**Subject Title:** Presentation of the 2008 Redevelopment Authority and Office of Economic Business Development Audit and action to accept the audit and direct staff to develop appropriate policies and procedures for the Office of Economic Development.

**Staff Summary:** On November 25, 2008, the City Audit Committee reviewed the draft audit of the Redevelopment Authority and Office of Business Development and Staff's response thereto with Staff present. After discussion, the committee accepted the audit and its recommendations without amendment, or further meetings with Staff, and voted to forward the audit to the Board of Supervisors for review and appropriate action.

**Type of Action Requested:** (check one)

Resolution

Ordinance

Formal Action/Motion

Other (Specify)

**Does this action require a Business Impact Statement:** ( ) Yes (x) No

**Recommended Board Action:** I move to accept the audit of the Redevelopment Authority and the Office of Business Development, dated November 3, 2008 and request the City Manager to bring forth policies and procedures to be implemented by the Board of Supervisors within 60 days and other matters properly related thereto.

**Explanation of Board action:** None.

**Alternative Board Action:** 1. I move to reject the audit of the Redevelopment Authority and Office of Business Development, dated November 3, 2008.

2. I move to table the draft audit of the Redevelopment Authority and Office of Business Development, dated November 3, 2008, and refer the audit to a newly appointed City Auditor for further action.

**Fiscal Impact:** None

**Explanation of Impact:** None

**Funding Source:** None

**Alternatives:** Approve, Modify, Deny

Prepared By: Richard S. Staub

Reviewed By : \_\_\_\_\_  
(Department Head)

Date: \_\_\_\_\_

Concurrences: \_\_\_\_\_  
(City Manager)

Date: 12-9-08

*Melanie Buketta*  
(District Attorney)

Date: 12-9-08

*Neil Ahmadi*  
(Finance Director)

Date: 12-9-08

Board Action Taken:

Motion: \_\_\_\_\_

1) \_\_\_\_\_

Aye/Nay

2) \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
(Vote Recorded By)



**"DRAFT REPORT"  
COMPLIANCE AUDIT  
REDEVELOPMENT AUTHORITY & OFFICE OF BUSINESS DEVELOPMENT  
For the Period July 1, 2005 through May 31, 2008**

**Presented to  
CARSON CITY AUDIT COMMITTEE**

**November 3, 2008**

**INTRODUCTION**

In accordance with the approved Internal Audit workplan for the period April 2008 through June 2009, the Office of Internal Audit initiated a compliance audit on April 29, 2008 of the Redevelopment Authority and the Office of Business Development.

A compliance audit differs from a financial statement audit, which is annually performed by the City's external auditors. A compliance audit determines whether a process or transaction is or is not following applicable rules. Such rules can originate internally as policies and procedures and/or externally as regulations and laws. Compliance audits provide information to improve public accountability and operational processes.

The primary objective of this compliance audit was to ensure that the Redevelopment Authority and the Office of Business Development are functioning in an effective, efficient and economical manner supporting a sound system of internal controls and that the Redevelopment process is compliant with policies and procedures as defined internally and externally to the operation.

## **BACKGROUND**

Under provisions of NRS 279, the Carson City Board of Supervisors initially established the Carson City Redevelopment Authority on May 5, 1983. It is comprised of five elected officials; the mayor and the City's four Supervisors; currently, Ward One Supervisor serves as Chairperson for the Redevelopment Authority.

The Carson City Redevelopment Authority engages in activities to enhance business opportunities and to make physical improvements in the areas designated as Redevelopment Area #1 and Redevelopment Area #2:

- Redevelopment Project Area No. 1 – Downtown, Costco and Carson Mall
- Redevelopment Project Area No. 2 – Auto Sector, South Carson Retail Sector, Old K-Mart Shopping Center in North Carson City.

Per Resolution 2003-RAR-2 and 2003-R-37 the Carson City Board of Supervisors and the Redevelopment Authority established the Redevelopment Authority Citizens Committee for Redevelopment Area 1 on October 2, 2003. The purpose of this Committee is to "review requests for incentives and recommend incentive programs/packages and other matters to the Redevelopment Authority". Currently, the Redevelopment Authority Chairperson also serves as the Chairperson for this Committee.

"The Office of Business Development markets Carson City". Their mission is to work with the business community, entrepreneurs and the public to encourage business start up, recruitment, expansion and retention. They achieve this objective by leveraging opportunities with regards to Economic Development and/or Redevelopment. The Office of Business Development is managed by the department Director who reports directly to the City Manager.

The combined assessed valuation for Redevelopment Area #1 and Redevelopment Area # 2 has increased from \$22,146,859 for fiscal year 2005/2006 to an estimated \$87,101,590 for the fiscal year 2008/2009. It is anticipated that the two Redevelopment Areas will continue to add new value to the ad valorem property tax base by attracting new projects, new construction and significant adaptive reuse of historic and meaningful buildings. Property Tax Revenues for the Redevelopment Authority have increased from \$511,325 to an estimated \$932,106 for fiscal year ending June 30, 2008; with budgeted revenues of \$1,313,333 for the fiscal year ending June 30, 2009. The revenue increase is driven primarily by increased assessed valuation rather than an increase in rate.

The expenditures of the Carson City Redevelopment Authority currently flow through three funds within the Redevelopment Authority; Tax Increment Fund, Administrative Fund, and Revolving Fund. The General Fund accounts for those expenditures that are associated with Economic Development.

## **SCOPE AND METHODOLOGY**

On July 31, 2008, during the field work stage, City staff held a "special" work shop with the Redevelopment Authority to provide an overview of the goals, objectives and day-to-day functions of the Office of Business Development in order to seek direction from the Redevelopment Authority regarding implementation of current and proposed redevelopment incentive programs/projects, processes, guidelines, policies and procedures for Redevelopment Project Area No. 1 and Redevelopment Project Area No. 2.

Based on several members' recommendations, staff was directed to revise the current redevelopment incentive programs/projects, processes, guidelines, policies and procedures for both areas. The proposed revisions would be brought back to the Redevelopment Authority for review and action within the next 30 to 60 days.

In light of the forth coming revisions, two of the five Audit Objectives, as outlined in the Audit Program, were accomplished:

- Objective 4: - Evaluate the criteria used to provide "Incentive Packages" and the policy in place from the initial evaluation to the final disbursement of funds.
- Objective 5: - Evaluate the budget process documenting the flow of revenues and the flow of expenditures to meet the goals and objectives of the Redevelopment Authority and the Office of Business Development.

Upon the completion, adoption, and full implementation of the revised redevelopment incentive programs/projects, processes, guidelines, policies and procedures, the final three Audit Objectives can be completed:

- Objective 1: - Determine that policies and procedures have been established for the operation of the Office of Business Development for department operations.
- Objective 2: - Evaluate the criteria used to identify possible areas for redevelopment as defined by NRS 279.586 and the criteria used to evaluate the economic and financial implications of transferring property from the property tax General Fund basis to the Redevelopment Fund basis.
- Objective 3: - Evaluate the type of information and the channels of information utilized to communicate operations of the Office of Business Development to the Advisory Board(s), the Redevelopment Authority, and to the Board of Supervisors to ensure the strategic goals and objectives of Redevelopment for the City are achieved.

In order to gauge current practices, the focal point of the compliance audit was the City's Office of Business Development where the primary activities for Economic Development (General Fund department 620) and Redevelopment Area 1 and Redevelopment Area 2 (Redevelopment Fund 602, 603, & 604) are administered and managed for the City.

To examine the flow of principal expenditures, the compliance audit was restricted to those vendors who had cumulative disbursements in excess of \$25,000 for the audit period July 1, 2005 through May 31, 2008.

The compliance work performed was deemed to be sufficient to determine the existence and effectiveness of processes and internal controls currently in place and to provide support for recommendations provided within this report. Additionally, the work performed consisted of interviews, observations, and detailed review of supporting documentation.

## **PROCEDURES**

Per the compliance audit program, the following procedures were used to accomplish the above objectives:

- Procedure 3a: - Review applicable policies and procedures within the functionality and operations of the Office of Business Development for compliance and adequacy.
- Procedure 6a, b, c: - Obtain copies of budget documents for the audit period July 1, 2005 through May 31, 2008; (a) identify key source of funds, and (b) identify principal cost elements.
- Procedure 9a: - Review Board of Supervisor, Redevelopment Authority and Advisory Committee activity on the audited area; (b) obtain and review copies of pertinent meeting minutes.
- Procedure 10d, e, f, g – Identify the laws, regulations, and authoritative standards that should be tested for compliance; (d) obtain and review executed contracts for the compliance area, (e) find out how contract was selected (competitive bidding or negotiated), (f) obtain background information regarding the contractor, (g) determine if the contract is a fixed fee/not to exceed or open ended.
- Procedure 13 a, b, c – Summarize compliance audit findings; (a) key limitations of current processes, (b) overall assessment and/or conclusions, (c) compliance issues and/or findings.

