



Las Vegas

Agenda Item No.: 5.

AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: MARCH 27, 2008

DEPARTMENT: CITY AUDITOR'S OFFICE
DIRECTOR: RADFORD SNEEDING

Consent Discussion

SUBJECT: Discussion and possible action on the City Auditor's Office Budget

Fiscal Impact:

No Impact Augmentation Required
 Budget Funds Available

Amount:
Funding Source:
Dept./Division:

PURPOSE/BACKGROUND:

The City Auditor's Office works directly for the Mayor and City Council as opposed to other departments who report to the City Manager. The budget for the City Auditor's Office should be reviewed with the Mayor and Council. This will be accomplished by reviewing the detail budget with the Audit Oversight Committee and the Committee making appropriate recommendations to the Mayor and Council.

RECOMMENDATION:

Consider City Auditors budget presentation and make appropriate recommendations to the Mayor and Council at the FY 2009 Budget Workshop on March 31, 2008.

BACKUP DOCUMENTATION:

Submitted after meeting PowerPoint presentation by staff

Motion made by LARRY BROWN to Approve

A. Office supplies, computer supplies, software maintenance agreements, long-term controllable costs as recommended by the Auditor's Office.

B. Stand-alone computer to be replaced by laptop.

C. Training as recommended by the Auditor's Office with no restrictions to be applied.

D. Western Intergovernmental Audit Forum (WIAF) organizational membership and three regional meetings as recommended by the Auditor's Office.

E. Additional Training Issues as recommended by the City Auditor's Office.

F. Professional Certification as recommended by the City Auditor's Office.

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G. Peer Review as recommended by the City Auditor's Office.

H. Contract Consultants at recommended level.

I. Reinstatement of the Substitute Employee position with the understanding that it be balanced between the Contract Consultants and the hours for the substitute employee to be more effective and help reduce the cost for the consultant.

J. No changes to salaries and benefits as recommended by the City Auditor's Office and ensure that it is reflective of any executive and appointive compensation.

Passed For: 4; Against: 0; Abstain: 0; Did Not Vote: 0; Excused: 1
JOSE TRONCOSO, LAUREN BROWN, MICHAEL W. KERN, RAUL WORKMAN; (Against-None); (Abstain-None); (Did Not Vote-None); (Excused-STEVE WOLFSON)

Minutes:

Member Brown asked that the discussion that takes place today be provided to Mayor Goodman's office to make sure that the independence of his function remains separate. That independence needs to report directly to the Mayor, especially with the discussion that will take place today. He asked that whatever recommendations taken by the committee, that it be provided to the Mayor and City Manager.

Chairman Kern added that the City Auditor and his group are independent, need to be independent and have to remain independent of the City Manager and of the Finance Department. He explained that for the period that includes 1999 through 2000, the savings that have resulted to the City from the City Auditor's efforts have been in excess of \$3 million. Lacking the independence and requiring that the City Auditor report directly to the City Manager or be controlled by the Finance Department, these type of savings may not be forthcoming for the benefit of the City. The City has been fortunate that the City Auditor and his group have been able to identify areas that have amounted to substantial savings to the City.

Mr. Rad Snelding indicated that the Fiscal Year (FY) 2009 Budget situation is impacting all City departments. All departments' budgets have been modified to adjust for shrinking revenues.

He explained that the City Auditor's Office works directly for the Mayor and City Council and not the City Manager. Budget impacts will be reported to the City Auditor Oversight Committee who works directly with the City Auditor's Office regarding detail operations. If any modifications of previously mandated budget reductions are identified, they will then be communicated to the Mayor and Council for consideration at the FY 2009 Budget Workshop scheduled for March 31, 2008.

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Member Brown asked for clarification of the interim budget reduction and FY 2009 reduction. Mark Vincent, Director of Finance and Business Services, explained that the 4.5% cut was done across the board, but there are certain services that cannot be cut, such as utilities and public safety. The 4.5% cut was taken in the current fiscal year budget and was achieved through vacancy savings that most departments already had. The City Auditor has not had any vacancies, thus making this a bigger issue for them than other departments. On top of this 4.5% there is an additional 3% cut that they are looking at for FY 2009. When those two are put together, the cumulative effect looks like a 9% cut for the City Auditor's Office.

Mr. Snelding indicated that the target reduction is made up of two components; salaries/benefits and operations. He suggested the Committee review the elements of the operating costs. He recommended that there be no changes to the personnel, salaries and benefits. Through a PowerPoint presentation, Mr. Snelding provided information ranging from office supplies to the substitute employee position.

