MINUTES OF
CITY OF LAS VEGAS AUDIT OVERSIGHT COMMITTEE
City Hall - 8th Floor Conference Room
400 Stewart Avenue
Las Vegas, Nevada
City of Las Vegas Internet Address: http://www.ci.las-vegas.nv.us

April 24, 2001
10:00 a.m.

I. CALL TO ORDER: Chairman Kern called the meeting to order at 10:06 a.m. and confirmed with City Clerk Ronemus that the Open Meeting Law had been met.

II. ATTENDANCE:

Present: Chairman Michael Kern
Councilman Michael McDonald (excused after 11:22 a.m.)
Member Bill Martin
Member Joseph Saitta
Steve Houchens, Deputy City Manager
Brad Jerbic, City Attorney
Radford Snelding, City Auditor
Bonnie Mocek, Management Analyst
Bill Cimo, Senior Information Technology Auditor
Mark Vincent, Director of Finance and Business Services
Barbara Jo (Roni) Ronemus, City Clerk
Assistant Deputy City Clerk Vicky Darling

Excused: Mayor Oscar Goodman

NOTE: Chairman Kern welcomed Councilmen Gary Reese and Michael Mack who were present and participated. Chairman Kern also welcomed Member Saitta as a valuable addition to the Committee.

III. BUSINESS

A. Approval of the Final Minutes by reference of the Audit Oversight Committee Meeting of November 9, 2000

McDONALD - Motion to approve – MARTIN seconded the motion - UNANIMOUS with GOODMAN excused

(10:07)
1-26

B. Status on Questions/Requests/Commitments

Mr. Snelding explained that items considered under this heading are those items relating to questions arising from previous meetings, requests made at previous meetings or commitments made during a previous meeting. Each item is assigned a number and staff will track each item until complete. Items not complete will generally be included under Old Business.

1. 0001-001 – Audit Policy Approved by the City Council

The Audit Policy for the City of Las Vegas was approved by the City Council at the January 17, 2001 City Council Meeting, thereby completing this item. Member Martin confirmed that the policy has been adopted and pointed out that the Committee has yet to deal with the issue of fraud within the policy. Another issue was the handling of special investigations and the release of reports. Specifically how the Committee would handle unsubstantiated charges made by a vindictive citizen or staff member. The confidentiality aspect remains to be addressed.

Chairman Kern discussed with City Clerk Ronemus that the appropriate manner for placing discussing of the unresolved issues on an agenda would be to so direct staff, specifically City Auditor Snelding. City Auditor Snelding committed to placing the larger issues outlined by Member Martin on the June 2001 agenda. Further, the City Auditor's staff will work with the City Manager's and City Attorney's offices to document existing policy, pre-circulate the information to the Committee and Council and then report back to the Committee at the next Committee meeting. Councilman McDonald concurred that the issues should be addressed, but it must be done while complying with the Open Meeting Law. The assistance of the City Attorney's office would be helpful during the process.

2. 0001-002 – General Report by the City Auditor

Included on this agenda is an item for a report from the City Auditor. This will be included as an ongoing reporting item on each agenda for future meetings. With the inclusion of a report on future agendas, the follow-up for this item is complete.

3. 0001-004 – Scheduling of Routine Audit Committee Meetings

The City Auditor's Office has been in contact with each member of the Committee and has scheduled quarterly meetings. The March 20, 2001 meeting was forced to be rescheduled due to circumstances which created a lack of a quorum. Future meeting dates are scheduled for June 19, 2001; September 18, 2001; and December 18, 2001. With the scheduling of these meetings, the statutory requirement for quarterly meetings is met and this item is complete.

(10:08 – 10:13)
1- 43

C. General Report by the City Auditor

City Auditor Snelding reported that Charles Dixon resigned to work for a private company in Houston, Texas. His leaving created a vacancy in the office. The process of obtaining approval to recruit a replacement for Mr. Dixon has commenced. Request has been made to fill the position despite the ongoing hiring freeze in place at the City. Permission from the Position Justification Review Committee was granted April 23, 2001.

