



**STATE OF NEVADA
EXECUTIVE BRANCH AUDIT COMMITTEE**

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MINUTES

DATE AND TIME: February 22, 2017, 1:00 PM

LOCATION: Old Assembly Chambers of the Capitol Building
101 N. Carson Street,
Carson City, Nevada 89701

VIDEO CONFERENCE LOCATION: Grant Sawyer State Office Building
555 E. Washington Avenue, Ste. 5100
Las Vegas, Nevada 89101

MEMBERS PRESENT:

Governor Brian Sandoval, Chairperson
Secretary of State Barbara Cegavske
Treasurer Dan Schwartz
Controller Ron Knecht
Attorney General Adam Paul Laxalt
Trudy L. Cross, CPA, Public Member

STAFF PRESENT:

Administrator, Steve Weinberger
Executive Branch Audit Manager, Warren Lowman
Executive Branch Audit Manager, Vita Ozoude
Executive Branch Auditor, Lynnette Pagaling
Executive Branch Auditor, Ashwini Prasad
Executive Branch Auditor, Lori Hoover
Executive Branch Auditor, Catherine Brekken
Executive Branch Auditor Jaynalynn Seley
Financial Manager, Mark Richards
Auditor 3, Maria Moreno
Auditor 3, Hilary Reynolds
Deputy Attorney General, Dawn Buoncristiani
Administrative Assistant, Mary Doyal

Call to Order:

Chair, Governor Brian Sandoval, called the meeting to order and welcomed those present.

1. PUBLIC COMMENT

Governor Sandoval addressed the public for comments in Carson City and Las Vegas. There was no public comment.

2. FOR POSSIBLE ACTION – APPROVAL OF THE JUNE 20, 2016 EXECUTIVE BRANCH AUDIT COMMITTEE MEETING MINUTES

Controller Knecht noted, at Page 12, the ninth paragraph down says, “Controller Knecht said, they reviewed, etc.” and the second line, to make that clear, it’s a bit of a run-on sentence. He requested a period be placed after ‘building’ and capitalize ‘if’.

Member Trudy L. Cross (Member Cross) noted, on Page 4, the third paragraph from the bottom, in the second to the last line seems to be repeated. The statement, ‘Controller’s staff must review spreadsheets to verify that everything is accurate. They have all the information they need. All the numbers are in the right field and they are in the right field’. That seems redundant. She thinks it was meant to say, ‘and all the numbers are in the right fields’.

Governor Sandoval stated it was his understanding that these minutes are verbatim. Therefore, it may be how Mr. Weinberger testified.

Member Cross noted, on Page 13, sixth paragraph. Mr. Lawrence said, ‘it was worth noting that debt collection for decades had been a problem’, etc., that this would help to she believes that’s ‘automate’ the process. She’s not sure what that word is that’s currently there. Governor Sandoval noted, he believes ameliorate is the correct word, to be helpful.

Governor Sandoval asked that the original motion made before the changes were noted to be withdrawn and a new motion be made and seconded.

Motion: Move for approval of the minutes of the June 20, 2016.
By: Secretary of State Cegavske with the noted change from Controller Knecht.
Second: Attorney General Laxalt
Vote: Motion passed unanimously

3. INFORMATION ITEM – PRESENTATION OF THE DIVISION’S AUDIT REPORTS PURSUANT TO NRS 353A.085

- A. Department of Health and Human Services, Report No. 17-01 – Division of Child and Family Services, Child Mental Health Services, Warren Lowman, Executive Branch Audit Manager.

Warren Lowman introduced himself. Mr. Lowman noted representing the Division of Child and Family Services (DCFS) was Administrator Kelly Wooldridge and Deputy Administrator for Child Mental Health Services, Ryan Gustafson.

Mr. Lowman explained the audit objective was to assess if DCFS can more efficiently provide specialized foster care treatment group home services for children, youth and families, dealing with severe emotional disorders that require out of home placements. Mr. Lowman made two recommendations to enhance potential efficiencies that could benefit the State by \$2.8 million annually and help build the community based provider network.

Overall, DCFS is providing specialized foster care treatment group home services as efficiently as we were able to determine under current conditions. These conditions include the ability to bill Medicaid and Title 20 Federal Social Security funding for services provided in DCFS's three state facilities. Overall, DCFS is able to bill for 53% of services statewide.

The degree in time to which current conditions continue will affect how DCFS is best positioned to provide treatment group home services in the future. The first recommendation is to transition state provided specialized foster care treatment group home services to community based providers when cost effective. DCFS revenues would need to fall by about 44% to be cost effective to transition to community based providers. Revenues could fall because of changes to Medicaid, Title 20 Funding prioritized or directed to other programs or other circumstances including growing costs for DCFS.

DCFS faces potential cost increases of over \$1.1 million in Northern Nevada because the family staffing model used at the Family Learning Home may not be sustainable. DCFS may need to transition to the more expensive shift staffing model used at Oasis in Las Vegas. Should DCFS be able to sustain the family staffing model, outcomes suggest a real benefit for children, youth and families in Northern Nevada as measured by re-admission rates. Since 2014, the Family Learning Home has been more successful than Oasis. Although environmental and other factors likely contribute to the disparity, a significant concern remains if future outcomes in the North would begin to more closely resemble those in the South as a result of a changed staffing model.

DCFS has the opportunity to leverage its ongoing system of care grant to help build the community based provider network to reduce the existing wait list of over 50 children and youth. Children, youth and families may wait from 3-6 weeks for placement. Reducing the wait for services is likely to minimize behaviors related to emotional disturbances in other settings, including physical violence and trauma, causing undo stress on children, youth, families and communities. Expanding the network of community based providers should help reduce the wait list for the hardest to serve children and youth who often have no

place left to go and fall to the safety net provided by DCFS. As always, the extent and pace of transitioning should mitigate risk to a short continuity and quality of care. Some children and youth who are in the custody of the State or County and are placed in DCFS's treatment group homes benefit from the intensive wrap-around services provided by the State.

The second recommendation is meant to help build the community based provider network throughout the State by stratifying the licenses for providers. Stratifying the licenses will provide more opportunities for entities that opt to provide various intensive services in treatment group homes and should increase flexibility for both DCFS and providers, which may in turn, increase capacity in the State.

Stratification of licenses would allow the state communities and providers the maximum flexibility to provide care in the least restrictive and most cost efficient manner for Nevada's children, youth and families. We would like to thank Administrator Wooldridge, Deputy Administrator Gustafson, for their help and cooperation during the audit. This concludes my overview.

Governor Sandoval asked, can you synthesize this in terms of what exactly the recommendation is that you're making today? Mr. Lowman responded, under current conditions where DCFS is able to recoup approximately 53% of their costs, things should stay as they are. At such point when a combination of revenues or increases in costs or what have you would reduce that by about 44% that would be the time to transition these services to community based providers. In the meantime, there's a wait list. To take care of that wait list, they need to develop community based providers now in the hope of moving 50 or so children into services as quickly as possible.

Governor Sandoval asked, if that shift occurred, how would the community based providers be paid? Mr. Lowman deferred to the Agency for an answer.

Ms. Wooldridge explained, foster care providers are paid using Title 4E Funding for Room and Board Rate and then in the 2015 Legislative Session, they are approved for a higher rate for that. Then they also do bill Medicaid for what we call psycho-social rehabilitation services.

Governor Sandoval stated, he's trying to understand exactly what the recommendation is and what the reimbursement is. Would that be shifting General Fund money to, if we went to community providers, to Medicaid? Is that what part of the recommendation is? Ms. Wooldridge explained, probably not General Fund money as much because they're funded mostly through our billables to Medicaid and Title 20. Then there's some Children's Mental Health Block Grant money. She doesn't think it would be General Fund money as much as shifting the services that the State provides to the community.

Governor Sandoval asked, what would be your proposal or your idea in terms of getting more community based providers licensed to be able to provide this service? Ms.

Wooldridge explained, they work diligently to try to recruit foster homes and recruit and retain foster homes throughout the State. Part of raising the rate in the 2015 Session was helpful. The other thing that has been done is, they've brought in an evidence based program model to foster care providers that has assisted them in learning better ways to deal with the intense behaviors they can see sometimes from kids that need specialized foster care. They are constantly trying to recruit and retain.

Ms. Wooldridge further explained, the other thing that they're looking at is, stratifying the licenses. They have specialized foster care and then they started what they called advanced foster care. That's homes that have fewer children in them but also get a little bit higher rate and have the evidence based model as well.

