



State of Nevada
Governor's Finance Office
Division of Internal Audits

Approved Minutes

**From the Executive Branch Audit
Committee Meeting
June 22, 2015**

Brian Sandoval
Governor



James R. Wells, CPA
Director

Steve Weinberger, CPA
Administrator

STATE OF NEVADA
GOVERNOR'S FINANCE OFFICE
Division of Internal Audits

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TO: The Honorable Brian Sandoval, Governor
The Honorable Mark Hutchison, Lieutenant Governor
The Honorable Barbara Cegavske, Secretary of State
The Honorable Dan Schwartz, State Treasurer
The Honorable Ron Knecht, State Controller
The Honorable Adam Paul Laxalt, Attorney General
Trudy Lynn Cross, CPA, Public Member

FROM: Steve Weinberger, CPA, Administrator
Division of Internal Audits

A handwritten signature in blue ink, appearing to be "SW", written over the name "Steve Weinberger" in the "FROM:" field.

DATE: 7/27/2015

SUBJECT: Draft minutes early release memo

The Division is now presenting the "draft" minutes from the June 22, 2015 Executive Branch Audit Committee Meeting.

If you have any questions or comments about the draft minutes to be approved at the next Executive Branch Audit Committee meeting, please contact Steve Weinberger at 687-0120.

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

Approved Minutes

June 22, 2015

The Meeting of the Executive Branch Audit Committee was held on June 22, 2015 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, Chairperson
(via Las Vegas location)

Secretary of State Barbara Cegavske

Treasurer Dan Schwartz

Controller Ron Knecht

Attorney General Adam Paul Laxalt

Trudy L. Cross, CPA, Public Member

**DIVISION OF INTERNAL AUDITS
STAFF PRESENT:**

Administrator, Steve Weinberger
Executive Branch Audit Manager, Warren Lowman
Executive Branch Audit Manager, Vita Ozoude
Executive Branch Auditor, Lynnette Pagaling
Executive Branch Auditor, Ashwini Prasad
Executive Branch Auditor, Lisa Sherych
Executive Branch Auditor, Dennis Stoddard
Financial Manager, Lori Hoover
Deputy Attorney General Dennis Belcourt
Administrative Assistant, Connie Boynton

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

Chair, Governor Brian Sandoval, called the meeting to order and welcomed those present. He stated that all members were present with the exception of Lieutenant Governor Hutchinson.

B. Public Comments

Governor Sandoval addressed the public for comments in Carson City and Las Vegas.

There were no public comments.

C. For Possible Action – Approval of the March 31, 2015, Executive Branch Audit Committee Meeting Minutes.

Governor Sandoval asked for comments on or changes to the proposed minutes previously provided to the committee. There were none.

Motion: Move for approval of the minutes of the March 31, 2015.
By: Secretary of State Barbara Cegavske
Second: Controller Ron Knecht
Vote: Motion passed unanimously.

D. Presentation of the Division's Six-Month Follow-Up Status Reports. (NRS 353A.090)

1. Commission on Off-Highway Vehicles, Report No. 15-01 - Vita Ozoude, Executive Branch Audit Manager.

Mr. Vita Ozoude introduced himself and stated that Mr. Greg McKay, chairman, is representing the Commission on Off-Highway Vehicles (OHV). Mr. Ozoude explained that six recommendations were made.

Mr. Ozoude stated the recommendation to obtain program revenues and expense data from the Department of Motor Vehicles (DMV) has been fully implemented.

Mr. Ozoude also stated that the two recommendations, to enable DMV to transfer OHV program revenue in excess of its expenses and to ensure funds expended for enforcement and public outreach, were partially implemented. He said the passage of Senate Bill 492 would allow DMV to transfer program revenues in excess of \$150,000 on a quarterly basis to the commission. He also said the commission was working with the Office of the Criminal Justice Assistance and Grants Management to ensure that enforcement grants are awarded expeditiously. He said the Commission anticipates awarding public outreach grants prior to December 31, 2015.

Mr. Ozoude explained the commission took no action on recommendations to implement a decal program; to be hosted by a state agency; and seek additional funding. He said the decal program was determined not to be feasible at this time, but research will continue. He also said state agency hosting would require a fulltime position, which the commission is unable to afford at this time. Additionally, commissioners voted against being hosted by a state agency in order to avoid jeopardizing the commission's independence. He said with regard to additional funding, the commission reported that all federal recreational program funds are being used by the Division of State Parks and the Department of Wildlife for vital programs. Mr. Ozoude said discussions were held with stakeholders on sharing gas tax proceeds, but issues arose because of funding shortages for state highway projects. Mr. Ozoude commented the commission will continue to research other available funds.

