

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

**MINUTES**

**April 6, 2011**

The Executive Branch Audit Committee and the Division of Internal Audits met on April 6, 2011 at the Capitol Building Annex, Second Floor, 101 North 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 Brian Sandoval, Chairman  
Lieutenant Governor Brian Krolicki  
Secretary of State Ross Miller  
Treasurer Kate Marshall  
Controller Kim Wallin  
Attorney General Catherine Cortez Masto  
(Via videoconference Las Vegas)  
Dana L. Bridgman, CPA, Public Member

**DIVISION OF INTERNAL AUDITS  
STAFF PRESENT:**

William Chisel, Chief  
Steve Weinberger, Financial Manager  
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](mailto: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.

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### **Call to Order**

Governor Brian Sandoval called the Executive Branch Audit Committee (Committee) meeting to order at 9:31 a.m., and welcomed those present. William Chisel, Chief of the Division of Internal Audits (Division) called roll. A quorum was noted.

#### **A. Discussion and possible action regarding the minutes from the June 30, 2010 meeting.**

Governor Sandoval asked the Committee members for motion of approval of the minutes.

**Motion:** Move for approval of the minutes of the June 30, 2010 meeting.

**By:** Secretary of State Ross Miller

**Second:** Lieutenant Governor Brian Krolicki

**Vote:** Motion approved 5-0, Governor Brian Sandoval abstained from voting because he was not yet in office at the time of the meeting.

#### **B. Discussion and possible action on the Division's Audit Plan.**

Mr. Chisel directed the Committee to go to Tab 1 where they would find a description of the Audit Plan. Mr. Chisel wanted to discuss the approval of the proposed audits. He explained the Workforce Investment System audit focused on how much of the federal money reached the recipient program and if there was a more efficient way of distributing the monies. He said the other audit was the Department of Taxation (Taxation) and he indicated the Division would look at a few areas and determine if they had been auditing all industries, tax types, and what was the return on the audits. Furthermore, he wanted to determine if Taxation had incorporated a risk process in selecting audits and review the collection rate. He asked the Committee if they had any questions.

Governor Sandoval asked if the Taxation audit would be a comprehensive audit of the entire Department, if Mr. Chisel was aware of the issue associated with the Mining Industry, and would the proposed audit incorporate that portion of the Department.

Mr. Chisel said his Division could look at the Mining Industry, but he said it was his understanding the Gaming Control Board (GCB) was doing that. Mr. Chisel said his Division could take a look at how GCB was progressing. Mr. Chisel also said in 2003 his Division audited Taxation and identified that mining audits were not being done. During the Division's follow-up, mining audits had started but what had come to light was Taxation had not continued doing the audits. Mr. Chisel said his Division could take a look at what was being done and make recommendations as to some suggested methodologies of doing those audits if that was the direction the Committee.

Governor Sandoval asked if the audit would verify that the other industries from whom Taxation collected taxes were also being audited. Mr. Chisel said the Division's goal was to look at what they termed the "penetration rate." He explained the it would include how many audits were performed by Industry and tax type. He also explained the results would be brought forward for the Committee's review. Mr. Chisel said they would compare these results to other states to see if this rate of auditing was reasonable or if

changes needed to be made. Furthermore, Mr. Chisel said they would look at the risk analysis used to select audits and what factors were being used and if higher risk agencies were being audited.

Governor Sandoval asked Mr. Chisel if the audit would disclose sufficient resources going to the proper industries. He also asked if a significant amount of tax was collected from one industry, would there be the appropriate amount of resources. Governor Sandoval asked if there were too many resources dedicated to collecting tax where not enough revenue was available.

Mr. Chisel said his Division would look at both the tax types and the industries and he said they would take a look at their collection rates and how many staff they had assigned. He said they could compare that to other states. He also said he was planning on comparing them to other states without an income tax and also look at the western states.

Treasurer Marshall said the Board of Finance was looking at a contract with Taxation. She explained she heard there was implementation of a software program and a relationship between Taxation's vendor and that of the software program.

Treasurer Marshall asked Mr. Chisel if his Division would be able to look at the back log issue because she said Taxation had a large backlog in the collection of taxes. She stated it would be hard to audit someone when they haven't even figured out where they were in terms of their collections.

Treasurer Marshall said she didn't know if the structure and process that had been set up in the Taxation could manage their workload. She commented if the structure was not healthy it needed to be enhanced, expanded or changed. She also stated she was not suggesting anything specifically, because she didn't know how the processes worked and asked Mr. Chisel if that would be included in the analysis.

