

**STATE OF NEVADA
EXECUTIVE BRANCH AUDIT COMMITTEE MEETING**

**MINUTES
June 5, 2008**

The Executive Branch Audit Committee and the Division of Internal Audits met on June 5, 2008, at the Capitol Building Annex, Second Floor, 101 N. Carson Street, Carson City, Nevada. The meeting was videoconferenced between the Capitol Building Annex and the Grant Sawyer State Office Building, Governor's Office, 555 East Washington Avenue, Las Vegas, Nevada.

MEMBERS PRESENT:

Governor Jim Gibbons, Chairman
Secretary of State Ross Miller
State Treasurer Kate Marshall
Controller Kim Wallin
Attorney General Catherine Cortez Masto
Dana L. Bridgman, CPA, Public Member

**MEMBER VIA TELEPHONE AND
VIDEOCONFERENCE:**

Lieutenant Governor Brian Krolicki

**DIVISION OF INTERNAL AUDITS
STAFF PRESENT:**

William Chisel, Chief
Steve Weinberger, Financial Manager
Mike Colburn, Executive Branch Auditor IV
Vita Ozoude, Executive Branch Auditor III
Joyce Garrett, Executive Branch Auditor III
Dennis Stoddard, Executive Branch Auditor II
Warren Lowman, Executive Branch Auditor II
Paul Chalekian, Executive Branch Auditor I
Connie Boynton, Administrative Assistant IV
Emily Nunez, Administrative Assistant III

OTHERS PRESENT:

See attached sign-in sheet.

The agenda for this meeting was posted in accordance with the Nevada Open Meeting Law and was mailed to groups and individuals as requested.

Call to Order

Governor Gibbons, Chairman, called the meeting to order at 9:00 a.m. Lieutenant Governor Krolicki was present by telephone and videoconference. Governor Gibbons welcomed those present, and asked the clerk to call the roll. Division of Internal Audits Chief William Chisel accepted that roll. All members were present, and a quorum was noted. Governor Gibbons stated the first order of business would be discussion of possible action regarding the minutes from October 2, 2007.

A. Discussion and possible action regarding the minutes from the October 2, 2007, meeting.

Controller Wallin asked for a technical correction on page three. The minutes state she said "appreciated", but should be changed to "they can be compared or evaluated".

William Chisel, Chief, Division of Internal Audits, stated the minutes would be corrected. Governor asked if there were any questions or comments regarding the minutes. There were none.

Motion: Move for approval of the minutes of the October 7, 2007, meeting.

By: Lieutenant Governor Brian Krolicki

Second: Treasurer Kate Marshall

Vote: Motion approved 7-0

B. Discussion and possible action regarding amendments to the Division of Internal Audits' annual audit plan for fiscal year 2009 as set forth in the backup material. (NRS 353A.038)

Mr. Chisel stated to the Committee, the Division of Internal Audits was looking into adding a search and rescue policies audit. He said it was a search and rescue that was performed for Steve Fossett last year. Mr. Chisel also stated he would like to add it to the Division's audit annual plan.

Governor Gibbons asked Mr. Chisel if he wanted to discuss what the plan was.

Mr. Chisel responded that the audit would consist of focusing on the policies that were followed in performing the search, along with the fiscal billings related to the search.

Attorney General Cortez Masto asked how the policies were handled past and present.

Mr. Chisel responded there are policies, but the Steve Fossett search was larger than others and we were looking for ways of improvement from past and present searches.

Governor Gibbons then asked if there were questions or comments with regard to item C. There were none.

Governor Gibbons called for a motion to approve the amendment to Internal Audits' audit annual plan.

Motion: Move for approval of amendments to annual plan.

By: Dana L. Bridgman, CPA, Public Member

Second: Secretary of State Ross Miller

Vote: Motion approved 7-0

D. Discussion and possible action regarding revisions to the Division's administrative policies and procedures for operations. (NRS 353A.038)

Mr. Chisel explained to the Committee that whenever amendments are made to the Division's administrative policies and procedures they are presented to the Committee for approval. Mr. Chisel also said there were a few administrative changes to the travel and policy and payroll check distribution process.

Governor Gibbons asked if there were any questions or comments regarding changes to the policies and procedures. There were none.

Motion: Move for approval of revisions to the policies and procedures.