Mr. Vita Ozoude concluded his presentation. Governor Sandoval asked Mr. McKay if he also had a presentation.

Mr. McKay responded that he did not, but he was available to answer questions and/or could present an update on their actions.

Governor Sandoval said he would be interested to hear an update on OHV's anticipated approval to award grants on June 5, 2015.

Mr. McKay stated that they adopted draft regulations on June 15, 2015. He said the documents would be reviewed by the deputy attorney general on June 23, 2015. Mr. McKay thanked Ms. Rayleen Palmer as essential to their success. Mr. McKay stated requests for announcements for grants are intended to be done in July 2015. He replied in response to a question by Governor Sandoval, that the goal of developing and implementing procedures to ensure that funds are expended for OHV enforcement and public outreach has been accomplished.

State Treasurer Schwartz asked for clarification that nothing has been done on four of the six recommendations.

Mr. McKay reiterated that the recommendation to transfer excess program funds was accomplished by Senate Bill 492 and stated that Sean McDonald from the DMV was available for further explanation.

Mr. McKay clarified that Recommendations 4, 5 and 6 have had no action.

State Treasurer Schwartz asked why bother making recommendations if no action was going to be taken.

Mr. McKay replied they intend to work diligently on the three recommendations referenced after requests for awards are completed and they begin the grant application process.

Governor Sandoval asked Steve Weinberger also to state whether inaction on recommendations 4, 5 and 6 is problematic.

Mr. Weinberger stated that every recommendation not fully implemented remains open, and follow-up continues on an annual basis until the recommendations are fully implemented. He noted some recommendations are implemented with alternative procedures. He pointed out that the decal program was not possible as recommended, but the agency will seek alternative measures to accomplish the goal.

Controller Knecht asked whether the agency had a schedule by which it hopes to complete action on recommendations 4, 5 and 6, and he asked if the committee had a response to such a schedule. Mr. Weinberger stated that an estimated date of implementation was given, for example recommendation June 2016 for Recommendation 4. He believes Recommendation 5 will be difficult, since the commission voted against it.

Attorney General Laxalt asked about the impetus behind recommendation 5, to be hosted by a state agency.

Mr. Weinberger stated the Commission does not have the experience or resources to adequately administer grants so they recommended being hosted by a state agency, which does.

Mr. Weinberger noted that the Off-Highway Commission voted against being hosted by a state agency which could be problematic.

Governor Sandoval stated that whether this is problematic would hinge on the performance of this board over the next 18 months.

Treasurer Schwartz stated that notwithstanding additional funding or administrative requirements, he believes these are good recommendations that deserve attention and follow-through.

State Controller Knecht asked whether these follow-up items are action items or continued with no action by the board.

Governor Sandoval responded they were continued and referenced the agenda, which included follow-up status on legislative audit reports. He said they would continue to receive updates on OHV's performance with regard to the recommendations that are being reviewed today.

Mr. Weinberger clarified that the only action items for this meeting are the call to order, approval of minutes and adjournment.

2. Department of Agriculture, Report No. 15-02 - Division of Animal Industries, Warren Lowman, Executive Branch Audit Manager.

Warren Lowman introduced himself and stated he would be presenting the six-month follow-up of the Department of Agriculture, Division of Animal Industry's audit. Representing the department is Director Jim Barbee and Fiscal Administrator Dale Hanson.

Mr. Lowman stated five recommendations were made to the department to enhance operations in the Division of Animal Industries. He stated the department fully implemented the recommendation to considering transitioning to contract brand inspectors. He also stated the department decided not to transition to contract brand inspectors and indicates it intends to improve brand inspector efficiency and effectiveness through better management and training.

Mr. Lowman stated the department had partially implemented the remaining recommendations and expects to use better data from the new online brand inspection system to more effectively manage the inspection program. He also stated the department also plans to implement a formal training program for brand inspectors to enhance skills on the online inspection system and the overall professionalism of the inspection staff. Mr. Lowman explained the department expects to validate its new policies and procedures on oversight of brand inspection revenues, data reconciliation, performance measures and enforcement staff accountability within the next year.

Mr. Lowman concluded his overview of the Department of Agriculture, Division of Animal Industry's six-month follow-up and thanked Mr. Barbee and Mr. Hanson for their cooperation and assistance during the review.