A presentation will be made at the Budget Workshop scheduled for April 25, 2001, requesting four additional auditors. The current rate for audits will take approximately 13 years to complete an entire audit cycle for all entities of the City. This is entirely too long and an increase of four auditors would reduce the audit cycle to a more acceptable 5-year cycle. That cycle would enable special requests, investigations, IT audits, and audit high and medium risk areas on a more frequent basis than every 5 years.
Chairman Kern asked for the cost versus benefit of the additional auditors. City Auditor Snelding responded that the cost would be approximately $335,000 but the benefit is that the

recommendations made over the past three years represented $4.2 million in potential savings or revenue enhancement as a result of audits performed. This would appear to represent an investment with a payback over time. Chairman Kern indicated his support for the hiring of additional auditors and discussed with staff whether it would be appropriate for the Committee to make a recommendation to the Council. In addition, the only way a true cost savings can be obtained is if there is true follow through implementing the City Auditor's recommendations. He congratulated the City Auditor's staff for the strides made and the performance of the office.

Member Martin confirmed that the proposed audit plan provided to the Committee is based on the additional auditors. The City can currently run 11 to 13 audits per year, but the projection is for 38 audits per year. The plan is contingent upon what relief can be obtained by his office. Modification may be necessary based on the outcome of the budget workshop. Member Martin pointed out that the 13-year audit cycle is too long, but support of the 5-year plan is tantamount to recommending the additional four auditors. However, he personally has been very impressed with some of the budgetary benefit of the recommendations contained in various audits. Chairman Kern noted that he has made himself available for the budget workshop because of his strong support of the shorter audit cycle. Another key area is the follow through after the audit.

Councilman McDonald stressed that the current audit rate wastes time. The direction of the City Auditor under City Auditor Snelding has been phenomenal. It is especially important to watch the tax dollars given various adverse conditions which may come to pass. The recommendation of this Committee would be appropriate and helpful at the Budget Workshop for the other members of the Council. Councilman Reese concurred, contingent upon the Committee understanding that other budget and legislative issues pending may carry more weight in the final budget than their recommendation. Councilman Mack agreed that a 13-year cycle would be ineffective, but greater focus needs to be given to follow-up and having the proper staff to do so. Chairman Kern stressed that an inability to follow-up and failure to have the right people in the right places can cost the City revenue it needs. There is an issue with understaffing at the City.

City Auditor Snelding summarized the status of various audits. The audit of Safety/Loss by Philip Cheng is complete and has been released. This audit will be reviewed at the next Audit Committee Meeting. The Waste Water Treatment Facility audit by Mr. Dixon has been taken over by various members of staff. The Fieldwork is complete and review of findings is in process. The fieldwork for Treasury – Investments by Bill Cimo and Vehicle Services by Bryan Smith is nearing completion. There has been an audit requested by the City Council of the Animal Foundation and is being handled by himself, Bryan Smith and Bill Cimo. Preliminary fieldwork is in progress. Fieldwork is in progress for Leisure Services – Cultural Affairs by Philip Cheng. Preliminary fieldwork for the City Council audit is underway by City Auditor Snelding. The annual follow-up is being handled by the entire City Auditor's staff and will be completed by the June Committee meeting. Bryan Smith's audit of capital projects is on hold, pending completion of a consultant's study.

Councilman McDonald pointed to the Animal Foundation as an example of the comments regarding fraud. Chairman Kern cited a story regarding covers for parking meters and alleged Council involvement. This would raise a concern with lost revenue. Councilman Mack pointed out that special investigations or audits impact the audit cycle. Chairman Kern added that the easiest way to divert City auditors is to distract them with special audits. The Council needs to give direction on how the City Auditor should be responding to those type of requests. City Auditor Snelding outlined his efforts to seek direction from the Committee Chairman on special

audits which will require more than a minimal number of hours. The Chairman can then seek input from the rest of the Committee should he deem that appropriate.

(10:13 – 10:38)
1-226

D. Audits and Projects Completed

1. Discussion and possible action on the following reports:
    a. Special Report – Municipal Court Mail Unit

A special request by the Court Administrator was made to review evidence of a theft in the Mail Unit and the adequacy of the mail unit's controls. As a result of work performed, it was determined that a theft of funds did occur, but culpability could not be assigned because of significant internal control weaknesses. Considering the past and current practices of the Municipal Court mail unit, other thefts could have occurred and not been detected and, should control issues not be effectively addressed, other instances of theft can occur without likely detection.

