



Audit Oversight Committee Minutes

1. Call to Order

Minutes:

CHAIR THRONEBERRY called the meeting to order at 9:03 a.m.

PRESENT: CHAIR THRONEBERRY and MEMBERS ROLLO and PREISS

EXCUSED: MEMBERS KNUDSEN and SEAMAN

ALSO PRESENT: SCOTT ADAMS, City Manager; GARY AMELING, Chief Financial Officer; RADFORD SNELDING, City Auditor; BRYAN SMITH, Internal Audit Section Manager; BRYAN SCOTT, Assistant City Attorney; and LUANN D. HOLMES, City Clerk

2. Announcement Regarding: Compliance with Open Meeting Law

Minutes:

ANNOUNCEMENT MADE: This meeting has been properly noticed and posted at the following locations: City Hall, 495 South Main Street, 1st Floor; Clark County Government Center, 500 South Grand Central Parkway; Grant Sawyer Building, 555 East Washington Avenue; City of Las Vegas Development Services Center, 333 North Rancho Drive.

3. Public Comment: Comment during this portion of the agenda must be limited to matters on the agenda for action. If you wish to be heard, come forward and give your name for the record. The amount of discussion, as well as the amount of time any single speaker is allowed, may be limited.

Minutes:

None.

4. For possible action to approve the Final Minutes by reference of the Regular Meeting of July 24, 2019

Motion made by Eric Preiss to Approve

Passed For: 3; Against: 0; Abstain: 0; Did Not Vote: 0; Excused: 2

For-Joseph Throneberry, Melanie Rollo, Eric Preiss; Excused-Brian Knudsen, Victoria Seaman;

5. Discussion for possible action on Audit Committee Quarterly Meeting Dates for Calendar Year 2020

Minutes:

CHAIR THRONEBERRY stated that meetings would be moved to Thursdays in 2020 from 10:00 a.m. to noon. The dates listed were January 30th, April 30th, July 30th, and October 29th.

Motion made by Eric Preiss to Approve

Passed For: 3; Against: 0; Abstain: 0; Did Not Vote: 0; Excused: 2

For-Joseph Throneberry, Melanie Rollo, Eric Preiss; Excused-Brian Knudsen, Victoria Seaman;

6. Discussion for possible action on Audit of the Department of Information Technologies - Computer Hardware Inventory (IT003-1920-03)

Minutes:

NANCY CARDOZA, Internal Auditor II, reported that the Department of Information Technologies (IT) provides services and support for City employees' information technology needs. Current city policies and procedures state that IT is responsible for maintaining and tracking IT inventory city-wide. Additionally, adequate property and equipment records must be established and maintained as identified by Nevada Revised Statute (NRS). Included in IT's hardware inventory is computer hardware such as laptops, desktop computers, printers, servers, WiFi equipment, and other related items.

MS. CARDOZA stated that the objectives of the City Auditor's Office were to determine whether adequate and effective IT inventory management processes and controls are in place in order to ensure the integrity of IT inventory and to ensure compliance with City policies and procedures and related regulations. She reviewed the slides included in the backup summarizing the findings and audit recommendations.

Finding #1 - MS. CARDOZA indicated that un-deployed IT inventory is stored in a badge access only inventory room. Staff found several employees had badge access to the inventory room but did not have job duties requiring access to the room. These employees included those who have been transferred, all Department of Operations and Maintenance staff and management, and other IT staff who did not require access to the inventory room. It was recommended that IT management document and implement policies and procedures requiring periodic reviews of the appropriateness of employees with full access to the inventory room. It was also recommended that a cage be installed within the inventory room to further restrict access to the inventory.

Finding #2 - The second finding involved the policies and procedures over new IT inventory purchases. Staff found the following discrepancies: there are no formal procedures for deploying new purchases of IT inventory; the Materials Management Technician is not informed of all IT inventory deliveries; and there is the inadequate separation of duties when receiving, recording, and documenting IT inventory. She explained that staff tested a sample of 25 new IT purchases to assess how the control deficiencies affected IT inventory records and noted seven of the 25 purchases were not tagged and recorded in the IT inventory listing; one of the 25 purchases was incorrectly recorded multiple times into the IT inventory listing, and two of the 25 purchases qualified as reportable capital assets but were not reported to the Department of Finance as IT was not informed of their delivery.