By: Secretary of State Ross Miller

Second: Treasurer Kate Marshall and Dana L. Bridgman, CPA, Public Member

Vote: Motion approved 7-0

E. Consent Agenda – Upon request, any item may be removed from the agenda and placed on the regular agenda.

Governor Gibbons asked Mr. Chisel to go over the consent agenda.

Mr. Chisel explained there were 12 follow-ups to present. He said he would like to go through them once, and if the Committee wanted to discuss a specific follow-up they would do so. Mr. Chisel then presented the follow-ups:

✓ **Buildings and Grounds, Mail Services**

Governor Gibbons inquired about the purpose of the audit on Mail Services.

Mr. Chisel said there were two purposes of the audit and the first was to streamline the process for "dirty mail" and possibly reduce the cost by outsourcing. He said the second was to incorporate a tracking system for the mail and the agency is pursuing a Request for Proposal (RFP) at this time.

Governor Gibbons answered okay.

✓ **Risk Management and the Central Payroll Division**

Mr. Chisel said the audit addressed Worker's Compensation payments and the potential for duplicate payments.

Governor Gibbons stated alright.

✓ **Department of Agriculture**

Governor Gibbons asked for a brief overview of the audit.

Mr. Chisel explained there were two sections of the audit, the Board itself and their structure, along with their oversight of the agency. He said the accounting and grant funds were also reviewed. Mr. Chisel further explained they were looking for a solution for the wild horses, and the function of the Medical Marijuana Program.

Governor Gibbons asked to hear more about the results of the audit.

Mr. Chisel asked if it pleased the Committee, they would come back to the ones that the Committee was interested in. The Governor agreed. Mr. Chisel continued to mention the remaining follow-ups.

- ✓ **Division of Mortgage Lending**
- ✓ **Real Estate Division, On-line Services**
- ✓ **Housing Division, Weatherization Assistance Program**
- ✓ **Department of Corrections, Correctional Programs Division**
- ✓ **Division of Forestry**
- ✓ **Bureau of Family Health Services, Women, Infants and Children (WIC) Program**
- ✓ **Department of Transportation (NDOT), I-580 Freeway Extension**
- ✓ **The Nevada State Office of Energy and State Public Works Board, Energy Savings Contracting**
- ✓ **Nevada Office of Veteran's Services**

Governor Gibbons asked if the NDOT audit was a review of the problems that resulted in a change of bid from the previous contractor due to safety concerns.

Lieutenant Governor Krolicki stated he wanted to speak about the NDOT, I-580 freeway Extension.

Mr. Chisel replied there would be three follow-ups presented beginning with Department of Agriculture. He also stated the representatives from the other follow-ups could be excused.

1. Department of Agriculture – Vita Ozoude, Executive Branch Auditor III, presented the follow-up audit report.

Mr. Ozoude stated he would be presenting the six month follow-up of the Department of Agriculture. Mr. Ozoude introduced Maureen Groach, Administrative Services Officer, representing the Department.

Board of Agriculture

Mr. Ozoude stated the recommendation was to have the Board consider revising its statutory authority and the Board decided not to revise.

Methods for Improving Grants and Accounting Processes

Mr. Ozoude stated that eight recommendations were issued for improving grants and accounting processes. Mr. Ozoude also stated the Department fully implemented three recommendations. The first was to provide administrators a report on revenues, expenditures, and a rate of spending. Furthermore, Mr. Ozoude stated the Department is now providing the required reports to administrators. Second, Mr. Ozoude stated the

Department should modify monthly grant reports to identify revenues and expenditures by state fiscal year, identify sources of matching funds, and submit the reports to administrators. Mr. Ozoude also stated the report had been modified as requested, and is currently being submitted to administrators. Third, Mr. Ozoude recommended the accounting Division ensures coding is correct before approving transactions in the state accounting system. Mr. Ozoude further recommended the Department establish new policies and procedures to ensure correct coding prior to approval. Mr. Ozoude said with implementation of these recommendations, improvements have been made in the accounting and grant processes.

Mr. Ozoude explained the Department partially implemented five recommendations, and recommended the Department negotiate indirect cost rates with the United States Department of Agriculture (USDA). Mr. Ozoude also said the Department is presently in the process of negotiating indirect cost rates with the USDA.

Treasurer Marshall asked why the completion date of March 31, 2008, had passed.

Ms. Groach replied that it is taking longer than anticipated.

Treasurer Marshall asked if the Department would be able to assign indirect costs to these programs and get federal funding for some.

