



State of Nevada
Department of Administration
Division of Internal Audits

**From the Executive Branch Audit
Committee Meeting
June 26, 2014**

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

Approved

June 26, 2014

The Executive Branch Audit Committee and the Division of Internal Audits met on June 26, 2014, at the Capitol Building Annex, Guinn Room, Second Floor, 101 N. Carson Street, Carson City, Nevada. The meeting was video conferenced 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 (via telephone)

Secretary of State, Ross Miller (Present in Las Vegas)

Treasurer, Kate Marshall

Controller, Kim Wallin (Present in Las Vegas)

Attorney General, Catherine Cortez Masto

**DIVISION OF INTERNAL AUDITS
STAFF PRESENT:**

Steve Weinberger, Administrator

Warren Lowman, Executive Branch Audit Manager

Vita Ozoude, Executive Branch Audit Manager

Jeff Landerfelt, Executive Branch Auditor III

Lynette Pagaling, Executive Branch Auditor III

Ashwini Prasad, Executive Branch Auditor III

Dennis Stoddard, Executive Branch Auditor II

Lori Hoover, Financial Manager

Connie Boynton, Administrative Assistant IV

Jennifer Chisel, Deputy Attorney General

OTHERS PRESENT:

Copy of sign-in sheet available, contact Connie Boynton, Administrative Assistant IV at cboynton@admin.nv.gov.

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 Sandoval, Chairman, called the meeting to order at 9:01 A.M. and welcomed those present. Roll was called, and a quorum was noted. Lieutenant Governor Brian Krolicki participated by telephone. Attorney General, Catherine Cortez Masto would be arriving shortly.

B. Public comments

Governor Sandoval noted there were no comments or questions from the Carson City or Las Vegas locations.

C. For Possible Action – Approval of the September 27, 2013, Executive Branch Audit Committee Meeting Minutes.

Governor Sandoval noted no questions or comments.

Motion: Move for approval of the minutes of the September 27, 2013 meeting.

By: Lieutenant Governor Krolicki

Second: Treasurer Kate Marshall

Abstention Attorney General Masto

Vote: Motion passed five to zero with one abstention.

D. Presentation of the Division of Internal Audits' Six-month Follow-up Status Reports.

1. Warren Lowman, Executive Branch Audit Manager for Division of Internal Audits, presented the follow-up for the Department of Health and Human Services, Early Intervention Services (EIS), Report No. 13-01.

Representing the Department of Health and Human Services, Aging and Disability Services Division was Julie Kotchevar, Deputy Administrator.

Mr. Lowman said the follow-up of the Early Intervention Services had come at the one-year mark because the Aging and Disability Services Division became responsible for the program beginning fiscal year 2014. Previously, EIS was the responsibility of the Division of Mental Health and Developmental Services, which merged with the State Health Division and became the Division of Public and Behavioral Health.

Mr. Lowman said of the four recommendations that were made, one was fully implemented and three were partially implemented.

Mr. Lowman said the division fully implemented the first recommendation to determine statutory and other requirements and transition EIS to community providers. He also said the division implemented legislative guidance, which limits the amount of the caseload that could be served by community providers.

The three remaining recommendations concern:

- ✓ Children's' assessments,
- ✓ Review of services, and
- ✓ Evaluating rates.

Mr. Lowman said the division expects to fully implement the recommendations by the end of the fiscal year dependent on federal implementation of the affordable care act, or Obamacare.

This concluded Mr. Lowman's overview of the six-month follow-up.

Ms. Kotchevar, Deputy Administrator introduced one of her managers Candace McDaniel. She said as of June 30 2014, they would have no wait list at EIS, and that was the first time in ten years.

Governor Sandoval commented that was fabulous.

Ms. Kotchevar explained the rural areas were the first to go zero earlier in the year, including the supervisors who had carried caseloads while also supervising staff. She stated they were excited about that accomplishment.

Governor Sandoval commented that was going to be one of his questions and was glad it was now zeroed out.

Ms. Kotchevar confirmed, it was zeroed out.

Ms. Kotchevar noted they improved their child spending rate of 2.3, while the national average was 2.7. She said they had been at about 1.7. She also said they had increased the number of children they were identifying and serving while reducing the wait list.

Governor Sandoval asked in terms of looking forward, did they believe they would be able to maintain it.

Ms. Kotchevar believed they could maintain it and said they had been working hard to increase efficiencies of how they use provider services for their therapy services. She said they had been working with providers to increase the way they managed to get the children assigned and get services quickly and had transitioned almost entirely in the natural home environment, which was a federal requirement. She also said they were doing home-based services for all children within 30 days of their Individual Family Services Plan (IFSP), and getting the level of intensity provided by professional managers while also increasing the child funding rate. She expected to be at 2.7 the national average very soon.

Governor Sandoval asked how the outcomes with the children were.

Ms. Kotchevar said their outcomes were looking at increases in development and some of that had been impacted by the severity of disabilities that were appearing in the population. She also said they had an increase in fetal alcohol syndrome and an increase in micro preemies, which were children born less than 27 weeks or under 2 pounds. She stated they have much more complex maladies. She also stated that had affected them more as far as getting children to a typical development. She commented that all children had been making gains in development and they had been working at increasing their ability to provide services for little ones with autism. She said they had increased their ability to early identify autism and that they were actually better than the national average at early identification. She commented they were proud and they do that for children before they turn three so they could receive services.

Ms. Kotchevar said they were dealing with many children suffering from trauma and how to increase their capacity to work with increased trauma services for infants and toddlers who had those concerns. She said they were continuing to see children that are more complex but were working to make sure all children get to their best outcome.

Governor Sandoval thanked Ms. Kotchevar and asked her to congratulate her staff on all the hard work. He said he was sure he was speaking for the rest of the committee and they loved hearing news like this.

Governor Sandoval noted there were no comments or questions.

2. Vita Ozoude, Executive Branch Audit Manager for the Division of Internal Audits, presented the follow-up for the Department of Transportation (NDOT), Report # 14-01.

Representing NDOT was Rudy, Malfabon, Director and Kimberly King, Human Resources Manager.

