

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

**MINUTES
June 30, 2010**

The Executive Branch Audit Committee and the Division of Internal Audits met on June 30, 2010, 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.

PRESENT:

Governor Jim Gibbons, Chairman
Lieutenant Governor Brian Krolicki
Treasurer Kate Marshall (via telephone)
Controller Kim Wallin (Via videoconference from Las Vegas.)
Attorney General, Catherine Cortez Masto (Via videoconference from Las Vegas.)
Dana L. Bridgman, CPA, Public Member

**DIVISION OF INTERNAL AUDITS
STAFF PRESENT:**

William Chisel, Chief
Mike Colburn, Executive Branch Auditor IV
Warren Lowman, Executive Branch Auditor IV
Vita Ozoude, Executive Branch Auditor IV

SIGN-IN-SHEET

A Copy of the sign-in sheet is attached, or contact Connie Boynton, Administrative Assistant IV, at cboynton@iaudits.nv.gov for more information.

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

A. Call to Order

Governor Gibbons called the Executive Branch Audit Committee (Committee) meeting to order at 9:00 a.m., and welcomed those present. William Chisel, Chief for the Division of Internal Audits (Division) called roll. A quorum was noted.

B. Discussion and possible action regarding the minutes from the September 29, 2009 meeting.

Governor Gibbons asked the Committee for discussion and possible action regarding the minutes.

Bill Chisel addressed the Committee and introduced himself. He asked the Committee to turn to the tab two in the packets they were given. He stated that there were items discussed last time and would like to highlight them. He further stated one discussion was estimated benefits. Mr. Chisel said the Division estimates benefits as a result of the audits, and at the last Executive Branch Audit Committee Meeting (EBAC) there were questions about the Tahoe Regional Planning Agency (TRPA) audit estimation. Mr. Chisel stated in the TRPA audit the Division estimated for California and Nevada. He also said the Division had gone through and eliminated the benefits for Californians and isolated the Nevada benefits. He said that was a better picture of benefits specifically to the Nevada citizens.

Mr. Chisel said the second item that was up for discussion was the University audit which addressed recapturing depreciation, and that there had been a question as to whether or not we could present the audit to the Committee. The Attorney General's office reviewed it and represented the audit could be presented. However, he said the implementation of the audit would hinge on the Legislature's approval. He also said that was not on the agenda at this time, but it could be presented at the next EBAC meeting or a soft release could be sent to the Committee.

Governor Gibbons asked Mr. Chisel if that would require a motion of the Committee to put it on the agenda at the next meeting and he said he was of the belief the audit should be on the agenda at the next meeting.

Mr. Chisel responded it could be done.

Lieutenant Governor Krolicki concurred. He asked Mr. Chisel if he had more information on the TRPA.

Mr. Chisel asked the Committee to look at tab six, page two. He said under fiscal year 2009 the total estimate was \$2.3 million under recommended savings. Mr. Chisel also said the Division anticipated it being implemented in 2011 the Division was looking at about \$449,000 in savings for Nevada's cities.

Lieutenant Governor Krolicki asked Mr. Chisel if the TRPA was comfortable with the figure.

Mike Colburn Executive Branch Auditor for the Division stated to Lieutenant Krolicki the figure was provided by TRPA.

Governor Gibbons asked Mr. Chisel if there was any other information to present regarding the minutes of September 29, 2009.

Mr. Chisel said those were the highlights.

Governor Gibbons asked the Committee if they had any comments or questions regarding minutes.

Motion: Move for approval of the minutes of the September 29, 2009, meeting.

By: Lieutenant Governor Krolicki

Second: Secretary of State Miller

Vote: Motion approved 6-0

C. Discussion and possible action regarding revisions to Division's Annual Report. (NRS 353A.038)

Mr. Chisel asked the Committee to go to tab three to see the 2009 Annual Report, and explained the report described the functions for the Division in 2009. He said in overview the Division performs audits, trainings and reviews to help the Executive Branch to operate more efficiently and effectively and to insure other agencies comply with guidelines and safe guard assets. Furthermore, Mr. Chisel stated the Division consisted of three sections, the Internal Audit, Financial Management and the Post Review sections. He said the Internal Audit section performs audits that will be presented today. He also said the audits focus on identifying ways in which agencies could operate more effectively and efficiently, as well as safe guard assets to comply with State and federal guidelines. Mr. Chisel asked the Committee to turn to page seven and explained it would show the status of the Division's recommendations. He said to-date the Division had 91% fully implemented recommendations. He said on page 10 there was a Summary of Benefits and in that Summary of Benefits for every dollar spent Nevadans benefited \$34 for Fiscal Year 2009.

Mr. Chisel said the Financial Management section provided training to State agencies, along with providing the agencies with assistance in writing internal controls, and assists agencies with self-assessments of the agencies internal controls. Mr. Chisel explained more recently the Financial Management section had been involved in the American Recovery Reinvestment Act (ARRA) oversight, and he said specifically the State Fiscal Stabilization Funds were provided to the Department of Corrections, Education K-12, and the University. He said finally the Post Review section will review the agencies expenditures for compliance with State and Federal Guidelines. He also said the Post Review section will go to each agency once every three years and provide them with written recommendations to comply with State guidelines. He asked the Committee if there were any questions.

Motion: Move for approval of the 2009 Annual Report.

By: Secretary of State

Second: Lieutenant Governor Krolicki

Vote: Motion approved 6-0

D. Discussion and possible action regarding revisions to Division's Audit Plan.

Mr. Chisel addressed the Committee and asked them to look at tab one, page one of the packets called the Audit Plan, and said the Audit Plan was broken out into two sections named "Proposed" and "Outstanding". He explained Medicaid, Welfare, and the Modified

Business Tax (MBT) were the "Proposed" audits, and the "Outstanding" audits are audits that had been approved by the Committee, but have not been started. He also said it was up to the Committee's discretion as to what priorities are placed in the Audit Plan. He asked the Committee for suggestions as to additional audits to be discussed then or if different priorities needed to be discussed.

Lieutenant Governor Krolicki told Mr. Chisel that the Division had picked off three of the largest audits they could do, and said those audits would consume everyone at the Division or they would take an extended period of time.

Mr. Chisel said the reason was because of the State's fiscal crisis. He also said in doing the larger audits there was a possibility they would have to be broken up into different presentations. Mr. Chisel also said it would encompass the entire office staff. He explained to the Committee the staff is down to six people who would be working on the audits and asked if the Division should shift priorities.

Controller Wallin from Las Vegas along with Attorney General Cortez Masto said they had a couple questions. Controller Wallin acknowledged the Division was short handed and said she was concerned that if all the resources would be working on the audits and not the ARRA work that needed to be done. She also explained there was big emphasis on doing internal audits for the ARRA work, and said the high priority for the Division was to focus on ARRA, because she said the Feds would be coming in to see if the proper controls and monitoring were in place. She said she wanted Mr. Chisel's take on it because of the concern there would not be enough done with regard to ARRA.

Mr. Chisel responded to Controller Wallin's concern and said the Financial Manager was currently working on the State Fiscal Stabilization Funds. He said the Certified Public Accountants (CPA's) were doing a single audit, and said the Division would be doing a self-assessment of each agency and in fact, he said the self-assessments would be turned in to the Division July 1, 2010. Mr. Chisel also said additional audit work would be done by the Executive Branch Auditors (EBA). He said it would be up to the Committee as to what direction the Division should go.

Controller Wallin said part of the awarding of the stimulus money was the states were going to put great emphasis on internal audits, and internal controls. She said she felt quality assurance was lacking and she had been working with agencies to get the quality assurance up. Controller Wallin also said quality assurance was not printing out a report and signing it, which was being done presently. She said everything should be done right with the ARRA money before the Feds came to audit. She commented she would rather see resources on the ARRA money.