Mr. Chisel confirmed to the Committee he could look at the technology structure.

Treasurer Marshall stated the fact that the contract did not go out for bid was an issue, and the Board of Finance felt it needed to go to bid. She said the contract received a one year extension and it would then need to go out to bid. Treasurer Marshall wanted to know if the technology's structure was facilitating their ability to do Taxation's job.

Mr. Chisel said his Division could compare their collection rates and timeliness of the collection process with other states.

Lieutenant Governor Krolicki asked if the contract was a "Lock Box" contract.

Treasurer Marshall said it was, and explained Taxation had put this whole structure in place because they didn't feel they had the personnel to process their collections.

Lieutenant Governor Krolicki said the "Lock Box" would answer the questions real time.

Treasurer Marshall commented the technology was larger than JP Morgan Chase, and that it was a whole software program that had been implemented and connected back to JP Morgan Chase and that was just one of the components.

Lieutenant Governor Krolicki said he appreciated the fact they were looking into an audit where most of the money was. He said it was a productive use of time. Lieutenant Governor Krolicki followed up on Governor Sandoval's point about triaging the audits. He said the Division was on record for expediting a review of the Mining Industry's audits. He commented that some of the information could be relevant for the legislative process. He told Governor Sandoval he thought it would be important if he redirected a quick introductory visit with Taxation. He asked who was engaging in the audits, the legislative auditors or the executive branch auditors.

Governor Sandoval said he understood that to be currently in progress.

Mr. Chisel agreed. He said they were working with the agency and he said there was a current Legislative request to audit Taxation.

Mr. Chisel said the Division's objective was to look at the items that were talked about and to move quickly to address them. Mr. Chisel said his Division wanted to schedule a meeting in a couple months to present audits. He discussed having Taxation come to the meeting to answer questions the Committee might have.

Lieutenant Governor Krolicki said as long as the information is expedited but not as a full performance audit to help in the process would be appreciated.

Governor Sandoval said the Executive Branch, GCB and Taxation were marshalling resources. He said he believed notice letters had been sent out to the Mining Industry. He also said the Nevada Tax Commission was reviewing the situation as well as proposals at the Legislature, and he commented they were out in front of this in terms of addressing it.

Mr. Chisel stated he thought a lot of the questions could be answered by the data base they had and he said they had collected a lot of data.

Controller Wallin said Taxation wanted to be exempt from turning their debts over to the Controller's office. She said they had been working out an arrangement with Taxation with a new Director in place. She added, Taxation was in the process of turning some of the debts that are five to thirty years old to the Controller's office.

Controller Wallin said their Revenue officers work on the oldest debt first, and she wanted to look at what Taxation concentrates on. She also wanted to know what Taxation's audit rate was and to see if they were auditing clients based on a taxpayer's risk assessment or because it had been three years. She said they are audited every three years even if it had been a no-change audit in those three years.

Mr. Chisel said their current audit rate was below three percent. Controller Wallin said the current rate was one-half percent and both agreed that it was below three percent. Controller Wallin explained she had done a presentation on Taxation

at a national conference a couple years prior and she said she had research to share. She said Taxation wanted to collect or audit three percent of the taxpayers and they had been currently auditing one-half a percent of the taxpayers. She also said Nevada was one of three states that lost auditors due to budget cuts and she said all of the other states had increased their auditors because they had more than paid for themselves.

Controller Wallin explained she didn't think Taxation's systems were great because she said when they were doing the Comprehensive Annual Financial Report (CAFR), collections were over \$100 million dollars and they couldn't figure out if it was current year revenue or previous year revenue. Controller Wallin said they had the money in a suspense account and the Controller's office had to go over and find what it was for. She agreed there were some technology issues, she also agreed with Treasurer Marshall's comment about being a stumbling block by not being able to go out to bid to look for an in-state "Lock Box". She quoted a Taxation official as saying "oh, only the JP Morgan Chase's system works with our system". Controller Wallin said technology had advanced and Nevada had banks available that could do Lock Box contracts.

Treasurer Marshall commented the banks in Nevada couldn't handle the State's functions unless they expanded.

Treasurer Marshall said because the software contract was coming up for renewal it would give them the chance to see what other states were more efficient in their ability to do their job. She said the Treasurer's office would be able to get involved with the Request for Proposal (RFP) and the information that was given could be helpful. She stated the "Lock Box" was a part of that but she added the software did more.