Mr. Ozoude said the audit focused on two objectives: improving the process for settling employee claims with cash awards and improving the process for handling equal employment opportunity (EEO) complaints.

Mr. Ozoude said they made four recommendations:

- ✓ Establish written policies and procedures to ensure awards for employee settlements of \$100,000 or more were presented to the Board of Examiners (BOE) for approval.
- ✓ Establish written policies and procedures to ensure that all employee settlements were paid using the appropriate funds.
- ✓ Coordinate with the division of Human Resource Management's Sexual Harassment Discrimination Unit, to develop an agreed-upon policy detailing procedures for handling and reporting EEO complaints.
- ✓ Develop written policies and procedures to codify the process.

Mr. Ozoude explained the department fully implemented all the recommendations by establishing the recommended written policies and procedures and entering into a delegation agreement with the sexual harassment discrimination investigation unit regarding handling and reporting EEO complaints

This concluded Vita Ozoude's presentation.

Mr. Malbafon, Director for NDOT wanted to extend his appreciation to Kimberly King, their community resource manager for her assistance in implementing all the recommendations.

Mr. Malbafon said they did develop the policies and procedures and amended the appropriate documents in accounting, the transportation manual and all affected groups. He said they also included the Attorney General's office that was assigned to NDOT.

Mr. Malbafon felt it was an important issue and to stay on top of the EEO complaints, sexual harassment and discrimination complaints. The American Disabilities Act (ADA) complaints were another area they were looking into and staying on top of.

Mr. Malbafon told the Governor they wanted to improve on the annual employee survey, and he said they like to see what the employees are saying about some of the issues so they could

investigate them. Mr. Malbafon said it gave them a sense of where the agency is and the satisfaction of their employees.

Mr. Malbafon asked for questions or comments.

Governor Brian Sandoval mentioned that he sits on the Transportation Board with the Lieutenant Governor and the Controller. He said that was an issue that came to the Board's attention, as well as the Board of Examiners where he sits with the Secretary of State along with the Attorney General.

Governor Sandoval said it was something that he thought needed attention, and thanked the audit committee for getting it done. He said he was certain that in the future that they have this process in place, and that there would be an orderly attention if something like that were to happen.

Attorney General Catherine Cortez Masto was now present for the meeting.

3. Warren Lowman, Executive Branch Audit Manager for the Division of Internal Audits, presented the follow-up for the Department of Health and Human Services, Division of Public and Behavioral Health Report # 14-02.

Representing the Department of Health and Human Services, Division of Public and Behavioral Health, was Dr. Traci Green, Chief Medical Officer, and Dr. Elizabeth Neighbors, Director of Lake's Crossing Hospital.

Mr. Lowman made seven recommendations to the division to increase efficiency and effectiveness, considering the expansion of state forensic psychiatric capabilities in southern Nevada in the upcoming biennium. He said the division had fully implemented two of the recommendations and partially implemented the five remaining recommendations.

Mr. Lowman stated the division had fully implemented their recommendations to evaluate implementing jail-based competency programs and policies and procedures for state staff to conduct pre-commitment assessments in Clark County. He said in both cases the division would continue with their current operations.

Mr. Lowman stated the five remaining recommendations concern use of Lakes Crossing and Dini Townsend Hospital in the north after Stein Hospital becomes operational in the south; and, coordinating with the Department of Corrections for mental health treatment responsibilities. He said the division reported it expects to address these recommendations after Stein Hospital becomes operational in August 2015. He also said the division reported it is working with community providers to evaluate opportunities for their participation and dependent upon changes in federal reimbursement rates for mental health services.

Mr. Lowman additionally expected the division to begin a dialogue next fiscal year with the Department of Corrections regarding feasibility of a Lake's Crossing satellite facility in the prison regional hospital.

This concluded Mr. Lowman's overview of the six-month follow-up.

Governor Sandoval asked for any follow-up comments.

Dr. Neighbors commented they were progressing with the Stein Hospital; the design was in place and they had planning in place for staffing, which would be presented to the 2015 Legislature. She said they were enthusiastic about the progress that had been made and plan to open with the 46 beds at the projected date.

Governor Sandoval asked Dr. Green if she had any overall comments.

Dr. Green expressed Stein would actually be a unit under the Southern Nevada Adult Mental Health Agency under Rawson-Neal Hospital. As a unit under the hospital, it would be CMS certified. She said that would provide them with an opportunity to look at options for billing services and then look to bring Lake's Crossing under a CMS facility.

Governor Sandoval replied this will help with that queueing that was happening with some of those commitments and we had to fly many southern Nevada inmates up to the north, but there was a delay and it was incredibly expensive. He asked if it was helping with the situation.

Dr. Green said absolutely. She said they were still in the process of having issues surrounding flying inmates from Las Vegas to Reno. In fact, she said the scheduling of the flights was done by the detention center in Clark County.

Dr. Green believed that having a facility in the south would definitely change the need for flying as many clients. She also believed they would continue to fly many clients to northern Nevada, but the 46 beds would allow them to not have to rely solely on flying all the Clark County clients to the north.

Dr. Neighbors added they were moving along with their Capital Improvement Projects (CIP's) and they are one of the major contingencies for Lake's Crossing to be CMS certified. She said they were poised and ready to start construction in the fall. She also said the designs were done to bring the facility to compliance with the life safety code. Dr. Neighbors commented they were very close to being able to accomplish that and be ready to apply for that certification.

Governor responded wonderful.

Attorney General Masto said she noticed they were not going to be implementing jail-based competency programs because they believed Stein Hospital would satisfy that need and asked if that was correct, and when Stein Hospital opens, would it satisfy all the capacity needs that the jails were dealing with right now.

Dr. Neighbors replied yes, essentially the 46 beds, the way the numbers fall out; the percentage of people from Clark County should be able to be covered by that. Although there were the long-term clients and some clients who required a more secure level or a different kind of programming who may need to be housed at Lake's Crossing as opposed to Stein. Dr. Neighbors said they would be doing some triaging but for the most part they felt they could absorb the better part of the population in Clark County with those beds.

Attorney General Masto said that was her concern and was her understanding there may still be issues for inmates in jails that may have mental health issues that may not go to Stein, may not go to Lake's Crossing, they still need to have some sort of program to work with them.