Ms. Groach answered the Deputy Director was in charge, and has since resigned, which has caused a delay. She said she was not working on that project, but anticipates she will be.

Treasurer Marshall said one of the issues that came up, was the hiring of a grants writing person, and if that person could pay for themselves in increased grants. She also asked if Ms. Groach had a chance to look at that as another means of getting more funding.

Ms. Groach continued to say how the priority at the time is to find General Fund cuts.

Treasurer Marshall stated the idea was it wouldn't be paid out of General Fund money.

Ms. Groach responded that the Department will make sure to negotiate with the program officers and insert into the budget.

Treasurer Marshall responded that the Department might want to talk to the University where it's done it all the time. When we say your Department funding is contingent upon the Department getting grants it's because the Department doesn't have any funding outside that process.

Ms. Groach answered the Department has at least three full-time employees in that type of situation, and their only source of funding is the Environmental Protection Agency (EPA) grant. She said the Department would take it into consideration.

Treasurer Marshall replied okay.

Mr. Ozoude said the second item was partially implemented. The recommendation was the Department include indirect costs in grant applications when appropriate. He went on to

explain how in the third item, the Department was in the process of developing written policies and procedures to require the inclusion of indirect costs in grant applications when applicable. Mr. Ozoude said the Department ensures indirect costs are allocated among all programs. Mr. Ozoude also said the Department is consulting with several agencies to determine what constitutes a program, so indirect costs can be allocated to their programs.

Mr. Ozoude said the fourth item was to recommend the Department spend grant funds according to grant budgets. Mr. Ozoude stated the Department is in the process of modifying its current grant report to reflect actual spending to ensure grants are not overspent.

Mr. Ozoude said the fifth item was to recommend the Department update and distribute policies and procedures. Mr. Ozoude stated the Department is in the process of updating and distributing all policies and procedures. Mr. Ozoude concluded that when the recommendations are fully implemented, administrators will be able to track, monitor and manage their programs better.

Managing the Virginia Range Estray Horses

Mr. Ozoude said both recommendations for managing the estray horse were fully implemented. Mr. Ozoude also said the Department developed a plan to build additional corrals to hold the horses, which was approved by the Interim Finance Committee. Mr. Ozoude concluded the Department sought federal funding, but none is available for estray horses.

Medical Marijuana Program

Mr. Ozoude stated one recommendation was issued and has been fully implemented. Mr. Ozoude recommended the Department should consider transferring the Medical Marijuana program to the Health Division. Mr. Ozoude stated the two agencies met and agreed with the transfer. Mr. Ozoude then concluded the transfer would require legislative approval in 2009.

This concluded Mr. Ozoude's presentation, and he asked the Committee if there were any questions.

Governor Gibbons asked if there were any questions or comments regarding the Department of Agriculture. There were none.

Mr. Chisel stated because the presentations are follow-ups, there is no need for approval.

2. Department of Business and Industry, Mortgage Lending Division – Joyce Garrett, Executive Branch Auditor III, presented the follow-up audit report.

Ms. Garrett introduced the representatives from the Mortgage Lending Division, Joseph Waltuch, Commissioner, and Nancy Corbin, Deputy Commissioner, via videoconference from Las Vegas. Ms. Garrett stated the audit focused on whether the Division should reduce its fees. She also stated that one recommendation was issued, which was to seek statutory authority to reduce its fees to meet the Division's reserve guidelines. Ms. Garrett said the Division did seek statutory authority and the legislation was passed. Ms. Garrett also said this benefits Nevadans by allowing the Division to reduce its fees and reserves by up to \$3.8 million.

Treasurer Marshall asked how much was in reserve now and said originally there was over \$5 million.

Ms. Garrett replied that at the end of fiscal year 2006, there was \$5.9 million in reserve.

Ms. Corbin explained the Division projected there would be approximately \$4.7 million in reserves, by the end of this fiscal year.

Treasurer Marshall asked what was done with the money.

Ms. Corbin explained the reserve is what funds the Division's operations. She went on to explain the reserves have been shrinking by virtue of their license base dropping since the audit was prepared anywhere from a third, exceeding one half of the agents. Ms. Corbin also stated this alone, had been reducing the Division's reserve on an ongoing basis.

Treasurer Marshall asked if the reserves were dropping because agents are moving out of the industry, or because the Division revoked licenses due to the fact some mortgage lenders are not involved in the best of practices.