Lieutenant Governor Krolicki asked if the compatible software could be housed at Taxation and become part of the RFP. He said perhaps they could extend their license to cover state offices.

Treasurer Marshall said her office was going to be a member of the process and they were going to facilitate and help with negotiations particularly the "Lock Box" issue. She commented that any information would allow the process to be better.

Attorney General Masto asked if someone was conducting analysis of the staffing needs for Taxation to carry out the functions of the office.

Mr. Chisel stated his staff would look at how many audits were being performed compared to other states. He also stated if the oversight was equal to other states they were probably adequately staffed. Furthermore, he said they would look at the collection rate and if that was a staffing issue and it would then be analyzed.

Attorney General Masto asked Mr. Chisel if part of the analysis included looking over the last five years to determine if the staff had been cut or if staffing requests were not met as part of the process.

Mr. Chisel said his staff could give a history of staffing for those areas and provide some information, but they were going to focus on 2009 and 2010 to see how they were staffed. He said that would show if there had been a decrease in staffing and what the impact may have been.

Attorney General Masto said part of the analysis should include staffing needs to carry out the functions of the office and if Taxation was understaffed the Committee would want to know.

Mr. Chisel said his staff would look at what their coverage was for the audits and how well they were doing in their collections. He concluded that would be the focus for his staff.

Governor Sandoval asked the Committee members for motion to approve the Division's Audit Plan.

Mr. Chisel expressed to the Committee that in two months, his Division planned on presenting several audits; Nevada Check-up; Personal Care Services; Welfare; Depreciation and Business Licenses. Mr. Chisel also said his staff was doing the American Recovery Reinvestment Act (ARRA) reviews in conjunction with the Controller's office. Mr. Chisel anticipated the ARRA audits to be complete by next fiscal year. He said he selected audits using a risk-based approach by taking a look at the agency source of funding, and agency staff size. He also said he could bring to the Committee the calculation of how his Division came up with the risk and how they came up with the selection process. He asked for the Committee's approval.

Controller Wallin asked Mr. Chisel to look at Department of Motor Vehicles (DMV) process to automate the debt collection system and include incorporating them into their system. She was concerned because her office discovered an error rate of 46 percent in DMV's data. She also said that those were the files that were being turned in, and stated there may be other errors. Controller Wallin explained she met with the Director and he said they had two million people in their data base and that clean up needed to be done. She wanted that to be reviewed.

Governor Sandoval commented to the Committee there was a new Director and he would be receptive working with Controller Wallin.

Controller Wallin said she had talked to the Director about the debt collection system and once they were combined they could share more data and do a better job.

Governor Sandoval asked the Committee if the motion was still in place.

Treasurer Marshall agreed the motion was still in place.

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

**By:** Treasurer Kate Marshall

**Second:** Controller Kim Wallin

**Vote:** Motion approved 6-0

**C. Discussion and possible action on the Division's 2010 Annual Report (NRS 353A.065).**

Mr. Chisel asked the Committee to look at Tab 3 and explained the Annual Report was first issued September 2010. Mr. Chisel said the Division of Internal Audits consisted of three sections:

- ✓ The Internal Audit Section
- ✓ Financial Management Section
- ✓ Post Review Section

Mr. Chisel explained the Internal Audit Section performed performance audits looking for efficiency and effectiveness. He asked the Committee to turn to page 7 of the Annual Report and said 88 percent of all recommendations had been fully implemented. Mr. Chisel then asked the Committee to turn to page 9 and said for every dollar spent on the Internal Audit section, the taxpayers benefited by \$63 dollars.

Mr. Chisel explained the Financial Management section helped agencies develop and maintain their internal controls to safeguard the state's resources. In addition, he said the Financial Management section had been working with the Controller's Office in relation to ARRA.

Mr. Chisel explained the Post Review section had looked at about one-third of the State Executive Branch agencies and pulled random samples of their expenditures to ensure they comply with state and federal guidelines. He said his Division had been meeting that objective for the last several years.

Mr. Chisel asked the Committee if there were any questions.

Governor Sandoval complimented Mr. Chisel on the remarkable low number of percentages recommended not implemented and asked what "no action" meant.

Mr. Chisel explained when his Division's audits are six-months out from presentation to the Committee, a follow-up is performed to see the status of the recommendations and then a follow-up is done every year thereafter on outstanding recommendations. He said often the "no action" result while waiting for legislative action to occur for those to be implemented. He also said if there was "no action", the Division would follow-up every year until the recommendations were fully implemented. He said quite often the recommendations take more than six-months to a year to implement when legislative action was required.