Governor Sandoval asked, if it's all federal money, how does the State save money? He noted he was not being critical, simply trying to understand. Mr. Lowman stated, again, we were looking at based on the cost that we're spending for using federal dollars, using the grants etc., as a way to make those dollars go farther. The way to do that is to try to reduce costs. We looked at other states and what they were paying and as long as the State is providing the service and recouping 53% of their costs from these other federal sources, at this point, that's probably the most efficient way to do it. It's if the federal money starts to be moved around, if we lose Medicaid in any way, that sort of thing, is when DCFS will need to address what's a better way to deliver the service. Either with the State or with a private provider.

Governor Sandoval stated, he's always interested in efficiencies and those service models were discussed. He doesn't want to compromise the service to the client in the name of efficiency. He asked for comment on that. Ms. Wooldridge stated, one of the State's roles is as a safety net provider and a lot of the kids that we serve in these specialized foster homes that are State run are youth unfortunately that, sometimes a private provider won't provide or can't provide services to because of the intensity of their behavior. I think that there will still be some need for us to be a safety net provider. But we do want to make sure that kids can also be served in their homes and in their communities.

Governor Sandoval agreed and added, you want to mainstream them as much as you possibly can. As was said, if you have an individual that has specialized needs, of course you can save money by providing less service, but that's not in the best interest of the client. He stated, I'm not suggesting that's what you're proposing Mr. Lowman, but I'm just trying to separate those two things here on the record.

Controller Knecht noted his concern goes to the same issue roughly that you were asking about and he's going to try a different tack a little bit, just to make sure that he understands this because it's not completely clear from the text, although overall, this is a good audit report and was helpful.

Controller Knecht stated, looking at Page 1, Paragraph 2, essentially, you come to the conclusion that the State could save \$1.7 million annually. Now, it seems embedded in

that paragraph are two issues. One, how much the State is getting reimbursed by the Feds and whether that will continue or change or whatever and we want to worry about the State's fiscal situation or be concerned about that, take care of it. But, two, you also say that the community based providers could provide the service at lower cost. So, my question is, can you break that down, that \$1.7 million for me, into the savings in terms of actual cost of doing the job that would accrue from shifting to community based providers versus the defensive, if you will, savings that we're looking at from the federal funding issue. And, if I misunderstand, tell me that too.

Mr. Lowman explained, the estimate on the \$1.7 million was based on the cost that Nevada was paying for the services in totality, without any reimbursements. This is what the cost is. Then we looked at what other states were paying by and large community based providers and that that cost was in general lower. Then looking at applying that lower cost that we found in other states to what Nevada was paying is how we achieved the estimate of \$1.7 million savings.

Controller Knecht asked, can you break down the \$1.7 million into essentially the shift to community based service versus the revenue effect on the State from the Feds? Mr. Lowman noted they could and he'd be happy to provide that to him.

Governor Sandoval asked, when you compare Nevada to other states, is it an apples to apples comparison? He added, because, do you know what the clients were in the other states as compared to what they are in Nevada? Mr. Lowman confirmed it is apples to apples. He added, they looked at other states. They looked at their stratification of services, the types of services they were providing that aligned with either the Family Learning Home or Oasis, or even the higher level adolescent treatment center and looked at the various providers in other states and what they were licensed to do so that they could compare apples to apples and not make that mistake.

Secretary of State Cegavske asked if any of these foster kids are adopted, is the Medicaid cutoff automatically? Do they have to be approved with their foster family, the insurance? Does that have any impact on what we're talking about today? Ms. Wooldridge explained, no, if foster youth are adopted, they maintain their Medicaid. If they qualify for what we call, a special needs adoption, they also receive a subsidy. It's a subsidized adoption from the State, but they will maintain their Medicaid.

Governor Sandoval asked, have you studied why we spend more in Nevada than the other states? Ms. Wooldridge noted that was a good question and stated, we have looked at that and I think part of it is that, as you may recall from your Health and Wellness Council that Nevada was one of three states that continues to be a direct provider of care. We were really hoping, with our system of care grant, that we can get out of that service and really be a safety net provider and, also, provide the technical assistance and quality assurance to providers in the community.

Governor Sandoval noted that we are primarily a state-based provider service versus a community based provider of service. Ms. Wooldridge confirmed this statement.

Governor Sandoval stated, I understand that and that's part of the recommendation is to train more of those folks out in the community so that we can have more community based providers. That's a process. What's most concerning for me is I'd like to see that happen because we do have that wait list, but and again, I'm not suggesting that there is thinking otherwise. Obviously, what comes first and foremost is what's in the best interest of the child, in terms of the services that we provide. We don't want to sacrifice quality in the name of economy. That's always the balance that we have. In other parts of this Medicaid budget, there's been some concerns that when we do shift things to the community, that there is a compromise of service, which is not true, but again, it's something that we need to pay attention to. Particularly in a very sensitive area like we have here. I suppose I'm spending a lot of time on this because it's pretty easy to say that we can save \$1.7 million by shifting it to the community, but in the real-world, it takes a lot of time and there's a lot that goes into assuring the quality of the services that are provided by those community based providers. Ms. Wooldridge confirmed these statements.

Mr. Lowman stated he had no further presentation, however wished that they (Internal Audit) would have made it a little bolder in the audit report about the caution of making sure that they (Internal Audit) didn't transition too quickly in thinking of the children who were already receiving the wrap-around Nevada services.

B. Office of the Secretary of State, Report No. 17-02 – Securities Division, Ashwini Prasad, Executive Branch Auditor.

Mr. Lowman noted representing the Office of the Secretary of State, is Chief Deputy Secretary of State, Scott Anderson, Deputy Secretary of State for Operations, Cadence Metijovich and in Las Vegas, Diana Foley, the Administrator of the Securities Division (Division). At the request of the Secretary of State, Mr. Lowman reviewed the budget process and investigations of the Security Division of the Office. Mr. Lowman offered recommendations to improve the effectiveness of the Division's operations and enhance accountability and responsiveness to the public.

Mr. Lowman recommended the Division modify funding statutes for enforcement operations in two ways. First, modify the statutes to designate a portion of registration fees to fund enforcement operations to provide a more effective way to budget costs.—Second, modify the statutes to exclude penalties and fines from funding enforcement operations to ensure greater transparency and eliminate potential conflicts of interest because the Administrator has final determination for fines and penalties and also responsibility for funding enforcement costs from those fines and penalties. Mr. Lowman also recommended the Division improve documentation and monitoring of enforcement cases to ensure reporting is complete and cases are processed in a timely manner.

Mr. Lowman appreciated the Office of the Secretary of State's assistance throughout the audit and thanked the Securities Division for their time and consideration.

Secretary of State Cegavske thanked the Governor for the opportunity to select having audits in their prospective Divisions. Also she thanked Mr. Lowman and Mr. Weinberger from the Division of Internal Audits for working with them and talking to them and helping them through each one of these categories.

Controller Knecht stated, this is another fairly good report, but I read through every page of this and at Page 12, it describes what the Securities Laws and the Securities Division at the Secretary of State do. He asked, when you raise the issue of potential conflict of interest, and that's a really good point to make and one I'm very sensitive to, what that issue begs is the question of, what benefit do these operations that are described here provide to the taxpayers, to investors, to registered companies and agents and so forth. Because when you ask the question, who should pay the cost of regulation and should the fees and fines and that sort of thing cover the cost of regulation, you're also asking the question, who benefits from the regulation? Some kinds of regulation, the industry, it's the firms themselves that actually benefit. In many other kinds of regulation environmental, public health and safety, that sort of thing, it's the public that benefits. So, can you tell me, who between, among taxpayers and the general public versus investors versus companies and registered agents, who benefits from the Secretary of State's Securities Regulation functions and to what degree?

Mr. Lowman noted the Secretary of State could probably answer that better but added, in lieu of our specific recommendations, the Secretary has moved forward with another funding mechanism that achieves the same intent that we saw looking at it in a way to avoid conflicts of interest.

Secretary of State Cegavske asked Diana Foley to respond.

Ms. Foley introduced herself as Securities Administrator. She stated, I think that both the industry and the investors benefit from our regulation. We are responsible for the licensing and registration of all securities offerings, which means we have the ability in certain instances to ensure compliance with our registration laws and our exemption laws. We license the investment advisors and the broker dealers, so through that process I think investors benefit from our overview and protection to ensure that unfit individuals are not in the business.

From the compliance section, which brings in a large majority of the fines, there are some fines and penalties that are brought in through the criminal side of our investigations. I think largely the investors do benefit from that, but we also have a portion of that that benefits both the broker/dealer and the investment advisor. Because as we inspect those firms and regulate those firms, we do in some circumstances provide them with deficiency letters that help them understand some of the rules and regulations that apply.