Mr. Chisel asked Controller Wallin if there were specific audits to look at which focused on ARRA.

Controller Wallin stated she was concerned about the agencies that received money early. She commented on the Department of Energy, weatherization area and thought they would be setting up the Entrance Conference and further, she knew the auditors

would want to talk about the single audit, which she thought might even impact of what was going on here.

Lieutenant Governor Krolicki asked Mr. Chisel if the legislative auditors were covering the ARRA.

Mr. Chisel said he did not think they were.

Controller Wallin said to her knowledge the legislature auditors were not.

Lieutenant Governor Krolicki said he understood what she was saying and how important it was. He also said if it was a triage situation and the State is \$3 billion plus dollars short then insight was needed to know how to close the gap when budgets close next June. He thought unless there is a perceived problem with some of the ARRA situation, He said he thought that would take a back seat to try to find money to balance this budget in his opinion.

Controller Wallin said she if the Feds came in and found monitoring was not being done properly the State could lose future federal dollars. She also said eliminating Internal Audit staff during Special Session to save money might not have been the right decision at that point in time. Furthermore, she said the staff that was eliminated was the staff that was to work on the ARRA. She asked Mr. Chisel if the "Outstanding" audits would generate money, and asked if those audits should be put aside to figure out what direction to head in.

Controller Wallin said Taxation and Modified Business Tax should be looked at as revenue-generated. But she said before adding "Proposed" audits they should be looked at closer. She further stated before the "Proposed" audits were added they needed to look at the "Outstanding" audits and questioned putting them aside to do more important things to create resources for ARRA.

Mr. Chisel said the "Outstanding" audits were in the pool of audits on hold. He also said the "Proposed" audits were the audits currently being prioritized. He said if the Division goes strictly for the "Proposed" audits, the Division would not have the staff to also take on additional ARRA audits. Mr. Chisel asked the Committee to decide as to where to prioritize the Divisions resources.

Controller Wallin asked Mr. Chisel to give him a rundown on what he was looking at for the MBT and what he is doing for Medicaid and Welfare.

Mr. Chisel said the Division did not have a specific issue with Medicaid, and he said the audit would start out broad-based then they would focus in on issues. He said they would look at the Child Care area.

Mr. Chisel said there is a lot of money going through the MBT and it was his understanding they had not been looked at yet, making it a good opportunity for an audit.

Controller Wallin agreed with Mr. Chisel that generating money should be the number one priority and said she was in favor of doing MBT because it would generate money. She asked Mr. Chisel about Welfare.

Mr. Chisel asked Mr. Colburn to talk about the specifics on the Child Care section.

Mr. Colburn said the Division was looking at the efficiencies and effectiveness of the program and making sure the money is being well spent.

Mr. Chisel said there may not be specific money generated from Child Care.

Treasurer Marshall (via telephone) said what needed to be done was to figure out what kind of resources were actually being put towards making sure the State has the proper controls in place for ARRA, and what resources would be left over and how those leftover resources could be effectively allocated. Treasurer Marshall said she did not know how many man hours were being used for internal controls that were required by the Federal Government for ARRA funds. She thought maybe that should be under control so the State would not lose that money and she said that would be a real loss to the State to have actual money taken back.

Mr. Chisel explained to Treasurer Marshall that only the Financial Manager is looking at the State Fiscal Stabilization funds and that's a priority of his and takes up half of his time. He also said that in taking on any additional work the Division would have to incorporate the EBA's because there were no additional resources to use. Mr. Chisel stated there were five auditors, six positions and they were anticipating doing three audits at this time.

Treasurer Marshall said it sounded like there was one half-time person being monitored for the ARRA funds, and said personally that was not sufficient because of the other areas that needed to be worked on with the agencies such as sub-recipient monitoring. She said the Feds would be looking at that and asked if they would need assistance. Controller Marshall said they had a training class on that and she said agencies were not up to level on what needed to be done. She said having a half-time person monitoring all the dollars that were coming into the State was not adequate and there was not enough emphasis on proper monitoring and accountability that was required by ARRA.

Governor Gibbons said he thought the Federal Government was coming to do the audit on ARRA funding to determine if Welfare of the Health and Human Services to see where there were savings to be made, and how the money was being spent. Governor Gibbons was concerned if the State dedicated resources to that effort, the State would be duplicating and/or utilizing efforts that were needed. Governor Gibbons said the audits have a general responsibility to the taxpayers of Nevada for continuing to do the job.

Governor Gibbons stated Controller Wallin also has a staff member Mary Keating, who is intended to be the auditor for ARRA funding and was to go around the State and make these determinations. Governor Gibbons stated he was concerned we would be pulling off our own resources for a purpose that still needs to be responsible and accountable to the taxpayers. He also said we should continue with the process and the plan rather than change direction. Governor Gibbons said requirements could be added in to look at

certain aspects of the ARRA spending. His concern was it allows for operations and policies within the State to go unmonitored by this Committee. He also said it puts us blind from a policy or position where we are making the decisions in this Committee without knowing what those auditors are finding within State policy.

Treasurer Marshall said she didn't think we should allocate all of the Committee's time for ARRA funds, but she questioned whether half-time with one person was sufficient. She said the Division should consider sequential auditors be juggled around. She commented instead of taking three large audits as the Lieutenant Governor stated, Treasurer Marshall suggested taking on two audits and adjust staff allocations and make sure we don't lose any federal funds.

Governor Gibbons said he would not support complete removal of the audits for the purpose of auditing ARRA, but he said it could be an aspect of the audits.

Controller Wallin told the Governor she did not want to take all the auditors off the audits. But she said the one person working on this needed help, and she concurred with Treasurer Marshall that maybe two audits be chosen at one time. She said the Committee could come back in six months and re-address this and know if they would have the resource to help ARRA.

Treasurer Marshall asked Mr. Chisel to come back with a more comprehensive description of what the Division was trying to do with each of the audits and how the staff might prioritize them. She said then the Committee could better choose which audits to consider.

Lieutenant Governor Krolicki told Treasurer Marshall he knew what she was saying but added he thought it was wiser and swifter to do it from the other direction. He asked why the EBA's needed to be put with ARRA at this point. He said there was no doubt that it needed to be dug into, but he said Medicaid was a potential nine-figure in revenue savings and from a triage of helping the General fund, which he said was critical, he said all things were essential. Lieutenant Governor Krolicki also stated everyone was over-worked and under staffed and that he wasn't sure what shortfall we would have on the auditing ARRA team, he especially the sensitivity with the Legislature. He also mentioned some of the Legislative auditors could be added and that we should be working together.

Treasurer Marshall stated the ARRA funds were currently making up approximately one third of the states cash, and she would hate the idea of having an implication that it would be lost.

Lieutenant Governor said he didn't think the State was at risk of losing the ARRA money. He said the State could work with the Federal auditors when they came. He said the State could adjust and thought the pinch time was going to be post this next legislative session. He said balancing the budget will happen before any ARRA situation rises to the situation where they would shut off the federal funds.

Treasurer Marshall said she knew of two states where ARRA funds had been removed as a result of a federal investigation. She said she didn't agree with Lieutenant Governor

Krolicki and she thought it should not be exaggerated and said the proper person to answer that would be the Controller.

Dana Bridgman, CPA asked if the large agencies were getting ARRA funds and if they could they be audited at the same time. She said maybe it could be reviewed.

Mr. Chisel said Medicaid is getting a fair amount of ARRA funds, and if our Division was to look at the ARRA funds, they would need direction because ARRA funds are fairly broad-based and would we would need to know what agencies within the Department would be receiving ARRA funds.

Ms. Bridgman, CPA, asked if decisions could be made based on dollar amounts, and she said to find opportunities in the total budget and the ARRA funds and where the State could be efficient and to use resources, she also said to look where the overlap was.