## **CONCLUSION**

From the outset of this audit, it became evident that the Redevelopment Authority lacked clear and consistent policies and procedures under which to operate. This made it difficult, if not impossible to determine whether the actions of the Redevelopment Authority and City staff were appropriate or not. Early on, the City Audit Committee was advised of this predicament. Direction was provided that the audit would focus on the actions which were taken by the Authority, applying applicable statutes, ordinances and resolutions of the Board of Supervisors as it pertains to the principal expenditures for the audit period.

Based upon the findings of this compliance audit, there is a very clear deficiency in the "checks and balances" of the Redevelopment process and a pattern of consistent findings. This places the City's internal controls over the expenditure of taxpayers' dollars at risk. The controls for approval of incentive projects/programs, sponsorships and expenditures, which the Redevelopment Authority and Board of Supervisors have approved in the past, within the City's Redevelopment function have been either compromised or ignored at times. The absence of a competitive bid process puts at risk the independent selection process of whom the City conducts business with. The noted findings impact the degree of integrity in which the Redevelopment process has been managed by City staff and departments.

The City Manager and the Redevelopment staff are aware of these findings and have been proactive in their response. On October 16, 2008, a second presentation was made to Redevelopment Authority regarding proposed changes. The Redevelopment Authority approved a motion to accept the proposed changes in concept and have asked City staff for additional revisions to be brought back within the next 30 to 60 days for final approval.

Enhanced policies, procedures and a standardized reporting process will result in an improved "financial trail" making sure that redevelopment incentives, programs/projects, and expenditures are reimbursed as intended by the governing body's authorization and mitigate the potential for management oversight. Enhanced accountability of disbursements and funding sources will guarantee that spending is within the approved annual fiscal budget.

The City's Internal Audit function and the Audit Committee, appreciate the cooperation and assistance provided by City Staff. The City Manager's office is to be commended on the openness and willingness to discuss issues and seek a positive resolution to improve the operating environment as it relates to the City's Redevelopment function.

This report is intended for the information and management of the City of Carson City. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

City of Carson City  
Internal Audit Function

Sue Johnson  
City Auditor

## **FINDINGS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSE**

**Finding 1 - Overview:** Resolution 2003-RAR-2 and 2003-R-37 and the By-Laws of the Redevelopment Authority Citizens Committee are not followed consistently as it applies to the review and recommendation of funding for incentive projects/programs in Redevelopment Area 1.

- The controls over the review and approval of funding incentive programs/projects are not sufficient to prevent management from circumventing established policies and procedures.
- The application process for "Carson City Redevelopment Authority Incentives Programs/Projects" is not completed for all projects.
- Project spending in excess of authorized amounts has been approved solely at the discretion of the Redevelopment Staff.
- Individual projects have been solely reviewed and authorized at the discretion of Redevelopment Staff with no oversight or approval provided by the Redevelopment Authority.
- Irregular meetings of the Redevelopment Authority Citizens Committee has resulted in the under utilization of this Committee as it pertains to the review process of incentive programs/projects.

### **Established Operating Structure:**

The Board of Supervisors and Redevelopment Authority have determined that an Incentive Program is an integral part of the City's Redevelopment efforts. Resolution 2003-RAR-2 and 2003-R-37 resolves that the "Citizens Committee", specific to Redevelopment Area 1, is to review requests for incentives and recommend incentive packages and other matters to the Redevelopment Authority which holds the final approving authority on the incentive program/project packages for Redevelopment Area 1, Downtown.

The Citizen's Committee's By-Laws state that the Redevelopment Authority Citizens' Committee, for Redevelopment Area 1, shall act for and on behalf of the Carson City Redevelopment Authority for the Redevelopment Incentive Programs/Projects and other duties as assigned by the Board of Supervisors. The Committee shall have the responsibility and authority to review programs/projects and make recommendations to the Redevelopment Authority and Board of Supervisors granting financial and other incentives as delineated in the Carson City Redevelopment Incentives Program/Project. Regular meetings shall be held on a monthly basis at a time and date determined by the Chair. The Committee shall make every effort to hold meetings as expediently as possible after submittal of incentive request.

### **Scope:**

Internal Audit reviewed seven (7) projects/programs from Redevelopment Area 1 that had a cumulative spend in excess of \$25,000 for the Audit period July 1, 2005 through May 31, 2008. The table presented on the following page, provides a summary of those specific projects. Those highlighted in yellow, present opportunities for immediate improvement with respect to compliance with Resolution 2003-RAR-2 and 2003-R-37 and the Redevelopment Authority's By-Laws.

Project/Incentive Package Title	Vendor(s)	Dollar Amount	Incentive Application	RACC Approval	RDA/BOS Approval
Lucky Spur	Stew's Corporation, Inc.	\$100,000.00	YES	11/10/2004	12/2/2004
1st Presbyterian Church	Dolven Arch. Associates	\$47,600.00	NO (1)	NO (2)	4/6/2006
	First Presbyterian Church	\$11,612.36	NO (3)	NO	NO
	Shaheen Beauchamp	\$8,568.00	NO (3)	NO	NO
	Total	\$67,780.36	NO (3)		
Olcovich House	Jennifer & Gary Cain	\$41,000.00	YES	12/10/2003	12/15/2004
State Farm Building	Bret & Dani Andrea	\$38,000.00	YES	3/2//05	5/5/2005
D'Vine Wine	Hannafin Design	\$41,397.95	NO (5)	NO(5)	NO (5)
Carson Mall	Palmer Engineers	\$30,327.52	NO (5)	NO (5)	NO (5)
Daddy Dick's Tavern	Hannafin Design	\$26,189.50	NO (6)	NO (6)	NO (6)

**Specific Deficiencies Summarized by Project/Program:**

▪ **1st Presbyterian Church**

1. The "Application for Carson City Redevelopment Authority Incentive Program" could not be located; however the project file maintained by the Office of Business Development contained a letter dated Feb. 14, 2006 from the City offering to pay for additional design fess and a letter dated Feb. 21, 2006 from the Church accepting the offer.
2. A review of the RACC minutes did not indicate that there was discussion or approval of this project by the Redevelopment Authority's Citizens Committee (RACC); the RDA/BOS did review the project and approved spending of \$47,600.00 on April 6, 2006; payment was disbursed May 24, 2006.
3. Total amount of spending for this project of \$67,780.36 exceeded the governing bodies authorized amount of \$47,600.00. Documentation could not be located indicating that the governing bodies (RDA/BOS) had reviewed and authorized payment for additional expenditures above the original amount of \$47,600.00.

June 21, 2006

A payment in the amount of \$8,568.00 was paid to Shaheen Beauchamp for "pre-construction services". Invoice was approved by Redevelopment Staff. Expenditures were charged to Redevelopment Authority Revolving Fund, capital outlay and reclassified at the end of the fiscal year to Support Services Incentive Program.

Dec. 5, 2006

A letter was sent to the RDA Chairperson, describing four additional construction expenses, totaling \$90,759.00; the Church's Building Committee implies "there is a promise to provide assistance for":

- Sidewalks, curbs, and gutters \$39,324.00
- Install temporary barrier \$ 8,192.00
- Landscaping \$38,818.00
- Liability Insurance \$ 4,425.00

Mar. 20, 2007

An invoice was sent from the Church directly to the RDA Chairperson Williamson in the amount of \$11,612.36 for a portion of these additional expenditures:

- Furnish & Install temporary barrier      \$ 7,022.40
- Wall Anchorage      \$ 1,362.00
- Liability Insurance Premium      \$ 3,227.96

This invoice was approved for payment by the Redevelopment Staff and processed. Expenditures were charged to Redevelopment Authority Revolving Fund, Support Services Incentive Program.

Subsequently, a letter dated October 10, 2008, from the First Presbyterian Church was hand delivered to the City requesting reimbursement in the amount of \$86,634.48. As outlined in this letter, "there are numerous promises from the City officials, Redevelopment Office and City Staff to cover the additional expenses incurred for moving the new sanctuary and avoiding demolition of the old sanctuary". The letter from December 5, 2006 was referenced as to the four different expenses that would be incurred by changing the location. Based on the Church's understanding that this was a verbal agreement, the First Presbyterian Church is requesting that the reimbursement with occur as soon as possible.