MS. CARDOZA stated that staff's first recommendation to this finding is for IT management to work with Purchasing and Contracts to develop and document procedures to assist in identifying and preventing City departments from making IT purchases without prior approval from IT management. These procedures should include a process of specifying that IT purchases must receive IT approval, must be tagged upon receipt and recorded in the IT inventory listing. It was recommended that the policies also include the notification of the Materials Management Technician when inventory is delivered elsewhere and when inventory is removed from the inventory room. Additionally, a secondary review process should be developed and implemented of purchases received and entered into the IT inventory listing.

Finding #3 - It was noted that a City-wide physical inventory has not been performed in over two years and there are no formal procedures for deploying IT hardware inventory and updating IT records. In testing a sample of 25 active City computers and related equipment to assess how the control deficiencies affected IT inventory records, staff found incorrect locations for eight active inventory items, six of which were not documented in the IT inventory listing as required, and one was incorrectly documented as a donated or sold item.

Staff recommended that IT management document and implement controls and procedures to ensure a periodic inventory count of City-wide inventory items is regularly conducted to ensure the accuracy of the IT inventory listing and to ensure movement of all IT inventory items from out of the IT inventory room and

throughout the City is communicated to the Materials Management Technician and their new locations are updated in the IT inventory listing.

Finding #4 - During the course of their audit, staff noted there is also no formal procedures for release or return of items to the IT inventory room and there is no reconciliation performed between these items and the annual IT inventory room count performed for the fiscal year-end.

Staff performed the following audit procedures in which a sample of 15 items physically located in the IT inventory room were selected and found that the documented locations of four of the 15 items were incorrect and four of the 15 items could not be traced back to the IT inventory listing even though the items had inventory tags. Additionally, staff selected 15 items whose locations were documented as the IT inventory room but found that 14 of the 15 items could not be located in the IT inventory room. Subsequently, IT management located the items in other areas throughout the City. Inventory records were not updated to reflect the correct location of the items.

Staff recommended IT management document and implement controls and procedures to ensure all IT inventory items are accurately tracked which would require notifying the Materials Management Technician when items are removed from the IT inventory room for deployment and identification of the item's new location. Additionally, IT management should document and implement procedures requiring reconciliation between the inventories located in the IT inventory room and the items in the IT inventory listing in conjunction with the annual physical inventory count.

Finding #5 - In its final finding, staff found no formal policies and procedures for the tracking and destruction of computer hard drives which resulted in incomplete hard drive inventory records.

Staff recommended IT management document and implement policies and procedures to ensure hard drives returned to the IT inventory room are recorded in the hard drive inventory listing and to ensure the proper destruction of hard drives and the recording of destroyed hard drives.

MS. CARDOZA thanked IT management for their support and said they have already begun working to address the audit recommendations.

MICHAEL SHERWOOD, Director of Information Technologies, and CHRIS CRAIG, Deputy Information Technologies Director, introduced themselves and explained that for Finding #1 has been ratified and completed, and IT management has informed the City Auditor's Office of its completion. Up to 30 individuals have been removed from badge access and there is now a limited number of authorized staff.

To address Finding #2, IT management has worked extensively with Purchasing and Contracts to help develop a procedure to ensure that departments are not able to acquire any technology equipment without the consent of IT staff and IT management is in the process of rewriting that procedure. MR. SHERWOOD hoped to have the procedure completed by October 31st. He informed the Chair and MEMBER PREISS that it is the smaller items that are able to be acquired with a purchasing card (P-Card) although there is a procedure that exists today that departments must provide notification of purchases over a specific dollar amount; however, IT management is now looking at every technology purchase to be reviewed by the Department of IT regardless of dollar amount as many items already exist in the IT hardware inventory as well as there being compatibility issues with different technology.