Dr. Neighbors replied yes, they would like to preserve that flexibility to be able to have the division determine the type of programming and setting that would be most appropriate.

Attorney General Masto said for that reason she was not sure why they were delaying implementing the program. She asked, shouldn't we also continue to work toward that goal if we knew there were still going to be inmates that need mental health care in the jails?

Dr. Neighbors responded not all clients in the jail could be served with jail-based competency. She thought in other states where they had done this there was some limitation to what was an appropriate client to be restored in the jail setting. She said what they were talking about were people who would need a full-fledged psychiatric hospital setting to be able to be treated and restored to competency. She also said it would not be appropriate for the people they were talking about to continue to serve at the main maximum security forensic facility, to try and restore them within that setting.

Dr. Green said there were two other issues for jail-based competency. One was that the Clark County Detention Center was currently overfull. She said there was a facility out by Nellis that they originally thought might have enough space to actually do the jail-based competency. That facility has not progressed to have staffing yet. She commented they currently had that limitation inside Clark County Detention Center.

Dr. Green said the other was that the program had to have the fidelity of the program at Lake's Crossing, meaning that it had to provide the same type of service and that required quite a lot of space.

Dr. Green pointed out at this point they were limited in moving forward until Clark County had available space, unless they started looking to Stein. She commented that was the primary reason they had not started moving forward. She said looking at the clients and the level of restoration they needed, they do have to match what is provided at Lake's Crossing.

Attorney General Masto said at least they were working with Clark County and trying to figure out how to address that population that may not be receiving the care at Stein or Lake's Crossing.

Dr. Green and Dr. Neighbors agreed and Attorney General Masto thanked them.

Governor Sandoval asked the committee members for comments or questions.

Treasurer Marshall asked if they do not anticipate closing Lake's Crossing?

Dr. Neighbors said they do not anticipate closing Lake's Crossing at the present time. She said there is a population in the state that needed this type of programming facility and security that the programs provide. In addition, she said they have to serve the northern part of the state. She said if you close it, you create the same problem of having to fly people to southern Nevada to receive services. She said then that facility would be overcrowded and said they needed a center in both the north and the south.

Treasurer Marshall asked if that meant they could implement recommendation number two or really was that not going to happen.

Dr. Neighbors replied that refers to the annex. She said they have right now a full unit at Dini Townsend Hospital that they had taken over, in addition to the 56-bed maximum-security center, and so those units once we have Stein on-line are probably not going to be necessary. She said they would not be closing Lake's Crossing but they could probably close the annex and not have to utilize those beds in the civil hospital, which they were currently occupying.

Governor Sandoval asked for comments or questions.

There were none.

4. Warren Lowman, Executive Branch Audit Manager for the Division of Internal Audits, presented the follow-up for the Department of Education. Report # 14-03.

Representing the Department of Education was Ms. Mindy Martini, Deputy Superintendent for Business and Support Services.

Mr. Lowman said they made three recommendations to the department, to more effectively comply with Title 1, Part A, federal monitoring compliance requirements. He said the division has partially implemented one of the recommendations.

Mr. Lowman commented the department partially implemented their first recommendation to develop, document and implement standardized policies and procedures to improve transparency of monitoring grant programs. He said the department reported it was reviewing and revising all policies and procedures, with grant administration as one of the first areas they were addressing. He also said the department had completed a draft compliance monitoring guide for Title I, Part A and anticipates completing guides for the other programs by the end of next fiscal year.

Mr. Lowman explained there had been no actions on the recommendations to update the department website to provide transparency of Title I monitoring and to codify procedures to include oversight for monitoring of approved providers. He said the department reported it would update the website when the Title I guide was completed.

Mr. Lowman said the department reported it intends to propose a bill draft request in the 2015 legislative session that included oversight authority for monitoring subcontractors and sub-grantees as part of the grant compliance monitoring process. Absent that authority, codifying procedures at this time would be premature.

This concluded Mr. Lowman's overview of the six-month follow-up.

Ms. Martini, Deputy Superintendent commented this was her first meeting before the committee and she appreciated being told how it was set up and what happens. She introduced Ms. Robin Polly, who is the new Director of District Support Services who would be overseeing part of the grant management program going forward.

Ms. Martini commented they had made progress and the Title I monitoring guide was just about completed. She said she believed all the parties will have reviewed it and given them the stamp of approval by the end of September of this year, which gave them time to extend it to all of their grant programs. Continuing, she said they should have all of it done way before the May 2015 deadline.

Ms. Martini said the second part was transparency. She described an example of a website page she provided the staff this morning that they were anticipating for their Title I services and it would be interactive. She wanted to see if it was user friendly before going live at the end of September 2014. She said as they go along they would add additional links for all of their grant programs. She said it would be transparent to the public.

Ms. Martini said the third recommendation concerned having the authority to oversee and monitor sub-recipients of grants, and this came about as supplemental services under the federal No Child Left Behind and then Race To The Top. She said what happened was sub-recipients received federal funds and the federal government did not require them to go through the monitoring process.

Ms. Martini said what they had done was submit a Bill Draft Request (BDR) for review and potential approval to go forward, which would give the department authority and to go forward and monitor these sub-recipients of grants. She commented that was the progress made to this point.

Governor Sandoval commented he loved their enthusiasm. He asked the committee if they had any questions or comments.

Treasurer Marshall asked if it would be necessary to have in the contract for the grant that they will monitor that sub-entity, and if they were they did sub it out did it meet the qualifications that they were required to meet? She asked if that would be necessary to put in the grant itself.

Ms. Martini said they could and the plan was to put it into the monitoring guide.

Ms. Martini stated what the federal government just actually stated they did not need to participate. Therefore, they wanted that subsequent NRS to say we can review the recipient. She said their plan was to go forward at least in the manual, and she was not sure of the authority they had with contracts but would look into that.

Governor Sandoval asked the committee members for comments or questions.

There were none.

E. Presentation regarding ongoing follow-up requested by the Committee

Department of Health and Human Services – Division of Public and Behavioral Health and Developmental Services, Doctor Attendance, Report #10-06.

Representing the Department of Health and Human Services, Division of Public and Behavioral Health, was Dr. Traci Green, Chief Medical Officer.