▪ **D"Vine Wine & Carson Mall**

5. The "Application for Carson City Authority Incentive Program" could not be located. In addition, a review of meeting minutes for the Redevelopment Advisory Citizens Committee, the Redevelopment Authority and the Board of Supervisors, for the period July 1, 2005 May 31, 2008 indicated that this project lacked authorization for funding pursuant to Resolution 2003-RAR-2 and 2003-R-37.

Based on further discussion and communication from the Redevelopment Staff, "the design fees incurred by Hannafin and Design and Palmer Engineering for these two projects support the beginning stages of complicated commercial remodel to ensure that such remodeling has a better chance of ensuring a business's viability. The review and approval for funding of these projects in the amount of \$41,397.95 and \$30,327.52 respectively was at the "personal discretion of the Redevelopment Staff"

▪ **Daddy Dick's Tavern**

6. The "Application for Carson City Authority Incentive Program" could not be located. In addition, a review of meeting minutes for the Redevelopment Advisory Citizens Committee, the Redevelopment Authority and the Board of Supervisors, for the period July 1, 2005 May 31, 2008 indicated that this project lacked authorization for funding pursuant to Resolution 2003-RAR-2 and 2003-R-37.

Per detail provided from the Office of Business License, Daddy Dick's Tavern's license was inactivated April 18, 2005 and a new license was issued at the same location for RE-BAR which opened April 1, 2005.

Communication from the Redevelopment Staff indicated "that there was no file to review for this project". "The project died because the property owner and the business partnership could not agree on the terms of the lease". Without a file on Daddy Dick's, verification could not be made if the work performed in August 2005 was for Daddy Dick's as the invoice referenced or for RE-BAR the actual occupants at the time the work was performed.

Based on communication from the Redevelopment Staff, again "the design fees incurred by Hannafin and Design for this project were to support the beginning stages of complicated commercial remodel to ensure that such remodeling has a better chance of ensuring a business's viability. The review and approval for funding of this project was at the "personal discretion of the Redevelopment Staff".

**Recommendations:**

1. The "Application for Carson City Redevelopment Authority Incentive Program/Project" is an essential tool utilized within the authorization and review process established by Resolution 2003-RAR-2 and 2003-R-37 for Redevelopment Area 1. City Staff should ensure that this is completed at the onset of each project and maintained in the "specific project's" master file maintained in the Office of Business Development. This application should be attached as support documentation for each project when presented to the RACC/RDA for review and possible action.
2. Per Resolution 2003-RAR-2 and 2003-R-37, the Carson City Board of Supervisors and Redevelopment Authority created a Citizens Committee for Redevelopment Area 1 to review requests for incentive programs/projects and to make recommendations regarding these packages and other matters to the Redevelopment Authority. City Staff should ensure that this Committee is utilized to its fullest extent for all proposed incentive projects/programs. Additionally, regular meetings should be considered on a monthly basis in order that application requests can be reviewed on a timely basis.

City Staff may want to consider creating a separate Redevelopment Authority Citizens Committee for Redevelopment Area 2 that would be specific to their needs. Additional consideration should be given to having a dedicated Chairperson for the Citizens Committee in Redevelopment Area 1 and a dedicated Chairperson for the Citizens Committee in Redevelopment Area 2.

3. City management (i.e. Redevelopment Staff, City Manager, Director of Finance, Director of I.T.) should consider working together to leverage technology to track incentive programs/projects from the inception of the project to the completion of the project. This would provide management with a "tool" to review the ongoing spending of each project as it occurs; thus avoiding a situation where

the total amount spent exceeds the governing bodies authorized amount. This would allow management to respond proactive to items that may require additional discussion and /or approval from the Redevelopment Authority.

City Staff should prepare a monthly/quarterly report for the Redevelopment Authority that summarizes the applications received, processed and pending in order to keep the governing body better informed. Pertinent information to be presented should be items such as:

- Project Name
- Brief Description of Project
- Description of Incentives Requested
- Dollar Amount of Requested
- Project time line
- Proposed Source of Funding & Fiscal Period

This recommendation should also be considered for redevelopment projects/programs in Redevelopment Area 2.

4. To maintain independence and support a system of sound internal controls with regards to the segregation of duties and responsibilities, management should ensure that all requests for reimbursement be sent to the attention of City management rather than an individual member of the Redevelopment Authority and/or City's governing body.
5. Management should review the letter sent, December 5, 2006 to the RACC/RDA Chairperson regarding additional items that the Church's Building Committee maybe looking to the City for assistance; sidewalks, curbs and gutters for \$39,324.00 and landscaping for \$38,818.00. If it is the intent of the City to reimburse the Church Building Committee for these items, City staff should proceed with the proper discussion and action of these expenditures by the Redevelopment Authority. Additionally, the funding for these items should be identified as it pertains to the fiscal budget for 2008/2009.
6. Management should consider requiring all incentive projects/programs to have a completed "master file" maintained in the Office of Business Development. In addition, management should require that the review and authorization of all projects/programs for incentive packages adhere to Resolution 2003-RAR-2 and 2003-R-37 without exception. Comprehensive policies and procedures should be developed to address the weakness identified. If Redevelopment Staff is to review and approve the funding of projects without authorization from the Redevelopment Authority, action should be taken by the Board of Supervisors to approve the appropriate dollar level of authority staff would have on a per project basis.

7. Management should consider creating sound policies and procedures for the authorization of incentive packages prior to a business negotiating a final lease of the facility. Should a business receive funding prior to finalizing their lease agreement, a pay back clause should be included in the incentive package should the lease agreement fail.

**Management Response –**

**Finding 2 - Overview :** The current practice for approving contracts related to professional services, advertising, marketing, special events and support services incentive programs and payment of these expenditures by Redevelopment Staff do not consistently comply with guidelines established within the City's Purchasing Manual, Resolution 1990-R-71 and NRS 332.039.

- The controls over the review and approval of contracts and the funding of programs/projects are not sufficient to prevent management from circumventing established policies and procedures.
- Contacts for redevelopment projects, are not "centrally" managed and maintained by the Purchasing Department as is done in other City Departments (i.e. Public Works, Parks and Recreation, etc.)
- Utilizing professional discretion, Redevelopment Staff negotiated and approved contracts on their own with out review and authorization by the Board of Supervisors which would have naturally included a review by the City's District Attorney's Office.
- Fees charged per invoices do not always reflect the rate outlined in the contract.
- In some cases, the contract on file with the Purchasing Department was not current.
- Redevelopment Staff authorized professional services to be performed by entities that were not licensed to do business in the City of Carson City.
- Expenditures with "like descriptions" were often coded to multiple funds and multiple accounts making it very difficult to track the total expenditure by project.
- Actual expenditures exceed "fixed fee" contractual amounts.

**Established Operating Structure:**

The City's current Purchasing Manual, effective November 1, 1990 outlines the policy for contracts that do not require competitive bidding. Per section 4.4.1, the manual states that "contracts, which by their nature are not adapted to award by competitive bidding, including, but not limited to; 4.4.1.1 items which may only be contracted from a sole source, and 4.4.1.2 contracts for professional services.

Per section 4.4.3 of the manual, "except as otherwise provided, a contract or contracts, which is not adaptable to the competitive bid process, and whereas, the amount required to perform such a contract would normally be subject to the provisions of a "Formal Bid", the Board of Supervisors must approve the commitment thereof at a regularly scheduled meeting". The "Formal Bid" amount for the fiscal period July 1, 2005 through June 30, 2006, per NRS 332.039 was \$25,000.00. This amount was revised to \$50,000.00 effective May 2007.

**Scope:**

Per minutes of the Carson City Redevelopment Authority dated April 6, 2006, it is noted that the Office of Business Development should develop a policy similar to that of the Board's staff that allows it to incur obligations under \$25,000.00 without the Board's approval. Written copy of this policy in the Office of Business Development was not able to be obtained.

The following table summarizes vendor disbursements, associated with the Office of Business Development, for professional services, advertising, marketing, support service incentive programs and special events for the fiscal period July 1, 2005 through May 31, 2008. There were a total of thirteen vendors that had disbursements in excess of \$25,000.00. Of this population, seven vendors, highlighted in yellow, were selected for additional review. Based upon the findings, there is a very clear deficiency in the "checks and balances" of the Redevelopment process and a pattern of consistent findings. This places the City's internal controls over the expenditure of taxpayers' dollars at risk. These findings necessitate an immediate improvement with respect to compliance with the City's Purchasing Policy and NRS 332.039.