Ms. Corbin said she thought it was a little of both, she stated mortgage agents have dropped out of the business, because the business is no longer there. She also said companies have closed their businesses, but the Division has revoked licenses. Ms. Corbin said the Division had about 40 orders pending for either revocations or cease and desist of operations.

Treasurer Marshall said the last discussion was about the Division reducing fees and the topic enforcement came up. Treasurer Marshall then said she asked if the Division was having any issues, and the response at that time was the Division was doing well and didn't need to do a lot of enforcement. Treasurer Marshall also said, since then, things have occurred to show the industry needs help for the Division, and Treasurer Marshall wanted to know how the enforcement was going.

Ms. Corbin answered that thorough authority examinations are being done. The Division has a complaint process where consumers file complaints. Ms. Corbin said that a lot of the investigations lead to administrative actions. She also said matters can be referred to Consumer Affairs, Attorney General's Office, or the Las Vegas Metro Police. She said the cooperative efforts have resulted, in some of the cases that have been heard recently in the news, with arrests.

Treasurer Marshall asked if there are any statistics comparing the Division's enforcement levels from this year to last, and asked if Ms. Corbin could provide Mr. Chisel with the statistics that are used internally to track the Division's own enforcement.

Ms. Corbin answered she would.

Treasurer Marshall asked how many licenses had been revoked in the past year.

Mr. Joseph Waltuch, Commissioner, replied about eight licenses per month, or 80 to 100 per year on an average. He said his current position started in September of 2007 and the

numbers have been relatively constant. He also said there may have been a slight decrease.

Treasurer Marshall asked the Division if they had a backlog of complaints.

Mr. Waltuch replied the Division was current as far as investigating, but there was a delay getting the paperwork filed through the Attorney General's office. He noted how the Division was current on filing the complaints. Furthermore, he stated the actions, hearing orders, and the settings for hearings are somewhat backlogged.

Ms. Corbin added the Division has thorough procedures in place for complaints that come through the door, the time frame of which a full investigation is open, and the procedures taken going forward. She also said some complaints are very complex and take months, and once the Division brings an investigation to a conclusion, they will write up an administrative action request that goes to the Division's Deputy Attorney General for an order to be issued, depending on whether violations had occurred or not. She added, there is probably a months worth of backlog.

Treasurer Marshall asked how much money was left in the account and reminded the Division to get the enforcements statistics to Mr. Chisel.

Governor Gibbons asked if there were any questions or comments regarding the Mortgage Lending Division. There was none.

3. Department of Transportation, I-580 Freeway Extension – Vita Ozoude, Executive Branch Auditor III, presented the follow-up audit report.

Mr. Ozoude introduced Rick Nelson, Assistant Director, representing the Department. Mr. Ozoude explained two recommendations were issued to the Department, and both had been fully implemented. Mr. Ozoude said the first recommendation was the Department consider using design-build process, and the Department had awarded its first design-build process project in August 2007. Mr. Ozoude said the second recommendation was the Department consider using escrow bid documents, and the Department has now issued policies and procedures that require escrow bid documents on all projects greater than \$50 million, or smaller complex projects. Mr. Ozoude concluded the recommendations will help reduce construction delays and resolve future disputes with contractors.

Governor Gibbons asked if there were any questions or comments regarding the Department of Transportation, I-580 Freeway Extension. There were none.

F. Presentation of the Division's Audit Reports. (NRS 353A.085)

1. Commission on Tourism, Nevada Magazine

Mike Colburn, Executive Branch Auditor IV, presented the audit report.

Mr. Colburn introduced Joyce Hollister, Publisher for Nevada Magazine as the representative.

Mr. Colburn stated Nevada Magazine was established in 1983 and is a bi-monthly publication featuring the Nevada lifestyle. Mr. Colburn also stated the audit addressed two

areas. He said the first was to increase in-state newsstand distribution and circulation, such as high visibility areas. He also said other states surveyed found newsstand distribution increased subscribers.

Mr. Colburn stated the second area would be to revitalize the direct mail campaign. He said Nevada only solicits existing subscribers, while Arizona and New Mexico use mailing lists to solicit new readers. Mr. Colburn also stated Nevada Magazine can increase its benefit to Nevada by about \$2.4 million per year by enhancing its newsstand distribution, subscriptions, and direct mail campaign. He concluded the benefit includes increased magazine revenue of about \$150,000 and tourism revenue exceeding \$2.2 million.

This concluded Mr. Coburn's presentation, and he asked the Committee if there were any questions.