Mr. Warren Lowman explained at the June 13, 2011 Executive Branch Audit Committee Meeting (EBAC), the division was directed to report on the status of ongoing efforts to monitor doctor attendance at Rawson-Neal Hospital. This report shows that during the most recent quarter, the third quarter of fiscal year 2014, doctors worked an average seven hours and 40 minutes of an eight-hour day in the hospital inpatient units and nine hours and ten minutes of a ten-hour day in the patient observation unit. He said overall that this was approximately 94 percent for Rawson-Neal Hospital and down slightly from 97.5 percent during the previous report period.

Mr. Lowman stated the division assesses that the Division Administrator Whitley, Dr. Green and the division leadership team continue to take this issue seriously and have implemented a responsive system that identifies attendance problems quickly, which in turn allows them to address issues when they occur.

Mr. Lowman recommended the division continue its improved monitoring efforts to ensure doctors work a full day.

This concluded Mr. Lowman's overview of the doctor's attendance follow-up.

Dr. Green said this does reflect that we have systems in place. She commented they currently had a change in their statewide medical director. She said Dr. White had moved back with her family in Arkansas and they now had Dr. Leanne Raven.

Dr. Green noted that many of the doctors that were originally tracked were not at the facility any longer, and they had some turnover, and with turnover, there was a curve for training that you will see in the 20 or 30-minute difference that they were seeing. She said overall they had their systems in place and were continuing to monitor doctor performance.

Governor Sandoval commented it was a spectacular improvement from where they started and asked if in the calculations it included time to eat and take a break.

Mr. Lowman replied yes they accounted for lunchtime, breaks and that sort of thing.

Governor Sandoval said in any event, when they go back to what it was a year and-a-half ago and the statistics they had then it was a great improvement, he complimented them for putting in those systems and ensuring this happened.

Governor Sandoval was pleased at the outcome.

Governor Sandoval asked for comments or questions from the committee.

Treasurer Marshall commented when they showed them the chart, it showed individual doctors and there seemed a wide variation in that chart. She commented they now have turnover and these provide us averages. She asked if the averages reflect that wide disparity or were they seeing more consistency amongst the doctors. Treasurer Marshall said they didn't see that in the chart, whereas before they saw individual doctors. She was concerned some people were doing the majority of the work while some were not.

Mr. Lowman replied yes the consistency was there and they were not seeing a wide range in a couple of doctor's efforts. He said that was being monitored with the processes they had put in place.

Mr. Weinberger confirmed they were going to continue with their follow-up and plan for another follow-up in the same period next year. He said they were contemplating doing follow-ups in the fall and spring, but thought they might be okay with just one.

Governor Sandoval agreed with one follow-up.

Governor Sandoval noted there were no comments or questions

F. Presentation of the Division's Audit Reports (NRS 353A.085).
1. Department of Wildlife (Department), Report # 14-04

Vita Ozoude, Executive Branch Audit Manager, presented the audit. Representing the Department of Wildlife was Tony Wasley, Director and Patrick Cates, Deputy Director.

Mr. Ozoude said the audit focused on four objectives: Mr. Ozoude explained their first objective was to enhance vehicle operations, and made three recommendations.

The first recommendation:

- ✓ Reduce vehicle fleet size.

Mr. Ozoude said their review of the Department's vehicles purchased with general funds disclosed that over 50 percent of the pooled administrative vehicles did not meet the state's minimum mileage requirement for fiscal year 2013.

Mr. Ozoude estimated that a reduction in vehicle fleet size could result in annual savings of \$244,000 and a one-time savings of \$163,000 from the disposal of excess vehicles.

The second recommendation:

- ✓ Review mileage reports.

Mr. Ozoude said their review of equipment use reports, which were used to track vehicle mileages as well as allocate costs to budget accounts, disclosed that the reports were not consistently reviewed by the fiscal services section.

Mr. Ozoude explained without consistent review of the reports, informed decisions regarding usage, allocation and disposal could not be made.

The third recommendation:

- ✓ Standardize vehicle maintenance records.

Mr. Ozoude stated we selected a sample of 41 vehicles to review for proper vehicle maintenance records and could not locate 27 percent of the maintenance records requested.

Mr. Ozoude found no standardized record keeping of vehicle maintenance records. Each individual assigned a vehicle was responsible for maintenance, thereby creating lack of consistency in maintenance and recordkeeping.

Mr. Ozoude further explained these procedures if implemented would result in dollar savings and ensure compliance with the state's administrative manual (SAM) and provide accountability and save state's assets.

Mr. Ozoude said the second objective was to improve land acquisitions and contract management practices, and made two recommendations:

The first recommendation:

- ✓ Develop and implement procedures to include pre-established criteria, a scoring system and conflict of interest policy.

Mr. Ozoude stated for the period 2008 through 2012, we reviewed all land acquisition documentation maintained by the Division of State Lands on behalf of the department. He said they found no pre-established criteria and scoring system for evaluating land acquisition proposals. In addition, there was no policy regarding potential conflict of interest.

Mr. Ozoude said they surveyed 10 other states and determined that these states have pre-established criteria, such as recreational potential, size and proximity of wildlife areas, as well as a scoring system for evaluating land acquisition proposals.

Mr. Ozoude said developing and implementing this procedure should improve the land acquisition process as well as provide transparency and accountability.

The second recommendation:

- ✓ Update policies and procedures to enhance contract management.

Mr. Ozoude noted the department had revenue contracts with individuals and businesses for items such as agricultural production and grazing leases. He said they selected a sample of 17 contracts to review. Their review disclosed 50 percent of the contracts requiring Board of Examiner's approval did not receive such approval.

Mr. Ozoude also noted that some required contract forms were missing and payments were being received on three contracts but there was no supporting documentation to indicate that those contracts were still in effect.

Mr. Ozoude stated updating policies and procedures for revenue contracts would provide increased accountability as well as ensure compliance with SAM.

The third objective was to improve the process for managing accounts receivables, and made two recommendations.

The first recommendation:

- ✓ Transfer their past license agent's transactions to the current database and determine the accounts receivable balance.