Mr. Chisel said when dealing with Medicaid their ARRA funds were part of a set amount and instead of the State putting in 50 percent they are putting in 40 percent and he said there was no big change. He said he would want to look at agencies that were receiving a significant increase from what they had before and if they had a change in control and procedures. He said Medicaid and MBT were big and would not have an overlap.

Ms. Bridgman, CPA, said what was represented here was very hard to make a decision, and not risk-based or dollar based so she said the conversation was about being able to decide.

Mr. Chisel described how the Division will come up with a risk-based audit, by completing a risk analysis on different agencies. He said one big factor is the dollars and another factor is who had recently been audited, how many employees, how diverse the agency was and other factors. Mr. Chisel said the Division did not incorporate ARRA as one of the factors and they looked at the ARRA as a factor alone.

Secretary of State Miller said it was obvious we were straining resources trying to figure out how to prioritize all of this and he resisted adding another suggestion except he said it looked like Medicaid and Welfare were so enormous it would consume most resources to be able to take on. He added that the Division still had no clear idea of what to explore or have any idea as to how much revenue that it might result in.

Mr. Chisel agreed.

Secretary of State Miller said the State had specific ideas that actually resulted from some of the work that was started with the Nevada Business portal that is now underway. He said he selected a contractor who developed that architecture and is now in the second phase. He also said they learned through the first phase with taking over the Nevada business license, there was a tremendous amount of cash and revenue still on the table. Secretary of State Miller pointed out a lot of businesses in Nevada aren't in good standing and that is a problem that is being tackled. He said the State does not have the resources to be able to address it, and involves any number of agencies. He said there have been exemption filings. He added that now when an application for a Nevada business license

is filled out, there has to be an affirmative filing showing that one of the exemptions would be met from the statute. Furthermore, he said when the Department of Taxation had it, and if you met any of the exemptions, you simply did not file for any paperwork. He said that had been changed now and you have to indicate which exemption that is being applied for. He also added what the State had seen is an alarming rate of businesses applying for that exemption are mainly saying they are a home-based business making less than \$25,000.00 per year. Secretary of State Miller also pointed out about 20% of filings were applying for some type of exemption, which was about \$5 million a month, which was a significant revenue stream.

Secretary of State Miller described discussions with the Department of Taxation including the fact that many entities were then going and applying for the states sales and use permits and exceeding the threshold. He said through the work of the Governor and Attorney General (and have gone through the Board of Examiners (BOE)), that there were many businesses that were applying for contracts with the State that exceeded \$25,000 and also indicated on the State business license that they were exempt and said there is a tremendous amount of cash and revenue out there. Secretary of State Miller said he thought there was a civil statute that had been passed last legislative session that had never been implemented that imposed a civil penalty for anyone doing business in the State that wasn't licensed properly. He also said it was a \$10,000 penalty and it allowed fees to be collected. He said it was a rich potential that had not been enforced in the State. Furthermore, he said a lot of other states do a better job at collecting and there should be a narrower refined area to explore which he said would add significant dollars to the State. He said he was hoping one of them could maybe wrap up before the legislative session, get a hand on it in how we address it, and untimely start seeing revenue coming in. He also said that maybe that could replace Medicaid or Welfare and allow the State to take on something smaller and well-defined and address some of the concerns the Controller had about devoting some resources to the ARRA.

Mr. Chisel said it sounded like a reconciliation to take a look at agency exemptions, and to see what is happening with other contracts, such as Taxation and see how their standing is and what the monies are.

Secretary of State Miller said that was part of the analysis and the other part would be to look at how other states address this, and how do they determine what amount of business is present in their State and what do they do to collect from them. He said he wanted to know the mechanisms that are out there to go and collect and capture, because the State does not have anything, and he said the public is well aware of the fact that Nevada does not have the ability or the inclination to enforce the statutes.

Lieutenant Governor Krolicki asked how the State could educate people because there had been substantial confusion. He said now everything goes to the Secretary of State, not the Department of Taxation. He mentioned things had changed and people just don't know what they need to be compliant.

Secretary of State Miller stated there were two categories and one was that people may be the sole proprietor or general partner of a foreign entity that never filed with the State, but doing transactions in the State; they may not know they have to file. He also stated

on the other end there were people that had filed with his office that had affirmatively applied for an exemption and they said they were a home-based business earning less than \$25,000 per year. He further said then they go over to the Department of Taxation and apply for a sales and use tax permit when their gross revenues exceeded \$25,000.

Secretary of State Miller explained a case that went before the BOE, he explained it was a Fortune 500 company that was incorporated in Delaware, with a billion dollar contract with the State and they argued they didn't have to pay for a State business license. He was concerned this happens because, in his estimation, Nevada did not have the ability or intention of enforcing it.

Governor Gibbons commented that the Committee had gotten away from the report and plans for auditing. He suggested whether it was Medicaid or MBT there needed to be some incorporation of the ARRA requirements when there was a stream of revenue coming from ARRA to those Departments. He also suggested adding a segment in there that said we were looking at whether or not there was a gross compliance with the rule and requirements of ARRA.

Mr. Chisel asked the Committee if his Division should move forward with the three audits and look at ARRA as part of it.

Governor Gibbons said because of the significant impact of the three aspects of the State financial well-being, the State needed to continue with the audits being high priority. He also suggested adding a portion of the review for ARRA when there was an opportunity to do so.

Mr. Chisel affirmed.

Lieutenant Governor Krolicki told Mr. Chisel he could work with Controller Wallin and said there were so many pieces of ARRA money coming in and asked Controller Wallin if she was suggesting there was a blind side in some areas.

Controller Wallin answered there was.

Lieutenant Governor Krolicki told Mr. Chisel to get with Controller Wallin on what the Division needs to do short-term with her to drive the allocation of resources in people. He said that introduction audits were needed to get a good grasp of an audit plan for the three audits.

Mr. Chisel said he could coordinate some of the Divisions resources with Controller Wallin and he said he knew she had concerns for a couple of other agencies, and would get together with her to work on it.

Treasurer Marshall said she wanted to continue with the three major audits and then add in the ARRA component given the resources the Division had. She commented to the Committee the Secretary of State's recommendation was quite good and she said she wondered if the Audit Committee could change what they might audit right now. Furthermore, she said given the resources the Secretary of State had already seen, there

were businesses in Nevada paying their fair share, while others walk away and burden businesses making it unfair. She said it seemed like a very directed and surgical type of audit, which would use the resources well. She then said the Medicaid audit could be done with an ARRA component added to it. She also asked why we could not change direction.

Treasurer Marshall continued and said there would be two audits; one of them very large. She said the Division had six auditors, and one of them looked promising in terms of helping the budget. She said she was speaking revenue simply to incorporate people complying with laws that already existed and not burdening our current businesses. She further said the ARRA component was needed, but was not well directed up to this point.

Governor Gibbons asked if it required a policy change of the Committee.

Mr. Chisel asked if it was regarding ARRA, and he said it would be to the discretion of the Committee to make the approval or give the Division direction as to where to prioritize the audits and ARRA.

Lieutenant Governor Krolicki asked Secretary of State Miller if his conversation had to do with Taxation, MBT and the component. He further asked him if he was talking about something different, and stated it was part of the portal work.

Secretary of State Miller said his proposal would be to add an audit that would be well-defined, that was narrow in scope, and went after an identifiable source of revenue in combination with one of the other. And he said the ones that had been identified were the MBT or possibly the one with the ARRA. Furthermore, he said he would support Treasurer Marshall's motion for narrowly directing our resources.

Mr. Chisel said if an ARRA audit was pursued he would request specifics as to what to be audited because it would be a broad area and would take a significant amount of resources. He said the Division would have to define the agencies that the Division would be looking at.

Treasurer Marshall asked if it would be possible if a motion was made for the Division to do the Medicaid audit and work with the Controller's office to have an ARRA component, and then do the audit suggested by the Secretary of State's office for the portal work.