Controller Knecht noted, that is helpful and it does seem to me that it supports the issue that the auditors raised about potential conflict of interest because a lot of this benefit accrues to the investors and somewhat to the taxpaying public. He asked for the benefit of a complete record and to help everybody's understanding, what functions and services and benefit does the Secretary of State's Securities Regulation/Operation provide over and above or in addition to what the Federal Securities and Exchange Commission provides, again to taxpayers, to investors and to companies and agents? Why do we need these functions to be done by the State if they're also in some measure, also performed by the SEC?

Ms. Foley explained, at the Federal level, the oversight of investment advisors is split between the states and the federal government, and accordingly the SEC. Those investment advisors, which have \$100 million of assets under management or less are the responsibility in a general sense of the State for licensing, registration and inspection. Those investment advisors that manage over \$100 million of assets under management are largely the responsibility of the SEC for licensing and oversight. We do obtain some General Fund fees for notice filings that federal investment advisors have to provide. As far as broker/dealers, we generally co-exist with the federal government. As you may know, there is a self-regulatory organization called FNRA that also has some responsibilities and oversight over broker/dealers and their reps.

What we do, what I can ensure you is that we work very hard on the broker/dealer side to hold quarterly calls with FNRA to ensure that we are not inspecting branch offices of broker/dealers that are located in our state that have been recently inspected by FNRA. There are a lot of firms, in a general sense, and a lot of activity. So, I think that the federal and state systems complement each other in some of these areas.

Governor Sandoval asked Mr. Anderson and Ms. Metijivich, if they had any comments with regard to the audit? Mr. Anderson introduced himself as Chief Deputy Secretary of State. He thanked the Executive Audit Staff, and added, they were wonderful to work with in this instance and were highly receptive to our comments and met with us frequently in regards to any concerns we had and it was a very good working relationship.

Member Cross asked, as far as other Divisions in the State that have enforcement capabilities, how does it usually work when you have fines and fees? Are they usually put into a separate account, for instance, the Gaming Control Board? There's all kinds of fines from that. Is the standard to put it in a separate account and then fully fund the enforcement action? I don't think this is the only division that would have this issue. Mr. Lowman explained, of the audits that he's done where they have enforcement elements like that, in general, they are in a separate account and generally go into the General Fund. Where that is a little different, they recently did an audit of the Taxicab Authority and their fines and penalties are part of what funds their operations, although a small piece of it. They are funded far more by trip fees and that sort of thing.

Mr. Weinberger confirmed, as far as the Taxicab Authority, they are funded with fees. All their fees sort of contribute to their operations. And, as far as the Gaming Control Board, all their operations are funded from a different set of funds. He stated, I think it's General Fund for those guys, if I remember but they have fees for their investigations and their licensing, all that. None of that is used towards operations.

Governor Sandoval also confirmed Mr. Weinberger's statement. He noted, there is that fine line of creating that perverse incentive, particularly with regard to penalties that you do not want to open up an argument that a respective state agency is seeking to increase its fines to make their budget. He stated, he thinks it's always delicate. Obviously, we're talking about registration fees versus penalties here.

Ms. Metijovich introduced herself as Deputy Secretary for Operations. She added, Mr. Lowman had indicated that our office also recognized the issue of the potential conflict of interest. At the direction of the Secretary, we've been looking at our offices' operations. We have submitted our budget request for the upcoming biennium. Part of that request included moving the payment of the operation for the Securities Division, their operating cost, to the General Fund. We've submitted a complimentary BDR that would then deposit those revenues that we receive from the enforcement actions to the General Fund rather than those remaining with our office.

C. Office of the State Controller, Report No. 17-03 – Vendor Management Services, Catherine Brekken, Executive Branch Auditor

Ms. Catherine Brekken introduced herself. She stated representing the Office of the State Controller (Office) is Chief Deputy Controller James Smack and Assistant Controller, Geoff Lawrence. At the request of the Controller, Ms. Brekken conducted an audit of the. The audit focused on the vendor desk processes in the Office. There were two recommendations made to improve the efficiency and effectiveness of the vendor desk processes.

First, Ms. Brekken recommended the Office reduce the number of DocuSign envelopes purchased until usage data shows a need for more. In FY 2017, the Office purchased 5,000 envelopes at a cost of \$15,000. Based on usage data, the Office will use less than 60% of the envelopes purchased. Reducing the number of envelopes purchased will help save the State approximately \$6,000 annually.

Second, Ms. Brekken recommended all vendor desk employees receive DocuSign training, as only one employee received training at the inception of the program. This will help improve customer service when assisting entities with troubleshooting or correcting DocuSign errors.

Controller Knecht stated, the first recommendation, I believe we had begun to recognize the problem with excess envelopes in August of 2015. Your audit and recommendations helped focus us a little better so we can realize \$6,000 a year in savings there versus the

legacy that we inherited. We're happy to do that. We have a good record of reducing costs versus what we were appropriated.

Second thing is, we believe in providing training to our people for our benefit so we get the best possible service out of them and for their benefit. We recognize that someone working for the Controller's Office is doing that today and it's part of their career. The deal that we make with our people is, you do a bang-up job while you're here and we'll help you move on and move up in your career and training is a good part of that. We definitely support that recommendation.

Controller Knecht noted, Page 6, Appendix A, the organization chart at the bottom is not up to date. To be real clear, Accounting and Financial Reporting has been moved to directly under to the Assistant Controller with the other three branches reporting to the Chief Deputy. As we all know, debt collection is about to migrate to a higher place. He noted, he commended the audit report and its recommendations to his colleagues on this Board.

Governor Sandoval asked what a DocuSign envelope was. Ms. Brekken explained, a DocuSign envelope is an electronic collection of data that needs to have action taken on it. In this case, an envelope contains either the vendor registration or a purchase order. That needs to be signed and sent through or approved through the process. Governor Sandoval noted it's not actually a physical document or piece of paper. Ms. Brekken confirmed this statement.

Governor Sandoval noted he went through this whole audit and wasn't really sure but saw that we were saving money. He stated compliments to the Controller's Office when the worst thing is we just need to buy fewer envelopes. That's a pretty good audit.

Mr. Smack introduced himself as Chief Deputy Controller and introduced Assistant Controller, Jeff Lawrence. He thanked Mr. Weinberger and Ms. Brekken for all their help with this audit. He noted, they were a pleasure to work with. He added, he thinks this is going to be very helpful for the Vendor Services Division. They're looking forward to saving the State a little bit of money.

4. INFORMATION ITEM – PRESENTATION OF THE DIVISION'S CONTRACT AUDIT REPORT

State Procurement Process II, Report No C17-01 – Jaynalynn Seley, Executive Branch Auditor.

Ms. Jaynalynn Seley introduced herself. She added representing the Purchasing Division was Administrator, Jeffrey Haag. Ms. Seley performed the second audit of the contract procurement process. In this audit, Ms. Seley focused on two objectives; how the State

can improve the solicitation waiver process and how the State can improve the Master Service Agreement Procurement and Management Processes.

Ms. Seley further explained, we reviewed solicitation waivers, master service agreements and the management of those agreements. In subsequent audits, we plan to review the post-award and contract management processes. In our audit, we noted limited criteria, supporting documentation and agency head authorization requirements for solicitation waivers and a lack of authority for the purchasing administrator to approve solicitation waivers of commodity purchases. Without established criteria, there is a potential for legal issues resulting from a lack of consistency, authority and transparency for solicitation waiver approvals. Additionally, Ms. Seley noted the Purchasing Division has limited data regarding expenditures made to vendors. Consequently, the Purchasing Division cannot easily identify vendors who receive a significant amount of business from the State.

Ms. Seley made four recommendations to improve the solicitation waiver process and one recommendation to improve the Master Service Agreement Procurement and Management Processes. I'll now summarize our recommendations.

Ms. Seley recommended establishing and including additional criteria for solicitation waiver eligibility in statute, regulation or the State Administrative Manual (SAM). Establishing additional criteria will reduce the potential for different determinations on similar contracts and increase transparency of solicitation waiver approvals. Ms. Seley recommended including requirements for supporting documentation and agency head authorization for solicitation waivers in SAM. This will increase the efficiency of the solicitation waiver process by reducing the necessity for the Purchasing Division to obtain the documentation, and ensuring Agency Heads are completely knowledgeable of the solicitation waiver request.

Additionally, Ms. Seley recommended modifying the Nevada Administrative Code to authorize the Purchasing Administrator to improve solicitation waiver requests for commodity purchases. This will ensure efficiency for agencies by allowing them to forego the competitive selection process for commodity purchases, not adapted to competitive selection as only one practical source exists.

For the second objective Ms. Seley recommended tracking expenditures made to vendors. This will allow the Division to negotiate lower costs by offering mandatory service agreements to vendors who receive a significant amount of business from the State.