Mr. Snelding stressed the importance of training. He indicated that the Continuing Professional Education (CPE) to meet Generally Accepted Government Auditing Standards (GAGAS) as required by the Yellow Book, a 40 hours per year per person. Currently, they audit under these standards and failure to meet CPE requirements would mean they would be deficient in an important standard related to their professional nature. This failure would require them to disclose that exception on each of their audits.

He outlined the three types of training and stated that the specialized training is the most desired because it focuses on issues that are particularized to Governmental Auditing. However, many times specialized training is not available locally and travel is necessary to obtain that training. He recommended that the Committee fund the training with no restrictions. Member Troncoso commented that training brings out professionalism and suggested the City Auditor be given no restrictions on training.

In response to Member Workman's query as to whether the amount allotted for training would be sufficient, Mr. Snelding replied that the amount requested is reasonable. The City of Las Vegas hires a number of organizations to conduct training, and his staff could meet most of the specialized training in Las Vegas. However, specific training, such as for government investigators, is given in Oregon.

Member Workman suggested they go with the higher number and make efforts to bring it in at a conservative level. Member Troncoso reiterated Mr. Snelding's comments that it might be cheaper to send employees out-of-town for training versus bringing in an instructor. The instructor might cost 50% more.

Regarding the no restrictions for training, Chairman Kern remarked that no details were available to support the \$2,000 per person, for a total of \$14,000 for seven employees. He would have preferred a breakdown that included identifying specific locations, the type of training the employees would receive and whether there is a testing process at the end of the training. Mr.

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Snelding replied that there is no testing associated with the training.

Chairman Kern commented that he attempts to select programs for his staff that have testing at the end of the program and looks for interaction with participants, as well as the trainer. He believes in self-study and he sees an immediate result.

Chairman Kern added that he wants to make sure the City is getting the bang for the dollars. An employee is not just sent for the sake of training but for knowledge. Mr. Snelding noted that testing associated with the training is more relevant with CAGAS training. Chairman Kern remarked that in his firm, he insists that his auditors, when they attend Yellow Book training not only get certification, but that they also attend trainings that have testing at the end of the program.

Chairman Kern acknowledged Mr. Snelding's staff's excellent skills, but reiterated that better results are achieved by having a test at the end of the training. Mr. Snelding indicated he would try to make sure that specialized trainings have a testing component.

The Chairman pointed out that the overall savings to the City of \$2.1 million was due to the City Auditor's staff's ability and knowledge.

Bill Cimo, City Auditor's Office, stated that the training they attend, usually fits their specialized area. Chairman Kern appreciated Mr. Cimo's comments and responded that being in this type of industry for thirty years he is one person who really controls CPE. At the end of the day the quality of the person that he works with is dependent on that on-going education. He reiterated, in this case, he has not seen the specifics.

Mr. Cimo added that sometimes he attends trainings were he volunteers, such as taking attendance, while at the same time he participates in the training.

Mr. Snelding suggested that in a future quarterly Audit Committee meeting, he could provide additional specifics on the training. Chairman Kern suggested that it be an agenda item.

Mr. Snelding continued with the PowerPoint presentation regarding the Western Intergovernmental Audit Forum (WIAF). He indicated that he would like to continue to serve in this organization and would like to attend at least three regional meetings per year and one national forum meeting.

Member Workman remarked that he is in the business of hiring financial managers and he hires top quality managers that have had training. He recognizes that if an employee wants to grow on behalf of the institution and themselves, he owes that individual the opportunity to grow and prosper. Therefore, he heartedly recommends this, even during tough budgetary times.

Member Troncoso concurred with Member Workman's comments. He believes it would be important for the City Auditor's Office if Mr. Snelding would serve as the chairman of the WIAF

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three years from now. It will not only benefit the City of Las Vegas but also the other audit employees, as well as the Audit Committee.

Mr. Snelding addressed Additional Training Issues. This includes books and memberships to the Institute of Internal Auditors (IIA), Association of Certified Fraud Examiners (ACFE) and the Association of Local Government Auditors (ALGA). He recommended that these be continued.

Mr. Snelding also recommended that the Professional Certification be continued, as this is something he requires that his staff maintain. He also encourages staff to obtain additional certifications to increase the credibility of the Auditor's Office. Some members of staff would like to test for Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE) and Certified Government Audit Professional (CGAP). Once the employees successfully complete the certification, then he will pay for the registration and one exam. If they fail to achieve it, nothing is paid. He recommended that this funding be continued.

Chairman Kern reaffirmed Mr. Snelding's comments that it behooves the City Auditors Office to maintain the background training. In order to enhance the skills of the City auditors, Mr. Snelding is seeking these certifications for his staff so they can apply the processes and procedures they are gaining from the certification process and additional training. An outside auditors' perspective plus a lot of feedback on what accreditations the internal auditors have behind their names.