Control issues center around inadequate segregation of duties, inadequate practices, untimely practices and the non-enforcement of existing policies and practices. Ten specific recommendations are noted in the report. Member Martin commented that this dovetails in with earlier discussion of a fraud policy for the entire City. He categorized the audit as a very well done, concise report.

Chairman Kern questioned the status of the follow-up. City Auditor Snelding advised that specific follow-up had not been done since that is usually performed annually, but his staff would be willing to conduct such follow-up at the direction of the Committee. Chairman Kern pointed out that the activity would likely continue if the responsible party were aware follow-up was not going to occur. City Auditor Snelding stressed that time is of the essence for some of the corrective actions. Bill Cimo has worked with Information Technology who has begun to implement corrective steps. Keith Gronquist and Gloria Evans attended on behalf of the Court and confirmed that corrective measures are being taken. The biggest handicap is the lack of automated controls for the labor intensive, huge amount of mail processed. Further, all shortages are reported all the way up and through the Court Administrator. The balance system has been reworked so that receipts not only balance to a total, but to a total for each type of transaction.

City Auditor Snelding responded to Chairman Kern that it is impossible to determine how much cash has been taken. The audit to find this amount was very labor intensive. The best move is to focus on preventive controls. It is possible that many of the control issues will be resolved when the Court relocates to the Regional Justice Center. Chairman Kern repeated the need for sufficient controls, follow-up and adequate staffing, pending implementing an electronic process. Failure to generate a receipt prevents staff from confirming allegations of payment. Councilman McDonald stated that the Council is focused on accountability and efforts should continue in that direction.

Member Saitta confirmed that segregation of duties has been created as much as possible given the staff shortage. Mr. Gronquist added that the same staff must man the counter and handle several other intensive duties. City Auditor Snelding stressed that his office prefers to avoid recommendations for additional staffing when duties can be segregated, jobs can be automated, incompatible functions eliminated or other creative measures can be taken. Member Martin concurred that a coordinated effort in management would be beneficial and

consistent with the Committee's mandate to audit function. Mr. Gronquist acknowledged that Municipal Court would welcome help.

McDONALD - Motion to accept the Report – MARTIN seconded the motion – UNANIMOUS with GOODMAN excused

(10:38 - 10:51)
1-864

b. Audit Alert – Standard Audit Clause

City Auditor Snelding explained that this alert was generated as a result of a report observing the inadequacy of audit clauses in several City of Las Vegas agreements. Auditing alerts are a vehicle to address issues that need immediate attention. Those issues that would most appropriately be addressed in a rapid fashion and quicker than normally handled through the usual audit process. As a result of work performed, it was determined that some contracts did not include an audit clause. Further, they were not standardized and were frequently inadequate when an audit clause was included. A recommendation was made after working with the City Manager's and City Attorney's offices that a policy be issued incorporating a standard audit clause in all City agreements. This recommendation included an example of the elements to be included in such a policy. The City Manager was amenable to this recommendation.

Deputy City Manager Houchens spoke in favor of the policy, which has been implemented by the City. Chairman Kern complimented the City Manager's office for taking such action.

MARTIN - Motion to accept the Report – McDONALD seconded the motion – UNANIMOUS with GOODMAN excused

(10:51 - 10:53)
1-1498

c. Audit of Las Vegas Area Computer Transit System (LVACTS)

As a result of this requested audit, staff identified areas for management review to further improve efficiency and controls over operations. These include the following:

Administration: The need for increased and improved efforts in monitoring, evaluating, and reporting operational results; LVACTS should develop, review, update and test a formal business plan; identify critical equipment and parts and maintain spares as necessary; physical security of assets and access to facilities should be improved; funding allocations should be more equitable and reimbursement should be sought as applicable for inequities; LVACTS should formally justify significant residual fund balances; LVACTS should improve the training function; LVACTS should establish formal overtime procedures.