Regarding Finding #3, MR. SHERWOOD stated that IT management is currently rewriting the internal policies and procedures that document City-wide IT inventory and has received approval from the City Council to acquire a software package called ServiceNow which manages hardware and software assets. Hardware and software assets will be maintained and managed in ServiceNow. The estimated time to complete this finding will take some time and he anticipated a February to March implementation timeframe.

MEMBER ROLLO asked if a physical count of all IT hardware inventory City-wide would be conducted at the time of implementation of ServiceNow. MR. SHERWOOD stated that one option is to mark all equipment with a near field communication (NCF) tag so that an automatic inventory of all assets can be completed at will. This will eliminate the need to inventory item by item. There is a second option of conducting a physical count to ensure consistency among records. He informed MEMBER PREISS that everything IT management does will

be put into the Department's backend system and made available to the external financial auditors, which will allow them to review the information for their financial needs.

MR. SHERWOOD believed ServiceNow would address the findings of staff noted in Finding #4. Additionally, the Department of IT will be the centralized body to acquire technology equipment and all equipment must be brought to City Hall where it will be marked and identified as inventory, assigned an asset number if required, and entered into the system.

MEMBER PREISS asked where the Materials Management Technician is physically located. MR. SHERWOOD replied in the IT inventory room and very close to the equipment. The Materials Management Technician is located near the loading dock, which allows him to transport equipment received from the loading dock to the IT inventory room. It was the suggestion of IT management to build a cage inside of the IT inventory room for high dollar items.

Regarding Finding #5, MR. SHERWOOD stated that as of this moment, all backlogged drives have been destroyed and noted that as technology changes; there will be new considerations that IT management will need to work on with the Audit Oversight Committee and internal leadership as many new devices have solid-state drives and are affixed to the device. While this finding is currently completed, a better way to destroy assets as they leave will have to be developed.

CHAIR THRONEBERRY asked if there is a method to destroy devices remotely, should they go missing or are stolen. MR. SHERWOOD indicated for City-issued iPhone's, there is the capability erasing and locking the iPhone remotely. This cannot be done with a desktop computer, so in the event a hard drive is removed from a desktop computer, there is no way to remotely destroy that data. He confirmed laptops are similar to this; however, newer laptops with a solid-state drive are capable of having software loaded onto those devices so if they are lost or stolen, the device can have the ability to be remotely turned off, destroyed or to beacon.

MEMBER PREISS noticed that some items were excluded from the report on this finding such as tablets, mobile phones, and other miscellaneous small items. He wondered if this was because of the dollar amount or if there is a separate audit conducted for such devices. MS. CARDOZA said for this audit, staff concentrated on the items handled by the Materials Management Technician in the IT inventory room. It was her understanding that tablets and mobile phones are inventoried by separate staff in the Department of IT on the 5th Floor. CITY AUDITOR RAD SNELDING added that this particular audit was a special request from the former City Manager's Office. He explained that an outside audit was completed of computer security and data security and things related to the operation of the Department of IT and MR. SNELDING was requested by the former City Manager to perform an audit of the IT inventory room.

MEMBER PREISS asked if there was another scheduled for tablets and mobile phones. MR. SNELDING replied no.

ASSISTANT CITY ATTORNEY BRYAN SCOTT stated that there is a Public Records Retention Schedule under the Nevada Revised Statutes and some of the hard drives discussed may contain public records. Prior to erasing them, he advised it might be essential for IT management to meet with the City Clerk to ensure there is no public record data erased in violation of the Public Records Retention Schedule.

CITY MANAGER SCOTT ADAMS acknowledged he did not initiate this audit but wanted to be involved with it. He thought it might be important for MR. SHERWOOD to comment on the costs going forward for audit compliance. CHAIR THRONEBERRY also wished to know if IT management has looked into alternatives such as recycling and donations that comply with secure methods of destroying the hard drives. MR. SHERWOOD said it would cost more to donate or give away the equipment than it does to remove the hard drive and pay a certified destruction company to assist with the destruction; this method has cost between \$15,000 and \$20,000, which is less expensive than the alternative suggested by the Chair. As mentioned in his response to Finding #3, MR. SHERWOOD stated that there is the option to mark the hard drive of every new computer with an NCF tag independently. There is a cost associated with this, and IT management is working with Dell where the company would do this remotely at their facility as the computer is built and delivered; however, with this method, IT staff would still have to conduct a spot check after Dell has completed its process. Having the NCF tag is where IT management would like to get to as it would indicate where all equipment is throughout the building in real time through use of wireless internal systems. From a policies and procedures standpoint, MR.