Ms. Seley thanked the Purchasing Division for their time and input throughout the audit. At this time, Ms. Seley was happy to answer any questions.

Governor Sandoval asked if there were examples of the solicitation waiver process, who the vendor would be and where this will improve the process? Mr. Weinberger asked if he was referring to contracts. Governor Sandoval confirmed. Mr. Weinberger explained what we were looking at. We did a comparison to what the locals used, they have NRS 332.

They have a whole list of potential criteria to where, if they ever had to defend their decision to approve a solicitation waiver, they can point to something that's actually in statute. We used that as our guide. We did not find any solicitation waiver approvals that we questioned, that may have looked funny for some reason, but like I said, we looked at the process and we noted that really, the only criteria that exists is in NAC 333.150, and that's for Professional Services. And, we are also aware of the fact that, quite frequently, we get public records requests where people want to look at the solicitation waivers that we've issued. We figured, this is a good defense for us in case we need to justify a decision.

Governor Sandoval stated, I think it's a great recommendation. Again, I am trying to make this in the real world where we have used these solicitation waivers for a service for the State. In the future, we will have this different process and have that criteria because like I said, Mr. Weinberger, I agree with you that we don't want somebody who provides that same service to say, wait a minute, what about us? We didn't have a chance to bid on that. Why is it that there was this one entity that was chosen to provide the service? I know that has been a concern of the Attorney General in the Board of Examiners process when there has been a contract that did not go out to bid.

Mr. Haag introduced himself as Administrator of the State Purchasing Division. He stated, your question gets right to the crux of the issue. In my experience in this position, the solicitation waiver has been used somewhat as a catch-all, to be completely honest with you. I think some specific examples, we use them for proprietary software, technology as a service that maybe only one vendor can provide and the level of service they provide is proprietary to them, that technology. We recently danced in the gray area of this regulation, if you will, in approving a solicitation waiver for routers, for DPS, for their cruisers. The mobile command centers that we've invested in to roll-out across all DPS vehicles required a specific type of router to work with those mobile command centers. So, that in my opinion, was justification for a solicitation waiver.

To Mr. Weinberger's point, we also get a significant amount of requests for solicitation waivers around professional service exemptions. So, as noted, it is defined in NAC 333.150, such services as attorneys can be as justified as a solicitation waiver, but we also see a lot of agencies kind of stretching that professional services definition and asking for a solicitation waiver.

A last example is, we're currently working with DETR in awarding some solicitation waivers around regional development authorities (RDA) and the appropriation of grant funds because there is only one provider of those services in a particular area, a lot of times the grant will call for the agency to work specifically with an RDA in a particular region. As a result, that meets the current justification for a solicitation waiver.

If I could expand on what I think is the broader issue and I think the value of the recommendations before you all today. We're really looking to solidify and define some criteria to really provide a better resource to state agencies so this is not a catch-all if you

will. The process is a little bit more defined and we're being more upfront about what criteria they need to have met to qualify for a solicitation waiver. We're required by law to have a fair and competitive process. I am a firm believer in competition. I think the state benefits from that profoundly. We want to make sure when it comes to these very sticky waivers that we have done our due diligence and the decision that we have made is on a defined set of criteria to the extent that it can be defined. There will always be extenuating circumstances and that that decision is defensible should another vendor come forward and want to challenge the waiver that was approved.

Governor Sandoval asked if the process they were contemplating was consistent with the findings of the audit. Mr. Haag confirmed.

Governor Sandoval asked, would you have to do this through a regulatory process; would you have to propose a new regulation that would include the specific criteria that would be subject to approval by the Legislative Commission? Mr. Haag noted my recommendation would be that we clarify NAC 333.150 to include commodities and services. Currently today, as previously stated, it only addresses services. I would recommend that we establish the criteria in the State Procurement Manual. A comprehensive manual was an actual recommendation from the initial audit that was before this Committee in June of last year. We are working diligently to form that manual. Our section of SAM will be incorporated in that manual.

Mr. Haag noted: I would ask that we are allowed some level of flexibility to adjust the criteria. Because this is not a black and white issue and I think as industry changes, as technology changes, as the State's business becomes more diversified, we need the ability to amend these criteria based on our specific business needs. That is why I recommend that we address this in the State's Procurement Manual.

Governor Sandoval asked, would that be something that would ultimately come to the Board of Examiners, to the Attorney General, the Secretary and I would have a chance to see what those changes would be? Mr. Haag responded, procedurally, I do not know if that's appropriate. It would be my desire that the Board of Examiners have the ability to review that procurement manual. It is being drafted in close coordination with the Attorney General's Office, the Governor's Finance Office and other stakeholders across the State. I think similar to the new contract forms that were approved at the February BOE, it is just a fantastic venue for not only you all to review and approve those documents but to begin to communicate those across the State and to state agencies that will be dependent on these new resources that we are trying to make available.

Governor Sandoval noted, in looking at your response to the audit, it said, you hope to have it in place by August 2017. Do you think you could get it done sooner than that? Mr. Haag confirmed that he was referring to the criteria and responded, absolutely. He explained, we are well under way on this initiative. I would expect that we will have an initial draft out within the next 30 days. I identify the August timeframe; we are working on

a technology initiative this session. I see this being incorporated into that technology solution, but absolutely; I think in a manual format, they'll be available here very soon.

Member Cross asked, regarding relying on other entities doing competitive bidding, is that part of your process at all? For example, the federal government or even local government agencies or consortium of state purchasing agencies; could that be a way to—if it didn't fit, as far as a solicitation waiver, do you guys do that right now? Mr. Haag confirmed they do this currently. He explained when we receive the solicitation waivers and we review them, we have a member of our team in Purchasing that is dedicated to this responsibility. She reviews them very thoroughly. We do an exhaustive search based on current contracts available within the State that may be able to meet this need. We look at GSA contracts that have cooperative language as part of them that we may be able to piggyback off of those agreements. We look and often recommend the agencies they look to, to adjoin to our agreement. So, potentially somebody within local government here within the State or across the country has entered into a contract with that respective vendor for similar services and we certainly recommend that to them if that avenue applies or is appropriate for them.

We really try to take a diagnostic approach to the waiver, rather than just approving it and making the appropriate recommendation and providing the appropriate level of support that that agency may need. And in some cases, we deny them. We refer them to the appropriate purchasing officer within our office. We support them through a public procurement process because we just don't feel that a solicitation waiver is justified based on the case that's been made, the documents that we've have been able to review.

Mr. Weinberger added, as far as your point about BOE approval, I think what our plan was to have a reference in SAM that refers to the manual and any changes to the manual, I guess we would have to think about that. Would that require BOE approval and all the vetting that goes along with that? It sounds like, Administrator Haag was kind of open to wanting BOE to be familiar with these and possibly approve them? Mr. Haag stated his desire would be that we view the State's Procurement Manual as we do SAM today. He added, I think the recommendation in the initial audit was that, the procurement manual would replace our section of SAM. I agree with that because the procurement manual will be a very in-depth document, not necessarily appropriate to incorporate within the State's Administrative Manual, but I feel that revisions, modifications to that document should be handled in the same way that we do SAM.

Governor Sandoval asked for clarification from Mr. Weinberger, in terms of his concern that it may slow down the process. Governor Sandoval stated, my only comment was, given that the Board of Examiners reviews all the contracts, again, the Attorney General has had historic concerns with regard to sole source contracts. Part of that emanates from this issue that we are talking today that the Board of Examiners seems to be the perfect forum to review and approve this so that everybody knows going forward what the rules are. Mr. Weinberger stated, as you know, BOE approves SAM modifications too. As a matter of fact, there's some vetting involved. I think it's got to be publicly disclosed—I may

get this wrong—60 days or 30 days prior to the actual SAM Meeting. That is one of the things we stressed in our audit, that vetting of these potential criteria would be a good idea too. I mean, it is going to provide more transparency and obviously, it gives people a chance to comment on whether or not they think they are valid.

Mr. Weinberger further stated, my point was towards your question as far as BOE approving this or would it just be something that the Purchasing Division themselves can do. I think if we have a reference from the State Administrative Manual and as Administrator Haag stated, basically, his manual would replace the purchasing section or parts of the Contract Section in SAM, the approval and vetting requirements may still apply.

Attorney General Laxalt suggested, that everyone wants it to get to the BOE, so we'll have to take a look and see the best way to get it there. Governor Sandoval agreed and added, that provides a public forum where this can be considered. You have most if not all the state agencies that typically attend it and the more we can socialize this change, the better.

Attorney General Laxalt added; please circle back with our Office. We may need to post this whole thing as a SAM Manual Amendment. We'll figure it out.