Mr. Chisel replied yes.

Controller Wallin said Medicaid was just one component of the ARRA. She said money coming into Medicaid had not changed, but money had not been received by the smaller agencies before. She also concurred 100 percent with Lieutenant Governor Krolicki's idea on doing the audit for MBT. She said instead of having two auditors on Taxation, Welfare and Medicaid, to put more auditors on the MBT and she said she would work with the Division to determine what the resource needs were of the other person's time to help the auditor who would be working with the ARRA funding. Controller Wallin said she didn't think all three audits should be done at this point and time.

Lieutenant Governor Krolicki said everyone had heard about the strategic approaches to Medicaid and he said Controller Walllin had been visited from Medicaid. He also talked about the billing practices on the front end versus the back end. He said they were talking nine figures. Furthermore, he said he did not see the audit as a traditional audit.

Lieutenant Governor Krolicki also said the State was proposing to change business practices and to be transformative in how Medicaid was done. He said he thought they were heading to a reasonable solution. He also said there were ways to change the billing or have a private sector secure partner. He said the MBT should be coordinated as part of the Secretary of State and critical, and he said the ARRA effort could come out of the Welfare component. Lieutenant Governor Krolicki said he didn't think the Division should not do it, however, he said sharing of the time and allocation for ARRA.

Attorney General Cortez Masto wanted to know when Medicaid, Welfare and MBT were added to the audit plan and when were they planning to be audited, and at who's request.

Mr. Chisel replied and said they were risk-based and because of the financial crisis and the size of the agencies.

Attorney General Cortez Masto asked Mr. Chisel if he identified the audits based on the risk-based analysis, and if they needed to be looked at immediately.

Mr. Chisel said the Division put them as priority, and he said the Committee could reprioritize.

Attorney General Cortez Masto commented that the Department of Conservation and Natural Resources (DCNR) along with Department of Motor Vehicles (DMV) were a priority and were now being put back. She also said she did not understand how things are put in front of others when they come due because she said there might be issues that were being ignored.

Attorney General Cortez Masto explained her challenge here was she didn't think the group identified and wanted to take another look at Committee member Ms. Bridgman's, CPA, comments. She thought the Committee needed to define as they moved through the process of what audit to do and what audit not to do. Furthermore she said DCNR was once a priority and was now being ignored. She also wanted to know what a broad-based audit meant, such as Medicaid. She asked what is being looked at with respect to Medicaid that was so broad-based, versus Child Welfare that was on the Child Care side.

Mr. Chisel said the Division would be looking at the way Medicaid does business and if something was found that could be pursued into a broader bigger issue, if not he said the division would go through sections and take a look at different areas within Medicaid. He said because staff is now limited he wanted to know how it could be done more efficiently and effectively at a high level.

Attorney General Cortez Masto wanted to know if that was the analysis that was used for the audits that were being looked at.

Mr. Chisel responded yes.

Lieutenant Governor Krolicki asked if the dollar figure was very different than the DMV audit.

Mr. Chisel said that was correct and that was why they were prioritized, because of the dollar amounts. He said if the Committee would rather do DCNR the Division could do that.

Attorney General Cortez Masto said she needed further understanding on why something was a priority over something else. Furthermore she commented that the Division was making an analysis on a dollar figure base due to the economy, but the Committee needed more information other than it was a priority and it needed to be looked at. An example she made was why DCNR Environmental Protection was put on the list.

Mr. Chisel said at the time they rose to the top of the priority list after using the risk-analysis and said they were high dollars. He also stated they had not been audited in a while.

Attorney General Cortez Masto said that could be the case for a lot of things and every six months something else becomes priority. She said Environmental Protection would be put on hold again and her concern was the time frame. She asked Mr. Chisel how long it would take to audit Medicaid, Welfare and MBT.

Mr. Chisel anticipated another meeting in six months. He said that would mean only part of Medicaid would be complete, and he said it could be a two-part audit. Mr. Chisel stated he feels it is important to have the audit complete in the next six months due to the budget crisis, the legislature coming, and the Governor's budget. He further stated he would try for a target for a timely audit. He said the Division probably would not be able to cover all of Medicaid or Welfare but would have some targets that could be bought forward.

Attorney General Cortez Masto was concerned and said something else could come again to the forefront that would be priority and it would bump all the others off the list. She asked for what reason they had for being put on the list in the first place, and in some point of time she said they needed to be looked at.

Attorney General Cortez Masto said there was an analysis that needs to be made and she thought the Committee needed more information. She requested at the next EBAC meeting we put on an agenda item for this to be a discussion and how these items come to the Committee. She further stated determining priority, criteria, and how the Committee could make the determination of what audits to keep and what is wanted. She said the Committee should be looking at audits based on criteria and make a thorough analysis, or this concern could continue.

Controller Wallin asked if Mr. Chisel could bring a high-level summary risk assessment for discussion to the EBAC meeting.

Mr. Chisel affirmed he would.

Attorney General Cortez Masto said priority was very important and she agreed MBT should be looked at and she did not have a problem with Welfare and Child Care. She said there were concerns that needed to be looked at. She said it seemed there were a lot of broad-based audits and she knew it would take time. She asked Mr. Chisel how to incorporate the priorities that he had requested of the Committee with a staff of six or seven auditors.

Mr. Chisel said it was tough to balance and said that is why they rely on the Committee. He asked if the Committee thought the ARRA was priority or did the Committee feel the Division should put their resources toward the other agencies, or mix it up.

Ms. Bridgman, CPA said there were two separate issues: One was prioritizing what needs to be done and the other was to have decision support to make decisions move intelligently.

Mr. Chisel agreed.

Ms. Bridgman, CPA's other question she asked was how much time the staff spend on follow-up audits to ensure implementation within the six and twelve month time period. She suggested suspending that for a year and to make the agencies accountable for implementation.

Mr. Chisel said the Division does follow-ups for his Division as well as the follow-ups for the Legislature Council Bureau (LCB) and would take two to three weeks. He said it was a requirement.

Lieutenant Governor Krolicki said closure was needed on this topic and commended Mr. Chisel for his team. He said there was a kind of formula and risk-based approach on how this is to be done. He said it was clear the three budgets proposed are either the largest pieces of pie from the revenue side or from the expenditure side. Furthermore he said that we are all parts of Government pulling in the same direction trying to help balance the budget come the next fiscal year, so he said this was worthy and sound. He asked Mr. Chisel when the next meeting would be.

Mr. Chisel's response was by the end of December.

Lieutenant Governor Krolicki said that would be great and said those were large pieces of the problem and/or solutions for the next budget cycle, and he said it made sense and he supported it.

Attorney General Cortez Masto said she wanted to put some of the Divisions resources toward the ARRA funding.

Mr. Chisel said the Division could help out with ARRA on the side of doing the three audits, but he said it would be limited assistance. He said he could probably get staff from the Post Review section to add to all additional resources the Division had.

Attorney General Cortez Masto questioned whether or not the Division could free up time in the next six months by not reviewing the previous audits.

Mr. Chisel said it was in the Nevada Revised Statute (NRS) and had to be done by the Division. He also said there was a significant amount of time required along with following up on the LCB audits.

Attorney General Cortez Masto asked if there was an ability to identify strategically the ARRA areas where the Committee could tell the Division "We have priority; we want you to look at these agencies that are receiving ARRA funds". And she asked Mr. Chisel if the Committee gave him a list to look at, could he let them know if he had additional resources to help.

Mr. Chisel said he could do that.

Lieutenant Governor Krolicki stated Controller Wallin and Mr. Chisel could figure out how to assist in the process.

Mr. Chisel agreed.

Secretary of State Miller asked Mr. Chisel if he had a specific area of the Modified Business that he anticipated looking at.

Mr. Chisel said that was an area that had not been looked at.

