

AGENDA SUMMARY PAGE

AUDIT OVERSIGHT COMMITTEE MEETING OF: NOVEMBER 21, 2006

DEPARTMENT: CITY AUDITOR'S OFFICE

DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

Discussion and possible action on Annual Audit Recommendation Follow-Up as of June 30, 2006 (2600-0607-03)

Fiscal Impact

- No Impact
- Budget Funds Available
- Augmentation Required

Amount:
Funding Source:
Dept./Division:

PURPOSE/BACKGROUND:

To review the Annual Audit Recommendation Follow-up as of June 30, 2006 with the Audit Oversight Committee

Annually this report is prepared to identify the status of all open recommendations for the current as well as previous years.

RECOMMENDATION:

Approval.

BACKUP DOCUMENTATION:

1. Annual Audit Recommendation Follow-Up as of June 30, 2006 (2600-0607-03)
2. Submitted after meeting Seven Power Point Slides

Motion made by LARRY BROWN to Approve the report on the Annual Audit Recommendation Follow-Up June 30, 2006 (2600-0607-03)

Passed For: 4; Against: 0; Abstain: 0; Did Not Vote: 1; Excused: 0
JOSE TRONCOSO, LARRY BROWN, LAWRENCE WEEKLY, MICHAEL W. KERN;
(Against-None); (Abstain-None); (Did Not Vote-PAUL WORKMAN); (Excused-None)

Minutes:

Bonnie Mocek gave a general report on the Annual Audit Recommendation Follow-up. She indicated the objectives of the follow-up are to make sure recommendations are being appropriately addressed by City management and to track the status of the recommendations. Ms. Mocek referenced a PowerPoint presentation which was submitted as backup. This presentation gave an overview of incomplete recommendations by department. At the time of report, 16 recommendations were incomplete.

AUDIT OVERSIGHT COMMITTEE MEETING OF: NOVEMBER 21, 2006

Mr. Snelding pointed out that the number of incomplete recommendations had been greatly reduced due to a new procedure of sharing incomplete recommendations with the City Manager's Office every two weeks. The City Manager's Office works diligently with the various departments to change the status to complete. Once problems are remediated, Audit staff verifies completion with the department and clears the recommendation from the list. This process has been very successful and will be continued.

Mr. Snelding also noted that the report was more or less a snap shot as of June 30th. Within the past week, Audit staff was notified that four more recommendations were completed; however, there had not been adequate time prior to the meeting to review those recommendations. Those four would not be reviewed, leaving 12 recommendations to be reviewed at this meeting.

In response to Chairman Kern's inquiry, Mr. Snelding stated that he had met with the outside auditors the previous spring and that they had been supplied with the same information being presented at this meeting. The Chairman stated the report was a compliment to the City and he imagined the outside auditors would be very impressed. Mr. Snelding was very impressed with the improvements made since he has been on the committee.

Mr. Snelding began his report on the 12 incomplete recommendations. Under the Department of Field Operations, three recommendations remain incomplete from the Durango Hills Golf Course Management Contract. The first is the sales tax collections and remittances made by the contractor for the Durango Hills Golf Course. The audit recommendation was to have the contractor request a refund. If the refund was not obtained, the recommendation included having the contractor repay the money to the City directly. The project manager has requested City Attorney guidance and the Attorney's office is reviewing the issue. Member Workman thought this situation could be remediated quickly and asked what was taking so long.

Mr. Snelding said he had been following the situation but he wasn't sure of the most recent request. He noted the tax overpayment is approximately one hundred thousand dollars and, if the contractor reimbursed that amount, it would be equivalent to their fee for a year. Larry Haugsness confirmed Mr. Snelding's statements.

Vice-Chairman Brown asked if the overpayment was made with contractor or City money. Mr. Snelding explained that the City set the fee structure and the contractor collected per that structure. The contractor had collected the City's money and remitted some of it to the State as sales tax. The contractor then reduced the amount that should have come to the City of Las Vegas.

Chief Deputy City Attorney John Redlein expressed his worries about the view of State Sales Tax Department. If they do not view the City as being the remitter, they might think they do not owe us anything. His concern is they may agree to pay each person their tax back but not the

City of Las Vegas

Agenda Item No.: 8.