Mr. Ozoude explained the audit of the accounts receivable focused mainly on licensed agent's accounts. Licensed agents were individuals or businesses authorized by the department to sell hunting and fishing licenses, tags, stamps and permits. He said the department could not produce accurate accounts receivable reports for periods after 2010. Therefore, they were unable to verify the accounts receivables balances for licensed agents.

Mr. Ozoude stated the department should clear the backlog by transferring all licensed agent's transactions to the new database and determine the proper accounts receivables balance for each licensed agent.

The second recommendation:

- ✓ Transfer all licensed agent accounts over 60 days old to the Controller's Office for collection.

Mr. Ozoude explained once an accurate accounts receivable balance was determined, the department should prepare an aging report and transfer all accounts to the Controller's Office no later than 60 days after the debt had become past due. He also explained these steps would ensure compliance with state requirements as well as ensure that timely collection efforts were being made on any outstanding debts.

Mr. Ozoude said the last objective was to consider modifying current bond requirements, and made one recommendation.

The recommendation:

- ✓ Consider modifying bond requirements based on average monthly sales during peak months

Mr. Ozoude said the current bond requirement of \$7,000 for licensed agents was originally set in 1980, and applies regardless of the size of the license agent's operation. He said this might leave the state vulnerable if the bond amount was insufficient to cover debts owed upon dissolution of the business.

Mr. Ozoude explained they surveyed 11 other states and noted that a third of those states determine annual bond requirements based on the agent's sales data. Additionally in other states, bond requirements was based on other factors such as length of time in business, geographical location and whether or not the state has the ability to automatically sweep the agent's account.

Mr. Ozoude stated that modification of the bond requirement would correct the inequity between large and small operations and reduce the risk of default upon dissolution of the business.

This concluded Mr. Ozoude's presentation.

Governor Sandoval asked what were the amounts of those contracts that otherwise would have required Board of Examiners (BOE) review and approval in objective number 2 in regard to the contract management.

Mr. Ozoude said at the time the BOE approval was a little different from what it is now.

Mr. Weinberger replied it was on page 20.

Governor Sandoval stated they had changed the process of the BOE. He said they still need to come to the board, but the contracts under \$50,000 are subject to review and approval of the Budget Director, subject to the review of the BOE.

Attorney General Masto asked if those were revenue contracts

Mr. Weinberger replied, they were told they were still subject to that.

Attorney General Masto replied he was right.

Mr. Weinberger said depending on the amount. In addition, all of those were before that change, prior to August 2013.

Governor Sandoval turned the conversation over to the department.

Mr. Wasley, Director, Department of Wildlife described that the audit was very productive, positive and a professional experience, more than he imagined. He said they had numerous meetings and numerous opportunities to explain and provide some records.

Mr. Wasley saw merit in the recommendations referencing the vehicle fleet and said they have made significant progress in implementing solutions.

Mr. Wasley stated they did have some meeting with regard to their vehicle fleet. He said many of the vehicles that were not meeting mileage requirements, were very specific use vehicles that were located throughout the state; some were at wildlife management areas, snowplows, things you would not expect. He also said they were looking at classification of those vehicles under SAM. He said some of them might be misclassified or there may be a need for additional classification for some of the unique situations that they have.

Mr. Wasley explained they also had a unique scenario in that their vehicle demand was not constant throughout the year, where they have significant demands through the summer period. He said they have a number of seasonal employees that work throughout the state, from bear issues to fish issues. He said because of the rural nature of the state, it was necessary to provide vehicles to those individuals to get around.

Mr. Wasley said they do have higher needs in the summer periods more than they did in the winter.

Mr. Wasley said it could also be addressed through some of the vehicle classification or addressing it through SAM or something that we will certainly look at.

Mr. Wasley said as far as the other recommendations, they saw the merit in those recommendations and they concurred with the findings. He said they have already made significant progress in finding solutions.

Mr. Wasley offered any comments that Deputy Director Cates might have for adding any additional light.

Mr. Cates said regarding the vehicles, he would echo what Director Wasley stated. He said they had not consistently recorded the information on vehicles in physical services due to staffing issues. He said they were looking at dedicating additional resources to make sure it was done.

Mr. Cates said when they go through their biennial budget was the only time they do a thorough look at the mileage on vehicles then decide what to replace. He said they have not done a very good job coordinating excess vehicles when necessary, and were looking at pooled concepts for headquarters to make sure vehicles are fully utilized.

Mr. Cates explained that a lot of the vehicles that were identified here as pooled vehicles were really assigned to individuals in practice even though they have not recorded them as assigned vehicles. He said that would change the mileage requirements.

Mr. Cates concurred with the findings that the dollar amount of projected savings was probably overstated given that many of their vehicles were not correctly classified. He said they were working on a process to revamp and develop policies and procedures to make sure they were constantly actively managing their fleet.

Governor Sandoval said before they move off the vehicles, what about the maintenance piece? Asked if they were maintaining the vehicles if there are no records. He said it was a concern if they were not maintaining them, and they lose their useful life much faster.

Mr. Cates explained that each individual assigned to a vehicle was responsible for maintaining it, and they were supposed to be keeping maintenance records. He said what they found throughout the audit it was a hit or miss and how the records were maintained. He commented that mostly their vehicles were being maintained, and because they were scattered throughout the state, they could not maintain them centrally.

Mr. Cates said they need to dedicate resources to make sure they had consistent procedures that are maintained in regional offices. He added that someone in headquarters should watch to make sure those maintenance issues were taken care of.

Governor Sandoval asked if the vehicles that had no use were the snowplows.

Mr. Cates confirmed the majority were snowplows and some were undercover vehicles. He added those were a myriad of types of vehicles that the classification should probably be reviewed for correctness.

Treasurer Marshall commented that a number of years ago the Board had a situation where they bought some vehicles forward to sell and one of them was a vehicle to deal with floods. They felt it would be a great sell, and someone on the Board said maybe not because we do get floods. She said the Board also had a situation in Washoe where they sold their snowplows because it was a drought year, and then we had snow.

Treasurer Marshall said she would feel comfortable if they came back and made a recommendation with some consideration as to whether these vehicles might not be used now, but it would be pennywise and pound foolish to sell them.

Governor Sandoval agreed.