Lieutenant Governor Krolicki addressed the Governor and Committee to try and construct a motion to make the right decision for the State and the situation and to move on. He wanted to make a motion to approve the audit plan as presented, with the following changes. He said the MBT would be modified to incorporate working with the Secretary of State and the portal issues along with the uncaptured revenues. He said the teams would work together to identify the uncaptured revenues that should be paid to the State that were not. Furthermore, he said whether it was the MBT or other uncaptured revenues it could be figured out. He said Medicaid needed to remain intact because there were potentially nine figures sitting on that table which was critical. He also said the flexibility in terms of staffing could be based on communication between Controller Wallin and Mr. Chisel as how to staff the ARRA needs. He concluded, that would be his motion.

Mr. Chisel wanted to make sure the Division would be auditing Medicaid, MBT but not Welfare.

Lieutenant Governor Krolicki responded and said no, Welfare is being done and may yield some of the audit resources to controller Wallins ARRA needs.

Mr. Chisel said it was his understanding MBT and Medicaid were priority and he had resources for them, and he said when resources are available, ARRA would be next and then Welfare. He also said the audits may be two-parts because of the volume so he said it may be December and June when the Committee would see the audits.

Governor Gibbons said there was a motion before the Committee and asked if they had any comments or questions with regards to the motion.

Motion: Move for approval on the status of the Division's Audit Plan.

By: Lieutenant Governor Krolicki

Second: Controller Wallin

Vote: Motion approved 6-0

Governor Gibbons said let the record reflect the Audit Plan under agenda item D had passed.

E. Discussion of the consent Agenda-upon request, any item may be removed from this agenda and placed on the regular agenda.

Mr. Chisel asked the Committee if they wanted to hear any follow-ups on Health and Human Services, Nevada Department of Transportation (NDOT) or Insurance Premium Tax.

Ms. Bridgman, CPA asked to see the follow-up on the Health and Human Services.

Warren Lowman was asked to do the presentation for the follow-up on the Department of Health and Human Services, Division of Mental Health and Developmental Services

Mr. Lowman addressed the Committee and introduced himself and said he would be presenting the follow-up to the Division's audit on the Division of Mental Health and Developmental Services (MHDS) and the Lakes Crossing Center (LCC) and Substance Abuse Prevention and Treatment Program (SAPTA). He said representing the Division was Dr. Harold Cook, the Administrator. Mr. Lowman told the Committee eleven recommendations were made to MHDS, and he said two were fully implemented, two were partially implemented, and seven with no action. Mr. Lowman said in its original timeline, MHDS did not expect to have implemented any of the recommendations and he congratulated Dr. Cook for moving on the recommendations.

Mr. Lowman said implementing our Division's audit recommendations would benefit the State by an estimated \$2.3 million. He said eight of the eleven recommendations were made to LLC Nevada's high-security psychiatric facility. He also said LLC had fully implemented the recommendation that would charge Clark County for psychiatrist support during challenges to competency evaluations and expert testimony. In fact he said in a letter dated November 2009 LLC informed all Nevada's counties that they would be charged for any future challenges and testimony. Mr. Lowman stated LLC reported as a result of the notification it had received far fewer request for support, which has freed up some of the psychiatrist time for treatment issues at the facility.

Mr. Lowman said LLC reported they had partially implemented the Division's recommendation to certify LLC as a Medicare approved facility in order to charge clients who had Medicare benefits. He said LLC was still in the process of determining the additional requirements and exact cost for certification of the facility. He also said LLC reported it had not taken action on the other six recommendations dealing with the billing

process and they anticipated meeting the timeframes. Mr. Lowman said he made three recommendations to SAPTA of which the agency had fully implemented the recommendation to evaluate eliminating the provider incentive program. He said SAPTA had informed treatment providers in December of 2009 the program performance incentives were being suspended January 1, 2010, with all the funding coming to an end April 15, 2010. He also said this would eliminate the provider incentive program which benefits the State by \$700,000.

Mr. Lowman told the Committee SAPTA had partially implemented the recommendation to adopt a performance-based or fee-for-service reimbursement methodology. He said SAPTA staffs were researching options and procedures for adopting a new methodology. Furthermore, he said SAPTA had taken no action on the recommendation that required providers to report services specifically paid for with SAPTA funds.

This concluded Mr. Lowman's overview of the audit follow-up and he asked the Committee if they had any questions.

Ms. Bridgman, CPA asked Mr. Lowman if the no-action items had progressed and wanted confirmation by Mr. Lowman that the original goal was beyond the six months.

Mr. Lowman confirmed that was correct.

Dr. Cook addressed the Committee and said they were addressing all of the items on the list. He said the bigger items such as LLC becoming a certified facility, was a complicated issue. He said they were working with State Public Works (SPW) to determine the cost of modifying the facility because there were some significant modifications that would have to be done along with additional staff. And he added there would be extensive upfront costs. Dr. Cook said the other areas being worked on would take time because of contractual issues. He said they would complete them all if possible.

Governor Gibbons asked the Committee if they had any questions.

Lieutenant Governor Krolicki thanked Dr. Cook for what he does.

Dr. Cook said thank you and he appreciated the comment.

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

1. Department of Health and Human Services - Division of Mental Health and Developmental Services, Residential Supports

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

Mr. Colburn addressed the Committee and said he would be presenting the MHDS, Residential Supports audit, and introduced Dr. Harold Cook and the State-wide Coordinator Jane Gruner.

Mr. Colburn said MHDS operates programs using five main offices to assist adults with mental illness, children who are emotionally disturbed and individuals who were

developmentally disabled. He said one of the ways the Division helps disabled clients is through using residential supports and monitoring. He said clients using residential supports live in a home with other clients, by themselves, or with their families. The Division may assist clients by paying for rent, food, utilities, etc. Mr. Colburn said the Division may contract with providers to supply services such as behavior and basic living skills training for their clients. He said the goal of residential supports is to have the client live in a home of their choice as self-sufficiently as possible. Mr. Colburn said the Division pays the providers and monitors them through the reviewing of billings and contracts. He said among the steps the Division could take to improve its residential supports program was to:

- ✓ **Enhance policies for providers' services and billings, and the Offices' and billing reviews.**
- ✓ **Eliminate certain unnecessary payments to providers.**
- ✓ **Include clients' earnings working in agency facilities in their contracts.**
- ✓ **Ensure the state does not pay duplicate benefits.**

Mr. Colburn said using those methods; would generate an estimated savings of at least \$650,000 a year.

Mr. Colburn said first, the Division should enhance policies for providers' services and billings, and for staff and supervisors reviewing provider billings. He said office policies contain limited detail on expectations for providers, staff and supervisors. He said the policies should address what are appropriate basic or necessary living skills, contain more direction on what constitutes acceptable documentation, and detail responsibilities for reviewing billings.

Mr. Colburn said the auditors randomly sampled about one percent of MHDS's 5,000 clients using residential supports. He said the sample revealed the State paid expenses that may not cover basic client needs of skills. Furthermore he stated the Division had insufficient documentation to determine their appropriateness. For example, he said the State paid supplemental rent when a client had previously spent their own funds on tattoos, a laptop, and several \$150 dollars for expenditures for "biofeedback" and \$175 dollars on Christmas cards. He also said the provider contracted to help the client with money management. He said in another example, the State paid \$369 dollars for theater/acting lessons for one client, and he said no mention was made of whether the services met clients' needs. Mr. Colburn said a third example was the State paid a provider for services even though the client was hospitalized. Mr. Colburn said staff stated it was not possible for the provider to have rendered the services the State paid for in this circumstance.

Mr. Colburn also said these and similar claims were approved by program staff and paid by fiscal staff. He said there was no evidence they were questioned by either program or fiscal supervisors. Mr. Colburn said to prevent questionable billings the Division should issue improved guidance to help providers as to what was acceptable and what were not acceptable practices. He also said the Division should issue enhanced policies to program staff and supervisors to detect questionable billings to ensure the State only pay for the appropriate residential supports.

