



**CARSON CITY CONSOLIDATED MUNICIPALITY  
NOTICE OF MEETING OF THE  
CARSON CITY AUDIT COMMITTEE**

**Day:** Tuesday  
**Date:** April 21, 2015  
**Time:** Beginning at 3:00 p.m.  
**Location:** Community Center, Sierra Room  
851 East William Street  
Carson City, Nevada

## **Agenda**

**1. Call to Order**

**2. Roll Call**

**3. Public Comments and Discussion:**

The public is invited at this time to comment on and discuss any topic that is relevant to, or within the authority of, the Carson City Audit Committee. In order for members of the public to participate in the Committee's consideration of an agenda item, the Committee strongly encourages members of the public to comment on an agenda item during the item itself. No action may be taken on a matter raised under public comment unless the item has been specifically included on the agenda as an item upon which action may be taken.

**4. For Possible Action: Adoption of Agenda**

**5. For Possible Action: Presentation by Moss Adams on the final report of the Assessment of Internal Controls for the Audit Committee's consideration, discussion, and possible recommendation to the Board of Supervisors.**

Summary: The Board of Supervisors approved the Assessment of Internal Controls at their June 5, 2014 Board meeting. Moss Adams will present their final report to the Audit Committee for discussion and possible recommendations to the Board of Supervisors.

**6. For Possible Action: Discussion, possible action, and direction to Staff regarding the current Audit Work Program Update.**

Summary: Staff will be discussing and taking direction from the Audit committee regarding the current work program.

**7. For Possible Action: Discussion and possible action regarding having future Audit Committee Meetings**

in the evenings.

Summary: Requests have been made to have future Audit Committee Meetings in the evening hours to accommodate those members of the public who work during the day.

- 8. For Possible Action: To schedule the next meeting of the Carson City Audit Committee.
- 9. **Public Comment** - The public is invited at this time to comment on any matter that is not specifically included on the agenda as an action item. No action may be taken on a matter raised under this item of the agenda.

**10. For Possible Action: To Adjourn**

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*Agenda Management Notice - Items on the agenda may be taken out of order; the public body may combine two or more agenda items for consideration; and the public body may remove an item from the agenda or delay discussion relating to an item on the agenda at any time.*  
 .....

*Titles of agenda items are intended to identify specific matters. If you desire detailed information concerning any subject matter itemized within this agenda, you are encouraged to call the responsible agency or the City Manager's Office. You are encouraged to attend this meeting and participate by commenting on any agenda item.*  
 .....

*Notice to persons with disabilities: Members of the public who are disabled and require special assistance or accommodations at the meeting are requested to notify the City Manager's Office in writing at 201 North Carson Street, Carson City, NV, 89701, or by calling (775) 887-2100 at least 24 hours in advance.*  
 .....

*This meeting can be viewed on Channel 226. For specific dates and times - [www.bactv.org](http://www.bactv.org).*  
 .....

*To request a copy of the supporting materials for this meeting contact Rachael Porcari at [rporcari@carson.org](mailto:rporcari@carson.org) or call (775) 887-2100.*  
 .....

*This agenda and backup information are available on the City's website at [www.carson.org](http://www.carson.org), and at the City Manager's Office - City Hall, 201 N. Carson Street, Ste 2, (775) 887-2100.*  
 .....

This notice has been posted at the following locations:  
 Community Center 851 East William Street  
 Public Safety Complex 885 East Musser Street  
 City Hall 201 North Carson Street  
 Carson City Library 900 North Roop Street  
 Business Resource & Innovation Center (BRIC) 108 East Proctor Street

Date: April 15, 2015

**Carson City Audit Committee  
Agenda Report**

**Date Submitted:** 04/08/2015

**Agenda Date Requested:** 04/21/2015

**To:** Chair and Members

**From:** Michael Bertrand, Chairman

**Subject Title:** For Possible Action: Presentation by Moss Adams on the final report of the Assessment of Internal Controls for the Audit Committee's consideration, discussion, and possible recommendation to the Board of Supervisors.

**Summary:** The Board of Supervisors approved the Assessment of Internal Controls at their June 5, 2014 Board meeting. Moss Adams will present their final report to the Audit Committee for discussion and possible recommendations to the Board of Supervisors.

**Type of Action Requested:** (check one)

- |  |  |
|--|--|
| <input type="checkbox"/> Resolution                      | <input type="checkbox"/> Ordinance       |
| <input checked="" type="checkbox"/> Formal Action/Motion | <input type="checkbox"/> Other (Specify) |

**Does This Action Require A Business Impact Statement:**  Yes  No

**Recommended Committee Action:** Will depend on discussion and possible recommendations.

**Explanation for Recommended Committee Action:** See Staff Summary

**Applicable Statute, Code, Policy, Rule or Regulation:**

**Fiscal Impact:** N/A.

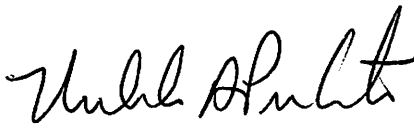
**Explanation of Impact:** N/A

Funding Source: N/A

Alternatives: N/A

Supporting Material: Assessment of Internal Controls Study provided by Moss Adams

Prepared By: Nick Providenti

Reviewed By:   
(Finance Director)

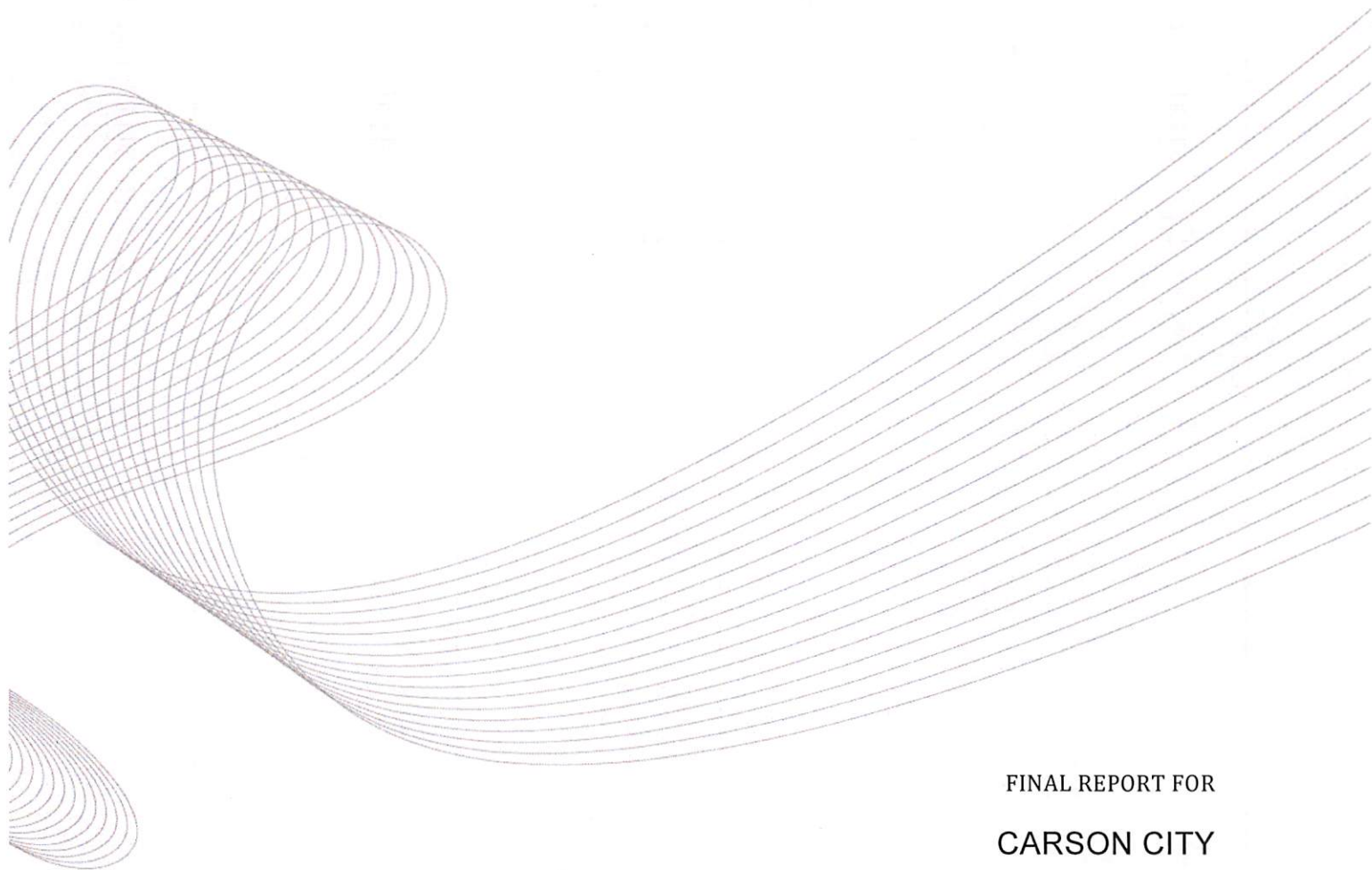
Date: 4/13/15

Board Action Taken:

Motion: \_\_\_\_\_

	Member	Aye/Nay
1)	_____	_____
2)	_____	_____
3)	_____	_____
4)	_____	_____
5)	_____	_____

\_\_\_\_\_  
(Vote Recorded By)



FINAL REPORT FOR  
**CARSON CITY**  
INTERNAL CONTROLS REVIEW

March 31, 2015

Prepared by:

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**MOSS ADAMS** LLP

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# MOSS ADAMS<sub>LLP</sub>

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## I. EXECUTIVE SUMMARY

Carson City (the City) requested third-party assistance to review its internal controls framework. The review took place between November 2014 and January 2015 and focused on assessing select key controls in areas deemed important to protecting the City's assets and resources, and processing and reporting timely financial information.

The review of internal accounting controls was completed under the consultancy standards of the American Institute of Certified Public Accountants (AICPA). As such, this work was not an audit of internal controls that resulted in a formal opinion or other form of assurance. Moss Adams reviewed the City's internal controls for design but did not test those controls for operating effectiveness, which is assumed to be a forthcoming activity.

Specific areas where controls were reviewed included:

- Payroll
- Purchasing and accounts payable
- Monthly account reconciliation and closing
- Cash receipts and cash handling
- Revenues and billings
- Accounts receivables and write-offs
- Grant management and compliance
- IT general controls

The City has internal controls in place for many functions, but like most cities there is an opportunity to strengthen policies, procedures, systems, and training. Gaps of varying degrees were discovered in most of the functions reviewed, especially in the case of decentralized operations.

The implementation plan provided below defines an approach to addressing the internal control gaps listed in Section III. The gaps have been grouped into the following recommendation categorizes:

- Addressed through future internal audit work plans
- Discrete tasks that are more easily implemented
- Take time to develop and implement
- Require developing policies and procedures
- Require training

Some gaps are listed in more than one category.

Control Objective	Likelihood of Occurrence	Impact of Occurrence	Subject Matter	Action
<b>Recommendations that will be addressed through Internal Audit work plans</b>				
Payroll – 1	High	Moderate	Timekeeping	Periodic testing of reported hours
Payroll – 2	High	Low	Recording hours	Periodic testing of timesheets
Purchasing and Accounts Payable – 3	High	Moderate	Compliance with policies	Periodic testing of purchases for compliance with policies
Revenue/Cash Collections – 1	High	High	Revenue recognition	City-wide Cash Handling Audit and City-wide Revenue Audit
Revenue/Cash Collections - 2	High	High	Cash collections	Periodic visits to cash collection sites
<b>Recommendations that have discrete tasks that are easily implemented</b>				
Payroll – 4	Moderate	Moderate	FLSA	Implement review of FLSA calculation
Purchasing and Accounts Payable – 2	High	Moderate	P-cards	Establish responsibilities for review
Purchasing and Accounts Payable – 5	Moderate	Moderate	Cumulative vendor payments	Monitoring cumulative payments to vendors
Purchasing and Accounts Payable – 6	Moderate	Low	Deactivation of P-cards	Coordinate process to timely deactivate P-cards
Purchasing and Accounts Payable – 8	Low	Low	P-card user review	Implement periodic process to review P-card users
Revenue/Cash Collections – 4	High	Moderate	Cash tills	Implement separate cash tills
Revenue/Cash Collections – 5	Moderate	Moderate	Cash deposit	Implement processes to deposit cash daily
Revenue/Cash Collections – 3	High	High	Transportation of cash	Re-evaluate used of armored vehicle company
Revenue/Cash Collections – 7	Moderate	Moderate	Cash storage	Securely store cash



Control Objective	Likelihood of Occurrence	Impact of Occurrence	Subject Matter	Action
Revenue/Cash Collections – 8	Moderate	Moderate	Segregation of duties	Segregate duties related to cash handling
IT General Controls – 3	Moderate	Moderate	IT Governance	Continue to convene the Technology Governance Committee
IT General Controls – 5	Moderate	Moderate	Monitoring usage	Implement web filtering and review of audit logs
IT General Controls – 6	Moderate	Low	Termination of access	Implement process to ensure timely termination of access
IT General Controls – 7	Moderate	Low	Lockout settings	Implement lockout settings
<b>Recommendations to be implemented by the City that will take time to implement</b>				
Payroll – 7	Moderate	Low	Part-time employee	Explore options of including part-time employees schedule in the payroll system.
Purchasing and Accounts Payable – 7	Low	Moderate	New vendor set up	Segregate duties or implement monitoring controls for new vendor set-up
Grants Management – 1	High	Moderate	Community Support Services Program	Modify current processes to increase oversight
Grants Management – 2	Moderate	Moderate	Grants Coordinator	Establish Grants Coordinator position within Finance
Revenue/Cash Collections – 9	Low	Moderate	Analyze revenue	Implement processes for analyzing revenue
IT General Controls – 1	High	Moderate	IT purchases	Evaluate IT purchasing process
IT General Controls – 9	Moderate	Low	File security	Install encryption, wipe data, implement file sharing methods
IT General Controls – 10	Low	High	Network security	Implement intrusion detection system
IT General Controls – 11	Low	Moderate	Disaster recovery	Test disaster recovery plan

Control Objective	Likelihood of Occurrence	Impact of Occurrence	Subject Matter	Action
<b>Recommendations that require documentation of policies and procedures</b>				
Payroll – 1	High	Moderate	Timekeeping	Implement timekeeping policies and procedures
Payroll – 3	Moderate	Moderate	Overtime	Establish overtime policies
Payroll – 5	Moderate	Low	Timekeeping	Revise comprehensive payroll policies and procedures
Payroll – 8	Low	Moderate	Terminated employees	Implement procedures for detecting terminated employees.
Purchasing and Accounts Payable – 1	High	Moderate	Purchasing violations	Develop enforcement system policy for purchasing violations
Purchasing and Accounts Payable – 3	High	Moderate	Accounts payable	Update accounts payables policies and procedures
Purchasing and Accounts Payable – 4	Moderate	Moderate	Purchasing policy	Finalize and distribute Purchasing and Contracts Policy
Grants Management – 3	Moderate	Moderate	Grants management	Update Grants administration policy
Revenue/Cash Collections – 10	Low	Moderate	Cash handling policy	Update Cash Handling Policy
Other – 2	Low	Low	Key processes	Document and update key processes and procedures
IT General Controls – 3	Moderate	Moderate	IT policies	Adopt city-wide IT policies
IT General Controls – 4	Moderate	Moderate	Usage agreement	Expand computer use policy
<b>Recommendations that require training</b>				
Payroll – 1	High	Moderate	Timekeeping	Train supervisors on timekeeping
Payroll – 6	Moderate	Low	Overtime	Train supervisors and managers on overtime review
Purchasing and Accounts Payable – 1	High	Moderate	Purchasing violations	Train employees on purchasing policies

Control Objective	Likelihood of Occurrence	Impact of Occurrence	Subject Matter	Action
Grants Management – 4	Moderate	Moderate	Grants training	Train departments on grants management
Revenue/Cash Collections – 6	Moderate	Moderate	Cash handling training	Implement city-wide cash handling training
Other – 1	Moderate	Moderate	Fraud training	Provide annual fraud and internal controls training
IT General Controls – 2	High	Low	IT training	Implement IT training and communication process for IT issues

## II. SCOPE AND METHODOLOGY

The scope of our review included a high-level evaluation of key internal controls throughout Carson City to determine the general adequacy of enterprise internal controls and identify areas warranting more in-depth review in the future.