Governor Sandoval said when you look at the page it suggests that there has been no use, we are like why are we buying these expensive vehicles just to sit there. He commented that is why the importance of this audit was to tell the other side of the story.

Mr. Wasley replied at the risk of admitting they were in breach of some policy, many of the vehicles that were seen to not meet those mileage requirements were high mileage vehicles with 140,000 -150,000 miles on them. He said because they are forcing their people to get so much out of the vehicles, they do have some breakdowns, and during the peak period summer months they were trying to get out and accomplish everything. He said in the event of a breakdown, there is a backup vehicle, because of the short windows of opportunity to conduct the work.

Mr. Wasley stated as Deputy Director Cates indicated, the vehicles were individually assigned, and individuals recognize that they were not going to get new vehicles until they were upwards of the 140,000-150,000 miles. Therefore, there was an incentive for those individuals to maintain the vehicles because they were personally assigned, and they knew that they were not going to get a new one. He said the question was how well they did with the recordkeeping. He also said they had certainly been diligent with the maintenance, but they had not maintained the records in a standardized way throughout the state.

Governor Sandoval asked if they would provide a little more specificity on the progress they made with some of the recommendations already.

Mr. Wasley commented he thought the majority of the progress, certainly with the vehicles, was as they were budgeting currently for FY16 and FY17, they met with each one of the division administrators and discussed the idea of pooling concepts and shared resources. Because they aren't heavily dependent on general fund, they had so much federal dollars that were a result of excise tax on guns and ammo. He said currently there was an abundance of those funds and sometimes employees think it should be spent. He commented, it was not the way to do things.

Mr. Wasley said they were trying to let the staff know that they were not going to get away from the shared resource concept. He said historically, in headquarters, for example, with seven different divisions, they each had several vehicles, but what they were talking about was almost a motor pool division just for the department. He said they could have a couple multi-passenger vehicles, a couple high mileage, economical or four-door sedans to drive to meetings. They would not need the three-quarter-ton, or one-ton pickups or four-wheel drive pickups to drive across the state to a meeting. He said as they plan they were looking at future purchases and pooled resources.

Mr. Wasley said as far as the mileage reports, they were also trying to standardize and localize it, in each of the three regions, and use one model that was already in place in one region of the state, that seemed to work really well, and get the other two regions to incorporate that.

Mr. Wasley said there had been significant progress on the license agent accounts, and it was his understanding that would be fully corrected sometime in the next few months.

Mr. Wasley turned to Mr., Cates to speak of that.

Treasurer Marshall stated the estimated time frame for the recommendations to be implemented was June 2015. She thought they could be done sooner, especially if they were going to reduce fleet size, because maintenance was critical.

Treasurer Marshall suggested that they contact NDOT or Fleet Services because they had vehicles all over the state and were doing a good job tracking their mileage and keeping maintenance records. She told them to see what kind of policies and procedures they had to coordinate all of that.

Mr. Cates replied he thought they would be done long before the June FY15 date. He just wanted to give themselves ample time to make sure they could deliver.

Mr. Cates said they brought in a seasonal position that is catching up on the vehicle use reporting. He said they had discussions already with each agency administrator about their sections of their fleet, the age of those vehicles, and going through the process to excess vehicles where they can. He said they were looking at other agencies in how they maintain records.

Mr. Cates shared that for seasonal use this year they have leased a few trucks from Fleet Services and that seemed to be working quite well for them. He said they could expand on that in the future. In addition, he said they were discussing what their policy needs to look like, and would be working on that in the fall.

Governor Sandoval asked how they were doing on the bond requirement issue within the audit.

Mr. Cates fully agreed with the recommendation and they are going to implement the change. He explained their administrator could not be with them today and said he was not sure of the status but it was something they should be able to implement quickly.

Governor Sandoval asked; so when they say "implement", that includes determining the bond requirement based on the volume that the entity is using?

Mr. Cates replied yes and thought it was a solid recommendation. He said they just had not rolled it out to their licensed agents yet, but it was on the to-do list, something they should be able to get to quickly.

Governor Sandoval remarked they also weren't sure how much in the arrears some may be.

Mr. Cates said most of what Mr. Ozoude talked about was an issue about a conversion from one system to another, and the accounts receivable of licensed agents consisted of variations from month to month when they would remit payment to them for the transactions the license had sold.

Mr. Cates reported that it might turn out a refund is due, or they may have charged something incorrectly, then the following month there are debits and credits going back and forth. He explained it was not a large growing account receivable. He said the only time that could happen was as if someone ceased to be a licensed agent.

Mr. Cates thought day-to-day they had a good handle on what was going back and forth, but they had statements that were supposed to be reconciled and got behind in reconciling those statements. He said at the time of the audit, 2010 and forward was not reconciled.

Mr. Cates said he did not have the exact date, but believed they were within a year of catching up with the statements. He said they were getting close.

Mr. Cates said they were also implementing sweeps of licensed agent's accounts, that is something they had been testing and when they do that, there will be no more accounts receivable and it would then be cleared automatically on a regular basis.

Mr. Cates described that it was really a one-time issue that they would clear up, and would certainly have procedures in place, and when a licensed agent ceases services they would make sure to turn over the account should it go over 60 days.

Governor Sandoval noted there were no further comments or questions.

2. Department of Motor Vehicles # 14-05 – Compliance Enforcement Division

Mr. Warren Lowman, Executive Branch Audit Manager, presented the audit for the Department of Motor Vehicles, Compliance Enforcement Division. Representing the department was Ms. Rhonda Bravo, Deputy Director, and Mr. Donnie Perry, Administrator for the division.

Mr. Lowman said the audit focused on two objectives:

- ✓ First, whether the revenue from occupational and business license fees cover the enforcement costs; and
- ✓ Second, whether the division could more efficiently use investigator resources.

From these objectives, four recommendations were made, two for each objective;

First, Mr. Lowman recommended the division consider implementing a fee structure that covered the cost of regulating motor vehicle businesses. He said their analysis showed that license and related fee revenue falls short of enforcement costs by \$2.1 million annually.

Mr. Lowman said the enforcement gap resulted in fewer departmental services than would otherwise be available to the driving public because limited resources were being diverted from customer services to enforcing vehicle business compliance with federal and state laws.