Ms. Bridgman, CPA, Public Member asked Mr. Colburn if he looked at the subscription prices, and compared those to the Arizona and New Mexico magazines use as the bench mark.

Mr. Colburn replied that unfortunately he got in on the audit late in the process, and did not know but replied he could get that information.

Governor Gibbons asked if there were any questions or comments regarding the Nevada Magazine. There were none.

2. Nevada Commission on Economic Development

Vita Ozoude, Executive Branch Auditor III, Division of Internal Audits, presented the audit report.

Mr. Ozoude introduced Michael Skaggs, Executive Director, Kimberly Elliott, Marketing Director, and Des Craig, Community Development Block Grant (CDBG) Program Director. Present via videoconference in Las Vegas was Charlie Geocaris, Director of the Nevada Film Office.

Mr. Ozoude stated the Commission was created in 1983 with two divisions, Economic Development and Motion Pictures. The primary function of the Division of Economic Development Included:

- Attracting companies to the state.
- Assisting businesses with their expansion of facilities and markets.
- Providing grants to rural communities for basic infrastructure such as clean. Water/sewer facilities and parks/community centers.

The primary functions of the Division of Motion Pictures included:

- Encouraging the film Industry to use Nevada locations and resources.
- Helping production companies obtain required state and local licenses and permits.
- Increasing nationwide and worldwide awareness of Nevada through films television, and print media.

Captive Insurance

Mr. Ozoude stated the audit reviewed the Captive Insurance. Mr. Ozoude stated the Commission should seek a statutory change to allow two percent rather than half a percent of the total Captive Insurance revenue to be used for the promotion of the industry. Mr. Ozoude also stated how Captive Insurance is a form of self-insurance whereby a business or a group of businesses sets up a separate entity to cover its risks.

Mr. Ozoude said the Captive Insurance Program was started in 2000. In 2006 Nevada generated approximately \$690,000 in Captive Insurance revenues. He also said Vermont was one of the other states surveyed. In 2006 Vermont generated approximately \$22.8 million in Captive Insurance revenues, and ranks first in the United States in number of Captive Insurance companies.

Treasurer Marshall asked if the Commission would increase the percentage to two percent from a half a percent. Treasurer Marshall also asked where the half a percent ends up.

Mr. Ozoude replied the General Fund gets seventy-five percent of the total Captive Insurance revenues, and twenty-five percent goes to the Division of Insurance. He also said out of the twenty-five percent, up to two percent can go to the Captive Insurance or any agency that promotes Economic Development in Nevada.

Treasurer Marshall stated to Mr. Ozoude the recommendation was to reduce the amount of money going to the Division of Insurance, and increase the amount of money going to the Commission.

Mr. Ozoude answered yes, that is the recommendation. Mr. Ozoude stated this is going to require legislative changes and he also said he did not know how that was going to work. He also said the money coming into the state will increase with proper promotion.

Treasurer Marshall replied that the money comes to the state through the sales tax, but is waived. She said that the Division hasn't decided how to collect that other one and a half.

Mr. Ozoude replied the Division of Insurance and the Commission on Economic Development will work it out.

Lieutenant Governor Krolicki said the Commission had a study that was funded but due to recent budget cuts had to be suspended. He said it was one of the larger pieces of money that could actually be cut without harming other areas, and unfortunately the study is not being done. Lieutenant Governor Krolicki also said it is one of the tools of Economic Development, and the revenues as demonstrated by Vermont, have been extraordinary. He said the process had been culminating under previous administrations with previous directors; Nevada is a likely spot for this type of business. He also stated he welcomed the recommendation, and it will require legislative muscle and funding. He said unfortunately it was eradicated because of recent budget cuts.

Treasurer Marshall replied that maybe adding a performance measurement would help to see if the two percent would increase the revenues as predicted, or should the Commission ask for the two percent.

Lieutenant Governor Krolicki responded to Treasurer Marshall that he was accepting their report, and it needs to be studied, to have a better handle on it. He also said with the new Director, Mike Skaggs, in place; he would use his judgment on what seems fitting.

Mr. Ozoude concluded that Vermont and the Commission believed promoting the film industry leads to increased revenues, jobs and investment.