5. INFORMATION ITEM – PRESENTATION OF THE DIVISION'S SIX-MONTH FOLLOW-UP STATUS REPORTS PURSUANT TO NRS 353A.090

A. Office of the State Controller, Report No. 16-05 – State Debt Collection, Vita Ozoude, Executive Branch Audit Manager.

Vita Ozoude introduced himself as presenting the follow-up of the Office of the State Controller (Office), State Debt Collection. Representing the Office is James Smack, Chief Deputy Controller and Geoff Lawrence, Assistant Controller. Mr. Ozoude made seven recommendations, one is fully implemented, two are partially implemented and four had no action. Their recommendation to write-off uncollectible debts is fully implemented. The Office received approval from the Board of Examiner's and wrote-off approximately \$26.3 million in uncollectible debts owed to state agencies.

The Office partially implemented our recommendation to automate the debt offset Process. They are negotiating with the contractor and debt offset process is part of that negotiation. Full implementation is anticipated by March 2017.

The recommendation to submit a BDR to transfer the states' collection agents' responsibilities to the Governor's Finance Office is also partially implemented. The Office and the Governor's Finance Office worked together on a BDR which has now become AB 51. The new bill, if approved, will transfer the collection agent's responsibilities to the Governor's Finance Office. Full implementation is anticipated by July 2017.

The Office took no action on the following four recommendations: One, automate the Debt Assignment Process. According to the Office, automating the process is not possible with the current vendor because the system cannot handle the different interfaces and file transfer needs of state agencies.

The second is to require Agencies to Obtain Waivers to Collect their Debts. The Office is waiting for a new debt collection system to be in place before requiring agencies to obtain waivers.

The third is to automate the Licensee List Review Process. According to the Office, an automated solution is not in the scope of work for the system being negotiated. However, the Office will develop a manual process by July 2017 as automation is not feasible.

Lastly, resolve legal issues to allow collection of overpaid wages from state employees. According to the Office, this has not been discussed with the Office of the Attorney General. The issue will be addressed once a new debt collection system is in place. They anticipate full implementation by July 2017.

Controller Knecht noted, we have done two things. One, we've worked extensively with Mr. Jim Wells and have moved forward on the CGI contract. Contrary to the anticipation last time, that would end up going into interruption and termination, the new debt collection IT system went live last Friday. I think everybody on our team did a great job on that. It did have an opportunity cost because we had to work so hard in that that we couldn't do much current debt collection work. But as the Governor's Office inherits this operation, we think you'll be inheriting one that is in much better shape than what it was and has some real prospects. Mr. Smack and company have taken the write-offs, as Mr. Ozoude said, to the Board of Examiners and that's fully completed.

The other thing is, two days from now, the bill to transfer this operation from the Controller's Office to the Governor's Office will be heard. I'm hopeful and optimistic that will go through. Not because we don't want this and we certainly cherish the people that we have and that you're getting, but for all the reasons that the auditors said, that this should go to the Governor's Office and we agreed, we want it to succeed under your stewardship.

Member Cross asked, when was the last time a write-off was done? Mr. Smack stated, the last write-off was the one we just completed, which was actually two parts. There was one part that was about \$25 million and then we had a few agencies that had not got their information back to us in time to complete their write-offs. So, it was about \$1.3 million that we wrote off at a subsequent meeting. So, about \$26.5 million or so that we wrote off in bad debt. Prior to that time, I believe the last time there was a write-off done was 2012. A lot of that was stuff that was accumulating on the books and I don't suspect we are going to be having that size of write-off going forward. I think it will probably be a seven-digit write-off but probably somewhere short of eight-digits going forward on an annual basis.

Controller Knecht asked to put on the record that the leadership of Mr. Smack and Mr. Lawrence, along with our Debt Collection Division and our IT Division have done just a great job in handling this and he appreciates what they've done.

Mr. Smack thanked Mr. Ozoude and Mr. Weinberger, for support in this matter and for all of your help and assistance. It does give us a really good guideline going forward. What we're looking to do is basically these ones that we have not taken action on, one of them was contingent specifically on the debt collection system being up and running, the debt offset process. That was part of that contract, so that should be, at this point in time, considered to be fully implemented. As far as the rest, waiting on legislative approval for Assembly Bill 51. Good Lord willing and the creek don't rise, we'll get that one. That will be taken care of as well.

Then the other couple of recommendations that have had no action, were all contingent on the completion of putting in a debt collection system. Now we can actually start looking at implementing those solutions and actually perhaps have those solutions implemented prior to July and prior to the potential turnover to the Office of the Governor.

Governor Sandoval thanked Mr. Smack for getting it all worked out with CGI. He is really pleased that we have got that system up and running.

B. Office of the Secretary of State, Report No. 16-06 – Commercial Recordings Division, Warren Lowman, Executive Branch Audit Manager.

Mr. Lowman stated representing the Office of the Secretary of State is Chief Deputy Secretary of State Scott Anderson and Deputy Secretary of State for Operations Cadence Metijivich. He added Kim Perondi, the Deputy Secretary for Commercial Recordings as well.

Mr. Lowman made four recommendations in the audit of the Commercial Recordings Division. The Office has fully implemented the recommendations to establish a centralized complaint tracking system. The Office was moving on the remaining recommendations at the time of the six-month follow up and had anticipated fully implementing the remaining recommendations by the end of December 2016.

Secretary of State Cegavske noted her thanks to everyone involved and turned it over to her team. Mr. Anderson introduced himself as Chief Deputy Secretary of State and noted he is pleased to state that as of today, they have fully implemented three of the four recommendations and have substantially completed the Recommendation No. 1 and expect that to be completed within the next six weeks. When they went into this audit, they went in looking for some areas that we may improve in our office and this indeed brought to light a few areas that they could improve and to focus on going forward. They truly appreciate that. It allowed them to get caught up in a number of areas where they had fallen behind. They appreciate the recommendations of the auditors and the work of Ms. Perondi and her staff in getting all these caught up.

C. Department of Administration, Report No. 16-07 – Fleet Services Division, Warren Lowman, Executive Branch Audit Manager.

Mr. Lowman stated representing the Fleet Services Division was Administrator Keith Wells. Mr. Lowman made three recommendations in the audit of the Fleet Services Division (Fleet Services), Vehicle Lease Program (Program). Fleet Services has partially implemented the recommendation to develop a statewide leasing program that integrates short and long-term leasing and vehicle procurements with their plans to reclassify existing staff resources to help manage the program. Fleet Services, along with the Nevada Highway Patrol, are working to establish a new Fleet Specialist Class to help with the additional complexity of a vehicle purchasing and leasing program. Fleet Services anticipates fully implementing the recommendation by June 2017.

Fleet Services has partially implemented the recommendations to collect data to monitor the performance of the master service agreement vendor and to collaborate with the Budget and Purchasing Divisions to establish Fleet Services as the gatekeeper for all vehicle purchases and leases in the State. Fleet Services anticipates completing the requisite strategies and policies and procedures to fully implement the recommendations by July 2017.

Mr. Wells introduced himself as Administrator of the Fleet Services Division. He gave thanks to Mr. Lowman, Mr. Weinberger and everybody at the Internal Audit Division for doing a great job. He enjoyed working with them and it's always been a great experience every time with good outcomes.

Governor Sandoval asked for more details in terms of how this leasing program is working out? Mr. Wells noted, the leasing program is a great opportunity for the Fleet Services Division and the State of Nevada to enhance the vehicle acquisition process. Vehicles are an expensive asset and it's a required asset to conduct State business. Having a really best practices approach to how we acquire assets, I'm excited about working on that. Leasing, we've never really looked into leasing as thorough as we have now. So, having a toolbox where we can lease vehicles and purchase vehicles and having a vetting process and seeing which one fits each individual process, will ensure that this State is using every best practice approach we can in having an efficient fleet and ensure that we safeguard our fiscal responsibilities, our assets and just being proactive.

D. Department of Health and Human Services, Report No. 16-08 – Division of Child and Family Services, Child Mental Health Services, Warren Lowman, Executive Branch Audit Manager.

Mr. Lowman stated representing the Division of Child and Family Services (DCFS) was Administrator Kelly Wooldridge and Deputy Administrator Ryan Gustafson. Mr. Lowman made two recommendations in the audit. DCFS has partially implemented our recommendation to transition from residential treatment center placements to home and

community-based services strategies. DCFS is in the second year of the four-year system of care grant and is working with several non-profit and for-profit providers to build sustainable community based services.

DCFS has also partially implemented our recommendation to modify the Medicaid state plan to develop new benefits and redesign existing benefits for children and youth with serious emotional disorders. DCFS reports working with the Division of Health Care Financing and Policy to form a workgroup beginning in January 2017 to look at implementing a waiver for youth with severe emotional disorders.