AUDIT OVERSIGHT COMMITTEE MEETING OF: NOVEMBER 21, 2006

City. Mr. Snelding acknowledged that concern had come up in discussion and noted that if the City had collected tax on top of the fee structure, the City would owe everyone who paid. But what happened was the contractor reduced it from the back end, so staff is of the opinion the contractor owes the City these funds. Attorney Redlein said he would work with staff and have an answer by the next meeting.

Mr. Snelding reported the second recommendation which related to sales tax payments on equipment purchased by Durango Hills Golf Course. The contractor had not taken advantage of the City's tax-exempt status and may not be eligible to do so. The item was turned over to the Attorney's Office in May of 2006. Chief Deputy City Attorney John Redlein indicated he would look into the matter and see who was assigned to this situation. By the next meeting, he would have something to report.

Chairman Kern asked about the nature of the contract with the service provider and if it contained an exemption clause relating to sales tax. Attorney Redlein worked with Finance staff on this contract and he had a specific recollection that the contractor did not take advantage of the tax-exempt status. The Chairman suggested Internal Audit should have made sure the contractor could take advantage of the tax-exempt status.

Mr. Snelding explained that the final Field Operations recommendation pertained to Durango Hills Golf Course receiving property tax bills from the County assessor. The recommendation was to have the City Attorney's opinion on getting this formally resolved. Attorney Redlein said he had no knowledge of this and would follow up on it.

Chairman Kern noted that precedent has been established for similar entities in the Las Vegas Valley and encouraged staff to get more information.

Mark Vincent explained it was staff's opinion that this property should be property tax-exempt, but the County disagreed. He stated staff is still working with City Attorney Teri Ponticello to resolve the disagreement between the City and the County.

Attorney Redlein emphasized that the contractor is merely managing the property for the City and therefore has no financial interest in the property besides the management fee.

Mr. Vincent informed Vice-Chairman Brown that the City does not pay property taxes at the Municipal Golf Course, but noted that the City does reimburse property taxes at Angel Park and Desert Pines Golf Courses because of a different situation. Vice-Chairman Brown encouraged staff to research the tax status of the County's golf course as a comparison.

Attorney Redlein informed Vice-Chairman Brown that the City was currently paying property taxes on Durango Hills Golf Course under protest and Vice-Chairman Brown suggested that the City cease those payments and force the County to come after those funds. Mr. Vincent pointed out the City enjoys a good relationship with the County's Assessor and suggested the best

City of Las Vegas

Agenda Item No.: 8.

AUDIT OVERSIGHT COMMITTEE MEETING OF: NOVEMBER 21, 2006

solution was to continue to work through the City Attorney's Office and staff. Vice-Chairman Brown encouraged staff to research similar situations in other entities to seek any precedent for this situation.



City of Las Vegas

Agenda Item No.: 8.

AUDIT OVERSIGHT COMMITTEE MEETING OF: NOVEMBER 21, 2006

Mr. Snelding noted that the recommendation regarding improved management reporting has been met, but has not yet been verified by Audit staff. Regarding the delinquent parking citation collections program recommendation, Mr. Snelding explained that while progress has been made, an overall collection program still needs to be re-analyzed and documented. Staff has acknowledged the deficiencies and continues to work towards resolving the remaining issues.

In response to Vice-Chairman Brown's inquiry, Mr. Vincent stated a new system has been implemented and acknowledged more work remained to be done. Mr. Vincent stated that parking fines were a significant amount of money, with a large portion going towards collections efforts.

Chairman Kern requested that an update on this item be presented at the next meeting, noting this recommendation has remained open since September 27, 2006.

Noting that Parking Enforcement staff is limited in their abilities to punish drivers with multiple parking violations, Member Weekly inquired if the City has built relationships with other entities to assist in this process. Mr. Snelding stated a booting program exists for vehicles with multiple parking violations and Mr. Vincent pointed out the City has a relationship with the Nevada Department of Motor Vehicles which increases the response time on in-state violations. Mr. Vincent noted that the compliance rate for in-state violations is very good, since the City has access to the DMV system and is able to place holds on licenses and registration until the fines are paid. He explained the remaining inactive violations were often the results of violators who were not part of the system, such as undocumented drivers.