Film Industry

Mr. Ozoude explained how the Commission should propose legislation that offers a sales tax exemption to production companies that film in Nevada. Mr. Ozoude said in 2006 Nevada generated approximately \$113 million in film related revenues. Mr. Ozoude also said the film office reported there will be a decline in revenues, because Nevada does not offer incentives to the film industry. He said four other states surveyed that had passed legislation offered incentives to the film industry and experienced a ten to one return on their amount invested. Mr. Ozoude said offering incentives such as a sales tax exemption, would help Nevada compete with other states that offer such incentives.

Treasurer Marshall asked if the other states primarily get their revenue from sales tax as Nevada does.

Mr. Ozoude stated he did not look at that.

Treasurer Marshall stated an example. She also questioned how Nevada waived the sales tax and saw an increase in business, how does the Commission perceive the state itself, will actually make more money given the state loses sales tax. She also asked how the state would collect the money.

Mr. Chisel introduced the film industry representative Charlie Geocaris in attendance via videoconference from Las Vegas.

Mr. Geocaris explained to the Committee how, the state by providing these incentives, would bring more money back to the state, and into the economy. He further explained that throughout the country, as was mentioned in the report, 40 out of 50 states are now offering some sort of incentives to film makers.

Treasurer Marshall asked in what way.

Mr. Geocaris replied it was a multiplier effect, and how people in the film industry are high wage earners and while on location they put their money back into the economy.

Treasurer Marshall asked if would be possible to include some kind of performance measure to ensure the multiplier effect occurred.

Mr. Geocaris agreed and said the Department of Taxation should look into reviewing exactly these areas, and for other states, what incentives have been in place. He also mentioned how other states have now realized this can bring in major revenue.

Governor Gibbons asked what the income from the film industry was last year.

Mr. Chisel replied the revenue was \$113 million.

Mr. Geocaris explained the state only received two and a half days of filming of a major motion picture that was written entirely for Reno and northern Nevada, and the industry moved the location to New Mexico because of their tax incentive program. He also explained if Nevada had offered a similar tax incentive, it would have brought in a \$15 million dollar movie and spent \$15 million in northern Nevada. He said that this was just one example of lost revenue.

Controller Kim Wallin stated that looking at Exhibit III, which talks about return on investment and shows Nevada gave up the revenue, but Nevada still brought millions of dollars into the state. She also stated that is something that should be shown. Controller Wallin said if the industry was to go forward with incentives it should be something that could be measured, because then the state could see it. She also said by looking at the return on investment, the lowest is 7-1, and the average is 10-1. She concluded that she would like to see that.

Mr. Skaggs replied because the film industry is a competitive landscape, the issue most concerns him. He said he accepts the idea of a performance measure because there is not much lag time. He also said when sales tax is waived on supplies the film industry purchases in the state, the filming is occurring immediately, the state can see the wage generation, and the wage spending is fact in the economy

Treasurer Marshall replied thank you.

Governor Gibbons asked the Committee if there were any questions regarding Nevada Commission on Economic Development. There were none.

Mr. Ozoude stated the Commission can enhance the grant program by lending CDBG funds to rural communities.

Enhanced use of Grant Funds

Mr. Ozoude stated how the CDBG is a federal program administered by the state. He said the federal government provides funds in the form of a line of credit extended to the state. He also said the current balance of the fund is approximately \$5 million, and with the approval of the federal government, Nevada could loan the unused funds to rural communities at lower rates of interest. Mr. Ozoude further explained the funds are used to provide basic services such as clean drinking water, sewer facilities and community centers. Mr. Ozoude concluded stating that by providing the loans, Nevada could generate a maximum of \$100,000 annually.

This concluded Mr. Ozoude's presentation, and he asked the Committee if there were any questions.

Dana L. Bridgman, CPA, Public Member, asked where the funds are currently invested, and about the lag periods between approval and disbursement.

Mr. Craig answered the funds are currently held by the U.S. Department of Housing and Urban Development.

Dana L. Bridgman, CPA, Public Member, asked if the state was not able to invest the funds during that time.

Mr. Craig answered they were obligated to the state, and could pull them as they need them.

Dana L. Bridgman, CPA, asked if there were any risks to administering a program like that, and said \$100,000 would be great, but asked if there would be overhead to administer those funds and the interest costs back to the state.

Mr. Craig replied there would be administrative costs and would be risks, but the risks would be reduced by the borrower taking on a line of credit.

Dana L. Bridgman, CPA asked if that was the best use of the Commission's time.

Mr. Craig replied that other states have been successful.

Treasurer Marshall asked Mr. Craig when waiving the sales tax, did he mean only the states portion.