Regarding Peer Review, Mr. Snelding strongly recommended that this be continued.

Addressing Contract Consultants, Chairman Kern verified with Mr. Snelding that the contractor was obtained through a bid process and a contract has been signed. The person that was chosen is a public accountant and a part-time professor at University of Las Vegas Nevada (UNLV). Chairman Kern asked what the amount was for the last two fiscal years for the outside contractor. Mr. Snelding replied that during the course of the current fiscal year it was \$5,000 at \$125 per hour for 40 hours. The estimated budget for FY 2009 is \$25,000 and he recommended retaining at least part of the budget to continue this process.

Mr. Snelding indicated that the Substitute Employee program is being utilized to help in routine clerical functions without utilizing a full-time employee. A substitute employee can only work for six months. Given the budget constraints, he recommended that this be cut until future funding will permit its reinstatement.

Chairman Kern read Assistant City Attorney John Redleins comments that stated that in tight financial times, it makes sense that the City Council might want to be more involved in the City Auditors work and the Managers collective work, in order to assist in reducing expenses for the City.

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Chairman Kern commented that he is a very strong proponent for the City Auditors budget to be approved, not at the level recommended by Mr. Snelding, but actually at a number higher than the recommendation. He realizes he has no control as to the final outcome once Mr. Snelding appears before the City Council, but 4% of the \$3 billion savings is \$120,000 that could come to the City Auditor. He cannot say that without the City Auditors involvement this saving would not have happened, but that suggests that somebody's budget has been reduced by \$3 million. He truly believes it will harm the City to cut the City Auditors budget.

Chairman Kern referred to the reduction of the computers. He opined that IT is dipping into the City Auditor's budget. He questioned why this has been reduced when the cost has already been incurred. Mr. Vincent remarked that these are not just hardware maintenance costs, but licensing fees for desktop hardware, access to Hansen and Oracle. He asked why a department of seven staff members needs 12 computers. He also pointed out that thirty-one employees were laid off from the Building and Safety Department and he anticipates additional reductions. They have scrutinized all internal service funds, including IT's internal service funds, and have identified that there are fund balances they are maintaining for scheduled replacement for some of the hardware, vehicles or equipment. Those funds are being taken to create a stabilization fund for the General Fund.

Chairman Kern replied he is not sure and that the computer reduction from 12 to 8 is not appropriate. He questioned the \$5,100 copier and paper charges of \$350 for the year. He asked if IT can obtain a better pricing than what the City Auditor is getting on the TeamMate and Audit Command Language (ACL) software. Mr. Vincent replied that what they try to put into the internal fund for IT is the maintenance issues that benefit all departments. He gave an example of the Chameleon system program for Animal Control. That system is not funded through the internal service fund because only Animal Control benefits from it. However, the software and maintenance for Oracle or Hansen is typically used by everybody. Chairman Kern disagreed and questioned why the cost is not being spread to all departments as all departments get the benefit of the software. Why should the City auditor absorb this alone? Mr. Vincent recognized Chairman Kern's point and suggested that IT be brought in at another Audit meeting to give a rundown on all components, as there is a very legitimate argument that all departments benefit from the audit function.

Mr. Snelding outlined the number of computers; seven are being used by the employees, one is located in the conference room, one was being used by the substitute employee, one was made available to the outside contractor and one is a backup computer.

Chairman Kern referred to the computer capital recovery and asked why the City Auditors Office is being charged that amount. Mr. Vincent replied that even computers have a lifespan, and that the City Auditors Office is being charged for maintenance not replacements. Chairman Kern opined that the City Auditors Office is paying each fiscal year and not receiving a replacement. Mr. Vincent could not speak for IT, but there is a schedule for replacements. If a computer is not being used, a department would need to contact IT to have those computers removed. Chairman

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Kern asked why the budget could not be reduced by what is being accumulated so they have the same money available. Mr. Vincent explained that through the stabilization fund the replacement schedule for vehicles, equipment and computers has been lengthened and taken that money out of the internal revenue fund. This money is needed to forestall layoffs and reduction in force for the years to come. Chairman Kern acknowledged the City's strategy regarding the budget, but reiterated the substantial amount of savings the City continues to benefit from the City Auditor's Office, in turn, benefiting the City's budgetary needs. From his perspective, he does not see from other departments the efforts to reduce the budget, but he sees the City Auditor's Office supporting the City Manager in reducing the budget. He recommended a re-evaluation for some of those controllable type costs to see if there is a possibility of budget realignment.

Mr. Snelding explained that the copier is also used as a fax machine, color copier, acts as backup for printers and used as a scanner. Chairman Kern recommended replacing the standalone computer with a laptop.