In response to Member Weekly's questions, Mr. Snelding acknowledged that collections had not been a priority prior to the Audit report, but noted that it has become a higher priority with a greater response since then.

Vice-Chairman Brown requested clarification on the outstanding balance and recovery percentages. Mr. Vincent was unable to provide those figures, but stated he would have estimates at the next meeting.

Regarding the recommendation from the audit of City investments and the audit of Special Improvement Districts, Mr. Snelding stated staff had reported the recommendations had been completed, but Audit staff had not yet verified that report. Therefore, these would not be discussed at this meeting. If Audit staff was unable to verify the recommendations had been completed, they would come back before the Board. Mr. Snelding explained that when staff informs Audit staff that a recommendation is complete, they also submit supporting documentation. Audit staff then verifies that claim through further investigation and documentation.

Within the Department of Leisure Services, Mr. Snelding stated one recommendation remains open regarding the establishment of a policy for non-City cash collection at the Dula Gym where

City of Las Vegas

Agenda Item No.: 8.

AUDIT OVERSIGHT COMMITTEE MEETING OF: NOVEMBER 21, 2006

staff had been selling bottled water and holding the collected monies for a non-City group. He



City of Las Vegas

Agenda Item No.: 8.

AUDIT OVERSIGHT COMMITTEE MEETING OF: NOVEMBER 21, 2006

noted staff had submitted a draft policy addressing this issue and anticipated completion of this recommendation by December 2006. This practice was discontinued.

Chairman Kern questioned the length of time needed to resolve this situation and Barbara Jackson, Director of Leisure Services, explained the policy had to go through the City's policy procedure and noted it is working its way through the system.

Chairman Kern expressed his concerns with the possibility that the City could find itself selling other merchandise, such as t-shirts. He also questioned whether it would cause a sales tax issue. Mr. Snelding stated he would investigate.

Vice-Chairman Brown questioned how the City verified that any vendors in City parks paid the appropriate fees. Attorney Redlein explained that contracts are written that require an appropriate fee and an affirmation that the appropriate taxes have been paid.

Chairman Kern recalled that policies regarding fee collections had been established and observed it did not appear that they were being followed. Jackson stated her department had no issues regarding collection of fees pointing out the City's function primarily as rental facilities.

With regards to Vice-Chairman Brown's inquiry regarding the 501(c)(3) non-profit organizations, Chairman Kern stated that tax exempt non-profit organizations are required to file with the State after filing with the federal government. He noted the State has access to any filings by a non-profit organization and can use that information to verify that the organization is in compliance with the tax laws.

Vice-Chairman Brown suggested that the City Manager's Office increase their oversight of the fund-raising activities in City parks.

Chairman Kern complimented Dr. Jackson for many improvements within the Department of Leisure Services which she had accomplished during his tenure on the Audit Committee. Vice-Chairman Brown, Member Weekly and Member Workman concurred. Vice-Chairman Brown noted that the nature of the department required Audit oversight, but that oversight should not imply inherent problems within the department.

Mr. Snelding noted six recommendations remain open on the Stupak Community Center P-Card Misuse and gave a brief history of the issues. With regards to the first recommendation, staff at the Community Center has stated work is ongoing in the development of improved guidelines regarding P-Card misuse and, at Audit staff's request, set December 15, 2007 as the completion date.

Barring unforeseen circumstances, Dr. Jackson stated she was hopeful that the December 15 goal would be accomplished and explained she was waiting on approval from other departments. Mr.

City of Las Vegas

Agenda Item No.: 8.

AUDIT OVERSIGHT COMMITTEE MEETING OF: NOVEMBER 21, 2006

Vincent confirmed that he would be working with Dr. Jackson on this issue. Dr. Jackson also informed Chairman Kern that the employee in question was in the process of paying back the misused funds.

Mr. Snelding noted the second recommendation regarding improved training on the guidelines for P-card use had a completion date of December 15, 2007. He pointed out staff had ongoing training with a nationally recognized expert in P-card use and emphasized the benefit of this recommendation.