Governor Sandoval asked for comment on the department's decision not to use contract brand inspectors and instead implement new policies and procedures, whether Mr. Lowman's conclusion would be changed if the new policies and procedures go well.

Mr. Lowman answered that if they go well, it would meet the intent of the recommendation to professionalize the inspector group, and the Division of Internal Audits would support that effort.

Governor Sandoval asked if Mr. Barbee had any comment.

Mr. Barbee responded that a system is being placed into service that gives greater control to the individuals in the field beyond what it was in 1915 when it was established. He said the automated system will facilitate dispatch of brand inspectors and improve the operating procedures manual.

Mr. Barbee explained one main concern with the contract brand inspectors recommendation is implementation could be detrimental in rural areas; as the pay is so low, it would not be worth it for the inspectors to get a business license.

Governor Sandoval asked if Mr. Barbee agreed that all actions would be completed by December 31, 2015.

Mr. Barbee replied yes, and that the procedures book was completed in April. Mr. Barbee said the manual was being dispersed, as well as iPads that the inspectors were using in the field.

Mr. Barbee explained one top brand inspector had been helping review the training for the inspection teams. He also explained they would continue to look at ways to garner efficiencies in management while also adding features to the online systems.

Secretary of State Cegavske asked if any performance indicators had been placed previously and whether new performance standards were being implemented because of statute. She commented that the issues of collection of branding fees, waiving fees, livestock reporting have always existed.

Mr. Barbee responded that they have had performance indicators, many tied to numbers of inspections done, but keeping track of the systems has proved historically difficult. He said the online system makes known in real time or near real time, that an inspection has taken place, the revenue invoiced, billed or collected in the field and has effected great change. For example, Mr. Barbee said enforcement officers no longer need to randomly pull over livestock vehicles but could single out those vehicles that do not show up in the online inspection file. He also said the result is less pressure on the industry but much greater protection relative to theft and disease control.

State Controller Knecht referenced recommendations 4 and 5, to establish policies and procedures related to enhancing enforcement staff capability. He asked if there were identified problems that prompted these recommendations in the operations of the agency or if any problems were found in the course of the audit or just a recognition of a general lack of policies and procedures.

Mr. Lowman replied that the audit uncovered a range of irregularities across the spectrum of responsibilities that the division had, particularly in the enforcement area, looking at accurate

accounting of brand inspections, appropriate fees gathered, and this range led to the recommendations.

State Controller Knecht asked if they would be able to determine the effectiveness of the changes.

Mr. Lowman replied that determination will be made following implementation later in the year, and a report will be made.

State Treasurer Schwartz expressed frustration that it seems as if nothing has been done on the recommendations. He noted recommendation 4, which gave a full implementation date of May 31.

Mr. Barbee clarified that recommendation 4 was implemented at the end of April. And he added the policies and procedures that address those issues would be fully implemented by December 31, 2015.

Mr. Hanson noted that upgrading a century-old system to full automation has delayed implementation.

Governor Sandoval asked Mr. Barbee to discuss when this process occurs in terms of branding.

Mr. Barbee stated that the largest workloads occur in the fall and are seasonal, when cattle are taken to market. And added an online system was developed specific for Nevada. He said upon implementation, they would be able to see livestock movement within the state in real time, which will have a great impact on determining economic impact and monitoring disease.

Mr. Barbee noted that this is a great leap forward in a very short period of time.

State Attorney General Laxalt asked how the follow-up report will be presented.

Mr. Weinberger answered that although annual follow-up reports can be presented upon request of the committee, the normal process is providing a written report. Mr. Weinberger noted that recommendations are broken down according to length of time for implementation. He said in this case, three of the five recommendations had an anticipated implementation date exceeding six months.

Committee Member Trudy Cross asked whether the new procedures address cash collections in the field.

Mr. Hanson answered that the system will transition to allow payment only by check, credit card or invoice.

Mr. Barbee added that there are some cultural hurdles to non-cash payments in remote areas and/or on Native American reservations. He also added they retain statutory authority to accept cash in the field, but the ultimate goal is transition to non-cash payment systems.

State Controller Knecht asked whether the auditors considered recommending that the agency pursue changes in the statute.

Mr. Weinberger answered that they do, and he pointed to a recommendation in the Department of Agriculture audit.

3. Department of Health and Human Services, Report No. 15-03 - Division of Child and Family Services, Juvenile Services, Warren Lowman, Executive Branch Audit Manager.