Mr. Colburn said second, the Division should eliminate unnecessary payments to providers. It should eliminate separate payments to providers for staff commutes. He said one office pays for provider staff to commute time to and from a client's location. A review of a provider rates task force report indicated commute time is already included in the hourly reimbursement rates the State pays to providers. He said it was like paying twice for the same work.

Mr. Colburn said the Division should discontinue the holiday voucher program. He said one office pays clients with holiday food vouchers totaling \$83,000. He said the program was not documented in the policy and was in addition to other benefits clients receive. The Division management stated the program was excessive and should be discontinued.

Mr. Colburn said the Division should discontinue paying administrative fees to a provider to help clients in isolated rural area. He said these fees were additional payments to the provider for supplying supports for distance clients and wasn't an acceptable practice according to management.

Mr. Colburn said third, the Division should use client funds to reimburse State costs. He said he noted one case where the State collected only about half of a federal lump sum check because staff negotiated with the client. He said existing policies require clients reimburse the State for residential supports when they had the means. He also said failure to follow the policy will cause the State to miss opportunities to recover costs.

Mr. Colburn said fourth, the Division should consider using clients' earnings from working in agency facilities in contracts. He said one client kept all their earnings, received federal benefits, and he said the State paid the clients' rent and utilities. He said the office's policy treats earnings from working in the facility as a training stipend and did not require the client to reimburse the State costs. Mr. Colburn said the policy was inconsistent with other offices which used client earnings from working outside of their Division to reduce State costs.

Mr. Colburn said fifth, The Division should ensure the State did not pay duplicate payments. He said for one client sampled, the provider continues to bill the State for food even though the client received food stamps. He also said office staff knew of the change, but wanted to wait until they had all the related documents processed. Mr. Colburn said the Division should not pay for food when it knew the client was receiving food stamps.

This concluded Mr. Colburn's audit and he asked the Committee if they had any questions.

Governor Gibbons stated to Mr. Colburn that he had several questions. He stated it was estimated in your audit that changes that are necessary to some of the either uncoordinated or unnecessary expenditures and asked if the \$650,000 was annually.

Mr. Colburn replied back, the \$650,000 related specifically to the programs that should be discontinued such as the food vouchers. He continued by saying the other savings as far

as getting the staff to review billings more thoroughly and getting the providers to document their services more thoroughly would be beyond the \$650,000.

Governor Gibbons asked if there was any way they could quantify those.

Mr. Colburn said it would be difficult because each case was unique.

Governor Gibbons said he was disturbed by some of the approvals that he was hearing. He stated the providers were billing for questionable services. He asked how it could be corrected. He said these were unreasonable when you thought about it. He said \$1,000 per month on services, with the billing statement not being clear. Governor Gibbons looked at other cases which said four hours of electronic game playing, \$369 for theater and acting lessons.

Governor Gibbons stated he knew the State had a lot of obligations to people that have the inability to cope with life and trying to fit into mainstream, but he said there needs to be a review process at a level that some things have to be justified. Governor Gibbons said he could not say to the taxpayers of Nevada that we were spending their money wisely when things were being done that showed up in the audit.

Governor Gibbons said there needed to be a policy change and he said there needed to be direction change, and he hoped the Division immediately recognized the fallacy of what is presented to the taxpayer. Governor Gibbons said he hoped to see no more of this kind of unspecified, unbilled, or billings without specific changes coming before the State to pay either financially or the taxpayers to foot the bill on.

Governor Gibbons said his bigger question was when a provider duplicates a billing, is the State pursuing fraud for the State of Nevada to go after this provider.

Dr. Cook said in one case that had been cited where the individual was in a psychiatric hospital and the State paid for services, he said the State had recouped the money. Dr. Cook said they had initiated an investigation into that issue and he said we are looking at the possibility of fraud.

Governor Gibbons asked Mr. Chisel if the Division was going to talk about the Doctors time issue.

Mr. Chisel stated that was the next item.

Governor Gibbons said he would reserve his questions on that, which is also disturbing as the report he just heard. Governor Gibbons asked the Committee if they had any other questions.

Lieutenant Governor Krolicki asked Dr. Cook if he had a response to the issues cited, along with an overview of the office and the practices so this does not happen again. He said he knew there was a response letter in the audit but wanted to hear it from Dr. Cook.

Dr. Cook said he thought the specific items in the report were inappropriate. He said they were paying for inadequately documented and duplicated services. He said he was in the process and had in fact completed the policy revision and tightening up on review and authorization for payment. He stated the providers were being educated on what was appropriate. Dr. Cook said this may sound like an excuse but this was a \$110 million a year budget and the \$650,000 is less than one percent of the budget. He said even though the error rate was not that high, it was still too high. Dr. Cook said he would agree and do what he could to tighten up and he also said some of the issues had already been addressed. He said he would continue to improve on policy and oversight,

Dr. Cook explained 5000 people who were receiving services and in many cases there were dozens if not hundreds of invoices to come in for review, and a determination is made to the appropriateness of the expenditure. He said sometimes there was an oversight. Mr. Cook said he understood the severity of the situation and will do what he can to reduce the error rate.

Governor Gibbons asked the Committee if they had any questions. There were none.

2. Department of Health and Human Services - Division of Mental Health and Developmental Services, Mental Health Services

Warren Lowman, Executive Branch Auditor IV, presented the audit report.

Mr. Lowman addressed the Committee and said he would be presenting the MHDS, Mental Health Services audit, and introduced Dr. Harold Cook and Dave Prather, the Administrative Services Officer.

Mr. Lowman said the audit looked at three objectives

- ✓ **Doctor productivity in the Division's 2 psychiatric hospitals and 25 outpatient clinics.**
- ✓ **The Division's billing process; and**
- ✓ **The Division's electronic medical records and billing system.**

Mr. Lowman said eleven recommendations were made to assist the Division to improve doctor efficiencies, enhance billings, and to evaluate their electronic medical record and billing system. He said the recommendations could benefit the State by approximately \$3 million annually. He also said in its response, the Division accepted the recommendations.

Mr. Lowman said in the first objective we determined doctor productivity had been affected by two elements:

- **Data entry of treatment information and documentation into the Division's electronic medical records and billing system; and**
- **Doctor attendance at the hospitals and outpatient clinics.**

Mr. Lowman first addressed the findings for doctors who worked in the two State-funded psychiatric hospitals. He said the Division was unable to determine how productive the Division's hospital psychiatrists were. Mr. Lowman said the Division represented its electronic medical record and billing system did not accurately reflect what the hospital doctors did on a day-to-day basis. He said samples were done of other states and private hospitals and he said he found there were no measurable standards for hospital doctors in any of the hospitals. Mr. Lowman said as a result doctors were sampled to see if they worked full days in the hospitals. He said 22 percent of the Rawson-Neal Hospital doctors in Las Vegas were sampled over a four month period in fiscal year 2009 and found on average none had been in the hospital for the full hours of their work day. Mr. Lowman said only one day could be identified during the sample period where a doctor was in the hospital for a full day without question. He also said one of the doctors in the sample group averaged two hours in the hospital in the days worked. Mr. Lowman stated all the doctors sampled reported a full day of work on their time sheets.

Mr. Lowman said the Division lost up to \$1.7 million from doctor absences at the Rawson-Neal Hospital in 2009. He said the recommendation for the Division was to monitor hospital doctor attendance to ensure the State was getting the time it was paying for.

Mr. Lowman addressed the findings related to doctors working in State-funded, outpatient clinics. He said when auditing the productivity of outpatient clinic doctors, they used data derived from the Division's electronic medical record and billing system because he said the billing information should have closely reflected the doctor's daily schedule. He also said outpatient doctors were scheduled in general, for appointments lasting thirty minutes.

