

CARSON CITY AUDIT COMMITTEE
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A regular meeting of the Carson City Audit Committee was scheduled for 3:00 p.m. on Wednesday, September 17, 2008 in the City Hall Capitol Conference Room, 201 North Carson Street, Carson City, Nevada.

PRESENT: Chairperson Richard Staub
Vice Chairperson Ken Brown
Joe Eiben
Pete Livermore
Nick Providenti

STAFF: Sue Johnson, Internal Auditor
Neil Rombardo, District Attorney
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 (1-0007)** - Chairperson Staub called the meeting to order at 3:05 p.m. Roll was called; a quorum was present.
- 2. ACTION ON APPROVAL OF MINUTES - August 12, 2008 (1-0012)** - Member Livermore moved to approve the minutes. Member Providenti seconded the motion. Motion carried 4-0.
- 3. DISCUSSION AND POSSIBLE ACTION REGARDING THE CURRENT STATUS OF ONGOING AUDITS AND OTHER ACTIVITIES OF THE CITY AUDITOR; and 4. DISCUSSION AND POSSIBLE ACTION REGARDING THE AUDIT COMMITTEE REPORT TO THE BOARD OF SUPERVISORS (1-0019)** - Ms. Johnson distributed to the committee members and staff a revised format for the monthly status report. Discussion took place with regard to suggested revisions. She referred to the "Draft Report of Internal Audit" on the St. Mary's Health Plan invoices, copies of which were previously distributed to the committee members and staff. In response to a question, she reviewed Observation #3 on page 10 of the draft report and the corresponding draft recommendation.

Extensive discussion took place regarding the process for submitting findings to the audit committee and to department managers. Chairperson Staub expressed a preference for submitting preliminary audit findings to this committee first, to ensure that the audit is "sound as it exists and then give management the opportunity to look at it and respond. If we have missed something, we are incorrect, then we make those corrections, and then it comes back to the audit committee for final approval and submission to the Board of Supervisors." Ms. Johnson agreed in that the audit committee could provide the "layer of review" which isn't possible in her one-person office. She pointed out the challenge that since the audit committee's meetings are subject to the provisions of the Nevada Open Meeting Law, management may be put "on the defensive." She noted the importance of balance "from a risk standpoint," and expressed the preference to implement a procedure whereby the preliminary audit findings are presented to the audit committee for review and discussion. The findings would then be adjusted, if necessary, and submitted to management for review.

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Ms. Bruketta expressed concern that incorrect preliminary findings could become part of the public record without the prior review and input of management. She suggested that presentation of findings after management has had the opportunity to provide input would be preferable. Additional discussion took place with regard to procedure, and Chairperson Staub advised of never having seen audit processes which allow the auditee the opportunity to change the audit findings prior to adoption. Ms. Johnson referred to the PERS audit, as an example, and advised that the audit findings were presented to management for a response. She further advised that her private-sector experience was much the same. "Whatever agency we were audited by, here were the findings and, as management, we had an opportunity to respond. ..."

Chairperson Staub noted Vice Chairperson Brown's experience as a Public Service Commission auditor and a Gaming Control Board investigator. At his request, Vice Chairperson Brown described the process of scheduling an "exit conference" to discuss audit findings with management, thereby providing the opportunity to respond. In response to a question, Ms. Johnson suggested communicating preliminary findings to the audit committee, and providing for open discussion to ensure the findings are valid. She advised that this open discussion would be very, very helpful to her one-person department. Direction can be provided by the audit committee if additional audit work is necessary. "Until that process is completed, a preliminary finding should not be issued to the auditee ..." Ms. Johnson acknowledged that a final report would be submitted to the committee following the exit conference with the auditee. She further acknowledged that the preliminary findings would be designated accordingly as "draft."

In response to a comment, Chairperson Staub discussed the importance of an audit process which is non-threatening to the auditee and does not compromise the objectivity of the process. Member Eiben discussed the importance of establishing a trust factor. He agreed with the suggestion to present preliminary findings to the audit committee prior to presenting them to management. Additional discussion followed.