Mr. Lowman stated he would be presenting the six-month follow-up of the Division of Child and Family Services, Juvenile Services audit. Representing the department is Administrator Amber Howell. Four recommendations were made to the division to enhance operations in juvenile services.

Mr. Lowman stated two recommendations, regarding youth placement and lower-cost facilities as a result of the recent transition of the Summit View facility, were fully implemented.

Mr. Lowman stated the division was still working on two recommendations regarding distributive school account funding for the Nevada Youth Training Center (NYTC) in Elko County, and reimbursement for education support services provided by the state at the Summit View facility in Clark County and Caliente Youth Camp in Lincoln County.

Mr. Lowman thanked Ms. Howell and her staff and concluded the presentation.

Governor Sandoval also thanked Ms. Howell for her service to the state of Nevada. He asked Ms. Howell to comment on the two partially implemented recommendations.

Ms. Howell stated that the two recommendations center around the distributive school account money. She explained that the Nevada Youth Training Center is not operated or funded by the Elko County School District, while the Caliente Youth Center is housed in and operated by the Lincoln County School District. She said they are pursuing DSA funding for NYTC and excited by the prospect.

Ms. Howell stated that one challenge is in the event the schools' attendance is low on count day; they may not get the appropriate funding. She added if attendance increases (such as with the closure of Red Rock) they need additional teachers but are not receiving DSA funding due to the low count.

Governor Sandoval asked how the additional DSA education funding would be used.

Ms. Howell stated that she was unsure whether the money freed up by DSA funding would be used by the facility or revert to the general fund.

Governor Sandoval stated he would like to see the money used for the students.

Secretary of State Cegavske asked about out-of-state student placements.

Ms. Howell clarified one student was placed out of state following the closure of Red Rock Academy, and she is unsure how many total Nevada youth have been placed out of state. She added the breakdown of all placements was tracked with a chart, which would be provided.

Secretary of State Cegavske noted difficulty with teacher recruitment and asked about substitute teacher numbers and qualifications.

Ms. Howell responded that while Caliente utilizes substitute teachers, NYTC has no substitute list and must make do, although there do not appear to be many vacancies.

Secretary of State Cegavske asked whether it would be advantageous to recruit qualified teachers specifically in the summer.

Ms. Howell said she would look into this.

Secretary of State Cegavske asked for a follow-up on how many substitute teachers may not be qualified in their current teaching subject matter

Secretary of State Cegavske asked about the operational status of Summit View.

Ms. Howell responded that Summit View is currently closed and scheduled to re-open on September 1 as a state-operated, state-funded facility. She explained a budget amendment in April rebranded the facility from contract authority and oversight to state operation, and the budget was increased by approximately \$3 million.

Secretary of State Cegavske asked if they recruit teachers for summer school.

Ms. Howell stated she is not sure if they recruit, but they do pay teachers for summer school. She also stated it was not funded by Lincoln or Elko counties.

Secretary of State Cegavske asked for the yearly budget of Summit View upon re-opening.

Ms. Howell said she would provide the exact amount. She said the budget for NYTC was approximately \$7 million, while Caliente was approximately \$8 million. She added that while Summit View houses up to 96, it is funded for and will be operated at 48 beds.

State Controller Knecht asked about recommendations 3 and 4, placement of youth with regard to security and risk, and asked if they experienced any problems of youth well-being, and if so, is there a recent positive trend.

Mr. Weinberger responded that no specific incidents were noted but because of known vacancies at Caliente, they felt it prudent to send some Red Rock youth to Caliente to help even out the percentage of less serious offenders to more serious offenders at Red Rock.

State Treasurer Schwartz asked why the Red Rock facility was closed and for a general description of the types of students in the system.

Ms. Howell answered that Red Rock was closed for non-compliance with their contract. She said some concerns were lack of appropriate student-teacher ratios, contraband, safety and proper medical maintenance. She explained swift action was taken because of imminent safety concerns. She also explained that the students in the system are youth that have been committed to the state because they have exhausted all efforts or resources at the county level. She commented offenses span a broad range and that the offense referenced in the commitment is only the most recent, not necessarily the most egregious, offense committed.

E. Presentation of the Division's Audit Reports. (NRS 353A.085) (Tab 4)

1. Department of Agriculture, Report No. 15-04 - Board of Agriculture and Fiscal Administration, Lynnette Pagaling, Executive Branch Auditor 3.

Ms. Pagaling stated that Director Jim Barbee and Fiscal Administrator Dale Hanson are present from the Department of Agriculture.