Description	Professional Services	Special Events & Activities	Advertising & Marketing	Incentive RDA #1	Incentive RDA #2	Three Year Total
Carson City Toyota	0.00	0.00	0.00	0.00	3,600,000.00	3,600,000.00
Hannafin Design Associates	76,347.21	0.00	0.00	69,759.08	0.00	146,106.29
Curtis & Outland	85,509.16	0.00	0.00	20,103.00	0.00	105,612.16
Classic Option Inc	3,375.00	96,673.15	0.00	0.00	0.00	100,048.15
Lopiccolo Investments LLC	0.00	0.00	0.00	100,000.00	0.00	100,000.00
Stew's Lucky Spur	0.00	0.00	0.00	100,000.00	0.00	100,000.00
MacWest Marketing	49,649.29	0.00	9,616.85	15,690.75	0.00	74,956.89
Carson City Convention & Visitors Authority	13,399.50	43,795.71	0.00	979.22	0.00	58,174.43
Steven Saylor	37,125.25	0.00	9,031.25	2,000.00	0.00	48,156.50
Dolven Architectural Associates	0.00	0.00	0.00	47,600.00	0.00	47,600.00
Board of Regents - College of Business	45,000.00	0.00	0.00	0.00	0.00	45,000.00
Taggart & Taggart Ltd.	42,331.59	0.00	0.00	562.50	0.00	42,894.09
Verive Jennifer & Gary Cain	0.00	0.00	0.00	41,000.00	0.00	41,000.00
Sierra Nevada Media Group	610.00	18,987.00	18,453.26	0.00	0.00	38,050.26
Andreas, Bret & Dani	0.00	0.00	0.00	38,000.00	0.00	38,000.00
Impresario	34,500.00	0.00	0.00	0.00	0.00	34,500.00
Stainback Real Estate LLC	31,221.47	0.00	0.00	0.00	0.00	31,221.47
Palmer Engineering Group Inc.	30,327.52	0.00	0.00	0.00	0.00	30,327.52
Capital City Arts Initiative	0.00	30,241.04	0.00	0.00	0.00	30,241.04
Fehr & Peers	15,352.72	0.00	0.00	7,839.62	0.00	23,192.34

Note: A – For a complete summary please see Appendix A

**Specific Deficiencies Summarized by Vendor:**

▪ **Hannafin Design Associates**

1. During the review of this vendor, formal approval by the RDA/BOS for the financial commitments to Hannafin Design nor record of approval, pursuant to the City's Purchasing Manual, of expenditures by the Purchasing Department, Administrative Services Director (i.e. now the Finance Director), or City Manager could be located. All expenditures were authorized for payment by the Redevelopment Staff.

Per conversation with the current Director of Finance, he understands that the approval level for Department Directors is currently at \$25,000.00 although a formal written policy could not be located at the time field work was completed.

Per the detailed "Vendor Activity Listing" from the City's financial system, Sungard HTE, for the fiscal period July 1, 2005 through May 31, 2008 total disbursements, for professional services rendered, by Hannafin Design and Associates pertaining to the Office of Business Development were \$146,106.29. A detailed review of the individual invoice descriptions indicate the professional services rendered were for four major projects:

▪ Mixed Use Master Plan	\$ 48,463.63
▪ D'Vine Wine	\$ 41,397.95
▪ Daddy Dick's Tavern	\$ 26,189.50
▪ Kim Lee's Sushi Bar	<u>\$ 23,802.71</u>
	<u>\$146,106.29</u>

On June 20, 2008 a request was made to the Redevelopment Staff for a copy of the agreement(s) between Carson City and Hannafin Design Associates regarding the professional services provided for the four major projects listed above.

According to the response from the Redevelopment Staff, June 20, 2008, "staff was not aware of any other pertinent documentation associated with these projects. On several occasions, the Redevelopment Staff, used professional discretion to verbally engage in the services of local design professional firms in support of the adaptive reuse of challenging, antiquated and/or historic properties in the Downtown core".

However per information maintained in the vendor's file in the Office of Business Development, the Redevelopment Staff received a document dated October 18, 2005 from Hannafin Design intending to outline a simple working relationship regarding "Consultant Planning Services" that the City may periodically request from Hannafin Design Services. Per this document, "all requests for services are to be directed to Art Hannafin, Managing Partner, and Khan Tung, Senior Associate. Additionally, the request for services by the City should indicate Scope of Services, Project Identity, Schedules, Basis of Fee and Payment, and Major Contact Individual. An appropriate agreement for services will be prepared and submitted for approval by both parties."

Based on communication from the Redevelopment Staff, Hannafin Design Associates was not requested to prepare separate agreements for professional services. It was staff's "judgment that since the terms of the requested architectural design services were consistent with the parameters as outlined in Mr. Hannafin's memo of 10/18/05, staff had the authority to verbally authorize the firm to precede with certain tenant improvement design projects in support of unique opportunities. The review and approval for funding of these projects was at the "personal discretion of the Redevelopment Staff".

2. October 18, 2005 staff received a document from Hannafin Design Associates; LLP intended to outline the simple working relationship with the City for professional services. This document outlined an hourly fee schedule for "Standard Fees" and "Discounted Fees". In addition, this document indicated that "project requests should indicate scope of services, project identity, schedules, basis of fee and payment, and major contact individual. An appropriate agreement for services will be prepared and submitted for approval by both parties".

A detailed review of the individual invoices noted an issue pertaining to the fee's assessed when compared to the "Standard Fee" and/or "Discounted Fee" stated in the October 18, 2005, memo. Because the individual invoices lacked a "job description" of the individual performing the services, it is difficult to ascertain if the City was charged correctly.

3. Expenditures for each project, although singular in focus, were coded to different funds and multiple accounts within the different funds. In summary, the following funds and accounts were utilized for the distribution of these funds:

- Redevelopment Admin Professional Services
- Redevelopment Revolv. Support Services Incentive Program  
Professional Services  
Construction Projects (Later Reclassified at  
year end to Professional Services)
- General Fund Professional Services (Ec. Development)
- General Fund Professional Services (Finance)

▪ **Curtis & Outland**

1. During the review of this vendor, formal approval by the RDA/BOS for the financial commitments to Curtis & Outland nor record of approval, pursuant to the City's Purchasing Manual, of expenditures by the Purchasing Department, Administrative Services Director (i.e. now the Finance Director), or City Manager could be located. All expenditures were authorized for payment by the Redevelopment Staff.

Per conversation with the current Director of Finance, he understands that the approval level for Department Directors is currently at \$25,000.00 although a formal written policy could not be located at the time field work was completed.

Per the detailed "Vendor Activity Listing" from the City's financial system, Sungard HTE, for the fiscal period July 1, 2005 through May 31, 2008 total disbursements, for professional services rendered to the Office of Business Development, by Curtis and Outland were \$105,612.16

Per communication from Redevelopment Staff, the professional services rendered were a "monthly retainer to help the City compete effectively for new retail: (i.e. Kohl's, Home Depot, Bass Pro, Burlington Coat Factory, Sportsman's, Macy's and so forth. In addition, staff and the Independent Contractor recruited numerous national developers to take a hard look at our town for the first time. Mr. Outland had personal relationships with many in the retail development world. His counsel allowed the City to receive decent exposure at retail conventions and through targeted recruitment-type advertising. He also assisted with the Downtown visioning process because of his knowledge and professional belief that mixed use retail projects were the future of retail redevelopment".

2. An additional \$40,182.64 was charged to account 220-000-465-65.02 which represents Capital Outlay/Infrastructure Downtown. According to the finance department, "in fiscal year 2006 \$100,000.00 was allocated by the CIP committee for Downtown minor infrastructure improvement projects. This \$100,000.00 was to help the City assume a partnership with the Redevelopment Authority's efforts consistent with fulfilling public projects that would increase economic development in the form of assessed value, sales tax and community self-esteem".
3. Although the descriptions of the services performed are for a singular focus, the expenditures were coded to multiple funds and multiple line items. Initially this created difficulty in trying to understand the total disbursements.
  - Redevelopment Authority – Administrative Professional Services
  - Redevelopment Authority – Revolving Professional Services
  - Redevelopment Authority – Revolving Incentives
  - General Fund – Economic Development Professional Services
4. In a review of the supporting documentation, it should be noted that this Independent Contractor did not have a license to do business in Carson City at the time his services were obtained. This was verified by City Staff in Development Services.