Mr. Chisel replied they were looking at the states portion.

Governor Gibbons asked the Committee if there were any questions or comments. There were none.

3. Department of Administration, Administrative Services Division, State Public Works Board, Depreciation of Buildings and Improvements

Warren Lowman, Executive Branch Auditor II, Paul Chalekian, Ph.D. Executive Branch Auditor I, Division of Internal Audits, presented the audit report.

Mr. Lowman introduced Evan Dale, Interim Administrator for the Department of Administration, Administrative Services Division. Mr. Lowman said that Internal Audits was asked by the Administrative Services Division to audit depreciation expenses being charged as a component of the statewide cost allocation plan. Mr. Lowman also said the statewide allocation plans apportion costs to the departments and agencies for central services provided by the state, such as support from the State Controller or State Treasurer. He also said that building depreciation is also included. Mr. Lowman further said the Division's objective was to determine if the state could increase General Fund revenues by recovering depreciation, and if so, how much. Mr. Lowman said Internal Audits reviewed almost \$1 billion worth of state owned buildings, warehouses, storage facilities, and the improvements to the structures. Mr. Lowman went on to say depreciation was being recovered on 13 buildings and improvements. The Division identified over 400 additional state owned buildings and improvements that should be depreciated. The Division estimated the state can increase general fund revenues by \$149 million over the next 35 years, or about \$4.3 million annually by charging depreciation to agencies that occupy buildings paid for by the general fund and whose budgets include non-general fund revenues.

Treasurer Marshall asked if depreciation is incorporated into the monthly rent charged to the agencies.

Mr. Dale said the rent charged by the Division of Buildings and Grounds would not include depreciation, and explained it was a pass-through of charges from utilities and the maintenance of a building.

Treasurer Marshall asked if it was included now.

Mr. Dale answered no it is not included.

Treasurer Marshall asked how the feds were going to react, and asked about charging depreciation to some agencies that get money from the feds and not others. She then asked how it worked.

Mr. Chisel said the current process is some agencies are being charged for depreciation and the feds want every agency charged, which would cost an additional \$4.3 million, or eliminate the ones that are getting charged currently.

Treasurer Marshall replied everyone would be charged, even those that don't have access to federal funds.

Mr. Chisel answered right, the General Fund agencies.

Treasurer Marshall stated that the agencies would go to the legislature and get their money from the General Fund and it would be a round cycle.

Mr. Chisel responded how if an agency is funded by the General Fund, and positioned in a General fund building, would not need the money.

Treasurer Marshall said it would need to be built in the budget, because it is considered an accounting transaction.

Mr. Chisel responded it would be like taking money from one pocket and putting it into the other pocket.

Treasurer Marshall asked if it was an additional cost.

Mr. Chisel explained it was a pocket-to-pocket transaction. Mr. Chisel also explained there would be no additional General Fund revenues for the General Fund by doing that.

Andrew Clinger, Director, Department of Administration, introduced himself.

Mr. Clinger explained that a report on indirect cost allocation is done by a consultant. Mr. Clinger also explained when a budget is built the Department will not build that allocation in. He said the Department only charges the non-General Fund sources that end up coming back into the General Fund. Mr. Clinger concluded the depreciation is not run through rent at all, but that it's run through the indirect cost allocation process.

Treasurer Marshall stated she understood.

Mr. Lowman stated the non-General Fund revenues would include state highway funds, fees and federal monies. He further stated that the agencies funded by non-General Fund

revenues may require additional resources or may need to reduce their costs to pay depreciation expenses.

Division of Administration Services should charge depreciation to all agencies occupying state owned buildings.

Mr. Lowman stated federal guidelines allow the state to seek reimbursement for depreciation. Mr. Lowman also stated the guidelines require all federal and state agencies to be charged equitably. Mr. Lowman said by recovering the additional \$4.3 million, Internal Audits identified the state precludes the risk of losing \$1.3 million it currently recovers annually for depreciation. Mr. Lowman also said the state must recover depreciation from all agencies receiving non-General Fund revenues or from none at all. Mr. Lowman said the Department of Administration and our Administrative Services Division accepted our recommendation. Mr. Lowman further described how the need exists to link statewide improvements to specific buildings, which included such improvements as roofing, paving, and compliance with the Americans with Disabilities Act (ADA). Mr. Lowman also said the state should be able to determine which building was improved. He said during the agencies review, Internal Audits was unable to associate some statewide improvements with specific buildings, and were unable to identify which agencies should be charged for that improvement. Mr. Lowman recommended the Public Works Board provide a breakout of expenditures for statewide improvements to the Administrative Services Division and to the Office of the Controller to support the Controller's financial reporting requirements. Mr. Lowman concluded the State Public Works Board accepted the recommendation and represented it could provide this information upon request and as a part of its annual summary of building and improvement projects.