Ms. Wooldridge thanked the audit team and Mr. Lowman because this is an exciting recommendation and change for them. Governor Sandoval asked her to provide more detail about the implementation process that you're doing as a result of the audit? Ms. Wooldridge noted, with our system of care grant, the main goal of the grant is to increase access for kids in their home communities. Right now we have 12 sub-grantees that are providing community based mental health services to children under the grant.

Then the other piece of it is, we're working with a national expert. Nevada was, I can't remember off the top of my head and I don't want to get this wrong. I want to say the thirty-eighth State to get a system of care implementation grant. There's other states that have done this successfully, so we're working with actually someone from New Jersey to help us with putting together the—I think we've decided to go with a waiver. Probably the 1959I Waiver, but not for sure. So, they're working with us to put that Medicaid Waiver together. Youth will actually have increased services.

There was a joint memo between SAMSHA and CMS in 2013 that identified what community based services youth on Medicaid should have. Some of those services are not in our Medicaid State Plan. So, we will increase the amount of services that kids are able to get through Medicaid with this.

Governor Sandoval stated it just makes it a little more concrete for everybody in terms of what the benefits of this audit is or are. He noted, it is great work because, what's music to my ears is the fact that more kids are going to get more services as a direct result of this audit. It really is making a big difference.

E. State Procurement Process I, Report No C16-01 – Vita Ozoude, Executive Branch Audit Manager.

Mr. Ozoude presented the follow-up of the State Procurement Process I. He noted representing the Department of Administration (Department) is Patrick Cates, Director and Jeff Haag, Administrator, Purchasing Division. Mr. Ozoude made one recommendation to the Office of the Attorney General and eight recommendations to the Department of Administration.

The Office of the Attorney General (Office) fully implemented our recommendation to Develop Guidelines for the Attorney General's Review. The Office developed guidelines for contract review by deputy attorney generals. All deputy attorney generals that review contracts have mandatory CLE classes on state contracting. In addition, these deputy attorney generals were directed to complete the certified contract manager's class.

The Department fully implemented our recommendation to update Risk Management's Insurance Manual. The manual was updated in June 2016.

The Department took no action on our recommendation to approve insurance coverages in RFPs and contracts. The Department represents it lacks the resources to implement this recommendation but will revisit this issue in fiscal year 2020-2021 budget development process.

The following six recommendations were partially implemented:

The first is to develop a multi-step award process. The Department provided training for Purchasing Division employees and is working with the Office of the Attorney General to determine how best to implement this recommendation. It anticipates full implementation by April 2017.

The second is to develop a checklist to reconcile contract summary forms to contracts. The Department pulled together all the available checklists and is reviewing and comparing the checklists to others used by other procurement offices. If purchase of an eProcurement system is approved, the reconciliation will be automated. Full implementation is anticipated by April 2017.

The third recommendation is to require approval of RFPs. The Department represented they requested a 1% administrative levy in the FY 18-19 budget on all master service agreements to be used to purchase an eProcurement system which would allow automated approvals from all required agencies. Full implementation is dependent on the approval of the levy.

The fourth is to develop guidelines for Enterprise Information Technology Services (EITS) review and TIR requirements. The Department represents EITS and the Purchasing Division developed draft guidelines for TIRS on technology purchases. Full implementation was anticipated by December 2016. Subsequent to this report follow-up, the Department submitted a Technology Investment Request (TIR) Instruction Guide to our office.

The fifth is to replace SAM with a comprehensive contract procurement manual. The Purchasing Division is reviewing current manuals and training materials. In addition, they are contacting other states and consulting firms in order to help develop a best in class procurement contracting manual. They are also awaiting our audit recommendations on

State Procurement Process II which will be incorporated into the manual. Full implementation is anticipated by July 2017.

Mr. Ozoude's last recommendation was to create a Central Contract Unit. The Department represents creating such a Unit requires reclassifying and filling existing vacancies with individuals with appropriate skill sets. However, legal support for this Unit has yet to be determined. The Office of the Attorney General and Purchasing Division support the creation of a contracting counsel position to ensure all contracts are in the best interest of the State. The Department anticipates full implementation by July 2018.

Controller Knecht stated, as the minutes show in our last meeting, I put upon the record fairly extensively, my concerns about procurement and my recommendations. I think we're going in the right direction here with this follow-up report. I would only hope to see things go faster and sooner to completion going forward.

Governor Sandoval asked Mr. Haag or Mr. Cates, any comments? Mr. Cates introduced himself as Director of Administration. He noted, this is a really good audit for us and thanked the Division of Internal Audits. They made some solid recommendations and we have either fully implemented or well on our way to implementing all of the recommendations. They have a couple of budget items and a BDR related to an in-house counsel, unrelated to eProcurement that will require approval by the Legislature, before we can complete all of the recommendations. Mr. Haag had no further comment stating, Director Cates stated it well.

6. INFORMATION ITEM – PRESENTATION OF THE DIVISION'S ONGOING FOLLOW-UPS REQUESTED BY THE COMMITTEE

- A. Department of Health and Human Services Report No. 10-06 – Division of Public and Behavioral Health, Doctor Attendance – Warren Lowman, Executive Branch Audit Manager.

Mr. Lowman stated representing the Division of Public and Behavioral Health (DPBH) was Administrator Cody Phinney and in Las Vegas, Joanne Mala, the Agency Manager for the Southern Nevada Adult Mental Health Services.

Mr. Lowman explained, this is our tenth report on doctor attendance at Rawson-Neal hospital. Our review shows DPBH can account for doctor work hours, although a large number of hours for some doctors are performed offsite, away from the hospital. To account for doctor work hours, the hospital re-implemented the gap analysis report, which reconciles doctor absences from the hospital with authorized and documented meetings, trainings, and other events. In August 2016, DPBH implemented an additional report which reconciles approved offsite hours with recorded electronic medical record entries. However, some offsite hours are approved based on professional discretion and cannot be reconciled.

During the most recent review period of September thru November 2016, five of seven doctors were compensated for hours worked offsite. All were contract doctors. Select doctors were working from 20-59% of their compensated time offsite from the hospital. Mr. Lowman found, on average, hospital doctors are working 39% of their compensated hours away from the hospital. Mr. Lowman found use of offsite hours by doctors approved for offsite work increased by over 18% during the three-month review period. The result is the average number of hours doctors approved for offsite work hours are onsite for patient care in the hospital is 4 hours and 53 minutes during an 8-hour day.

Mr. Lowman also found in many weeks there were more hours accounted for on DPBH reports than claimed on timesheets by contract doctors who worked offsite. Neither the affected doctors nor DPBH attempted to adjust compensation based on the variance between the reports and timesheets. Of note, three contract doctors were consistently compensated for 50 or more work hours in a week during the review period. These doctors also recorded the most approved off-site hours.

The hospital could not provide criteria or policies and procedures for how doctors are approved for offsite work hours or for what purposes. Consequently, we enhanced our recommendation to continue monitoring efforts with establishing written criteria for doctor offsite work hours.

Governor Sandoval noted, the presentation does beg the question of, what are the doctors doing for that time that they're offsite? Ms. Phinney introduced herself as the Administrator of the Division of Public and Behavioral Health. She appreciated the opportunity. She also wanted to express gratitude to the Audit Division that's worked for a long period of time to ensure that we're adequately monitoring doctor attendance. Ms. Jo Malay who is in Las Vegas can speak to some of the specifics. We're certainly interested in establishing written criteria that would best identify some of these activities.

Ms. Phinney continued, as we move, evolve our place as a safety net provider, some of the services that we're providing, for example, forensic inpatient service, are more intensely based on documentation. For example, those reports that go to the Court can be quite extensive and generally are frankly written outside the auspices of the hospital where a person could get some peace and quiet and think through their reporting. Much documentation is done that way, including the documentation of resident's supervision. That's an extensively documented area and while the actual observation of a resident's practice is often done in the hospital, the discussion of improving the resident's performance and the reports that are required to the Graduate Medical Education Provider are often done offsite. There is a fair bit of the work that our physicians are doing that is reasonably done offsite.

As we move forward and continue to evolve, I look forward to taking the next step of also documenting the criteria that are used to approve that, but also moving to monitor—use some of this resource to monitor some of the quality of care issues that might be more

telling about how effective these services are beyond just how much time is spent in the building. So, there's some real opportunity for us to move forward there as well.

Governor Sandoval asked, it's my understanding that any offsite activities do require prior approval, correct? Ms. Phinney confirmed this statement.