System Control: LVACTS management should establish and implement strict password rules; LVACTS management should improve and document system back-up and restoration procedures; LVACTS should establish and implement a formal preventative maintenance program; LVACTS should work with the Operating Management Committee (OMC) to develop hardware and software standards; improve system monitoring tools and practices; additionally, included in the report in Appendix A is "System Back-up and Restoration Best Practices" for utilization by the auditee; the management response is included in the back of the report.

In response to the above, the following disagreements were submitted: The OMC is of the opinion references to NDOT should be removed because "it cannot be verified"; the NDOT portion is not subject to the City Auditor's review; and it should also be removed due to "inaccuracies" caused by lack of both historical perspective and technical expertise in the field of Traffic Engineering or Intelligent Transportation Systems (ITS). The Audit Division has responded that information regarding NDOT is antidotal and the City Auditor's Office did not conduct an extensive review of the project. Information regarding the budget was taken from the OMC's own records. The lack of a formal systems engineering methodology and the nonexistence of a development and testing environment are based on statements by NDOT and LVACTS employees. Failure to disclose these issues would not be professionally responsible in the circumstances. Additionally, these statements were reviewed at length by NDOT and the OMC without presenting refuting information.

The OMC also disagrees that suggestions are not in the best interest of the LVACTS organization and cites the importance of well-informed decisions by its members as well as the synergistic effect of training its various members. The City agrees that training is important for the synergistic effect when the committee is trained. However, each of the members of the OMC are qualified professionals representing their various organizations. Members bring expertise to the committee that relates directly to the decision-making process of the OMC. Training should be born by each respective jurisdiction, as they have a vested interest in having well trained and qualified representatives. LVACTS funds would better be spent on LVACTS employees than on training representatives from other jurisdictions.

Member Martin pointed out that disagreements frequently occur between bank management and bank auditors. This response process allows disagreement to get into the forum. Ultimately follow-up is a management function. It is entirely appropriate for management to decide not to implement recommendations and the accountability rests with management. It is significant that the original budget was $7 million and nine years later it is $16 million but still not completed. City Auditor Snelding stressed that NDOT is paying for this project and the City will operate it. That is what creates the City's extensive involvement even though the timing and budget are NDOT's. Failure to address these issues would be remiss even though the lack of methodology is an audit issue which falls under the NDOT and State auditors. Chairman Kern, Member Martin and Councilman McDonald confirmed that copies of the report will be provided to appropriate individuals, such as the Deputy State Auditor Steve Woods and State Comptroller Kathleen Augustine. City Auditor Snelding indicated that NDOT has been included in the reviews, but no formal response has ever been received. However, copies will be supplied as directed. Mr. Cimo advised that the LVACTS manager was the most responsive in assisting with the report. City Auditor Snelding thanked O.C. White for a good job and his cooperative efforts.

Chairman Kern asked about past conversations regarding potential charge backs. City Auditor Snelding advised that there was a potential ongoing issue involving overhead reimbursement to the City. The second ongoing issue is a fund balance and possible charge back on that as well. The recommendations were to follow-up on those issues and during the City follow-up, that will be addressed with Public Works and the OMC. Chairman Kern asked why a set time commitment is not made on follow-up recommendations. City Auditor Snelding replied that during the final audit conference, his staff discusses whether the auditee agrees with the finding, agrees with the recommendation and whether the recommendation will be effective. If the response is positive, staff seeks a timetable for implementation. Compliance with the timetable is not 100%. Chairman Kern questioned who would make the determination that the City should get the funds and whether the City Attorney would pursue that. City Attorney Brad Jerbic explained that when such a matter is referred to his office, his staff works on it. Sometimes the

role is to work out the agreement and sometimes just to review the agreement after it is reached. That direction generally comes from management.

Chairman Kern repeated that the failure to follow through costs the City potential revenue. Accountability becomes critical when there is a cash crunch. He also questioned how the City Council is made aware of matters being pursued. Deputy City Manager Houchens advised that Departments are expected to pursue issues identified within an audit with support from any available City asset. Councilman McDonald replied that he and other members of the Committee try to share information with the rest of the Council.