Second, Mr. Lowman said they recommend any potential restructuring of the fee model reflect the relative risk posed for consumers. A fee structure based on relative risk to the consumers as measured by the cost to enforce applicable laws would provide a logical basis for an equitable fee structure. Other methods could be considered, such as a fee-for-service model, thereby assigning additional costs only to those businesses that required the most investigator attention.

Mr. Lowman said regarding objective two dealing with the efficient use of investigator resources, their third recommendation was for the division to establish criteria for coding investigation time, actions and outcomes into the Case Management System.

Mr. Lowman explained the Case Management System was the division's electronic record database which documents the status of each investigation and the work done by investigators.

Mr. Lowman said their review showed an overall decline in the amount of time spent on investigations and significant variances between operations in the North and the South, both in the amount of time needed to perform certain types of investigations and the percent of cases that result in administrative fines. He said collectively those discrepancies represent approximately \$1 million annually in missed opportunities and lost productivity.

Mr. Lowman said establishing criteria for coding investigation activities would ensure information drawn from the Case Management System accurately reflects the performance of each investigator, status of the investigation, and provides a reliable basis for management decisions.

Mr. Lowman said the fourth and last recommendation was for the division to establish performance measurements that are based on Case Management System data and which

contrast how investigators are used, their efficiency, and the outcome of investigations. Additionally, once established, he recommends the division evaluate the performance measurements on a periodic basis to ensure consistent application of procedures in the North and the South and to identify areas for improvement.

This concluded Mr. Lowman's overview of the audit.

Governor Sandoval asked before they went on to DMV, if there was a relationship between the enforcement fee gap and the productivity issue.

Mr. Lowman said only to the extent that the revenues from the investigation activities would result in the total revenues in the division and in how that would affect the cost gap.

Governor Sandoval said part of the recommendation was essentially to raise fees to cover the gap. However, if there is a productive issue, should we address this first before we determine what the gap is?

Mr. Weinberger agreed.

Governor Sandoval stated if you had the same amount of productivity between the North and the South, it would dramatically narrow that gap because most of the activity obviously was in southern Nevada.

Mr. Lowman replied they were identifying the \$1 million productivity opportunity discrepancy and a \$2.1 million enforcement cost gap. He said if it all could be there, the total gap could be reduced to 1.1 million.

Governor Sandoval thanked Mr. Lowman.

Ms. Rhonda Bavaro, Deputy Director of DMV introduced Donnie Perry, Administrator of their Compliance Enforcement Division.

Ms. Bavaro thanked Mr. Weinberger and his staff for the time that they invested in reviewing their Compliance Enforcement Division and the recommendations that were brought forward.

Ms. Bavaro was in agreement with all of them, and actually started taking steps to correct them.

Ms. Bavaro said they were currently looking at the fee structures and engaging in conversations on the best options to move forward, budgetary impacts, as well as legislative changes that have to be made with that.

Ms. Bavaro said most recently they have attained a new Case Management System and it looked promising. She said they should be able to implement it soon. She commented they had positive testing of the system.

Ms. Bavaro stated this would standardize the Case Management System, time tracking, and accuracy. Additionally, it would be a centralized system that they will be able to monitor and work in the North and South.

Ms. Bavaro said it would provide more consistency in the way their investigators were tracking their time in the cases, as well as consistency in standardization of the reporting on cases.

Ms. Bavaro said this year the division hired a new chief administrator in the southern region. She said that position was vacant for an extensive amount of time and with that new position they had developed new performance measures for the North and South and were monitoring and reviewing those systems today.

Governor Sandoval asked when they would hear back on how they were doing with the changes.

Mr. Weinberger replied, six-months from today. He added they were more concerned with the fact that there were some industries out there that actually are paying more revenues than what the cost is to regulate them. He said they were kind of saying, come up with a fee model to tie their revenues to your costs by industry.

Governor Sandoval said he looked forward to hearing from them again in six months and commented they had already gotten started on most of the recommendations.

Ms. Bavaro replied yes they had.

Governor Sandoval asked why the disparity between the North and the South.

Ms. Bavaro said she thought there was a lot of reasons, and referred the question to Donnie Perry.

Mr. Perry, Administrator, said they used the past year to identify those concerns and found a lot of it had to do with recording. He said the one big issue initially was the position in terms of the leadership in the southern region was absent.

Mr. Perry said one of the things they found out is they were recording the way they processed fines and citations differently. He said there was a huge cultural difference in the way the North and South were recording what they were doing.

Mr. Perry said for instance, in the North for administrative fines, they would issue those whenever they found a violation and in the South they would issue a citation. He said that was part of the gap that was covered and they were not doing things the same way.

Mr. Perry identified some of the issues and they are working together both in the North and the South as a team to make sure these things are being recorded correctly or the same way.

Governor Sandoval commented consistency is what was needed because you don't want one constituent having to pay a fine and the other one just basically getting a warning.

Mr. Perry replied yes, that was correct, they had identified those inconsistencies. He said they now have both Deputy Administrators working together to make sure addressing the concerns was done equally.

Governor Sandoval asked the reason for the supervisory position being open for so long.

Ms. Bravo replied there were many reasons and they hired a few people, but they did not pass the background, and when they did select, they had a grievance process that had to be addressed. Therefore, several attempts fell through, and now the position has been filled for six months and had been very good and positive.

Governor Sandoval noted there were no comments or questions.

3. Colorado River Commission, Report # 14-06.

Mr. Vita Ozoude, Executive Branch Audit Manager, presented the audit for the Colorado River Commission (CRC) representing the CRC was Jayne Hawkins, Executive Director.

Mr. Ozoude said the audit focused on two objectives. The first objective is for CRC to assist the Silver State Energy Association (SSEA) improve compliance with its risk management procedures, and made three recommendations.

The first recommendation:

- ✓ Document a review of all physical and financial trade transactions in the trade capture system (TCS) database.

The second recommendation:

- ✓ Ensure reviews are performed and documented in the TCS database in accordance with timeframes set forth in the SSEA risk management procedures.

The third recommendation:

- ✓ Ensure Confirmation agreements are generated or validated for all physical trade transactions.