Governor Sandoval noted, at least the notes within the reports is that, it also could include that an offsite psychiatrist is available by phone. He added, it may be that they may not be on the premises but they're available telephonically which would mean they were on duty. Ms. Phinney responded, you make an excellent point. A great deal of medicine is practiced in that manner by physicians being contacted by phone, by the nursing staff and other staff that implement their directions.

Governor Sandoval noted, it says it in the report but I want to make sure that it's on the record because there was a question before with regard to this issue is that, patient quality of care is not compromised as a result of psychiatrists working offsite. Ms. Phinney noted, the evidence we have suggests that patient care is not compromised. We've been able to maintain our accreditation over the last several years. We've had successful surveys at both facilities. We monitor closely the safety at both facilities, including incidents that occur and do analysis on such incidents to address the root causes of those. I've recently been told that some of the best service community members feel is provided at the State facility. It appears that the evidence I have available to me leads me to believe, including what I've witnessed myself, that patient quality is not compromised at this point by this practice.

Secretary of State Cegavske asked, is there no doctor's lounge or office for the doctors to go in and have private time and do their dictation? She noted, she thought there were offices, did they use that for something else now? Ms. Phinney explained, the doctors do have offices. There is no specific lounge for doctors. There is a staff breakroom that would be shared by all of the staff. They can get off the unit and they do have space where they can do some of their documentation. In my experience in working with physicians over the last several years, they do some of it there on grounds and some of it at other times, often perhaps to allow them to time shift, like the rest of us do at times. Or, to allow them to spend more time with patients, which was also, I believe addressed in the report that maybe that they're spending a great deal of time on their work.

Secretary of State Cegavske moved to another section that has always been a concern, being it's such a hard to fill position. She asked, is it still as hard as it was and I'm talking, we're talking about the last 20 years, we've had a problem with finding psychologists, especially for the youth. Are we still having problems at Rawson Neal in finding quality? Then, are any of the doctors called to the emergency rooms at the different hospitals at any time? Are they going to see any previous patients or collaborating on new patients? Ms. Phinney noted, Psychiatrists continue to be very hard to find. Both in Nevada and across the nation. The cadre of physicians we have available to us now are very high quality physicians and we're very grateful to have them. For the most part, they work with

us on contract. The question, are they called to the emergency room, I'm going to defer to Ms. Malay about the exact practice of what they might be providing other than onsite activities for State patients.

Ms. Malay introduced herself and noted, our psychiatrists do not go into the emergency rooms to see the clients.

Treasurer Schwartz asked: it's your professional opinion, as I say with all due respect to the medical profession and to your hard-working audit that in fact, there really is no gold bricking here. That the physicians are doing what they're supposed to be doing and they are competently providing services that they've been contracted for. Again, your professional opinion, Ms. Phinney and also the auditors here. Ms. Phinney noted it was her professional opinion that these physicians are providing services to ensure that our state patients are safe and getting high quality psychiatric care.

Mr. Lowman added, we found no evidence that there was any gold bricking going on. Mr. Lowman found evidence that the DPBH can in fact account for hours. There are some offsite hours that are followed as well, but again, I can only speak to the facts and the facts are that the DPBH has implemented policies to account for doctor time and they have a use of approved offsite hours. However, the lack of criteria, written policies and procedures, does suggest that they can tighten that piece up a bit more.

Treasurer Schwartz stated: you suggested that, in fact, those procedures be implemented. Mr. Lowman confirmed and added, we recommended that they establish written policies and procedures and criteria for offsite hours.

Governor Sandoval noted, in actuality, at least for some, it's the opposite of gold bricking, whereas there are some doctors that have worked more hours than they have claimed. Mr. Lowman confirmed and added, the data would suggest this.

Mr. Weinberger asked the Committee to provide opinion as to our next follow-up. He asked, would you like us to continue doing these annually or change the time period? Governor Sandoval noted annual was fair and requested this to continue moving forward.

B. Department of Corrections Report No. 13-03 – Medical Division, Doctor Attendance – Vita Ozoude, Executive Branch Audit Manager.

Mr. Ozoude presented the follow-up of the Department of Corrections (Department) Doctor Attendance. Representing the Department is John Borrowman, Deputy Director and Chuck Schardin, Medical Administrator.

This is the fifth report on doctor attendance at the Correctional Institutions. Mr. Ozoude's review shows the Department has sustained, improved doctor attendance since our initial audit. Full time doctors are working on average 9.3 hours a day on a 10 hour, 4-day

workweek and part time doctors are working on average 9.6 hours on a 10 hour, 2-day workweek.

While full time doctor attendance remained the same from our last follow-up, part time doctors are working 15% more hours than previously reported.

In order to continue to maintain increased level of doctor attendance at these institutions, Mr. Ozoude recommended continued follow-up of doctor attendance issues at each facility and to ensure the medical professional's report is reconciled to information documented on the timesheets and the in/out logs.

Governor Sandoval asked, 9.3 out of 10, is the 0.7 for a lunch or a break? Do you account for that on a 10-hour workday? Mr. Weinberger stated, that reflects the amount of time they were at the facility. As you know, they (doctors) have got to sign in and out; they can't just come and go as they please at a correctional facility.

Governor Sandoval asked, that 0.7 would be having to check-in and go through the security? He further stated, I don't know how you lose that 0.7, as you say for—I guess, not for me to suggest that this is bad. This is a dramatic improvement over when we first did the original audit. I'm just curious about that last little bit. Mr. Schardin introduced himself and explained, the 9.3 is an average. The 0.7 is an average. Really what it represents is, over the course of that time period, there may be a doctor that has a doctor's appointment for four hours. They leave early and since they're exempted, they're not required to report an absence less than a full shift. Almost by definition, we'll never reach sort of 100%, but that's what it is.

Governor Sandoval remarked, well then that 9.3 is really good, considering that. Mr. Schardin agreed. Governor Sandoval further commented, that you could work an hour out of a day and get paid for the full day and that goes against this average daily attendance. Mr. Weinberger stated, we do want the Department to track all that type of stuff. Mr. Weinberger realized they (doctors) are exempt and if they take less than eight hours, they don't have to record it on their timesheet but, I think and actually, you guys have been doing this, if they go off to training or something like that, we want to make sure that's documented too. So, we have full accountability.

Governor Sandoval asked that this be reviewed annually. Mr. Weinberger confirmed it would be.

7. FOR POSSIBLE ACTION – APPROVAL OF THE DIVISION'S ANNUAL AUDIT PLAN PURSUANT TO NRS 353A.045

Mr. Weinberger noted that this plan is an action item. He identified the matrixes associated with the presentation. He explained, the top one is the audits we are

requesting approval to start, as of today and the bottom one reflects the ongoing audits. The Committee can approve this as is or make modifications to the plan.

Governor Sandoval asked about the Division's capacity and if there were any suggestions for additional audits, would the Division have the capacity to complete them or is everybody busy? He noticed, they're all looking at me, are you kidding me? [laughter] He asked, out of curiosity, are you pretty full? Mr. Weinberger replied, yes, we are pretty full, but we'll add it to the list and prioritize as we need to.

Governor Sandoval noted he did not have any requests at this time but wanted to ensure we had capacity in the event someone else on the Committee did.

Treasurer Schwartz stated, I would like to see if we could request an audit of GOED, which is the Governor's Office of Economic Development. I think we're all aware of the various press reports that have gone on with Faraday Future, with the stadium, with other projects in the State and I would be intensely interested in an audit of that Agency.

Governor Sandoval stated that would be fine but asked for specifics of the audit being requested. Treasurer Schwartz clarified, what I'd be seeking is basically an audit of the projects that they've undertaken and the degree of diligence, if you will, that goes into the undertaking of those projects and I would also be interested in—and, I know there's a difference between operating and financial audits and I don't know that we can do both. I would certainly be interested in the flow of funds through the Agency. Mr. Weinberger confirmed that they could do that.

Governor Sandoval asked that attention be directed to the fact that there is another parallel audit process that is required by statute through the Legislature. He added, that might be a good place to start.

Controller Knecht stated, since the Treasurer mentions that, it would seem to me that a useful feature of one of these audits would be to focus on how it is the Office of Economic Development determines what projects to focus on and how they evaluate those projects. I'll just give you an example, which isn't pregnant with any particular meaning, but we have Tesla moving along up here very well right now. On the other hand, there were representations made by Tesla about the total number of jobs that would be created. Then there was a process and standards for assuring that Tesla meets certain goals and those standards, as I understand it, are not exactly the same as what they represented. So, I would just like such an audit, if it's done, to focus on how it is GOED selects, evaluates projects, develops standards for their success and pursues the follow-up on that.