The scope of internal controls review included the following aspects:

- Identifying control objectives in specific areas and identifying controls that would satisfy each control objective
- Reviewing policies and procedures
- Examining relevant documentation in support of select key controls
- Performing control walkthroughs to observe the design of key controls and understand workflow processes
- Obtaining an understanding of the characteristics of each relevant control activity (who performs it, how often it is designed to operate, whether it is designed to mitigate fraud, whether it is a manual or programmed [automated] control, and whether it is a preventive, detective, or corrective control)
- Assessing whether the controls in place would prevent or detect errors
- Providing recommendations on key controls that need to be implemented or changed

The work performed included interviews with personnel involved in managing functions, processing key accounting transactions, and handling physical assets. Such positions included:

### **Finance/Accounting Department**

- Deputy Finance Director
- Accounting Manager
- Accounting Manager
- Payroll Administrator
- Purchasing and Contracts Manager
- Accounts Payable Clerk

### **Treasurer**

- Chief Deputy Treasurer

### **Human Resources Department**

- Human Resources Analyst

### **Information Technology Department**

- IT Manager

### **Community Development**

- Grants Program Coordinator
- Senior Permit Technician

### **Courts**

- Court Fiscal Manager
- Court Administrator

### **Juvenile Services**

- Chief
- Deputy Chief – Probation
- Court Fiscal Manager
- Office Manager

### **Fire Department**

- Business Manager
- Management Assistant 3

**Public Works**

- Utility Manager
- Management Assistant 3 – Landfill
- Fiscal Analyst
- Senior Transportation Planner
- Transit Coordinator

**Library**

- Library Director

**Health and Human Services**

- Business Manager

**Parks and Recreation**

- Business Manager

**Sheriff's Office**

- Chief of Financial Services

In support of the internal controls review, the matrix provided in Section III provides a summary documentation of:

- Control objectives
- Control issues
- Corresponding recommendations
- Likelihood of occurrence
- Impact of occurrence

Likelihood of occurrence is defined as the probability of a negative event occurring. Impact of occurrence is defined as the level of significance if a negative event occurs. Risk levels of low, moderate, or high were used to rate the likelihood of occurrence and impact of occurrence for each finding.

Beyond those controls that have been reported within this report as a control issue, additional controls were reviewed without exception. The total population of controls reviewed was over 100 controls. It should be noted that many controls were reviewed multiple times in relevant, separate department reviews. Only those key controls with exception conditions are reported in this document.

The primary conclusion from this review is that the City has an opportunity to improve internal controls and strengthen processes and procedures. Suggested priorities to address over the next 6 to 12 months include, but are not limited to:

- Purchasing
- P-cards
- Grants management
- Cash handling and revenue
- Information technology
- Timekeeping

### III. INTERNAL CONTROLS REVIEW

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<b>A. Payroll and Timekeeping</b>				
<p>1. Hours are accumulated and reported accurately.</p>	<p>The departments' review of accumulated hours reported in HTE is not documented and thus may not be performed consistently, which results in the risk of hours not being accumulated and reported accurately. The Fire Department and Sheriff's Office use TeleStaff for electronic timekeeping, which has an electronic approval process. Designated individuals in each of these departments then upload this information into HTE, the City's payroll system.</p> <p>In all other departments, employees use paper timesheets for timekeeping which require manual approval and manual entry into HTE. Employees submit timesheets to a designated individual in each department. The designee enters this data into HTE. Once this information is entered, a report is created within HTE and provided to a supervisor or manager for review against the paper timesheets.</p> <p>Although signatures are required on the paper timesheets upon review, no approval of the HTE report by the reviewer is required. Thus, there is no documentation that a review of this report is being performed. While the Payroll Division believes that departments should perform this function, there is no City-wide policy requiring documentary evidence of this key control.</p>	<p>Implement City-wide policies and procedures regarding timekeeping, including review of accumulating and reporting hours accurately.</p> <p>Provide training to department supervisors and managers about duties related to timekeeping.</p> <p>Use Finance staff or internal audit resources to perform periodic monitoring of departmental processes and controls related to review of accumulating and reporting hours accurately.</p>	<p>High</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>2. Hours recorded are adequately monitored and reviewed.</p>	<p>Reviewing hours recorded in HTE is a high-level manual process and is subject to human error. Although the Payroll Division performs checks to ensure the accuracy of time reported prior to processing payroll, these checks are performed almost entirely manually. A Payroll staff member reviews the hours proof report each pay period, which shows the number of hours worked per day, the type of hours, and the wage rate applied. Payroll manually reviews this report, employee by employee, to verify that enough base hours were reported and holidays were reported appropriately. Also, the Payroll Division checks to verify that the appropriate overtime codes were used according to the relevant bargaining unit.</p>	<p>Implement random audits of paper timesheets for completeness and accuracy assurance. Use finance staff or internal audit resources to perform the random audits.</p> <p>Explore options for programming additional reports or queries to assist in assuring accuracy and quality of timekeeping and payroll information.</p>	<p>High</p>	<p>Low</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>3. There are policies governing the use of overtime and its authorization.</p>	<p>Other than the agreements with each bargaining unit, the City does not have City-wide policies regarding overtime usage. As a result, the use of overtime varies by department and position. For example, employees in Fire and Public Works may have significant overtime, while IT has none. In addition, the process for documenting and approving overtime varies by departments. Some departments, by nature, allow overtime that has not been pre-approved, while others do not. Additionally, the overtime forms that each department submits are slightly different.</p> <p>Departmental designees enter overtime hours into HTE and submit the forms to Payroll. Payroll does not routinely review these forms. Once all overtime hours are entered, Payroll reviews the hours proof to assess the reasonableness of the hours. Because there is no City-wide policy regarding overtime or a policy guiding the Payroll staff in their review, the review is subjective and its value is limited. The staff will follow up with departments if the number of overtime hours seems unusual or high. Similarly, without more definitive guidance, Payroll staff does not address whether all of the appropriate authorizations were made. Without tighter controls over overtime, the City risks overpaying for overtime.</p>	<p>Establish a City-wide policy on overtime, including the general authorization process. Specify exceptions by department or situation, as necessary. Create procedures and guidelines for Payroll to follow in assessing the reasonableness of overtime.</p>	<p>Moderate</p>	<p>Moderate</p>



Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>4. Gross and net pay is calculated accurately.</p>	<p>The Fair Labor Standards Act (FLSA) calculations are minimally reviewed, and the Payroll Division relies on an Excel spreadsheet to calculate and track complex FLSA compliance requirements. Manual processes, including calculations, are subject to error.</p>	<p>Implement processes to reduce risk of errors, including performing additional periodic reviews of the FLSA spreadsheet, incorporate formulas into the spreadsheet, and restrict editing.</p> <p>Explore opportunities to automate FLSA calculations to eliminate the manual process. Alternately, incorporate a review step by an accounting manager or the Deputy Finance Manager into the existing process.</p>	<p>Moderate</p>	<p>Moderate</p>
<p>5. There are well-documented policies and procedures relating to timekeeping.</p>	<p>The documentation of payroll processes and procedures is insufficient and not current. For example, staff are instructed to audit the hours proof report for the reasonableness of regular rates and for hard coded rates, but no further explanation is provided. Similarly, other information that should be reviewed, such as holidays during the pay period, is not mentioned in the procedures.</p> <p>In addition, the City's procedures for departments to follow regarding timekeeping and payroll are not up-to-date or comprehensive. For example, the process that managers should follow when reviewing the accuracy of the hours proof is not documented. Similarly, the City does not provide guidance to departments about how to track and verify employee leave time. Without comprehensive policies and procedures for payroll, the City is at risk of departments adopting their own methods related to payroll and timekeeping. These methods may not have adequate internal controls.</p>	<p>Continue efforts to revise existing policies and procedures to more comprehensively document the accuracy assurance functions of Payroll.</p> <p>Update City-wide policies regarding timekeeping to remove sections that are not relevant and add instructions for departments about how to effectively review timesheets and hours proofs, as well as document their review.</p>	<p>Moderate</p>	<p>Low</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>6. Overtime is overseen to ensure compliance with laws and regulations, and to ensure cost controls for efficient operations.</p>	<p>Department supervisor training and experience with overtime rules and regulations is insufficient, which could result in instances of non-compliance with payroll laws. For example, in Parks and Recreation, a part-time employee reported 12 hours in one day. Payroll noticed this during its manual review of the hours proof report. When asked about this, the Recreation supervisor did not realize that overtime rules applied to employees who worked less than 40 hours in one week. While the Payroll Division may detect some errors through its manual review, without reports to help support this analysis, this review may not be sufficient to provide reliable assurance. Moreover, errors may be more effectively addressed by developing a policy and increasing training to help departments prevent errors at the outset.</p>	<p>Create written guidance, applicable citywide, for supervisors and managers regarding overtime rules and regulations.</p> <p>Incorporate the topic of overtime into training for new supervisors and managers.</p> <p>Provide training to existing supervisors and managers in departments with higher numbers of part-time employees, such as Parks and Recreation.</p>	<p>Moderate</p>	<p>Low</p>
<p>7. Hours worked, including overtime, are accumulated and reported accurately. (Part-time employees)</p>	<p>Part-time employees do not have schedules established within the Payroll system resulting in ineffective tracking of potential overpayments and potential incurrence of unauthorized overtime. This poses a challenge for the designated timekeepers in the departments, as well as the Payroll Division. Without schedules for comparison, Payroll is limited in how much accuracy assurance it can perform of hours reported by part-time employees. For example, Payroll can only ensure that overtime rules are observed and verify that hours do not exceed a full-time schedule. Due to these limitations, overpayments to part-time employees can and have occurred. The risk of overpayment is highest in departments with a high number of part-time employees (e.g., Parks &amp; Recreation).</p>	<p>Explore options to provide Payroll staff with additional information about part-time employees such as incorporating additional information into the Payroll profile or developing and maintaining another centralized file for part-time employees, including average hours per week and maximum authorized hours per week.</p>	<p>Moderate</p>	<p>Low</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>8. Employee terminations are updated in the payroll system accurately and in a timely manner.</p>	<p>There are not adequate centralized controls in place to prevent terminated employees from continued payroll payments subsequent to termination. The schedules of full-time and salaried employees are loaded into HTE, the Payroll system. The City relies on exception-based reporting for payroll. If an employee terminates his or her employment, the City relies on the departments to communicate this termination to the Human Resources Department and Payroll Division to discontinue employee pay.</p> <p>The use of exception-based reporting makes the paper timesheets a key control to prevent continued payment to a terminated employee. Although all employees are supposed to complete and submit paper timesheets, Payroll does not check to ensure that timesheets have been received for all employees. Instead, the City relies on the departments to detect that timesheets were not completed for all individuals included on the hours proof report.</p>	<p>Implement random audits of paper timesheets for completeness.</p> <p>Policies and procedures should include guidance to departments about how to adequately review the hours proof report, including the detection of payment for terminated employees.</p>	<p>Low</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<b>B. Purchasing and Accounts Payable</b>				
<p>1. All purchases follow the established purchasing process.</p>	<p>Some departments circumvent the existing purchasing processes and avoid centralized review prior to purchase, which could result in the City not receiving competitive prices for goods and services. According to the City's draft Purchasing and Contracts Policy, requests for purchases over \$5,000 should be routed, with supporting documentation, to the Purchasing and Contracts Manager for review prior to purchase. Regardless of payment method, Departments are supposed to request a purchase order through Purchasing prior to making a purchase. However, aside from the existing policy, there are not strong controls in place to ensure that departments follow this process. As a result, some departments bypass this process. In particular, some departments are making purchases on purchasing cards (p-cards) and then requesting the purchase order after the fact. These instances have been detected by the Purchasing and Contracts Manager in review of p-card transactions. Additionally, the Accounts Payable Clerk and Accounting Manager have found and rejected field purchase orders in excess of \$5,000 submitted to Finance. The lack of consequences following these violations offers little deterrent and further weakens this control over purchases. In addition, training to the departmental staff involved in purchasing was last provided in 2013. Thus, the purchasing staff throughout the City may not have a clear understanding of purchasing policies and procedures.</p>	<p>Develop and implement an enforcement system, for individuals who violate the City-wide purchasing policies. Include information about this enforcement system in the Purchasing and Contracts Policy under development as well as update the Purchasing Card Policy.</p> <p>Conduct a training course to refresh employees' understanding of purchasing policies and include changes within the new Purchasing and Contracts Policy. Given the limited resources within the Purchasing Division, training could be provided one-time to review the new policy with departmental staff. In the future, the Purchasing Division should meet with any new staff with purchasing responsibilities to review the Policy. Alternatively, the City could record the training and provide it digitally on demand.</p> <p>Consider establishing a Purchasing Committee comprised of staff across the City with purchasing responsibilities to provide a forum for sharing best practices, communicating policy changes, and addressing issues.</p>	<p>High</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>2. Purchasing card transactions are reviewed for accuracy and appropriateness.</p>	<p>There are inadequate controls in place to ensure compliance with purchasing policies, verify reasonable pricing, or ultimately prevent fraudulent usage related to p-cards. During fiscal year 2013, the City's 238 cardholders made 17,490 transactions for a total of \$6.5 million spent on p-cards. Given the extent of p-card usage, it is critical that the City has adequate preventative and detective controls in place over this usage.</p> <p>The City recently disseminated a p-card Program Manual that outlines the responsibilities of the cardholders, department personnel, and the p-card administrator. While the manual provides valuable written guidance and serves as a good preventative control, certain activities related to monitoring transactions are not covered. For example, no one is identified as responsible for reviewing transactions to determine if pricing is reasonable for the goods purchased or if vendors are already under contract or purchase order with the City. Further, no one is identified as responsible for prohibiting technology purchases without prior IT approval.</p> <p>Additionally, while some roles are specified, centralized monitoring by Finance staff is not documented in the manual or departmental policies and procedures. Currently the Accounts Payable Clerk and Accounting Manager review p-card transactions and supporting documentation each month. However, without the scope of this review documented, it is unclear what detective controls Finance staff have in place.</p>	<p>Establish roles and responsibilities for p-card transactions, review within the Finance Department, and document them in the P-card Program Manual or Finance Department policies and procedures.</p> <p>Best practice is for:</p> <ul style="list-style-type: none"> <li>• Accounts Payable to review all transactions for accuracy of transaction and tax amounts, existence of support, and completeness.</li> <li>• Finance Department to periodically audit (at least once every quarter) transactions for:               <ul style="list-style-type: none"> <li>○ Purchases with vendors with whom the City has existing POs/contracts</li> <li>○ Purchases for goods/services that the City is able to provide internally or through existing POs/contracts</li> <li>○ Reasonableness of pricing</li> <li>○ Sum of amounts spent with each vendor approaching limits requiring POs/contract</li> </ul> </li> </ul>	<p>High</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>3. All purchases are reviewed for appropriateness, reasonableness, and compliance with purchasing policies.</p>	<p>There are not strong controls in place to ensure that all purchases made with City funds are reasonable, appropriate, and in compliance with the City's purchasing policies. The City's purchasing policy is still in draft form. Therefore, there are not clear, written requirements to which departments must adhere. In addition, the review for appropriateness and reasonableness of purchases under \$5,000 is left entirely up to departments. Although this is common in a decentralized system, without a program within Finance to perform spot checks or random audits, the City is dependent on departments to detect all fraud, waste, or abuse for transactions under \$5,000.</p> <p>The Accounts Payable Clerk position has had relatively high turnover—the third person in three years is now in the position. This position serves a key role in monitoring all purchases made throughout the City. While some accounts payable policies and procedures are documented, they are not comprehensive or up-to-date.</p>	<p>As part of the internal audit work plan, design and implement a program to perform random reviews or spot checks of purchases to determine if goods and services are properly procured. Transition program to Purchasing to perform future reviews or spot checks.</p> <p>Review and update Accounts Payable policies and procedures.</p>	<p>High</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>4. Purchasing policies and procedures are well-documented.</p>	<p>The Purchasing and Contracts Policy, created by the Finance Department, was still in draft form at the time of this review. A City-wide purchasing policy ensures that departmental staff are aware of the parameters with which they must comply in completing purchases, including Nevada State Law and City Code. Without an adopted policy in place, non-compliant purchases are more likely to occur. Additionally, while the draft policy is applicable City-wide and is highly detailed, it does not outline all City purchasing rules, such as the restriction of IT purchases without prior approval. As discussed in the <i>IT General Controls – 1</i> control objective, involvement of the IT Department is crucial to not only verify the appropriateness of technical specifications, but also to obtain preferred pricing.</p>	<p>See recommendation for <i>Purchasing and Accounts Payable – 1</i>.</p> <p>Update the draft Purchasing and Contracts Policy to include a clause that restricts IT purchases within departments without first consulting the IT Department or gaining approval from the IT Department.</p> <p>Finalize and distribute the Purchasing and Contracts Policy to all City departments.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>5. Vendor payments are monitored consistently.</p>	<p>Aggregated vendor payments across all purchasing vehicles are not monitored to ensure compliance with purchasing policies. Without aggregating vendor payments across all purchasing vehicles, this control is not as strong as it could be. In addition, the existing processes are not documented. Without documentation, there is less assurance that this practice will be consistently and appropriately performed in the future.</p> <p>However, Purchasing monitors cumulative vendor payments made with p-cards on a monthly basis. The Purchasing Coordinator also maintains a spreadsheet of all contracts active within the City, which is frequently monitored and visible by all City departments/offices. Purchase order records are maintained within HTE and are reviewed by vendor as well, although the consistency and frequency of these reviews is unclear. These are good approaches as both preventative and detective controls, because these controls alert staff when payments are approaching limits, as well as clearly show when those limits have been surpassed.</p>	<p>Review and document the current process for monitoring cumulative vendor payments.</p> <p>Continue to explore opportunities, such as implementation of a new p-card module, to strengthen this control by developing a process to periodically monitor cumulative payments made to vendors regardless of the purchasing vehicle used (e.g., purchase order, contract, or p-card).</p>	<p>Moderate</p>	<p>Moderate</p>



Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>6. Purchasing cards are promptly deactivated upon termination of employment.</p>	<p>P-cards are not consistently and immediately deactivated upon employee termination of employment with the City, which could result in employees making unauthorized purchases after they are terminated.</p> <p>Whether a p-card is quickly deactivated or not is dependent on how an employee leaves the City. If employees are terminated, the Human Resources Department collects and returns their p-card to the Purchasing Division. However, if employees terminate employment of their own accord, such as when resigning or retiring, p-cards may not be collected.</p> <p>Purchasing waits to deactivate P-cards until after the final purchase on the account is processed. For this reason, there have been recurring automatic charges incurred after employees no longer work for the City. Additionally, delays in departmental notifications of terminations would allow terminated employees to continue using a p-card.</p>	<p>Coordinate communications on voluntary terminations between the Human Resources Department and Purchasing, so that terminations are communicated in a timely manner.</p> <p>Discontinue practice of postponing card deactivation. Incorporate this change in written policies and procedures.</p>	<p>Moderate</p>	<p>Low</p>
<p>7. Controls over the entry of new vendors are adequate.</p>	<p>The segregation of duties between accounts payable and vendor establishment functions is insufficient. The Accounts Payable Clerk and Finance Department's Management Assistant are responsible for entering new vendors into HTE. The Accounting Manager, who reviews these entries before they are finalized, also has the ability to enter new vendors and update vendor information. Because the Accounts Payable Clerk and Accounting Assistant also review payables, there are insufficient controls in place to detect fictitious or fraudulent vendors being established and paid by the City.</p>	<p>Segregate all duties involving the establishment of new vendors to distinct positions not otherwise involved in Accounts Payable or Accounting.</p> <p>If segregating these duties is not feasible, implement a monitoring control over the establishment of new vendors and change of vendor information. For example, provide a monthly report with supporting documentation to the Deputy Finance Director for review and verification of vendor changes.</p>	<p>Low</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
8. The list of purchasing card holders is reviewed regularly.	The process for updating the list of p-card holders has not been documented, and no comprehensive review of this list is regularly performed. When the Purchasing and Contracts Manager became the p-card administrator in 2013, a list was sent to all departments to confirm all p-card holders. After that time, departments notify Purchasing when p-card holders terminate employment with the City, and the Purchasing Manager updates the list. The process for these updates has not been documented. Moreover, as discussed in the <i>Purchasing and Accounts Payable – 6</i> control objective, employment terminations may not be communicated promptly to Purchasing. In this decentralized environment, periodic reviews of cardholders are essential to prevent purchases by unauthorized cardholders.	Document the process for verifying cardholders, including the schedule for performance and mechanism for ensuring performance.  Implement and document process for regular comprehensive reviews of cardholders.	Low	Low
<b>C. Grants Management</b>				
1. Adequate controls exist to ensure the integrity of grant-funded projects by the City.	The City lacks internal controls related to their grant program to ensure integrity and effectiveness in meeting program objectives. The City distributes approximately \$375,000 to roughly 15 non-profit organizations per year. The majority of this money is awarded through the City's Community Support Services Grant (CSSG) program, which is funded by the General Fund. Some changes have been made in recent years to formalize the program, such as the development of a comprehensive application, including proof of non-profit status, and a system to review and score applications. However, the grant program still lacks controls to help ensure the integrity of the award process, as well as proper use of funds to meet	Modify the manner that grant recipients are paid. Consider shifting to quarterly payments, with accompanying performance reports, or to a reimbursement basis.  Increase the reporting of activities to a quarterly basis, and implement a monitoring process to ensure the accuracy of these reports.  Develop a formal grant agreement, including performance expectations and consequences for failure to perform.  Establish a formal process to report and review possible conflicts of interest for all parties involved in the review and award process for the CSSG program.	High	Moderate

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
	<p>the grant objectives. For example, awards are granted in a one-time lump sum, rather than on a reimbursement basis, which increases the risk that organizations will not use the funds as described in their application. Additionally, activities are not tracked throughout the year. Instead they are simply reported through an annual report at the end of the year. Thus, the City has no mechanism to monitor the progress of grant recipients throughout the year. Also, no formal grant agreements are in place showing commitments to perform certain activities described. Applications simply require alignment with at least one of the City's ten goals. In addition, a process to resolve any possible conflicts of interest by applicant reviewers or Board of Supervisors members has not been developed.</p>			
<p>2. Adequate oversight and management of grants is established and provided on an ongoing basis.</p>	<p>The City lacks a dedicated Grants Coordinator position that is responsible for the oversight of all grants City-wide, and Finance's overall role in grants management is limited. The responsibilities of a Grants Coordinator position are performed by the Purchasing and Contracts Manager. Without sufficient staffing resources for this function, improvements within grants management, such as training, policy development, and compliance compete with other priorities and are not accomplished due to workload. Moreover, the Purchasing and Contracts Manager position may not have the necessary subject matter expertise in grants management. The role of Finance related to grants management has been defined fairly narrowly. It includes the assignment of general ledger numbers for accounts, reconciling the</p>	<p>Consider establishing a dedicated Grants Coordinator position within the Finance Department that is charged with overall grant oversight. Responsibilities include monitoring grants that are managed by various departments throughout the City, as well as performing training and monitoring compliance. If establishing a dedicated position is not feasible, consider assembling a committee of designated personnel from each department who are involved in the administration of grants. Convene meetings regularly, monthly or quarterly, to discuss new or ongoing issues within the grants environment.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
	<p>grant funds at year-end to ensure that revenues match expenses, and maintaining a City-wide inventory of grants.</p> <p>As a result, departments are responsible for the administration of their own grants, including compliance with the grants requirements. As departments manage grants without centralized monitoring and review procedures to ensure compliance and efficiency in managing grants, the, departments, and the City, face an increased risk of not complying with grant requirements.</p>			