Chairman Kern questioned why only one individual had access to reset traffic signals when the system went down. City Auditor Snelding confirmed that at one time the one person tasked with responsibility for resetting a downed node within the system was not available, creating a lag in correcting the problem. Niel Rohleder, LVACTS Acting Manager, explained that additional staff has been trained and can now reset the mainframe if necessary.

O.C. White, Public Works, stated that a number of changes have been made over the year during which the audit has been available. However, there were misunderstandings on both sides. The mainframe computer that operates the system is 20 years old and prior to password protection. Therefore some of the directions offered are not possible. As the old system is phased out, additional changes may be made. Regarding training, it is in the best interest of LVACTS to have decisions being made by the best trained representatives possible. Some of the representatives are not traffic engineers and do not have the ability to deal with the information provided in an effective manner. Each representative has an equal vote regardless of the number of system signals within their jurisdiction and one ill-informed vote becomes critical. To add to the situation, the Las Vegas Valley system is unique and subject to rapid change. The current goal is to address 90% of existing transportation rather than looking too far in the future. Although there is a lot of agreement with the recommendations made, there are a few areas of disagreement.

Mr. Cimo commented that the City is paying 52% of the funds for the system and other entities are utilizing LVACTS training rather than being responsible for training of their own staff. However, it is the auditor's function to raise issues for management's consideration. In contact with a number of other areas around the country, this system is unique and needs to be considered from that angle. Unallocated fund balances should be applied to the budget to reduce City contribution during the following year. Again, overhead is not included in the contract and it is the City's responsibility to identify indirect costs along with direct costs. The overall outcome of the audit shows that staff and management is working in the right direction.

Councilman Reese discussed with Mr. Cimo that the LVACTS audit was done at the request of the City Manager's office. Deputy City Manager Houchens and Mr. Cimo explained that there was nothing unusual in the request, but that other Departments were being impacted by this large entity which has undergone significant changes. For example, the LVACTS system impacts Information Technologies and various aspects of it will now be included in any audit of that Department.

Mr. White advised that the contract calls for several entities to provide funding. Within the City, that funding is handled through a special revenue fund. When created, special revenue funds were not being charged back for overhead. In future contracts regarding updates to the system, it will be looked into to include overhead. It does not appear to be a significant issue with the

other entities within the program. A timetable would be difficult to identify because of the number of entities within the contract, but the process has been initiated.

Mr. Rohleder stressed that the City is unique and has a more distinct task as the central operator. The recommendation from the audit and presented by Mr. Cimo will probably be implemented as much as possible while continuing to consider the other entities.

City Auditor Snelding responded to the questions on follow-up. His opinion would be that the Committee should drive the audit follow-up process. Ultimately, responsibility will rest with the City Manager and the Department/Division management. His staff will provide an annual report of recommendations not implemented and that would provide a good opportunity to present that to the Council, who will get a copy of that report. A timetable for corrective measures will be requested and reinforced without letting it become the bottleneck that slows the overall process. Compliance and/or inclusion of a timetable will be noted during the release of the report.

MARTIN - Motion to accept the Report – SAITTA seconded the motion – UNANIMOUS with GOODMAN and McDONALD excused

(10:53 - 11:27)
1-1576

E. New Business

1. No items of new business are scheduled for discussion at this time

No action taken.

(11:27 – 11:28)
1-3178

F. Old Business

1. 0001-003 – Report on Revised Audit Plan

City Auditor Snelding informed the Committee that the audit plan is still being revised and will be supplied at a future time.

(11:28 – 11:29)
1-3184

IV. CITIZENS PARTICIPATION:

Chairman Kern thanked City Auditor Snelding and his staff for a great job. City Auditor Snelding introduced his staff present, Bill Cimo and Bonnie Mocek. Philip Cheng could not be present, as he was making a presentation at UNLV, and Bryan Smith was on vacation. Councilman Reese thanked the Committee for allowing him to attend what he found to be an enlightening experience. He looks forward to attending future Committee meetings.

(11:29 – 11:30)
1-3236

ADJOURNMENT:

Chairman Kern adjourned the meeting at 11:30 a.m. (1-3321)

RESPECTFULLY SUBMITTED,

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Vicky Darling, Assistant Deputy City Clerk