He said the times were reflected in the electronic medical record and billing system. He also said the doctor enters the appointment notes into the medical record, which then would allow the Division to bill for service. Mr. Lowman said the Division's standard for outpatient clinic doctor productivity was 62 percent and he said doctors are expected to be productive for 1300 hours annually. Furthermore, he said the productive hours included time for training, medical staff meetings, and other agency requirements beyond working in the clinics. Division wide he said, almost 60 percent of the outpatient clinic doctors did not meet the 62 percent productivity standard.

Mr. Lowman said the recommendation was to monitor outpatient doctor productivity through a two-step process to meet the productivity standard. Mr. Lowman said they first needed to look at the doctor's productivity rate to determine if there was any issue the Division managers needed to pursue. He stated if the electronic record showed a problem with productivity, it could be the result of a doctor not entering all productive services into the electronic record that could have been billed. Mr. Lowman said if it appeared to be a data entry problem the Division should use training as the first remedy. However, he said if clinic managers determine it was not a data entry issue the Division would move to the second step and evaluate on installing an electronic access control point to determine an attendance issue. Mr. Lowman said by estimation the benefit to the State could be \$762,000 annually by monitoring the outpatient doctors' productivity to achieve the 62 percent.

Mr. Lowman addressed the Division's 62 percent productivity standard for outpatient doctors. The recommendation was the Division evaluate its standard for outpatient doctors and to include that standard in doctor contracts. Mr. Lowman said contract doctors should have about a 74 percent productivity level which he said holds them to the same standard as State doctors, to achieve the 1300 hours of productivity annually. He said doctors must achieve a 74 percent productivity rate to meet the 1300 annual productive hours because he said State doctors are paid for leave and holidays, and he said contract doctors were only paid for hours they are scheduled to work. He said he estimated the State could benefit by \$122,000 annually by a higher productivity standard for some contract doctors in outpatient medical clinics.

Mr. Lowman said the second objective focused on enhancing billings in order to maximize reimbursements for psychiatric care funded by the State. He said the majority of the Division's clients were not paying for services and agencies were working to better identify which clients had benefits or would be eligible for benefits as a result of their conditions. Mr. Lowman said first the Division should ensure doctors are entering all treatment information into the electronic system in order to bill for services. He said the Division runs two complimentary medical records systems: the electronic system and a hard file. He said the billings were generated from the electronic system only. Furthermore he said a sample was done to determine if the doctors were entering required information during a client's hospital stay for which the hospital could bill. He said the review showed treatment services were not being entered into the division's electronic system for all clients admitted. He said in 2009 the Division reported almost 3,900 clients were admitted into the two psychiatric hospitals. Furthermore, he said when each client is admitted to the hospital they should receive at least one psychiatric evaluation during their hospitalization and the evaluation must be completed by a doctor. He said evaluations are a billable service. Mr. Lowman said the review showed doctors recorded 20 percent of client psychiatric evaluations that should have been recorded, and said that amounted to \$130,000 in missing reimbursements the Division could not collect because they went un-recorded in the electronic medical record. He said the recommendation was for the Division to ensure all treatment information and documentation, to be entered into the electronic system. He said currently the Division's supervision is limited to a medical review of the appropriateness of treatment and not whether all treatment services are being entered into the electronic system.

Mr. Lowman said he also noted the Division was not fully billing Medicare Part B Doctor Services because not all hospital psychiatric staff was credentialed by Medicare for billing purposes. Mr. Lowman said by completing the credentialing process he estimated the Division could enhance reimbursements up to \$280,000 annually. Mr. Lowman further said the Division's billing process should include seeking reimbursements from clients who were co-eligible for benefits from Medicare and Medicaid. He said once the Medicare beneficiary uses 190 days of hospital care the benefits are exhausted. However, he said if a client also had Medicaid benefits, Medicare would pay for hospital services beyond 190 days. Mr. Lowman said the estimation was the Division could enhance revenues by almost \$100,000 annually by billing Medicaid for co-eligible clients who had exhausted their Medicare benefits.

Mr. Lowman said the third objective focused on the effectiveness of the Division's electronic medical records and billing system. He said the Division agreed it should plan for future electronic requirements and he said according to the IT Governance Institute, expenditures for IT without a plan to guide those expenditures could waste up to 20 percent of resources. Mr. Lowman said because the Division did not have an IT plan, the Division could not effectively budget for equipment and personnel. He said the Division recently hired a new IT manager who will be implementing the recommendation to develop a plan that would follow the IT Governance Institute standards. He said the Division should work with Department of Information Technology (DoIT) to assess its electronic medical records and billing system. He said some Division managers estimated they could increase efficiencies up to 10 percent with a more user-friendly and capable system. Mr. Lowman said a Technical Investment Request (TIR) would be an integral component to the Division's plan for future requirements. Mr. Lowman said additionally the Division had ongoing issues with the system, such as periods when the central office could not bill because of system problems and difficulties many of the staff had while using the system.

This concluded Mr. Lowman's overview of the audit, and asked the Committee if they had any questions.

Governor Gibbons said attracting doctors to work in institutions is always a challenge, and he said clearly the State is not getting what it paid for. He commented doctor five from the audit report be removed because the State was paying him for eight of the two hours he was there. He said the catering of the doctors to keep them on staff because they're so rare was not doing the State any favors. Governor Gibbons said the State was spending the money and not getting the service.

Governor Gibbons asked if the data entry was part of the time spent under the contract for the doctors. He asked if the graph on page eight of the audit was simply time spent observing and treating patients or did it include all other duties that are required of the doctor during his time on duty.

Mr. Lowman said he would let Dr. Cook answer that one, but it said it was his understanding that when they were in the hospital it would include having to do all of the described.

Mr. Chisel added the graph on page eight only measured their attendance when they were in the building.

Governor Gibbons asked if this was when they clock through the door and when they clock out the door.

Mr. Lowman replied that was correct.

Governor Gibbons stated it had nothing to do with productivity. He said that would be difficult because of the HIPAA Laws. He said you could not go in and evaluate a doctor's treatment because it would be in violation of the specific treatment on the patient who was protected. He asked how they could get to the bottom line on evaluating doctors.

Governor Gibbons then said there was a standard, doctors are expected to adhere to and some do pretty well. He said doctors do hard, stressful work and get paid a lot to be there, and he said they have a great skill level which we rely on. He said it was disturbing to think that in a facility where their presence is critical for the recovery of a patient needed to be met with some degree of accountability. He said when he sees two hours a day on average for four months and they were paid for eight, he was concerned. Governor Gibbons said he had hoped the recommendations were the ones that will provide us with a better grasp of this information and he said he was hoping that we could do better at this.

Dr. Cook said he appreciated Governor Gibbon's comments and he said in fact he expected the roof to blow off. Dr. Cook said Dr. Five is gone and he was one of four doctors that had left in the past year that was encouraged by management because of attendance problems. He said as Governor Gibbons noted, doctors were needed. Dr. Cook said business could not be done without them. He said there were forty-five positions in the south, and he said to date twenty positions were vacant, and that was part of the problem. He said some of the vacant positions were being covered by contract doctors and temporary employment agencies. He also said the doctors come and go rapidly and he said the issues that they have were not new. Dr. Cook said they had known about the problem for at least five years if not longer. He said the issue was the division needed doctors, because business can't be done without them. He also said part of the issue was the State law. Furthermore, he said the doctors were unclassified and under NRS 281, and he stated their salaries could not be reduced for lack of attendance. He said if they show up for work on any given day they are paid for the full day.

Ms. Bridgman, CPA, asked if that was for contracted doctors.

Lieutenant Governor Krolicki replied it was for the State employee doctors, and for Ms. Bridgman's benefit, unclassified workers didn't get paid for overtime, and he said that was the approach they took.

Dr. Cook said it was the same for him and if he came to work for an hour and left he would be paid for the full day.