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>3. Grants management policies and processes are well documented and up-to-date.</p>	<p>The grants administration policy is not comprehensive and has not been updated since April 2011. As a result, the policy does not reflect the changes in Uniform Grant Guidance, which became effective in December 2014. Without careful review and implementation of changes in requirements, the City could risk losing its current grant funding due to non-compliance. Additionally, important information that may need to be collected to adhere to new requirements may not be collected at the outset. Retroactively retrieving this information to comply with requirements can be costly and time-consuming.</p> <p>Other issues within the grants administration policy warrant revision. Specifically, while the current policy does address the application and award process, it does not outline roles and responsibilities related to grant reporting requirements. For example, the review process prior to submitting reports to granting agencies is not addressed. Moreover, the policy does not accurately reflect the key individuals within the Finance department involved in grants administration. For example, the policy outlines responsibilities for the Grants Coordinator. However, these tasks are currently performed by the Purchasing and Contracts Manager. This may confuse the personnel administering grants about the centralized roles and responsibilities of individuals within Finance. Finally, while City policy tasks departments with the responsibility for complying with all grant requirements, individual departments may not possess the expertise to review new requirements and determine which ones will affect the City.</p>	<p>Review and update the grants administration policy to include current Uniform Grant Guidance, clarification of the Grants Administrator role, and responsibility for reporting requirements.</p> <p>Consider adding some responsibilities for ongoing grant requirement knowledge to the Grants Coordinator role.</p> <p>Distribute the updated grants administration policy to grants personnel throughout the City and provide training on the policy.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>4. Training programs, both formal and informal, provide enough knowledge and skills necessary to manage and administer grants compliance.</p>	<p>Employees responsible for monitoring grant compliance may not receive adequate information to accurately manage and track compliance with grant requirements. Grants have complex and ongoing changes to compliance requirements that are imposed by various federal, state, and pass-through agencies. There is no City-wide training conducted regarding the administration of grants. Instead, some departments provide training resources to their grants personnel, while others do not.</p> <p>The City relies primarily on grant agencies to provide training to program administrators. However, granting agencies should not be relied upon as the sole source of guidance for recipients. For example, the Community Development Department had an audit finding for their Community Development Block Grant (CDBG), because it did not submit its Federal Financial Transactions Accountability (FFATA) report. However, Community Development's Housing and Urban Development (HUD) representative for CDBG was not aware that this FFATA reporting requirement existed. The overreliance on granting agency representatives as sources of information for grants administration and compliance pose risks to the City that ultimately can result in audit findings and lost revenue. Knowledgeable and well-trained grants personnel within the City are the most effective control to ensure grant requirement compliance.</p>	<p>Provide specific internal and/or external training to all employees in departments responsible for monitoring grants. The training should be relevant to the type of grants being managed, including documented requirements. Dedicate a training budget that is adequate to cover such costs.</p> <p>Continue to maintain written documentation of the advice it requests from the granting agency.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<b>D. Revenue and Cash Collections</b>				
<p>1. All available revenue (or cost reimbursements) are identified, placed in the information system, and processed.</p>	<p>The City is at risk that revenue is not completely and accurately recorded due to evidence of control weaknesses and process issues within individual departments and offices, as well as recent fraud. Some individual departments are maintaining transactions outside of the system within Excel spreadsheets or, in some instances, by hand. Such systems can be easy to circumvent.</p> <p>For example, in the Sheriff's Office, some revenue records are maintained in Excel, and the receipt and storage system for bail money is antiquated. The Fire Department also uses Excel for most of its revenue records. In the Parks and Recreation Department, no receipts are provided to customers at the concession stand. Without receipts, employees can easily pocket cash and not record transactions.</p>	<p>Perform a risk-based City-wide Cash Handling Audit as part of the internal audit work program</p> <p>Perform a risk-based City-wide Revenue Audit as part of the internal audit work program.</p>	<p>High</p>	<p>High</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
2. Cash controls at remote collection sites should be periodically monitored and tested.	Cash controls at remote collection sites are not periodically monitored and tested to ensure they are in place, properly designed, and operating in accordance with management objectives. . Without periodic monitoring in place, the City is at higher risk of misappropriation of cash.	Periodically test cash controls at those sites within the City that collect cash to ensure that employees are adhering to City policies and procedures. These tests should include audit (count) of cash tills and reserve, inspection of safes, review of cash handling policies and procedures with employees, and observation of transaction processing. These tests can be performed by finance staff or internal audit resources. According to the Association of Fraud Examiners (ACFE) <sup>1</sup> , surprise audits reduce fraud cost and duration, as well as deter potential fraudsters.	High	High
3. Safety/protection measures are adequate to ensure persons physically making or handling cash deposits at locations are physically protected. Safe conditions exist for transport of money between locations.	Money is not transported safely between City locations. The City uses bonded part-time employees (couriers) to visit each department and drop-off/pick-up mail and collect deposits each day. These employees bring departmental deposits to the Treasurer every day. Following processing at the Treasurer's Office, the employee takes the deposit to the bank. The employee is 1) unarmed, 2) carrying deposits from departments to a City vehicle in a clear deposit bag in the open, 3) in plain clothes, 4) alone, and 5) carrying thousands of dollars in cash on daily basis. This current process is a legal and safety risk. Within Parks & Recreation, a City employee begins each day by visiting multiple locations to collect cash from safes. The employee is unarmed drives a personal vehicle, and alone during peak seasons.	Consider a contract with an armored vehicle company for both daily City deposits and Parks and Recreation cash transport or implement additional safety controls for employees responsible for transporting cash. A comparison of the benefits and costs of employing the two current part-time employees may be useful. The safety of City employees and assets should be paramount.	High	High

<sup>1</sup> ACFE Report to the Nations on Occupational Fraud and Abuse 2014 Global Fraud Study.



Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
4. Each cashier has their own separate cash till.	<p>Multiple employees share one cash till in certain locations. For example, about six employees use one cash till within the Civil Division of the Sheriff's Office. The sharing of cash tills results in not being able to track cash overages or shortages by employee, as well as the risk of wrongful termination if shortages in cash resulted in termination of an employee.</p> <p>Some departments have found ways to mitigate risks without a separate drawer for each employee. For example, within Parks and Recreation, four signatures are required on the nightly close documentation, which includes reconciliation between a report from the ActiveNet system and the cash till, as well as monitoring of overages and shortages.</p>	Whenever possible, implement separate cash tills for each employee. If separate cash tills are not possible, implement mitigating controls to reduce risk. Whenever single cash tills are in use, monitor overages and shortages carefully. If consistent overages and shortages occur, reevaluate risk and install separate cash tills.	High	Moderate
5. Minimize the number of days that cash receipts are not in the custody of the City's bank.	Within some departments, cash is held on-site and not deposited in a timely manner, despite the daily pick-up of deposits by a courier. For example, the Fire Department Administrative Office generally prepares its weekly deposits. The longer that cash is held, the higher the risk of misappropriation.	Implement processes to deposit cash daily.	Moderate	Moderate
6. Periodic cash handling training is performed.	Employees that are involved in the handling of cash, preparation of deposits, entry of deposit information, and the supervision of employees that perform these duties do not receive periodic cash handling training. Without adequate training, employees are more likely to not understand the internal controls that need to be in place to prevent misappropriation of cash.	<p>Determine which positions (employees) should receive cash handling training based on their job duties or supervisory responsibilities, and provide training.</p> <p>Incorporate citywide cash handling training into the onboarding process of new employees, and provide annual training to current employees.</p>	Moderate	Moderate

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>7. Cash is stored securely when not in the custody of the City's bank.</p>	<p>Cash is not stored securely at certain locations, which results in the risk of misappropriation.</p> <p>For example, an employee within Community Development regularly keeps an unlocked cash box within an unlocked drawer. While the volume of money collected is generally minimal, it has been reported to be between \$2,000 and \$3,000 on some days. This employee does have access to a safe.</p> <p>Within the Permit Center, Permit Technician cash tills do not sit within a locked cash drawer when in use during business hours. Instead the cash tills are under the counter. Each drawer contains \$200 at the start of the day.</p> <p>Because the Landfill Division within Public Works consistently runs out of small bills (too small of a reserve), the Division has to use the deposit from the night before to create change.</p> <p>The Business Manager in the Fire Department keeps the deposit bag in a locked file cabinet within his locked office.</p>	<p>In conjunction with the recommendations associated with the <i>Revenue and Cash Collections 2 through 5</i> control objectives, securely store cash. The update and communication of the City's Cash Handling Policy will help to standardize employee knowledge and set a standard for cash management within the City. The policy should include best practices that are applicable to the City's processes and address the control issues. For example, it is a best practice to seal deposit bags upon preparation of the deposit, even if it is prepared the night prior to deposit. Leaving the bag open and allowing change to be made out of the deposit is not secure. Additionally, cash should be secured within a safe whenever possible, rather than in locked file cabinets or in other areas of an employee's office.</p> <p>Individual offices and departments may require assistance in determining how to most securely store cash during the business day or after hours where there is a lack of locking cash drawers or a safe on-site.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
8. Appropriate segregation of duties exist between employees handling cash, employees able to change transaction data in the POS system, and/or employees responsible for preparing the deposit.	Within Parks and Recreation, the employee responsible for preparing the deposit can also make adjustments within the ActiveNet system. As a result, duties are not adequately segregated, which puts the City at risk for misappropriation of cash.	Segregate the deposit preparation duties across two employees, so that one employee prepares the deposit and another employee makes entries into ActiveNet. The employee responsible for deposit preparation should not have edit abilities within ActiveNet.	Moderate	Moderate
9. Revenue accounts are periodically analyzed with timely investigations for unusual variations.	Departments do not consistently monitor revenue trends on month-to-month, year-to-year, or other comparative time periods. Departmental managers only review trends within revenue accounts for budget projections as the new fiscal year approaches. This monitoring provides insight and can show significant deviations that warrant investigation. This analysis is a strong detective control. According to the Association for Certified Fraud Examiners (ACFE) <sup>2</sup> , the presence of proactive data monitoring and analysis correlated with fraud that was 60% less costly and 50% shorter in duration.	Implement processes for departments to consistently monitor revenue accounts for variation that may warrant investigation. For example, daily, monthly, and quarterly revenue collected by location can be compared over time (month-to-month, year-to-year) to determine if fluctuations are significant. If there are significant fluctuations (generally, greater than +/- 5%), management should determine if those fluctuations are reasonable or unreasonable and warrant additional investigation.	Low	Moderate

<sup>2</sup> ACFE Report to the Nations on Occupational Fraud and Abuse 2014 Global Fraud Study