Mr. Ozoude explained the SSEA's risk management procedures require that all trades be reviewed within 24 hours of trades being executed. He said they reviewed 124 financial and 35 trade transactions. They found no evidence to indicate that any of the 124 financial trades were reviewed. He said of the 35 physical trades, documentation was not consistently maintained to show the reviews were performed. Furthermore, confirmation agreements were not generated for physical trades with the Basic Management Industrial Complex as required in the risk management procedures. He said the risk management procedures required generation of confirmation agreements to ensure that both parties were aware of the contract commitments.

Mr. Ozoude said CRC could assist the SSEA comply with its risk management procedures by ensuring that staff document reviews of all its trade transactions and reviews are performed timely. He said proper documentation and timely reviews enhance oversight and minimize risks.

Mr. Ozoude said the second objective was for CRC to enhance its contract process, and made two recommendations:

The First recommendation:

- ✓ Extend the RFP solicitation period from six to eight weeks.

Mr. Ozoude explained they reviewed the RFP's released by the CRC for the period 2010 through 2013. He said in each case only one vendor applied for the contract. He said they

determined based on the review that CRC solicitation period for RFP's was from three to five weeks.

Mr. Ozoude said CRC could enhance its contract process by strengthening its policies and procedures to extend the solicitation period to anywhere between six to eight weeks as recommended in SAM. He said extending the solicitation period allows potential vendors sufficient time to develop proposals and apply for contracts.

The second recommendation:

- ✓ Maintain documentation to support the selection process.

Mr. Ozoude said they reviewed the contract files maintained for compliance with the State's RFP requirements. Their review disclosed that there was no documentation maintained showing the evaluation committee's discussions, rankings and decisions required by SAM. He concluded they needed to provide accountability, transparency and compliance with requirements.

This concluded Mr. Ozoude's audit presentation.

Ms. Hawkins, Executive Director, appreciated having Mr. Ozoude and Ms. Pagaling from Internal Audits coming to Las Vegas. She said they asked them numerous questions and interviewed a number of folks, including the chairman, particularly the contract piece was a concern. She said that they have asked numerous times as they brought forth contracts for approval that, one, they wanted more people bidding on their contracts, and they would like Nevada contractors or Nevada companies bidding. She said they were not getting that in all cases.

Ms. Hawkins explained some of it had to do with the particular expertise that they require on some things, some of their O&M's for their high voltage transmission lines and doing maintenance work and cleanup work on high voltage substations while they are hot and operating is a specialized type of work.

Ms. Hawkins explained they did ask if there was anything they could do to help those things along. She said they certainly were accepting all those recommendations, whether it was in the training on risk management procedures or contracting procedures, they hoped it would help in the future to maintain the documentation requirements that were needed.

Governor Sandoval commented it seemed straight forward and specialized.

Ms. Hawkins replied some of it was very specialized. She said not all contracts were that way, and they staff very lightly and rely on contractors a lot for other pieces of work.

Ms. Hawkins said that is the way the Commission has done their work, and they feel it is an okay way to operate, and that was the way to reduce costs to customers.

Governor Sandoval asked about the RFP solicitation time period being typically three to five weeks versus six to eight weeks.

Ms. Hawkins said they would start implementing it and they have already had new RFP's coming out that will go six to eight weeks. She commented she hoped it would help. But did not

know if that was all. She said they would continue to try and do some research to see if they could find Nevada companies that could help them.

Governor Sandoval asked if she knew how many Nevada companies engaged in contracts with them.

Ms. Hawkins said they have some.

Treasurer Marshall asked where they post their RFP's.

Ms. Hawkins replied they use the Purchasing Division and they put it on their own website. She said there could be other places that they list too, and she mentioned they had lists of people to send to when they do RFP's.

Treasurer Marshall said they found being solely dependent on the Division of Purchasing did not give them the breadth they need because their contracts are specialized. She suggested they consider posting on other sources.

Treasurer Marshall said when there is no Nevada expertise, they require contractor to register and get a business license here in Nevada.

Ms. Hawkins replied absolutely they had to do that.

Treasurer Marshall said they aggressively outreach to increase the pools in many different things and advertise in manuals and publications where that expertise may be discussed.

Governor Sandoval noted there were no further comments or questions.

G. For Possible Action – Approval of the Division's Annual Audit Plan. (NRS.353A.045)

Mr. Weinberger stated since the last meeting in September of 2013, they had been requested to do two other audits, Division of Insurance and DMV.

Mr. Weinberger asked for approval from the committee to do those two audits. He said the balance of the schedule shows what they had in progress currently and when it was approved and their best-estimated completion date.

Governor Sandoval asked for a motion to approve Division of Insurance and DMV as described in the agenda.

Motion: Move for approval of the Division's Annual Audit Plan along with Division of Insurance and DMV.

By: Treasurer, Kate Marshall

Second: Attorney General, Catherine Cortez Masto

Vote Motion passed unanimously for those present.

H. Presentation of follow-up status for Legislative Counsel Bureau's audit report recommendation issued December 13, 2012 through May 15, 2013.

Mr. Weinberger explained those were all the follow-ups they did on the LCB audits since the last meeting on September 27, 2013. He commented they had no significant concerns on the follow-ups.

I. Committee Members' comments.

Governor stated he had appointed a new public member of this committee, and her name was Trudy Lynn Cross.

Governor Sandoval said she was formerly the Internal Audit Director for the City of Reno. He added she will be a positive addition to the committee, and it was his understanding she would be in attendance at the next meeting in November.

Mr. Weinberger said that was correct.

J. Public Comments

Governor Sandoval noted there were no public comments or questions in the Carson City or Las Vegas meeting locations.


K. Adjournment

Governor Sandoval called for a motion for adjournment.

Motion: Move for approval of motion of adjournment.
By: Attorney General Catherine Cortez Masto
Second: Treasurer Kate Marshall
Vote Motion passed unanimously for those present.

Meeting adjourned at 10:18 a.m.

Respectfully submitted by,



Steve Weinberger, CPA
Administrator
Department of Administration
Division of Internal Audits

Prepared by,



Connie Boynton, AA IV
Department of Administration
Division of Internal Audits