Controller Wallin said Taxation was losing positions, and she said the performance indicators on page 15 talked about assisting with written internal control procedures. Controller Wallin said fiscal year 2011 was not applicable because the Division no longer had staff to assist. She said it was a critical part of ensuring that agencies comply to prevent theft and fraud. She asked if the state would have a higher percentage of fraud and risk because there were no longer adequate internal controls in place. She commented about the lack of resources at Taxation and she said she knew Internal Audits also had a lack of resources.

Mr. Chisel concurred, and said his Division was no longer going to be doing written internal controls on a regular basis. He said the Division's plan was to respond to

agencies as they had questions and help them write their internal controls. He said Steve Weinberger Financial Manager, had developed an internal control template available to agencies. He said the procedures are expected to be followed by the State, and is made available for establishing their controls. He said the Division would primarily do it on a risk basis. He said his Division contacted other states and found they do not review written procedures. He said there was an increased risk; and his Division would try to cover that by helping those agencies that have high risk.

Controller Wallin commented on the agencies that were merging into the Department of Administration. She stated because of the merger there would be a need for internal controls to make sure things were adequately taken care of. She also stated the Department was going to be larger and different and things could fall through the cracks.

Mr. Chisel said it was his understanding with the mergers a lot of agencies would be moving. He also said he didn't know if there would be a lot of re-structuring of the agencies but would work with the Department.

Controller Wallin stated she wanted to make sure there were proper internal controls in place.

Controller Wallin said she had a question with the Post Review section. She commented she was interested in the single audit. Controller Wallin said some of the agencies had the same findings year after year and asked how page 18 showed the recommendations were 100 percent fully implemented. She asked what agencies were being audited. Controller Wallin said the single audits with the agencies showed they were not in compliance. She wanted to know what agencies were being audited.

Mr. Chisel said his Division's objective was to follow-up on the single audits and just recently started doing that. He said right now his Division was out there as part of post review and follow-up. Mr. Chisel said he would work with the Controller's office on the single audits.

Controller Wallin agreed and said her office was working to automate the process so they could spend time doing analysis on their single audit reports. She said she would work with the Division.

Governor Sandoval complimented Mr. Chisel in regards to the internal controls and training done for thirty-seven agencies throughout the state in 2010. He acknowledged the increased participants' knowledge of internal controls by over 20 percent. He told the Division to keep up the good work and he said he thought the best way to address the issue systematically was to go and train the agencies with the proper procedures.

Mr. Chisel told the Governor it was Steve Weinberger, Financial Manager that was doing a great job at training on internal controls over the last couple years.

Governor Sandoval said he appreciated Mr. Weinberger's good work.

Controller Wallin asked Mr. Weinberger if he had the internal controls class on line as of yet and mentioned she knew he was working with her agency to get that going.



Mr. Weinberger said he did start working on it but because he tries to focus each class towards the agency, putting the class on-line would not be conducive. He said he was in the process of changing the training and specifying it towards each agency. He said it would be more effective to give presentations in person.

Controller Wallin thanked Mr. Weinberger.

Governor Sandoval asked Mr. Chisel if he was concerned about the proposed consolidations in regards to affecting the ability to implement and make people aware of the internal controls.

Mr. Chisel said he would work with the agencies consolidating.

Governor Sandoval asked the Committee if there were any more questions and motioned to approve the Division's 2010 Annual Report. There were none.

**Motion:** Move for approval regarding revisions to the Division's Audit Plan.

**By:** Controller Kim Wallin

**Second:** Lieutenant Governor Brian Krolicki

**Vote:** Motion approved 6-0

**D. Public Comment**

There were none.

**E. Comments of the Committee Members**

There were none.

**F. Adjournment**

Governor Sandoval called for a motion of adjournment.

**Motion:** Move for approval of motion for adjournment.

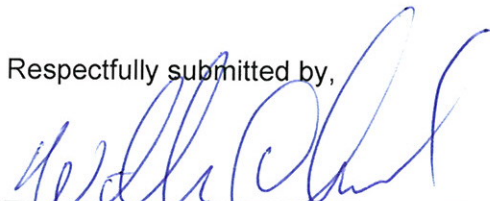
**By:** Treasurer Marshall

**Second:** Lieutenant Krolicki

**Vote:** Motion approved 6-0

**The Governor adjourned the meeting at 10:30 a.m.**

Respectfully submitted by,



William Chisel, CPA, Chief

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Department of Administration  
Division of Internal Audits

Prepared by,



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