This concluded Mr. Lowman's presentation, and he asked the Committee if there were any questions.

Governor Gibbons asked the Committee if there were any questions or comments. There were none.

G. Presentation of the follow-up status for Legislative Counsel Bureau (LCB) audit report recommendations issued April 9, 2007, April 23, 2007 and May 14, 2007. – William Chisel, Chief, Division of Internal Audits

Mr. Chisel asked the Committee to look in their packets, on page 6. He said there was a list of three audits that were issued by LCB. He said Internal Audits will then follow-up on the LCB audits after six months. Six months later Internal Audits will do a follow-up for status of those recommendations and report back to LCB. Mr. Chisel said there were no concerns from the follow-ups noted at this time.

H. Public Comment

There were none.

I. Comments of Committee Members

Governor Gibbons asked the Committee if there were any questions or comments.

Lieutenant Governor Krolicki responded the Governor thanking Bill Chisel and his staff for coming in and looking at the Nevada Commission on Economic Development, Commission

on Tourism and especially the recover of depreciation bill. He then reminded Internal Audits staff to put monies on the tally sheet that have been identified as benefits for the state.

Governor Gibbons responded thank you.

Mr. Chisel replied that in the last Executive Branch Audit Committee meeting there was a request to prioritize the Division's audits, and asked if the Committee wanted to discuss those audits, or if the Committee was comfortable with the prioritization as it stands.

Governor Gibbons said he would like one more time to go back through the list to refresh his recollection of what was prioritized.

Mr. Chisel said Internal Audits is in the process of starting the Steve Fossett audit, and completing the Department of Administration, Purchasing Division. He also said the Secretary of State's Business Portal is presently in progress. Mr. Chisel further said the Division was going to do a wider statewide depreciation, and explained that was an add-on to the depreciation audit that was presented today. He said for instance the Division was going to look at the university system. Mr. Chisel also mentioned he was hoping to have the Tahoe Regional Planning Agency (TRPA) audit ready for the September Executive Branch Audit Committee meeting.

Governor Gibbons asked Mr. Chisel if there was a chance to incorporate the recommendations made by the Blue Ribbon Fire Commission into the audit.

Mr. Chisel answered that the Division would look at it.

Mr. Chisel further stated the Division was looking at the Taxicab Authority, The Division of Buildings and Grounds, Maintenance Services, Mental Health Developmental Services and Nevada Department of Transportations, utilization of state equipment.

Secretary of State Miller asked where the Steve Fossett investigation will fit into the timeline.

Mr. Chisel replied how the Steve Fossett audit will be priority and will be in progress. He projected that the audit would be presented in September.

Secretary of State Miller wanted to know if that would distract from any of the resources that are being used for the three audits that are currently in progress.

Mr. Chisel replied resources were being used on all of them. He also said when you add an audit, there's going to be resources used, but the Division is working on getting the Business Portal going also.

Secretary of State Miller inquired if the time line for the other three audits that are currently in process would remain the same.

Mr. Chisel answered yes.

Secretary of State Miller acknowledged.

Mr. Chisel asked the Committee if there are any other concerns.

Governor Gibbons asked the Committee if there were any other questions or comments.
There were none.

J. Adjournment

Governor Gibbons called for a motion of adjournment.

Motion: Move for approval of motion of adjournment.

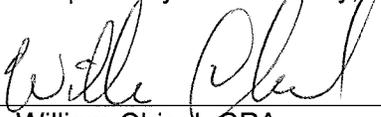
By: Secretary of State Ross Miller

Second: Controller Kim Wallin

Vote: Motion approved 7-0

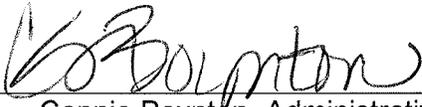
The Governor adjourned the meeting at 10:11 a.m.

Respectfully submitted by,



William Chisel, CPA
Chief
Division of Internal Audits

Prepared by,



Connie Boynton, Administrative Assistant IV
Division of Internal Audits