▪ **Classic Option Inc.**

1. Based on communication from the Purchasing Manager, the last contract on file is sometime in 2001/2002. Without a current contract it is difficult to determine if the management fees and production fees charged the City are in line with the contractual amount.
2. During the review of this vendor, formal approval by the RDA/BOS for the financial commitments to Classic Option Inc. nor record of approval, pursuant to the City's Purchasing Manual, of expenditures by the Purchasing Department, Administrative Services Director (i.e. now the Finance Director), or City Manager

could be located. All expenditures were authorized for payment by the Redevelopment Staff.

Per conversation with the current Director of Finance, he understands that the approval level for Department Directors is currently at \$25,000.00 although a formal written policy could not be located at the time field work was completed.

Per the detailed "Vendor Activity Listing" from the City's financial system, Sungard HTE, for the fiscal period July 1, 2005 through May 31, 2008 total disbursements, for professional services rendered to the Office of Business Development for "special events", by Classic Option Inc. were \$100,048.15. The services provided were for three major events and one minor event in Carson City:

▪ Summer Concert Series	\$53,279.30
▪ Ghost Walk	\$39,973.68
▪ Wild West	\$ 6,235.00
▪ Special Event	\$ 560.17

▪ **MacWest Marketing**

1. The initial individual invoice received November 15, 2005, provides a description of professional services to be rendered by MacWest Marketing: "MacWest Marketing is under a retainer with Carson City Economic Development/Redevelopment for up to 25 monthly hours for duties as assigned relating to advertising and public relations at an hourly rate of \$90.00 per hour". In addition, per the detailed invoices out of pocket expenditures are also reimbursed at actual cost to MacWest Marketing.
1. During the review of this vendor, formal approval by the RDA/BOS for the financial commitments to MacWest Marketing nor record of approval, pursuant to the City's Purchasing Manual, of expenditures by the Purchasing Department, Administrative Services Director (i.e. now the Finance Director), or City Manager could be located. All expenditures were authorized for payment by the Redevelopment Staff.

Per conversation with the current Director of Finance, he understands that the approval level for Department Directors is currently at \$25,000.00 although a formal written policy could not be located at the time field work was completed.

2. Per the detailed "Vendor Activity Listing" from the City's financial system, Sungard HTE, for the fiscal period July 1, 2005 through May 31, 2008 total disbursements associated with the Office of Business Development , for professional services, rendered by MacWest Marketing were \$74,956.89
3. In addition to the professional services and out of pocket expenses provided for advertising and public relations, MacWest Marketing was paid professional services and out of pocket expenses for the "marketing, design, and event management for Carson City Charrette. Eighty-five percent of the hourly charges were at the rate of \$90.00 per hour and the other fifteen percent of the

hourly charges were at a lower rate of \$20.00. Without a contract for this period of time, it is unclear as to why a lower rate was charged.

4. Based on communication with Redevelopment Staff, the only contract on hand for MacWest Marketing is the "yearly budget retainer agreement" commencing on January 1, 2008 through December 31, 2008.

A review of the Redevelopment Authority meeting minutes and the Board of Supervisors meeting minutes for the period January 1, 2008 through May 31, 2008 did not disclose that there had been formal approval by the Board of Supervisors for the financial commitment to MacWest Marketing. Based on discussion with the Purchasing Manager and the DA's office neither had a record of this contract.

▪ **Steven Saylor**

1. The permanent file in the Office of Business Development contained a copy of an agreement between Steven Saylor/Evergreen Studio, an Independent Contractor, and Carson City Consolidated City-County Government Executive Office. However, the agreement did not have an "entered into date" nor does the agreement contain an effective date associated with the authorization of both parties. Additionally, the contract in the file does not include the signature of Mr. Saylor and is endorsed by the Redevelopment Staff as the authorized signature for the City.
2. During the review of this vendor, formal approval by the RDA/BOS for the financial commitments to Steven Saylor and/or Evergreen Studio nor record of approval, pursuant to the City's Purchasing Manual, of expenditures by the Purchasing Department, Administrative Services Director (i.e. now the Finance Director), or City Manager could be located. All expenditures were authorized for payment by the Redevelopment Staff.

Per conversation with the current Director of Finance, he understands that the approval level for Department Directors is currently at \$25,000.00 although a formal written policy could not be located at the time field work was completed.

Based on discussion with the Purchasing Manager and the DA's office neither had a record of this contract.

3. The details of the agreement indicate that the Independent Contractor was to provide Carson City with certain services that would be specified in a properly executed Scope of Work (SOW) which would be incorporated into the contract. This document could not be located in the permanent file.
4. Per the detailed "Vendor Activity Listing" from the City's financial system, Sungard HTE, for the fiscal period July 1, 2005 through May 31, 2008 total disbursements, for professional services rendered to the Office of Business Development, by Steven Saylor were \$48,156.50.

Per communication from Redevelopment Staff, the professional services provided were for the development of marketing materials, retail recruitment packets, and specific art work that was geared towards the South Carson corridor redevelopment and the Carson Nugget properties.

The expenditures were coded to multiple funds and multiple line items. Initially this created difficulty in trying to understand the total disbursements.

- Redevelopment Authority – Administrative Professional Services
- Redevelopment Authority – Administrative Other Services Advertising
- General Fund – Economic Development Professional Services

5. An additional \$9,562.58 was charged to account 220-000-465-65.02 which represents Capital Outlay/Infrastructure Downtown. According to the finance department, "in fiscal year 2006 \$100,000.00 was allocated by the CIP committee for Downtown minor infrastructure improvement projects. This \$100,000.00 was to help the City assume a partnership with the Redevelopment Authority's efforts consistent with fulfilling public projects that would increase economic development in the form of assessed value, sales tax and community self-esteem".
6. In a review of the supporting documentation, it should be noted that this Independent Contractor did not have a license to do business in Carson City at the time his services were obtained. This was verified by City Staff in Development Services.

- **Stainback Real Estate LLC**

1. On June 2, 2007, the partners of Stainback Public/Private Real Estate (SPPRE) presented a "Phase 1 "fixed fee contract in the amount of \$25,000.00 to Redevelopment Staff. The contract contained seven (7) specific tasks to be completed that focused on design plans for the downtown area. The contract was signed by and accepted by SPPRE and Redevelopment Staff on June 8, 2007. Per a review of the detailed Board of Supervisor meeting minutes for this period of time, there is no indication that this contract was presented for action and/or approval.
2. On June 12, 2007, the City was invoiced from Stainback Public/Private Real Estate in the amount of \$10,000.00 for services rendered to "serve as the City's Public/Private Finance and Development Advisor for the redevelopment of downtown. The \$10,000.00 represents a retainer for the project start-up for phase 1.

On October 3, 2007 the City was invoiced from SPPRE in the amount of \$10,927.74 for professional services provided for the period July 2007 through September 2007. The detailed time sheet from SPPRE indicates that the professional services were related to the Golden Nugget.

On October 18, 2007 action was taken by the Redevelopment Authority and the Board of Supervisors to develop a modified contract (it is unclear if this is a new

contract or related to the contract entered into by the City on June 12, 2007), with Stainback Public-Private Real Estate to assist the Authority with its on-going efforts to enter into public-private partnerships that with foster economic development and redevelopment downtown and an develop an associated funding strategy to assist with these efforts. Follow-up from the Redevelopment Staff indicates that SPPREE was asked to "significantly scale back" the proposal to RDA. As of October 10<sup>th</sup> 2008, a revised proposal had not been received.

On October 25, 2007 the City was invoiced from SPPRE in the amount of \$9,863.15 for professional services provided pertaining to the presentation of his proposal to the BOS on October 18, 2007.

On November 14, 2007 a review of the "Redevelopment Authorities Citizens Committee meeting indicates that discussion and action took place to recommend to the Redevelopment Authority at it's December 6, 2007 meeting entering into an agreement to hire Stainback Public/Private Real Estate to serve as the "Development Manager" in the redevelopment of targeted projects in Redevelopment Area #1, downtown. The December 6, 2007 minutes reflect that this matter was not discussed at the time.

Per the detailed "Vendor Activity Listing" from the City's financial system, Sungard HTE, for the fiscal period July 1, 2005 through May 31, 2008 total disbursements, for professional services rendered to the Office of Business Development, by Stainback Real Estate LLC were \$31,221.47 which exceeded the fixed fee contract amount of \$25,000.00.