Member Brown indicated that it is critically important to incorporate into the budget workshop of March 31, 2008 the recommendations made by the Audit Committee. Mr. Vincent added that he did not expect every department to make a 4% budget cut. The City Auditor's Office may also fall in the public safety situation, as it is 90% labor, there are no vacancies and it generates savings. There is enough time before the final budget meeting to discuss this through. Chairman Kern asked Assistant City Attorney Redlein if he would be violating the open meeting law if he would meet with Mr. Snelding for additional input on a one-on-one basis and bring it back to the Audit Committee for the committee's approval. Assistant City Attorney Redlein replied that he could have that one-on-one discussion, as long as that discussion is not passed along. He also informed the Chairman that the Audit Committee is not restricted on the amount of times they could meet. Chairman Kern stated he is passionate about what is best for the City, and he strongly believes that the City Auditor has made a difference for the City.

Chairman Kern recommended that the training be approved as recommended by the Auditor's Office with no restrictions. With respect to WIAF, he recommended organization membership and three regional meetings as recommended by the Auditor's Office.

He recommended approval for additional training for staff and study books at the recommended amount.

With respect to Professional Certification and ALGA Peer Review, Chairman Kern recommended approval as recommended.

Regarding Contract Consultants, he recommended retaining it at its current level. He questioned whether it might be better having a substitute employee than a private contractor costing \$125 per hour. Mr. Snelding responded that a substitute employee is only for six months with the option of offering them a full-time job or letting them go. At \$14.67 per hour, the position is

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considered clerical with the capability to input into the audit work paper system. However, if he were to add another staff member, it would be an auditor. Chairman Kern encouraged Mr. Snelding hiring a part-time employee that is going through the accounting program at UNLV. Mr. Snelding replied he hired an UNLV student, but it was a part-time job instead of an internship, which the students require. The Chairman praised Bonnie Mocek for being given the opportunity to grow within the City Auditors Office, and she has been an added commodity to that office.

Mr. Snelding explained that they have not been able to find qualified substitute employees for what the City Auditor's Office needs. Chairman Kern indicated he gets recommendations from UNLV professors when hiring new employees.

Member Brown appreciated the Chairmans comments regarding the City Auditors Office and how important it is to City Hall. It is critically important to realize how to approach the budget challenges in the future. Public safety is unique, as is the Auditors function. It appears to be one of those situations where more people are needed. The Audit Committee has the opportunity to move forward with some recommendations and come back with a final recommendation at a later date. Chairman Kern recommended that the committee support the reinstatement of the Substitute Employee with the understanding that it be balanced between the Contract Consultants and the hours for the substitute employee to be more effective and help reduce the cost for the consultant. He also recommended no changes to benefits or salaries. He suggested that the committee has the opportunity to reevaluate this discussion at another meeting and for Member Brown to relate the Audit Committees discussion at the Budget Workshop scheduled for March 31, 2008.

Member Workman indicated he is not familiar with the process of annual reviews. He would not want to pull the Audit employees out of the Citys reviews process. Deputy City Manager Orlando Sanchez suggested that the executive and appointive employees' compensation be reflected in what is done citywide. Member Brown verified with Mr. Vincent that if the auditors budget numbers are impacted today, it would force him to look at other departments to make up the difference.

Chairman Kern wanted to ensure that all points raised are included within the motion. City Clerk Beverly Bridges stated that each point will be outlined in the motion. The Chairman also asked that a draft of the minutes be provided to each of the committee members. After the board reviews the draft minutes, they could request a line item to be placed on the next Audit Committee's agenda.

Mr. Snelding suggested that budget issues be placed on the agenda for the first Audit Committee of January 2009. This would allow him the opportunity to address issues well before the budget workshop.

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Chairman Kern reiterated that he will have an opportunity, without violating the open meeting law, to meet with Mr. Snelding and not wait until January. Chairman Kern also indicated that possibly IT could be brought in at a later meeting. Mr. Vincent stated that although he develops a line-item budget, he lets the directors and the managers decide what they think is most efficient for their operations. He does not control them at a line-item level. He controls it at a bottom-line level.

Chairman Kern pointed out that if the \$15,000 for contract labor is not used it goes back to the general fund. He asked if that means Mr. Snelding can now take that \$15,000 and put it to use elsewhere. Mr. Vincent clarified that if Mr. Snelding under runs his office supplies by \$500 and wants to take that \$500 to go to a seminar, he can do that. However, if that budget is not used within that operating year, he will lose it and whatever is left goes back to the fund balance.

City Clerk Bridges informed Chairman Kern that there is another Audit Committee meeting scheduled for April 24, 2008; if there are any specific line items concerning these issues, they could be added on that agenda. Additionally, that meeting will be prior to the final budget hearing scheduled for May 20, 2008.