Governor Sandoval stated, all that information is available. He further stated, I think that would be an easy one to do. I know the Secretary sits with me on that Board. Obviously, depending upon the amount of investment by Tesla, the amount of people they hire is consistent with the amount of tax credits that they earn or any type of abatements they earn. So, depending on what they do—I mean, I know, as a matter of fact in this budget,

there was a lot of money that came back to the budget because they didn't hit some of those—what they had stated as the goals. But, I also know they're really ramping up right now. So, that's a pretty exciting outcome for the State.

Certainly, what I would encourage you to do, Mr. Weinberger, is to sit down with Mr. Hill, who is the Director at GOED, the Governor's Office of Economic Development. I'm absolutely confident that he'll be cooperative. As I said, it's a bit redundant because there are parallel audits that go on with the Legislature and that are required by statute. Again, those would be a good place to start.

Perhaps for the Treasurer's benefit and the Controller's benefit, there's a report that just came out within the past few weeks that lays out the amount of the abatements and the jobs and all that information for every single project that's been approved since day one.

Mr. Weinberger asked for direction on how the Committee feels about prioritizing this audit. That's one of the things the Committee can do is revise my schedule and you can kind of get an idea of which audit is going next based on our completion date.

Governor Sandoval stated, we can put it at the top. I'm fine with that. As I said, Mr. Hill has just recently presented to the Legislature as part of his delivering the report on the Governor's Office of Economic Development. So, all that information is as recent as it gets. That will be a good place to start. If we want to put it on the top, we can do that.

Treasurer Schwartz stated, I would second the Governor's suggestions, if you could move it to the top. There's some other facets of that that maybe we can discuss offline, but it certainly I think would be crucial to see given all the noise that's surrounding some of these projects.

Governor Sandoval responded, there's no discussing things offline. He asked for more specificity with the so-called noise.

Treasurer Schwartz replied, for example, Governor, I say this is one of the issues with Faraday Future are their financial statements, which they nominally provided to Mr. Hill. These have gone undisclosed and lacking and I don't know how Mr. Hill will respond to that but you know, to the extent that you can audit those, audit the process for reviewing those, I would be very interested.

Governor Sandoval replied, Mr. Treasurer, there's a difference between an audit and an agenda. This Committee is not a vehicle for an agenda. It is a vehicle for an audit. As I said, GOED has been as transparent as it can possibly be. It has responded to every request by the Legislature and its requirements by statute. As Chairman of the Board of Economic Development, I'm happy to welcome an audit, because I think Mr. Hill and that Division do a great job. At the same time, I don't think the purpose of that audit should be for a specific agenda.

Treasurer Schwartz stated, I don't have a specific agenda. If some sort of looking into, some sort of discussion of why these financials have remained out of the public eye. As I said, there's no agenda here. It's really an attempt to understand the processes and methods of GOED. Better understand.

Governor Sandoval noted, this Committee needs some direction. As I said, in terms of providing copies of the audits that have already been submitted, I don't know if you've had the opportunity to look at those. Those are things that are public documents that are submitted to the Legislature which has been presented to the Legislature and explained. If there's any further due diligence to be done by the auditors, happy to do it, as I said. I think there needs to be a bit of delineation that is provided in terms of the difference between an audit and what you're talking about.

Treasurer Schwartz stated, I take your suggestion and maybe we can sit down and do that at some point.

Mr. Weinberger confirmed he understood the direction and added, for right now we'll just go ahead and put that at the top of the list and get together with Mr. Hill. Kind of look at the processes that are in effect. One thing to mention is, as far as financial statements, we can't audit Faraday's books. We don't have access to that. Our review would be towards what does the Agency do when they receive the financial statement.

Treasurer Schwartz stated, I wouldn't expect that but they have nominally given these statements to Mr. Hill. The question is, where are they? What have they said and are there any implications there for the ongoing project?

Mr. Weinberger stated, this is the first I've heard of it. Obviously, there's a lot of planning that goes into an audit like this. I don't want to jump ahead and tell you what we're going to do and what we're not going to do at this point.

Treasurer Schwartz noted he understood that they've got their hands full and added, but to the extent that we've agreed to move this to the top, perhaps it can get some of your undivided attention, at least for a certain period of time.

Controller Knecht stated, I think you've made a couple of constructive suggestions here to prioritize it but also you mentioned the reports and the audits. I do have an appetite for reading budget and I try to keep up but I'm sure you appreciate how hard it is to keep up with everything. If I can get copies of the GOED related audits and the reports, that would be very helpful to me and I would appreciate it. Governor Sandoval noted they are online.

Governor Sandoval asked for a motion and added, I don't want to have this further discussion outside of a public meeting in terms of what the purpose of that audit. There's public information and you do parallel audits all the time with regard to the Legislative Audit. What I'm hearing is that there will be an audit of GOED with regard to the abatements and the incentives that have been provided, the performance in terms of the

companies that have come as a result of GOED activities, with specific attention to Tesla and Faraday Future.

Motion: Move for approval Division's Audit Plan with the addition of an audit for the Governor's Office of Economic Development and to give that priority.
By: Secretary of State Cegavske
Second: Controller Knecht
Vote: Motion passed unanimously

8. FOR POSSIBLE ACTION – APPROVAL OF THE DIVISION'S ANNUAL REPORT RELEASED SEPTEMBER 30, 2016 PURSUANT TO NRS 353A.065

Mr. Weinberger explained, this is our report for FY 2016. It basically lists our accomplishments and performance measures for that fiscal year. You'll notice it is split into three different sections which is representative of our agency. We have the Executive Branch Audit Section and those auditors present the audits to the Committee. The ones you've seen today. We have our Financial Management Section which is responsible for maintaining the State Internal Control System, offering training on internal controls and financial management processes to state employees. And, some specialized internal control type reviews. We also have our Compliance Section.

This was formally called Post Review. Post Reviews were pretty much clerical in nature. They look at actual expenditures and ensure back-up was there and they were coded properly in the state accounting system. We're going into a little more detailed process now. We're actually going to look at the processes related to expenditures and receipts and even grants and just make sure the processes are fiscally tight and they don't have any control weaknesses, that kind of stuff.

Motion: Move for approval of the Division's Annual Report Released September 30, 2016.
By: Attorney General Laxalt
Second: Secretary of State Cegavske
Vote: Motion passed unanimously

9. INFORMATION ITEM – PRESENTATION OF THE ESTIMATED BENEFITS TO NEVADANS FROM THE DIVISION'S RECOMMENDATIONS

Mr. Weinberger explained, this is the support for our performance measure on Page 10 of the annual report. As I'm sure you're aware, if we can, we quantify the dollar effect of agencies implementing our recommendations, as far as benefits that will occur for the state agencies or even state citizens. We take that number and divide it by the cost of performing those. This is basically kind of a return on investment type performance

measure and it's 71:1 for FY '16. This is the support, if you look at the last page of this, you can see the \$71.00 calculation.

One thing I'd like to say is, so this report is as of June 30th. Some of these are recommendations that have not been implemented yet or we have not been able to verify have been implemented yet. Since June 30th, we have done some follow-ups and verified that a few of these recommendations are fully implemented. We'll be able to take credit for the dollar benefits, specifically Audit 15-01, Commission on Off-Highway Vehicles. It's on Page 1. You can see there are two recommendations. One has a dollar benefit of \$90,000. The other is \$1,190,000. We did verify, both of those have been fully implemented. On Page 3, DETR Audit, 12-02. There's a recommendation that had a dollar benefit of \$1.9 million and we did verify that was fully implemented.

Governor Sandoval noted, great job. He added, people of the great State of Nevada are very appreciative of this process and what it means in terms of savings and efficiencies. Thank you very much for what you do.

10. COMMITTEE MEMBER'S COMMENTS/PUBLIC COMMENTS

Governor Sandoval asked the committee and the public if they had any comments.

Treasurer Schwartz stated, one of my staff members presented me a bill by the name of SB 111. Truthfully, I'm a little confused on it. It nominally states that the Chair of the Committee which is the Governor, may without the approval of the Committee, direct the administrator to audit an agency that is not stated in the annual plan approved by the Committee pursuant to Subsection 5. I don't know what you can do in Committee comments, whether you can follow-up with what exactly this bill is. Yeah, go ahead. Thank you. He asked, can I request then that this item be discussed, assuming we're still in existence at the next Committee? He asked, at the next meeting of EBAC, for the Governor to perhaps give some discussion or explanation of what SB 111 is intended to do. It was noted it would be an information item. Treasurer Schwartz stated he understood and noted the bill was unusual. He added, as he stated, he doesn't totally understand it but it nominally suggests that the Committee might not be in existence.

There was no public comment.

11. FOR POSSIBLE ACTION – ADJOURNMENT

Governor Sandoval adjourned the meeting.

FINAL