▪ **Palmer Engineering Group Ltd.**

1. An agreement of understanding for the services totaling \$29,500 was provided by Palmer Engineering. The agreement was signed by a representative from Palmer Engineering and the Redevelopment Staff on March 27, 2007. In a review of the Board of Supervisor minutes for this period of time, there was no indication that this agreement was presented to the governing board for review and or approval. The review and approval for funding of these professional services was at the "personal discretion of the Redevelopment Staff".

Per the detailed "Vendor Activity Listing" from the City's financial system, Sungard HTE, for the fiscal period July 1, 2006 through May 31, 2008 total disbursements, for professional services rendered, by Palmer Engineering were \$30,327.52, which exceeded the contract amount of \$29,500.00. A detailed review of the individual invoice descriptions indicate the professional services were for design work associated with the Carson Mall in Redevelopment Area #1.

**Recommendations:**

1. Until the Board of Supervisors can review and take appropriate actions regarding the changes deemed necessary to the expenditure of funds for activity in Redevelopment Area #1, an immediate moratorium on spending should be considered.
2. Manage should consider having all contracts for professional services administered through the Purchasing Department to ensure that the proper policy and procedures are administered, contract information is completed, proper authorization is obtained and contracts are located in a central location for the City. Those contracts that exceed the statutory amount per NRS332.039 should be agenized for the Board of Supervisors approval; consent agenda maybe the appropriate place up to a defined dollar amount established by management and approved by the Board of Supervisors.
3. City management should consider enhancing the review of all invoices prior to authorization and payment to ensure that the rates charged are in line with the contractual amounts negotiated. It should be clear if the City is subject to the "Standard Fee" or the "Discounted Fee".
4. If the contract/agreement indicates that supporting documentation will be submitted defining the "scope of work", City management should ensure that the document is received and reviewed prior to the authorization of services rendered and payment of invoices.
5. Professional services rendered for a specific project/program should be coded to a single fund and a single line item to assist management in the control of expenditures and accountability of expenditures.
6. City Manager should consider reviewing the current policy and dollar amount the Board of Supervisors has approved for department directors for the authorization of expenditures. It is recommended that the policy be standard throughout the City.
7. City management should consider enhancing procedures for the disbursement of funds as it relates to professional services. A review of the invoices presented for payment and the actual contract and components of the contract should occur by the Director of Finance prior to the issuance of the disbursement up to a defined amount; at the time the contractual amount is exceeded, individually or cumulative within the fiscal year, it would then require the City Manager to present recommendations to RDA/BOS for a revised contractual amount.
8. City management should consider reviewing department procedures as it relates to the definition, type of expenditure and criteria used to charges various funds and accounts that are utilized for expenditures by the Office of Business Development. The criteria should be clear and consistent as it relates to expenditures for Redevelopment Area 1, Redevelopment Area 2 – Auto Sector, Redevelopment Area 2 – Non Auto Sector, General Business Development, etc.

9. Additionally, management should consider enhancing current policies and procedures to include at a minimum a quarterly report to the Redevelopment Authority and the Board of Supervisors as to the status of approved board action items current spending levels by projects and anticipated spending to complete the programs/projects.

**Management Response –**

**Observations:**

1. With a downturn in the economy, what impact will there be on the 15 year reimbursement agreement the City entered into with Carson Southgate LLC for reimbursement incentive which is based on sales tax generated?

Additionally, how does this same trend impact the reimbursement agreement entered into with Carson Southgate, LLC for Burlington Coat Factory?

2. Consider rotation of the Chairperson for the Redevelopment Authority among the Board of Supervisors, provide a structure that limits the number of consecutive years allowing for continuity with a change of office; create a Vice Chair function that is groomed for a smooth transition with the individual in the opposite voting sector; outline a clear delineation with regards to the segregation of duties as it relates to RDA members, City Manager, Director of Finance, Director of Office of Business Development.
3. As presented by the City's workshop, create separate financial statements for the flow of revenues and expenditures for Redevelopment Area #1 and Redevelopment Area # 2 to provide transparency into the Redevelopment Authorities flow of revenues and expenditures specific to each area.
4. Consider funding or contracting for services performed by a "Financial Analyst" to assist the Redevelopment Staff in the accountability of funding and expenditures; preparation of special financial analyses and reports, participation in financing negotiations, review of development agreements, etc.
5. In the past, when the Redevelopment Authority has required additional funding, one-shot money has been approved via the 220 accounts. (i.e. the \$100,000.00 for 2006). This creates a challenge in tracking total expenses for Redevelopment projects. Consider augmentation of these funds to the Redevelopment Fund to enhance accountability.
6. At the beginning of the audit period July 1, 2005, the RACC committee met on a very frequent basis, almost monthly, as defined in their by-laws. The frequency of these meetings deteriorated for fiscal year ending June 30, 2007 with only 6 documented meetings. As of October 10, 2008 the Citizens committee had only meet four times with the last meeting being held May 2008.
7. Consider establishing a separate citizens committee specific to Redevelopment Area #2

**APPENDIX "A"**  
**Page 1 of 2**

Description	Professional Services	Special Events & Activities	Advertising & Marketing	Incentive RDA #1	Incentive RDA #2	Three Year Total
Carson City Toyota	0.00	0.00	0.00	0.00	3,600,000.00	3,600,000.00
Hannafin Design Associates	76,347.21	0.00	0.00	69,759.08	0.00	146,106.29
Curtis & Outland	85,509.16	0.00	0.00	20,103.00	0.00	105,612.16
Classic Option Inc	3,375.00	96,673.15	0.00	0.00	0.00	100,048.15
Lopiccolo Investments LLC	0.00	0.00	0.00	100,000.00	0.00	100,000.00
Stew's Lucky Spur	0.00	0.00	0.00	100,000.00	0.00	100,000.00
MacWest Marketing	49,649.29	0.00	9,616.85	15,690.75	0.00	74,956.89
Carson City Convention & Visitors Authority	13,399.50	43,795.71	0.00	979.22	0.00	58,174.43
Steven Saylor	37,125.25	0.00	9,031.25	2,000.00	0.00	48,156.50
Dolven Architectural Associates	0.00	0.00	0.00	47,600.00	0.00	47,600.00
Board of Regents - College of Business	45,000.00	0.00	0.00	0.00	0.00	45,000.00
Taggart & Taggart Ltd.	42,331.59	0.00	0.00	562.50	0.00	42,894.09
Verive Jennifer & Gary Cain	0.00	0.00	0.00	41,000.00	0.00	41,000.00
Sierra Nevada Media Group	610.00	18,987.00	18,453.26	0.00	0.00	38,050.26
Andreas, Bret & Dani	0.00	0.00	0.00	38,000.00	0.00	38,000.00
Impresario	34,500.00	0.00	0.00	0.00	0.00	34,500.00
Stainback Real Estate LLC	31,221.47	0.00	0.00	0.00	0.00	31,221.47
Palmer Engineering Group Inc.	30,327.52	0.00	0.00	0.00	0.00	30,327.52
Capital City Arts Initiative	0.00	30,241.04	0.00	0.00	0.00	30,241.04
Fehr & Peers	15,352.72	0.00	0.00	7,839.62	0.00	23,192.34
Winston Associates	6,975.00	15,475.49	67.32	0.00	0.00	22,517.81
Brewery Arts Center	0.00	21,978.60	0.00	0.00	0.00	21,978.60
Urban Land Institute	10,725.00	0.00	8,425.00	0.00	0.00	19,150.00
Public Works Board	0.00	0.00	0.00	18,805.00	0.00	18,805.00
Big Horn Productions	17,350.00	0.00	0.00	0.00	0.00	17,350.00
Street Décor, Inc	0.00	16,566.37	0.00	0.00	0.00	16,566.37
Lopiccolo Construction, Inc	15,000.00	0.00	0.00	0.00	0.00	15,000.00
Converse Consultants SW Inc.	14,900.00	0.00	0.00	0.00	0.00	14,900.00
Computer Artistry	8,370.98	0.00	6,380.50	0.00	0.00	14,751.48
RGJ Custom Publishing	0.00	0.00	14,175.46	0.00	0.00	14,175.46
GLSzabo & Associates Inc.	14,000.00	0.00	0.00	0.00	0.00	14,000.00
McGraw-Hill Companies	0.00	0.00	13,140.00	0.00	0.00	13,140.00
Lumec Inc.	0.00	0.00	0.00	12,312.00	0.00	12,312.00
First Presbyterian Church	0.00	0.00	0.00	11,612.36	0.00	11,612.36
Carson City Historical Society	0.00	10,546.43	0.00	0.00	0.00	10,546.43
Nevada Day Committee	0.00	10,000.00	0.00	0.00	0.00	10,000.00
Nevada Hispanic Services	0.00	10,000.00	0.00	0.00	0.00	10,000.00
Hapco	0.00	0.00	0.00	9,096.00	0.00	9,096.00
Shasheen Beauchamp	0.00	0.00	0.00	8,568.00	0.00	8,568.00
Carson City Rendezvous	0.00	8,500.00	0.00	0.00	0.00	8,500.00
Vision ASP Inc.	8,317.60	0.00	0.00	0.00	0.00	8,317.60
Anchor Concrete	0.00	0.00	0.00	0.00	7,753.50	7,753.50
Board of Regents - BBER	7,500.00	0.00	0.00	0.00	0.00	7,500.00
Applied Analysis	6,900.00	0.00	0.00	0.00	0.00	6,900.00
Marrone, Linda	0.00	6,300.00	0.00	0.00	0.00	6,300.00