In response to a question, Mr. Rombardo commended the audit manual, and noted the requirement for the internal auditor to contact the District Attorney's Office if possible violations of laws, regulations, or ordinances have been identified and then to work with the District Attorney's Office to determine whether such a violation has taken place. He expressed concern over any document becoming part of the public record which indicates the potential violation of state law. He noted that designating the document as "preliminary" or "draft" wouldn't "make it any less egregious." He reiterated the importance of the internal auditor working together with the District Attorney's Office on possible violations of law. He advised of the District Attorney's Office authority to postpone an audit in order to begin its own investigation, if necessary. In such a case, he advised that preliminary findings would not be reported to the audit committee because of the District Attorney's Office duty to ensure compliance with the law by all city / county agencies. Ms. Johnson expressed understanding over the responsibility to report possible violations of the law to the District Attorney's Office. She expressed concern over the additional responsibility of keeping the audit committee informed as to her allocation of time. In response to a question, Mr. Rombardo advised that any finding that a law has been violated must be reviewed by the District Attorney's Office. "It's really quite that simple for several reasons: (1) We protect the City civilly; and (2) if further investigation is needed in any legal action ... you could be jeopardizing the ... investigation ..." The exposure for any City agency found to be violating the law could be grand. Mr. Rombardo reiterated the internal auditor's obligation to involve the District Attorney's Office in any possible violation of the law. In response to a question, he expressed understanding for the audit committee's concern over postponing an audit, but noted the District Attorney's oversight, pursuant to NRS 252.

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In response to a question, Chairperson Staub expressed a preference for referring preliminary audit findings of statutory violation to the District Attorney's Office for possible investigation, and allowing the internal auditor to proceed to the next preliminary finding. In response to a question, Mr. Rombardo agreed with the suggestion to conduct the exit conference with the department manager, thereby providing the opportunity to clarify possible misconceptions. "My point is just on legal misconceptions, you would do that exit with [the District Attorney's Office]." Mr. Rombardo referred again to the audit manual which provides for this procedure. In response to a question, he clarified the timing for contacting the District Attorney's Office would be upon identifying a possible violation of the law. He responded to additional questions of clarification. In response to a further question, he advised that the internal auditor would not be obligated to report to the audit committee that a certain finding had been referred to the District Attorney's Office. He expressed concern over the corresponding result of doing so. He acknowledged the responsibility of the internal auditor to report allocations of her time to the audit committee, and suggested a method by which to appropriately do so. He further acknowledged an audit could proceed even if certain portions are referred to the District Attorney's Office. He suggested that "99.9 percent of what appears to be violations are ... errors, and nothing more." He clarified the potential for civil liability on any error, but reiterated that most errors don't result in civil liability.

Vice Chairperson Brown acknowledged that, as part of the exit conferences, auditees were provided a period of time to respond to the preliminary findings. In response to a question, Ms. Johnson advised of her experience that an auditee is always provided a certain period of time to respond to the preliminary findings. Chairperson Staub expressed a preference, from a procedural standpoint, for the preliminary findings to be presented to and endorsed by the audit committee after which an exit conference can be scheduled with the department manager.

In response to a question, Ms. Johnson advised that the Washoe County Audit Committee, from which the Carson City Audit Manual was adopted, does not have a department head as a member of the committee. Ms. Bruketta suggested requesting input of the Washoe County Internal Auditor regarding how they handle issues of possible illegality. In response to a comment, Ms. Johnson advised that Mr. Providenti would likely be involved in most audits as the Finance Department Director. In reference to his audit committee membership, Mr. Providenti noted his position, as a department director, is not independent. Chairperson Staub suggested agendaizing a discussion item with regard to Mr. Providenti's committee membership.

Ms. Johnson summarized the discussion and direction, as follows: That preliminary findings would be presented to the audit committee for endorsement. A draft report would then be prepared and provided to management with a conference scheduled to review the department manager's responses. Upon receiving management response, a revised draft report is presented to the audit committee, which forwards it to the Board of Supervisors in final form. Chairperson Staub expressed support and suggested ensuring the procedure agrees with the provisions of the audit manual; if not, to agendaize an amendment accordingly.

Additional discussion took place to clarify the process. Ms. Bruketta suggested that, in order to avoid any appearance of impropriety, the preliminary findings would be designated as such. "And then you don't change those preliminary findings, but you have conclusive findings after you go through the process. You keep them in the report, though. Initially, this is what we found. Those findings may not change. They could become the conclusive findings as well. But, they may change and you have a record of that ..." Based on the discussion, Chairperson Staub suggested that Ms. Johnson had sufficient direction to discuss preliminary findings and any questions of the department prior to preparing a draft report. Ms. Johnson

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reviewed the procedure used to prepare the draft report on the St. Mary's Health Plan invoices. Ms. Bruketta responded to questions regarding preliminary findings which would require District Attorney review. Chairperson Staub reiterated that Ms. Johnson should use her best discretion in preparing audit reports.