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
10. A well-documented and current Cash Handling Policy exists.	The City's Cash Handling Policy is out of date and is not well known by employees that handle cash throughout the City. Without an updated policy that is distributed to all employees who handle cash, the City is at risk of employees adopting their own methods, which may not have adequate internal controls.	Update the City's Cash Handling Policy and train departments on the updated policy.	Low	Moderate
<b>E. Other</b>				
1. Employees are provided relevant training to understand and adhere to internal controls, as well as how to prevent and detect fraud, waste, and abuse.	While a training program exists to provide mandated courses, such as sexual harassment prevention, the programs do not address internal controls and how to prevent and detect fraud, waste, and abuse. According to the ACFE <sup>3</sup> , the typical organization loses 5% of revenue each year to fraud, with asset misappropriation being the most common form of fraud.	Provide annual training to all employees on internal controls and fraud prevention. Training should be provided at all levels of the organization (i.e., Board of Supervisors, management, and staff).	Moderate	Moderate
2. Procedures and processes should be formally documented and followed.	The City lacks documented comprehensive and up-to-date processes and procedures. Processes and procedures exist for some areas. However, many processes and procedures are outdated. Some departments may have procedures documented; however, they are not centrally located and not always readily available. Formalized processes and procedures are imperative for training of employees and to ensure the duties can still be performed in the case of employee turnover.	Document key processes and procedures and make timely updates for changes. These procedures should be centrally available and consistently followed.	Low	Low

<sup>3</sup> ACFE Report to the Nations on Occupational Fraud and Abuse 2014 Global Fraud Study

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<b>F. IT General Controls</b>				
<p>1. Controls exist over the acquisition of all new technology purchases including hardware and software.</p>	<p>Departments are circumventing the standard process for making IT purchases. According to a memorandum from the City Manager in 2009, Departments are supposed send all purchase requests for technology, including all hardware and software, to IT. IT reviews these requests, ensures alignment with IT objectives, and then places the order. Upon delivery, IT adds an asset tag, inventories the item, installs any software, and then delivers the item to the requesting department. Without purchasing in alignment with management policy and objectives, the City runs the risk of purchasing items that are not compatible with existing hardware and software or at a price that does not take advantage of collective purchasing.</p> <p>For example, a department purchased a copier/ printer without consulting IT. The department later discovered that the machine did not meet all of its needs. If coordinated through IT, then they could have used a contracted vendor, which would have resulted in the selection of an appropriate machine, cost savings, and a centrally managed contract for ongoing maintenance. Similarly, departments have independently purchased and installed their own servers. Without IT involvement over the acquisition and use of all technology, there are not adequate controls over cost, inventory, compatibility, and network security. The increased use of p-cards could result increased technology purchases by departments.</p>	<p>Adopt restrictive language and controls for departmental technology purchases that do not involve the IT Department.</p> <p>Develop template forms, with validating budgetary and departmental information, for departmental use in requesting IT products for acquisition consideration by the Technology Governance Committee.</p> <p>Examine opportunities to streamline the IT Department's involvement in technology purchases such as establishing standardized approved items.</p>	<p>High</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
2. All network users receive adequate training from IT as well as ongoing communication.	New hires do not receive training or ongoing communication regarding IT issues. New employees receive training by the Human Resources Department. As part of this new employee training, the IT Department provides a packet of information. This information is not comprehensive. For example, it does not include policies about protecting assets and access to technology. Additionally, the IT Department does not regularly communicate with all network users. For example, IT does not communicate with users about answers to frequently asked questions received by the Help Desk.	Expand written information provided to new employees and include the IT Department in the training of new employees.  Implement a process to regularly communicate ongoing IT issues with users.  Contact all network users periodically with reminders warranted by emergent issues.	High	Low
3. There is strong City-wide governance over IT administration.	There is weak governance over IT administration as evidenced by the lack of City-wide IT standards or robust policies and procedures to govern the acquisition and use of technology. Recent meetings to reconvene the cross-departmental Technology Governance Committee are aimed at strengthening this governance, including the creation of City-wide IT policies and standards.	Continue convening the Technology Governance Committee, and adopt City-wide IT policies and standards.	Moderate	Moderate

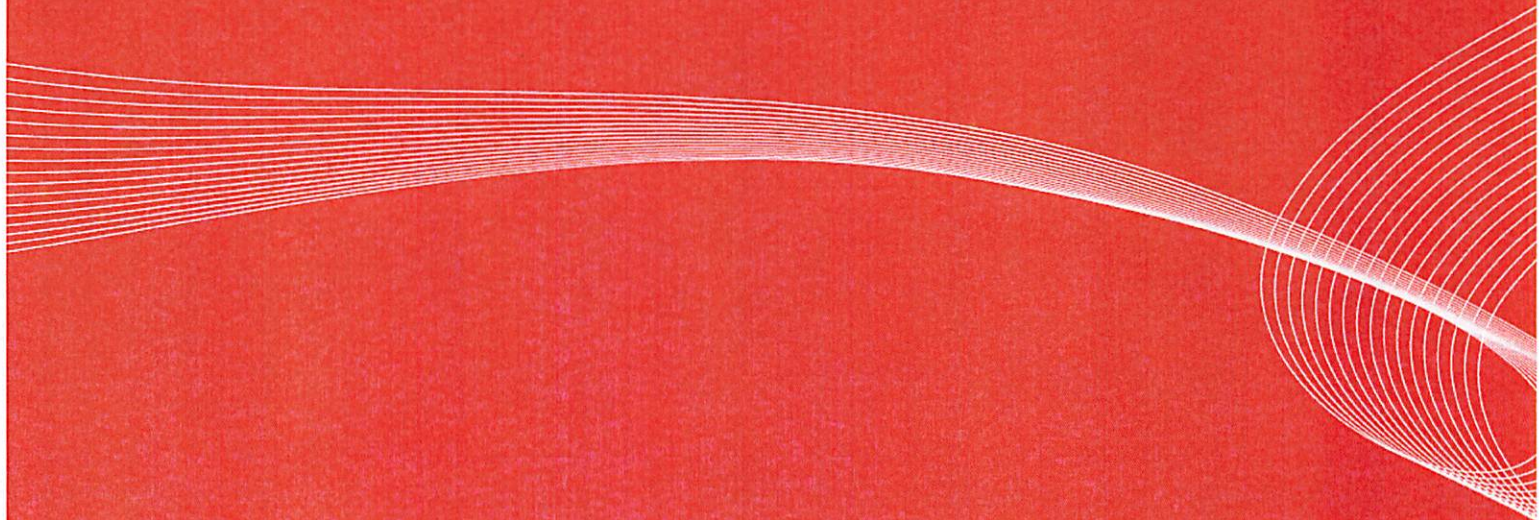
Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
<p>4. All network users agree to the terms outlined in user agreements.</p>	<p>Some employees who use City technology and access the network are not full-time City employees and thus have not completed a computer user agreement. In particular, temporary staff from staffing agencies and volunteers, including those working for the Sheriff's Office, are not currently required to complete this form. This is a key control to ensure that users are informed and aware of the usage agreement to which they must adhere. Additionally, Council Members have not been required to complete the user agreement form. By exempting some users from this requirement, the City may not be adequately safeguarding its resources or preventing inappropriate usage. Moreover, by not informing all users of appropriate use standards, the City may be limited in the action it can take against violators whose agreement with this policy is not documented.</p>	<p>Expand the applicability of the usage agreement to require all personnel who use City technology and/or access the City's network to review and sign the computer use policy.</p>	<p>Moderate</p>	<p>Moderate</p>
<p>5. The activity of network users is monitored to ensure appropriate usage.</p>	<p>Ongoing monitoring of network activity on software applications, as well as the Internet, is not occurring. The IT Department employs a network monitoring tool to monitor network access, including internet activity, on an ongoing basis. At present, although web activity is being filtered, the IT Department cannot access the web filter logs to detect and act on inappropriate activity. In addition, due to recent retirements, the IT Department does not have any staff reviewing the audit logs of software applications for unauthorized usage.</p>	<p>Continue current efforts to research a product to replace the web filtering tool, and reinstitute regular reviews of web filter activity.</p> <p>Resume periodic reviews of software audit logs.</p> <p>Create policies and procedures to document the monitoring of web filters and software audit logs, and cross-train multiple staff members to ensure continuity of those functions.</p> <p>Develop a plan to deter and resolve inappropriate usage of technology.</p>	<p>Moderate</p>	<p>Moderate</p>