**APPENDIX "A"**  
**Page 2 of 2**

Touhy Lila	0.00	0.00	0.00	5,000.00	0.00	5,000.00
Nevada State Museum	0.00	5,000.00	0.00	0.00	0.00	5,000.00
UPA	0.00	2,284.00	2,527.40	0.00	0.00	4,811.40
Infosearch International Inc.	4,000.00	0.00	0.00	0.00	0.00	4,000.00
Vital Signs	0.00	3,958.80	0.00	0.00	0.00	3,958.80
Valley Creek Enterprises	0.00	3,000.00	0.00	0.00	0.00	3,000.00
Advocaters to End Domestic Violence	0.00	2,800.00	0.00	0.00	0.00	2,800.00
Reno Flower Baskets	0.00	0.00	2,250.00	0.00	0.00	2,250.00
Arlington Group	0.00	1,852.06	0.00	0.00	0.00	1,852.06
Sierra Nevada Ballet	0.00	1,500.00	0.00	0.00	0.00	1,500.00
Sign Pro	0.00	1,160.90	335.90	0.00	0.00	1,496.80
Reno Gazette Journal	0.00	0.00	1,250.00	0.00	0.00	1,250.00
Silver Dollar Car Classic	0.00	1,200.00	0.00	0.00	0.00	1,200.00
Lawton Publications	0.00	0.00	690.00	0.00	0.00	690.00
<b>TOTAL PRIMARY EXPENDITURES</b>	<b>578,787.29</b>	<b>311,819.55</b>	<b>86,342.94</b>	<b>508,927.53</b>	<b>3,607,753.50</b>	<b>5,093,630.81</b>
<b>Other Expenditures</b>	<b>39,690.82</b>	<b>43,215.63</b>	<b>17,055.39</b>	<b>16,089.90</b>	<b>1,295.00</b>	<b>117,346.74</b>
<b>TOTAL COMMITTED SPEND</b>	<b>618,478.11</b>	<b>355,035.18</b>	<b>103,398.33</b>	<b>525,017.43</b>	<b>3,609,048.50</b>	<b>5,210,977.55</b>



## Office of Business Development

201 North Carson Street, Suite 2  
Carson City, Nevada 89701

### MEMORANDUM

**TO: Carson City Audit Committee  
Mayor and Board of Supervisors**

**FROM: Larry Werner, City Manager  
Joe McCarthy, Director, Business Development**

**DATE: November 17, 2008**

**SUBJECT: Staff Response to the Compliance Audit Redevelopment Authority and  
Office of Business Development – November 3, 2008**

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Thank you for the opportunity to respond to the above referenced audit. Carson City Redevelopment Authority Staff, hereinafter referred to as “staff,” welcomes and embraces the principles and purpose of internal audits. The independent evaluation of processes and procedures leads to improvement and increased efficiencies.

This particular audit was fairly difficult to respond to because it appears that the author did not understand the legal differences between the Carson City Redevelopment Authority and the Carson City Board of Supervisors. It also appears the author did not understand the requirements of state law as it relates to public works, purchasing and redevelopment projects. In responding to the audit, staff will make a general observation and address the two Findings.

#### **General Observation**

##### **Carson City Redevelopment Authority Mission**

The audit does not address the fundamental public policy for creating a Redevelopment Authority. Those fundamental reasons are related to public health, safety and welfare and are expressly stated in NRS 279.416 and NRS 279.418 as set forth below:

**NRS 279.416 Declaration of state policy: Necessity of redevelopment of blighted areas.** It is found and declared that there exist in many communities blighted areas which constitute either social or economic liabilities, or both, requiring redevelopment in the interest of the health, safety and general welfare of the people of those communities and of the State.

(Added to NRS by 1959, 650; A 1985, 2070)

**NRS 279.418 Declaration of state policy: Growing menace of blighted areas to public health, safety and welfare; benefits to inhabitants resulting from remedying conditions.** It is further found and declared that:

1. The existence of blighted areas constitutes a serious and growing menace which is condemned as injurious and inimical to the public health, safety and welfare of the people of the communities in which they exist and of the people of the State.

2. Such blighted areas present difficulties and handicaps which are beyond remedy and control solely by regulatory processes in the exercise of the police power.

3. They contribute substantially and increasingly to the problems of, and necessitate excessive and disproportionate expenditures for, crime prevention, correction, prosecution and punishment, the treatment of juvenile delinquency, the preservation of the public health and safety, and the maintaining of adequate police, fire and accident protection and other public services and facilities.

4. This menace is becoming increasingly direct and substantial in its significance and effect.

5. The benefits which will result from the remedying of such conditions and the redevelopment of blighted areas will accrue to all the inhabitants and property owners of the communities in which they exist.

(Added to NRS by 1959, 650)

There is no statement in the audit finding that the Carson City Redevelopment Authority has not taken on the task of decreasing the blighted areas in Carson City for the health, safety and general welfare of its residents. Furthermore, it is likely that every resident will agree that Carson City has benefited from the acts of the Carson City Redevelopment Authority and its staff. This is supported by the November 13, 2008, editorial, in the Nevada Appeal, which stated, "No one questions the passion of the Redevelopment employees, who indeed can produce a resume of successes they have achieved in their mission of enhancing business opportunities and making improvements in the city's two redevelopment areas."

### **Policies and Procedures**

There are numerous statements in the audit that refer to non-adherence to policies and procedures. This, in fact, is not the case where the reference is to the Carson City Board of Supervisor's Purchasing Rules and Regulations. The policies and procedures relating to the Carson City Board of Supervisor's Purchasing Rules and Regulations do not apply to the Carson City Redevelopment Authority, because these policies and procedures were not adopted by the Carson City Redevelopment Authority. In fact, the following is a quote from the audit:

"From the onset of this audit, it became apparent that the Redevelopment Authority lacked clear and consistent policies and procedures under which to operate. This made it difficult, if not impossible to determine whether the actions of the Redevelopment Authority and City staff were appropriate or not."

However, when this lack of formalized policies and procedures was identified as something that was needed for future redevelopment initiatives by the Carson City Redevelopment Authority, Redevelopment staff (not "City staff") and the Carson City Redevelopment Authority, immediately began the process of developing such rules, policies, and procedures. As of this date, the Carson City Redevelopment Authority has reviewed,

approved in concept and directed staff to finalize rules, policies and procedures. It is the hope of staff that the Carson City Redevelopment Authority has the appropriate rules, policies and procedures in place by the end of January 2009. Based on this situation, staff denies that there were any violations of non-compliance with policies and procedures.

### **Staff Response to Finding 1.**

#### **Finding 1 - Overview:**

- \* Resolution 2003-RAR-2 and 2003-R-37 and the By-Laws of the Redevelopment Authority Citizens Committee are not followed consistently as it applies to the review and recommendation of funding for incentive projects/programs in Redevelopment Area 1.

**Staff Response:** Staff believes that the Carson City Redevelopment Authority needs to implement policies and procedures that more effectively define the advisory roles and responsibilities of the Carson City Redevelopment Authority Citizen's Committee. These rules, policies and procedures should be designed to provide consistency and transparency to the process.

- The controls over the review and approval of funding incentive programs/projects are not sufficient to prevent management from circumventing established policies and procedures.

**Staff Response:** There are no established policies and procedures to circumvent. The appropriate controls must be adopted by the Carson City Redevelopment Authority before staff can be expected to follow them. Staff supports the immediate adoption of policies and procedures.

- The application process for "Carson City Redevelopment Authority Incentives Programs/Projects" is not completed for all projects.