Dr. Cook explained there had been discussions about getting overtime pay but he said prior authorization was required. He said if the physicians were to be classified they would have to report every hour worked. He said that would encourage them to work a full day, but he said this would require a change in the State law or classification. Dr. Cook said another solution that is being reviewed was privatization of all medical services and he said the theory was a Request for Proposal (RFP) to find a medical provider organization that would manage the doctors. He said he was inclined to want to at least explore for at least the near future and see if there were any providers out there who would do this. He said the Joint Commission survey came through earlier in the month and found out they were very complimentary about his staff. Dr. Cook said the problems are unacceptable and have been struggling with a fix. He concluded that the division had some ideas and they would try to pursue them.

Governor Gibbons asked the Committee if there were any questions.

Ms. Bridgman, CPA said she had one comment. She said she thought the NRS said salaried or unclassified employees could come in for two hours and leave as long as they could get the job done. She asked if there was another angle or approach.

Dr. Cook said it was a sad commentary to have highly-skilled, highly paid professionals, who seem not to have a good work ethic. He said they were in the process of recruiting for another medical director in mid-July and recruiting for a new hospital administrator. He said the hospital administrator resigned. Dr. Cook said the Division also has a new director of nursing. He said all three of those positions were critical in dealing with the issues.

Ms. Bridgman said leadership started at the top at every one of those levels.

Dr. Cook said he understood.

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

3. Vehicle Fleet Management

Vita Ozoude, Executive Branch Auditor IV, presented the audit report.

Mr. Ozoude addressed the Committee and introduced Andrew Clinger Director, Representing Department of Administration, and Keith Wells, Administrator, representing Motor Pool.

Mr. Ozoude said the audit focused on passenger vehicles which are sedans and light trucks. Mr. Ozoude explained the State of Nevada owned approximately 3,600 passenger vehicles and 2100 of these vehicles were fleet managed and 1500 were not. He said some agencies such as Motor Pool and the Nevada Highway Patrol (NHP) had fleet managers while others such as Agriculture and Wildlife did not.

Mr. Ozoude said Fleet managers had expertise in areas such as vehicle purchases, utilization, and maintenance. He said the audit addressed the following two areas:

- ✓ **Non-managed passenger vehicle usage**
- ✓ **Take home vehicle policies**

Mr. Ozoude said we estimated implementing our recommendations would benefit Nevadans by approximately \$3 million. Mr. Ozoude said first the State could enhance its vehicle usage by transferring the responsibility of non-managed passenger vehicles to Motor Pool and increasing each vehicle's minimum monthly mileage requirement. He said while Motor Pool requires vehicle's to have 500 miles per vehicle per month, and non-managed State vehicles have no such requirements. Mr. Ozoude said the survey of other states revealed that these states require on an average a minimum monthly mileage of 1,100 miles per vehicle. Additionally, he compared Nevada to seventeen randomly selected states with fleet management of state vehicles and determined that Nevada had more passenger vehicles per employee than the average of the states. He said by transferring non-managed passenger vehicles to Motor Pool and instituting 1,100

minimum monthly mileages, the State could obtain an estimated annual savings of \$1.2 million and a one-time benefit of \$2.1 million, as excess vehicles were sold. Mr. Ozoude said Fleet Management provides oversight and would eliminate redundancies by consolidating resources and processes within one agency.

Mr. Ozoude discussed secondly, the take home vehicle policies. He said the state could enhance its take home vehicle policies by establishing an independent approval and review process for all take home vehicles. He explained a take home vehicle was a state-owned vehicle that an employee is allowed to drive on a daily basis to and from the employee's home. He stated Nevada had approximately 980 take home vehicles. Mr. Ozoude said he compared Nevada to eight other states with take home vehicle policies and determined Nevada had more take home vehicles than the average of these states. Furthermore, he said Nevada currently had no independent approval and review process for take home vehicles. Mr. Ozoude said an independent approval and review process by the BOE could help the State assess the appropriateness of each take home vehicle.

This concluded Mr. Ozoude's overview of the audit, and asked the Committee if they had any questions.

Ms. Bridgman, CPA asked if Nevada's large expense would be a factor in verses some of the other comparative states.

Mr. Ozoude stated it was 500 miles per month.

Lieutenant Governor Krolicki said 500 miles per month or 6,000 miles per year was not a lot.

Keith Wells, Administrator, for Motor Pool addressed the Committee and explained the background information about utilization. He said the Department of Administration established a Fleet Committee to review all the State's vehicle policies, how they were managed and maintained. He said one of the key components was utilization. Furthermore, he stated utilization was complex. He said the Department of Child and Family Services (DCFS) social worker in Las Vegas could use a car every single day, but may only travel 10 miles a day because they stay in the valley. He said an example would be if a DCFS agent in Elko traveled to all the outlying areas and that would represent a lot of miles on the vehicle.

Mr. Wells said the vehicles are used a lot but to put a mileage threshold on the vehicles he did not want to see happen. He said what he did want to see happen was a Fleet Committee establish a utilization policy that looked at every aspect of what an agency did with a car, and he said that is why he didn't really agree with 1,100 miles. However, he said they need to start at a lower threshold like 250. He also said getting rid of the percentage of vehicles; on an ongoing basis tighten down on the utilization. He said it needed to be done correctly because if you didn't you would be punishing the agencies.

Lieutenant Governor Krolicki said that didn't mean there was not something else to look at beyond just utilization.

Lieutenant Governor Krolicki said he wasn't sure why Department of Information Technology (DoIT) has a fleet of eleven vehicles, and said he was sure it would be cheaper to reimburse an employee for mileage on a personal vehicle than having a State-owned vehicle and insurance costs. He said he wasn't sure why people don't use their personal vehicles.

Mr. Wells stated he was confident there were a high percentage of people using their own vehicles, and with that he said brings controversy. He said if you request an employee to use their own vehicle, the liability is now the responsibility of the employee. He said if that employee was to get into an accident their insurance is at fault and is liable, and he said there is a cost associated with that. He further stated they do get reimbursed but to make it work there needed to be a balance and every agency needed to look at how they handled it. Mr. Wells said if personal reimbursement was the best choice for the agency then it should be done. But, Mr. Wells said there should be multiple options and he will be looking into it. He said the problem was the fleet hadn't been looked at.

Lieutenant Governor Krolicki said it was a difficult job but the State need to figure out a better way because the State seemed to be under-utilizing some of the resources.

Ms. Bridgman, CPA said the rates would have to be different in Las Vegas than Elko. She said companies that manage fleets do it all the time. She said it would be hard but it was not unique.

Mr. Wells said Nevada had a chance to set an example because no other state had a good policy.

G. Presentation of the follow-up status for Legislature Counsel Bureau's audit report recommendations issued April 20, 2009 and May 25, 2009

Mr. Chisel stated as part of statute the Division will take a look at the status of the recommendations by LCB. He said two follow-ups were completed and no significant concerns existed.

H. Public Comment

There were none.

I. Adjournment

Governor Gibbons called for a motion of adjournment

Motion: Move for approval of motion for adjournment.

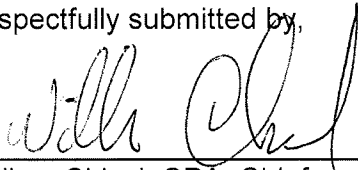
By: All Committee Members

Second: Lieutenant Governor Krolicki

Vote: Motion approved 6-0

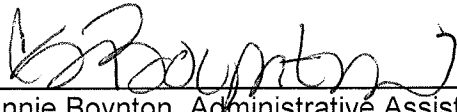
The Governor adjourned the meeting at 11:00 a.m.

Respectfully submitted by,



William Chisel, CPA, Chief
Department of Administration
Division of Internal Audits

Prepared by,



Connie Boynton, Administrative Assistant IV
Department of Administration
Division of Internal Audits