SHERWOOD asserted that City employees are encouraged and educated not to save data onto the local hard drive. More education can be done but the amount of money being spent on securing equipment and creating more internal processes for data control and to meet the audit findings is in excess of \$500,000.

MR. SNELDING spoke of the responsibility of the City Auditor's Office to control the inventory the City has noting it is not the intention of staff to make recommendations to build a cost-prohibitive procedure. As staff acts under the direction of the Audit Oversight Committee, if there is belief that an alternative solution will yield the same result, staff will act upon that solution through a recommendation.

Acknowledging MR. SNELDING'S comments, CHAIR THRONEBERRY stated that ServiceNow is industry leading and probably one of the most expensive solutions. He believed for asset management, IT management could consider something as simple as an Excel spreadsheet. He thought for an organization the size of the City of Las Vegas, an Excel spreadsheet might not be practical but ServiceNow might be a more costly decision.

MEMBER ROLLO thought it is hard to have a frame of reference of the inventory for the entire City and if \$500,000 is worth tracking a dollar value for the inventory. She believed the cost-benefit needed to be analyzed to ensure the controls over inventory and the costs related to it are outweighing the dollar value of what is being tracked.

MEMBER PREISS agreed that the questions of cost-benefit are valid and must be reviewed. He expressed concern not with the hardware itself but with the data on the hardware. This risk should be measured in the cost-benefit analysis.

CHAIR THRONEBERRY agreed with the Members' comments.

MR. SNELDING stated that he and his staff would work with the Department of IT to determine the costs and cost-benefit to see if less costly alternatives can be identified. MR. ADAMS agreed to explore more cost-effective ways to address the findings and was curious to know industry standards regarding the cost to manage inventory related to loss ratios.

MR. SHERWOOD asserted that compliance is the number one goal and stated that ServiceNow is currently being used to help manage projects. Prior to this, the Department of IT used Excel spreadsheets to manage inventory, which were ineffective.

For reference, MS. CARDOZA said in 2018 there was over \$300,000 in IT hardware purchases excluding software purchases.

7. Report by staff on current audits

Minutes:

BRYAN SMITH, Internal Audit Section Manager, stated that the City Auditor's Office is currently involved in the audits listed on the PowerPoint Presentation slide attached as backup. In addition to these audits, the City Auditor's Office is also involved in verifying the completion of previously issued audit recommendations.

8. **Discussion regarding topics for future agenda items.** Comments made during this portion of the agenda by individual members shall refer solely to proposals for future agenda items and any discussion shall be limited to whether or not such proposed items are within the purview of the Committee and/or whether such proposed items shall be placed on a future agenda. No discussion regarding the substance of any such proposed topic shall occur and no action shall be taken.

Minutes:

CHAIR THRONEBERRY announced that there were no topics for future agenda items to be discussed.

9. **Citizens Participation:** Public comment during this portion of the agenda must be limited to matters within the jurisdiction of the Committee. No subject may be acted upon by the Committee unless that subject is on the agenda and is scheduled for action. If you wish to be heard, come forward and give your name for the record.

The amount of discussion on any single subject, as well as the amount of time any single speaker is allowed, may be limited.

Minutes:
None.

10. **Adjournment**

Minutes:
The meeting was adjourned at 9:52 a.m.

Respectfully submitted:

Ashley Foster, Deputy City Clerk

LuAnn D. Holmes, MMC, City Clerk

THIS MEETING WAS PROPERLY NOTICED AND POSTED AT THE FOLLOWING LOCATIONS:

City Hall, 495 South Main Street, 1st Floor
Clark County Government Center, 500 South Grand Central Parkway
Grant Sawyer Building, 555 East Washington Avenue
City of Las Vegas Development Services Center, 333 North Rancho Drive