Chairman Kern suggested the City Attorney's Office review any guidelines established by Dr. Jackson and Mr. Vincent before they are used in any legal cases. Attorney Rodlein stated the related case had already been tried and was awaiting sentencing. He added that the City's Attorney's Office reviews everything placed in the reports to ensure nothing will be compromised.

Mr. Snelding stated the third recommendation related to the failure of the supervisor to review employees' purchases. Staff had agreed with the recommendation and had set December 15, 2006 as its revised completion date. Mr. Snelding emphasized the importance of the review and approval in the P-Card process.

Chairman Kern observed that the P-Card issues would be addressed by December 15, 2006 and Mr. Snelding confirmed that Dr. Jackson explained staff was attempting to address all P-Card concerns at one time. Chairman Kern suggested the P-Card policy appeared to be universal and Dr. Jackson confirmed his observation. Mr. Vincent noted that many changes were being implemented City-wide regarding P-card use. Dr. Jackson noted that the Department of Leisure Services was unique in the amount of P-cards needed due to its programs and extended hours of operation.

To avoid redundancy, Chairman Kern suggested the P-Card recommendations be treated as one issue with December 15, 2006 set as their date of completion. Chairman Kern informed Mr. Vincent that any policies implemented at the Stupak Community Center should be implemented City-wide. Mr. Snelding acknowledged the remaining R-Card issues all related to misuse, supervision and approval and pointed out a P-card audit is currently taking place.

Vice-Chairman Brown supported hearing all six recommendations as one item and encouraged that training be an important component of the P-Card policy. Mr. Vincent noted that several changes to the P-card policy are taking place, but emphasized better control policies are constantly being developed and implemented. He acknowledged the P-Card training by the nationally recognized expert had been worthwhile and stated it was the basis of the City's training on P-card use. Mr. Vincent agreed to Mr. Snelding's suggestion to make P-Card training part of the policies of his department. Chairman Kern encouraged Mr. Vincent to keep Vice-Chairman Brown updated on the status of this item.

City of Las Vegas

Agenda Item No.: 8.

AUDIT OVERSIGHT COMMITTEE MEETING OF: NOVEMBER 21, 2006

Mr. Snelding explained one Municipal Courts recommendation remains open. While improvements have been made, Mr. Snelding stated Audit staff had not been updated on the status of this item. Jim Carmany, Court Administrator, explained new procedures had been developed but had not been submitted to the department's policy and procedures committee. Mr.



City of Las Vegas

Agenda Item No.: 8.

AUDIT OVERSIGHT COMMITTEE MEETING OF: NOVEMBER 21, 2006

Snelding noted that Audit staff was only waiting on the formalized procedure as all other issues had been addressed.

Chairman Kern advised Mr. Carmany that written policies are what enable Audit staff to oversee the system. Without checks and controls in the form of written policies, staff cannot be trained and the policies cannot be enforced. He requested a specific date of completion, given the large amount of time that this recommendation has remained unaddressed.

Chairman Kern noted Municipal Court had been an area of serious concern and observed several years have passed without complete resolution of this recommendation. Mr. Carmany explained that the policies and procedures had been revised and updated, but they had not been written and submitted to Audit which was needed in order to complete the recommendation.

Mr. Snelding assured Chairman Kern that all the concerns in the original recommendation had been addressed and Audit staff was waiting on the formalized policy.

Bryan Smith, Senior Internal Auditor, explained that a few recommendations cannot be completed until the case management system is complete. Chairman Kern disagreed and presented the argument that written safeguards could have been implemented and enforced prior to the completion of the case management system. With Mr. Carmany explained some issues had arisen before his time with the Municipal Courts, he assured Chairman Kern that his department had taken the recommendations seriously and he took responsibility for the issues that hadn't been addressed.

Mr. Carmany and Mr. Snelding stated the recommendation would be completed by December 1, 2006. Chairman Kern reminded Mr. Carmany that he will be expected to keep his word and stated that seven years to complete a recommendation is too long.

Mr. Snelding reminded the Committee that the status of recommendations do change as recommendations continue to cycle through the system.