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
	Requests by departments to review user Internet activities are made directly to IT via e-mail. Requests to review e-mail or search email correspondence are made verbally to IT by departments and Human Resources staff. Without thorough documentation showing proper authorization for these types of requests, IT risks sharing user activities inappropriately.	Formalize the process to request a review of user Internet activities or e-mail correspondence, including required authorization by departments and Human Resources.		
6. Access to all network resources is promptly terminated upon termination of employment.	There is no control in place to ensure that access to decentralized technology resources is promptly deactivated. Upon terminating employment with the City, the Human Resources Department notifies the IT Department. The IT staff promptly deactivates user access to all accounts and applications. However, some departments maintain their own technology resources without the involvement of the IT Department. As such, these departments are responsible for granting and restricting access themselves, particularly for any software as a service or cloud-based services. If access is not promptly deactivated upon employee termination, the City is at risk of unauthorized access to systems.	Develop a process to maintain or monitor technologies used by departments to ensure access to technology resources is appropriately deactivated upon employment termination.	Moderate	Low
7. Assets are adequately safeguarded to prevent misappropriation and access is restricted.	The City's computers are currently not restricted by time lock settings. Without this setting, unauthorized users can access network resources and data related to City operations. The IT Department is currently awaiting approval by the newly reconvened Technology Governance Committee for this setting change. In addition, the City's computer use policy does not specify how to properly secure technology outside of City offices. The policy does not advise about preventing theft of laptops during travel or in public places. Without	Pending the Technology Governance Committee's approval, implement time lock settings to prevent unauthorized access to network resources and information.  Revise the computer use policy to include the physical security of assets, and communicate changes in policy to employees.	Moderate	Low



Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
	these controls, the City's assets are at greater risk for unauthorized access and theft.			
8. Files are stored securely and adequately protected.	<p>The security of computer files is not being adequately ensured. In particular, some portable storage devices, such as flash drives or external hard drives, are not protected. Also, drives are not always wiped of all information between uses. Because some technology purchases bypass IT, the extent of this issue throughout the City is unclear.</p> <p>The IT Department does not have a formal written policy advising employees about how to back-up their data on accessible server drives. Although the IT manager has sent out an e-mail to employees instructing them on how to back-up files, without a formal policy, there are insufficient controls in place to prevent the loss of data.</p> <p>Currently, there is no secure method City-wide to share files such as a secure portal or FTP. The IT Department has established Sharefile service, but only for the District Attorney's Office as it is an essential business requirement. In the absence of a City-wide process, some departments have adopted the use of web-based options such as Dropbox. However, without policies to guide these practices, file sharing may be conducted inappropriately and City information may not be safeguarded against misuse.</p>	<p>Incorporate data and file security into IT training materials provided to all users.</p> <p>Install encryption on all portable storage devices.</p> <p>Regularly wipe data from devices between uses.</p> <p>Create City-wide policies regarding the backup of data by departments and individual employees.</p> <p>Compare secure, cost-effective methods of file sharing and implement a policy for City-wide use, or create a policy to guide the use of various web-based options such as Dropbox.</p>	Moderate	Low

Control Objective	Control Issue	Recommendation	Likelihood of Occurrence	Impact of Occurrence
9. Network security is monitored to detect intrusions.	The IT Department does not currently have an intrusion detection system. Several times, the IT Department has unsuccessfully requested approximately \$30,000 in funding for a system from the capital budget. Without such a system, the City's network is vulnerable to an attack, which could ultimately impact continuity of services. Intrusion into the network could lead to a virus infecting the system, lost access by City and County staff, lost data, and identity theft, among other negative impacts.	Garner support from IT Governance Committee to advocate funding of system. Select and implement an intrusion detection system as soon as funding is available.	Low	High
10. The disaster recovery plan has been tested and all users know and understand their duties in case of a disaster.	The City has not tested the recently implemented disaster recovery plan to ensure that it works as intended. The City has adopted a disaster recovery plan to resume orderly operations as soon as possible after an emergency. This plan includes alternate locations, as well as the procurement of computers and software. Without testing, it is unclear that all users know their duties during a disaster.	Test the disaster recovery plan. Following the test, conduct trainings or revisions to the plan as necessary.	Low	Moderate



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**Carson City Audit Committee  
Agenda Report**

**Date Submitted:** 04/08/2015

**Agenda Date Requested:** 04/21/2015

**To:** Chair and Members

**From:** Michael Bertrand, Chairman

**Subject Title:** For Possible Action: Discussion, possible action, and direction to Staff regarding the current Audit Work Program Update.

**Summary:** Staff will be discussing and taking direction from the Audit committee regarding the current work program.

**Type of Action Requested:** (check one)

Resolution

Ordinance

Formal Action/Motion

Other (Specify)

**Does This Action Require A Business Impact Statement:**  Yes  No

**Recommended Committee Action:** Will depend on discussion and possible recommendations.

**Explanation for Recommended Committee Action:** See Staff Summary

**Applicable Statute, Code, Policy, Rule or Regulation:**

**Fiscal Impact:** Will depend on the motion.

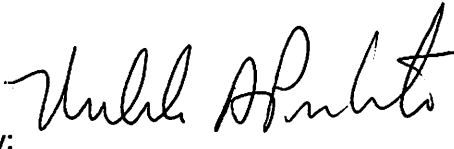
**Explanation of Impact:** Will depend on the motion

**Funding Source:** Internal Audit budget

Alternatives: N/A

Supporting Material: Memo from Moss Adams

Prepared By: Michael Bertrand

Reviewed By:   
(Finance Director)

Date: 4/13/15

Board Action Taken:

Motion: \_\_\_\_\_

	Member	Aye/Nay
1)	_____	_____
2)	_____	_____
3)	_____	_____
4)	_____	_____
5)	_____	_____

\_\_\_\_\_  
(Vote Recorded By)

## MOSS ADAMS<sub>LLP</sub>

Date: April 15, 2015  
To: Carson City Audit Committee  
From: Mark Steranka  
Subject: Internal Audit Status Report March 1, 2015 through April 15, 2015

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### Schedule Status:

- Basic Internal Auditor Services: Ongoing.
- Internal Controls Review: Deliver report at April Audit Committee meeting.
- Strategic Planning (Metrics Development Phase 2): Target April or May for Board of Supervisors adoption of the strategic plan.
- FWA Program Coordination: Ongoing and training targeted for April.

### Budget Status through February 28, 2015:

- Basic Internal Auditor Services: Expended \$8,240.97 of \$10,000 budget.
- Internal Controls Review: Expended \$37,617.10 of \$40,000 budget.
- Strategic Planning (Metrics Development Phase 2): Expended \$27,603.26 of \$30,000 budget.
- FWA Program Coordination: Expended \$0.00 of \$10,000 budget.

### Activities for this Reporting Period:

- Basic Internal Auditor Services: Attended Audit Committee meeting. Continued to maintain Audit Findings Summary Report.
- Internal Controls Review: Reviewed draft report with management and finalized report based on management feedback.
- Strategic Planning (Metrics Development Phase 2): Supported dissemination of draft materials to the public for comment, administered public survey, and prepared draft strategic plan reflecting public input.
- FWA Program Coordination: Began development of materials for FWA training for all City employees and preparation for delivering training via a webcast in April.



Activities for the Next Reporting Period:

- Basic Internal Auditor Services: Continue to attend meetings and maintain Audit Findings Summary Report.
- Internal Controls Review: Present the final report to the Audit Committee and Board of Supervisors and prepare recommended future internal controls projects
- Strategic Planning (Metrics Development Phase 2): Finalize strategic plan, including performance metrics.
- FWA Program Coordination: Provide webinar training to City personnel and increase program awareness.

Issues:

- none

**Carson City Audit Committee**

**Agenda Report**

**Date Submitted:** 04/08/2015

**Agenda Date Requested:** 04/21/2015

**To:** Chair and Members

**From:** Michael Bertrand, Chairman

**Subject Title:** For Possible Action: Discussion and possible action regarding having future Audit Committee Meetings in the evenings.

**Summary:** Requests have been made to have future Audit Committee Meetings in the evening hours to accommodate those members of the public who work during the day.

**Type of Action Requested:** (check one)

( ) Resolution

( ) Ordinance

( X ) Formal Action/Motion

( ) Other (Specify)

**Does This Action Require A Business Impact Statement:** ( ) Yes ( X ) No

**Recommended Committee Action:** Will depend on discussion and possible recommendations.

**Explanation for Recommended Committee Action:** See Staff Summary

**Applicable Statute, Code, Policy, Rule or Regulation:**

**Fiscal Impact:** N/A.

**Explanation of Impact:** N/A

**Funding Source:** N/A