In response to a question, Mr. Rombardo reiterated the importance of the internal auditor alerting the District Attorney's Office to possible violations of the law. He explained, "On the civil side, we need to know because we need to protect the City. ... On the criminal side, the District Attorney's Office has the first right of refusal ... to prosecute any county person who might be violating state law as part of their job." He advised that the District Attorney's Office would turn the matter over to the Attorney General's Office. It would be up to them to handle the matter "however they see fit." Mr. Rombardo expressed the opinion it would be extremely difficult for his office to conduct a criminal investigation in reference to any City employee. Chairperson Staub noted the "new territory" being tread by the internal auditor and the audit committee, and expressed concern over people being offended by audits. He further noted his recent experience that the issue becomes very political and, unfortunately, very public. He discussed the importance of ensuring there are no victims in the audit process, that no one feels they have been singled out, and that the process is as transparent as possible. Mr. Rombardo agreed that transparency is "the most important thing." He suggested the internal auditor's key role, pursuant to the provisions of the Carson City Charter and the Nevada Revised Statutes, is to consider financial problems and ways to improve the system. "That being said, if something were to arise to this level, which I seriously doubt, ... there's an obligation to turn that over to [the District Attorney's Office.]" Mr. Rombardo assured the committee that any such matter would be handled by the District Attorney's Office in the "best and most professional way possible. We're not here to undermine anything that the audit committee is doing or the internal auditor is doing." He reiterated that transparency is of the utmost importance. Discussion followed, and Ms. Bruketta emphasized that only possible state law violations should be submitted for review to the District Attorney's Office. "If it's a policy issue, we don't want to see it."

Chairperson Staub entertained a motion to approve the draft Report of Internal Audit, of September 8, 2008, regarding the St. Mary's Health Plan invoices. **Member Eiben so moved. Member Livermore seconded the motion. Motion carried 5-0.** Chairperson Staub suggested including the words "of St. Mary's Health Plan" in the title of the audit report. He noted that the report was approved to be forwarded to the Board of Supervisors.

Ms. Johnson reviewed the remainder of the July 31, 2008 Monthly Status Report, copies of which had been previously distributed to the committee members and staff. With regard to the Redevelopment Authority Audit, Ms. Johnson advised that, based on the discussion at this meeting, she would be scheduling a meeting with the District Attorney's Office. In response to a question, she requested to re-schedule the October 14th Audit Committee meeting to the third week in October at which time she would be prepared to provide preliminary findings to the committee for review.

Ms. Johnson referred to the Draft Report to the Board of Supervisors, which was previously provided to the committee members and staff, and requested approval of the format. Chairperson Staub entertained a motion. **Member Livermore moved to approve the Audit Committee's report to the Board of Supervisors, as presented. Vice Chairperson Brown seconded the motion.** In response to a question, Ms. Johnson expressed the belief that the report should be submitted to the Board of Supervisors on a bi-annual basis. Chairperson Staub called for a vote on the pending motion; **motion carried 5-0.**

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5. DISCUSSION AND ACTION REGARDING COST ALLOCATION ANALYSIS FOR INTERNAL SERVICE CHARGES FOR THE INTERNAL AUDIT FUNCTION SIMILAR TO HOW THE FINANCE FUNCTION IS ALLOCATED TO VARIOUS FUNDS (1-1454) - Member Providenti distributed to the committee members and staff the Full Cost Allocation Plan for the Internal Auditor, and reviewed the same. He responded to questions of clarification with regard to the method by which the internal auditor's costs are allocated. Consensus of the committee was that no formal action was necessary.

6. DISCUSSION AND POSSIBLE ACTION TO REVISE THE AUDIT COMMITTEE MANUAL (1-1514) - Previously covered.

7. FUTURE AGENDA ITEMS (1-1519) - Chairperson Staub inquired of Ms. Bruketta regarding the committee's authority to request an audit of an entity which liability is guaranteed by the City. Ms. Bruketta advised that the Board of Supervisors has authority to assign special projects to the City Auditor. She suggested that agreement provisions may address the issue.

8. PUBLIC COMMENT (1-1660) - None.

9. ACTION ON ADJOURNMENT (1-1661) - Member Livermore moved to adjourn the meeting at 4:29 p.m. Member Eiben seconded the motion. Motion carried 5-0.

The Minutes of the September 17, 2008 Carson City Audit Committee meeting are so approved this 3rd day of November, 2008.

RICHARD S. STAUB, Chair