**Staff Response:** No formalized application process has been adopted by the Carson City Redevelopment Authority. There is reference to applications in the formulating resolutions but no process was identified. Staff has used a set of applications for façade improvement incentive eligible projects only. The proposed rules, policies and procedures should identify specific application and selection processes. Staff supports the immediate adoption of an application process by the Carson City Redevelopment Authority and has proposed same.

- Project spending in excess of authorized amounts has been approved solely at the discretion of the Redevelopment Staff.

**Staff Response:** This statement, "Project spending in excess of authorized amounts has been approved solely at the discretion of Redevelopment Staff," is not substantiated by any law or policy. Staff disagrees with the finding. Staff has the sole discretion to spend within budget and in conformance to state law and adopted policies and procedures, which it has done.

- Individual projects have been solely reviewed and authorized at the discretion of Redevelopment Staff with no oversight or approval provided by the Redevelopment Authority.

**Staff Response:** The record indicates that the Carson City Redevelopment Authority was aware of all programs and projects but was not asked to give specific approval. Many times individual projects were done at the request of individual Carson City Redevelopment Authority members. Policies and procedures would stop individual projects from being pursued by staff without full Carson City Redevelopment Authority approval, and staff wholeheartedly supports the Carson City Redevelopment Authority in adopting them.

- Irregular meetings of the Carson City Redevelopment Authority Citizens Committee has resulted in the under utilization of this Committee as it pertains to the review process of incentive programs/projects.

**Staff Response:** Staff agrees with the finding and again supports the Carson City Redevelopment Authority in adopting a policy that requires an effective advisory involvement from the Carson City Redevelopment Authority Citizens Committee.

### **Staff Response to “Specific Deficiencies Summarized by Project/Program”**

#### **1st Presbyterian Church**

**Staff Response:** Staff agrees that this project was not brought before the Carson City Redevelopment Authority Citizens Committee for approval. It was however brought before the Carson City Redevelopment Authority for approval as a project. Staff disagrees with the comments that there was some wrong-doing in the payments of additional amounts. The payment of the additional amounts was within the authority of NRS Chapter 279 and is not inconsistent with any redevelopment rule, policy or procedure. The approval of one amount in excess of \$25,000 to one vendor did not preclude the payment of other amounts to other vendors in amounts consistent with the law. The question of additional and future payments will be determined by subjecting the request to the processes and procedures currently under development.

#### **D’Vine Wine, Carson Mall and Daddy Dick’s Tavern**

**Staff Response:** Staff denies the allegation that there was wrong-doing. In the cases cited by the audit, the payments were for professional services which are exempted from competitive bidding and are specifically allowed under NRS 279.462. Staff supports the Carson City Redevelopment Authority in adopting policies and procedures regarding incentive disbursements.

#### **Recommendations of Finding 1.**

**Staff Response:** Recommendations 1, 2, 3, 4 and 7 should be addressed by the Carson City Redevelopment Authority. The Carson City Redevelopment Authority should adopt appropriate policies and procedures. Recommendation 5 is being addressed through the current action in front of the Carson City Redevelopment Authority. Portions of Recommendation 6 need to be addressed by the Carson City Redevelopment Authority through the adoption of policies and procedures.

#### **Staff Response to Finding 2.**

**Finding 2 - Overview :** The current practice for approving contracts related to professional services, advertising, marketing, special events and support services, incentive programs and payment of these expenditures by Redevelopment Staff do not consistently comply

with guidelines established within the City's Purchasing Manual, Resolution 1990-R-71 and NRS 332.039.

**Staff Response:** Staff disagrees with the finding in total. The table in the audit indicates that the vendors referred to in Finding 2 provide professional services paid for by redevelopment funds and therefore not subject to competitive bidding or NRS 332. The audit failed to address the appropriate state law that applies to the Carson City Redevelopment Authority. Said law was not violated.

- The controls over the review and approval of contracts and the funding of programs/projects are not sufficient to prevent management from circumventing established policies and procedures.

**Staff Response:** There are no established policies and procedures. The approvals were done in conformance with state law. The statement is unfounded.

- Contracts for redevelopment projects, are not "centrally" managed and maintained by the Purchasing Department as is done in other City Departments (i.e. Public Works, Parks and Recreation, etc.)

**Staff Response:** The Carson City Redevelopment Authority is a separate legal entity from the City, see NRS 279. The Carson City Redevelopment Authority has not authorized staff, nor has the Carson City Board of Supervisors agreed to allow staff, to use city staff to administer Carson City Redevelopment Authority contracts. Policies and procedures should be adopted that address this issue by the Carson City Redevelopment Authority and the Carson City Board of Supervisors.

- Utilizing professional discretion, Redevelopment Staff negotiated and approved contracts on their own with out review and authorization by the Board of Supervisors which would have naturally included a review by the City's District Attorney's Office.

**Staff Response:** There is no authority for the Carson City Board of Supervisors to review the contracts from the Carson City Redevelopment Authority nor did the District Attorney represent the Carson City Redevelopment Authority during the time frame of the audit. The District Attorney's Office recently withdrew its approval for the Carson City Redevelopment Authority staff to utilize outside counsel and is requiring all legal work to be done by its office. Redevelopment staff is in agreement with this requirement and proposes to have the Carson City Redevelopment Authority issue a policy regarding this issue. In addition, the District Attorney's Office will review all proposed policies and procedures to make sure they create an open and public process by which the Carson City Redevelopment Authority operates.

- Fees charged per invoices do not always reflect the rate outlined in the contract.

**Staff Response:** This was a one-time occurrence and amounted to \$827.52. Staff will strive to eliminate mistakes.

- In some cases, the contract on file with the Purchasing Department was not current.

**Staff Response:** As stated above, the Carson City Redevelopment Authority has not requested, nor has the Carson City Board of Supervisors approved, the use of city purchasing staff to draft and monitor Carson City Redevelopment Authority contracts. The Carson City Redevelopment Authority and the Carson City Board of Supervisors have the power to do so pursuant to NRS 279.462. Staff supports the implementation of a policy addressing this issue.

- Redevelopment Staff authorized professional services to be performed by entities that were not licensed to do business in the City of Carson City.  
**Staff Response:** It is the responsibility of the vendor to comply with all applicable laws. The instance where staff authorized professional services to be performed by an entity not licensed in Carson City occurred once. Staff will make every effort to confirm that vendors are in compliance with the business license requirements.
  
- Expenditures with “like descriptions” were often coded to multiple funds and multiple accounts making it very difficult to track the total expenditure by project.  
**Staff Response:** Comment noted. The Carson City Redevelopment Authority should look at adopting a policy, with Carson City Board of Supervisor approval, that requires all accounts be monitored by the City’s finance/purchasing departments. Staff welcomes such a policy.
  
- Actual expenditures exceed “fixed fee” contractual amounts.  
**Staff Response:** Contracts will be amended appropriately and in a timely manner.

**Staff Response to “Specific Deficiencies Summarized by Vendor”**

**Staff Response:** This entire section of the audit assumes facts not in existence. The City’s Purchasing Manual does not apply to the Carson City Redevelopment Authority. However, staff believes that the Carson City Redevelopment Authority should have purchasing and contract policies and procedures and encourages the Carson City Redevelopment Authority to immediately adopt them. The contracts made through the staff were consistent with State law.

**Recommendations of Finding 2**

**Staff Response:** RDA staff agrees with Recommendation 6. Several of the recommendations are based on the auditor’s personal preferences. Where appropriate, the comments and suggestions will be evaluated for inclusion in the proposed Carson City Redevelopment Authority’s Policies and Procedures.

**Conclusion**

Staff thanks the Audit Committee for providing a copy of the preliminary findings and allowing it to respond to such findings. It is clear that the Carson City Redevelopment Authority needs to adopt policies and procedures by which the Carson City Redevelopment Authority will conduct business. Staff and the Carson City Redevelopment Authority have requested that this occur, and staff is confident that this audit has confirmed the reasons behind the requests. Staff, with the assistance of the Carson City Redevelopment Authority, began the process of developing appropriate policies and procedures prior to the release of the preliminary audit findings.

It is certainly not the interest of staff, or does staff believe that it is the interest of the Carson City Redevelopment Authority, to place this audit on a shelf and forget its contents. Rather, staff is confident that the Carson City Redevelopment Authority will adopt policies and procedures that will allow the Carson City Office of Business Development and the

Carson City Redevelopment Authority to continue to improve the quality of life for the residents of Carson City and those who visit this beautiful capital city.