Ms. Pagaling stated the audit focused on the Board of Agriculture organizational structure, audit expenditures and vehicle operations managed by the Fiscal Administration Division.

Ms. Pagaling explained the audit had three objectives: to diversify Board of Agriculture representation; to improve management of audit expenditures; and to enhance vehicle operations.

Ms. Pagaling stated the first recommendation was for submission of a bill to the legislature that would add a representative of the general public to the Board of Agriculture. She also stated the Board of Agriculture is composed solely of representatives of industries the Department of Agriculture regulates. She said adding a representative of the general public would provide additional perspectives and oversight not currently provided and align the board with other boards and commissions.

Ms. Pagaling stated the second recommendation was to monitor staff time coding to properly manage audit expenditures, which would benefit the state by almost \$24,000. She said the department used state funds to pay for an audit of a federal program because the auditor did not code his time correctly. She also said monitoring staff time coding would ensure audit expenditures were paid for with the correct funds.

Ms. Pagaling stated the third recommendation was to track mileage and assign vehicles to meet the needs of each division. She said the department did not consistently track mileage. She added that tracking mileage would allow the department to ensure vehicles are being assigned and used efficiently and effectively.

Ms. Pagaling stated the fourth recommendation was to implement policies and procedures to centralize and maintain vehicle maintenance records. She said the department could not produce historical vehicle maintenance records. She added that centralizing and maintaining maintenance records would provide standardized information to make informed management decisions, prolong the life of the fleet and reduce costs to the state.

Ms. Pagaling stated the last recommendation was to determine if GPS reports could be used to document vehicle maintenance. She added approximately 60 percent of the fleet was GPS-enabled, utilization of existing features would provide centralized, automated process for managing vehicle records.

Mr. Barbee stated that he concurred with all of the findings. He noted that the first recommendation would be taken to the Board of Agriculture as an action item for response.

Governor Sandoval asked when they could expect this to be added to an agenda of the Board of Agriculture.

Mr. Barbee said it would be on the agenda for the September 4, 2015 meeting.

Mr. Hanson addressed recommendation 2. He explained that proper time coding was an oversight and has been addressed. He said they would be reimbursing the Dairy Commission \$24,000 for work on the USDA audits.

Mr. Hanson addressed recommendations 3, 4 and 5. He said better fleet maintenance; they were working with a vendor to exploit fully the existing features of the GPS system. He noted that the GPS was used following the theft of a \$40,000 vehicle to identify, apprehend and prosecute the thief, as well as to recover the vehicle. He stated deadline for implementation is December 31, 2015, though they anticipate completion before September 30, 2015.

Secretary of State Cegavske asked how many cars and trucks contain this GPS system and the cost. Mr. Hansen said the total current cost is \$21,000, which covers over 100 cars and trucks.

State Treasurer Schwartz noted that there appear to be some serious deficiencies, including missing records, unutilized assets and an inaccurate vehicle count. He underscored the governor's hope that these issues be addressed timely.

Mr. Barbee agreed and noted that until the session preceding the current one, there were only five Administrative personnel. He added that a subsequent merger with three divisions from three agencies created issues that were still being addressed.

Ms. Cross asked who performs fleet maintenance.

Mr. Barbee said maintenance is being consolidated under building operations, and they are securing agreements with specific maintenance groups. He noted that the GPS system will be able to provide real-time maintenance reports.

Ms. Cross asked whether there is an alternate avenue to securing a public member in the event that the commission decides against it.

Mr. Barbee pointed to the Wildlife Commission, which he believes was brought forward by legislators.

Secretary of State Cegavske referenced Page 14 of the audit book and asked for clarification of the total amount.

Mr. Weinberger clarified that the total would be \$35,000.

State Controller Knecht referenced the \$24,000 benefit from monitoring staff time coding and asked over what period that accrued.

Ms. Pagaling clarified it was Fiscal Year 2015, so \$24,000 in one year.

Mr. Hanson reiterated that the problem has been rectified, and the money will be reimbursed.

State Controller Knecht also asked whether this might be indicative of a wider problem or limited to the staff time and coding for the auditors.

Mr. Lowman replied that this seemed to be a unique problem and is unlikely to recur.

2. Department of Business and Industry, Report No. 15-05 - Division of Insurance, Enforcement Investigations, Vita Ozoude, Executive Branch Audit Manager.

Mr. Ozoude stated that Commissioner Scott Kipper and Chief Deputy Commissioner Nicole Lamboley are representing the Division of Insurance. . The audit focused on the investigation process, and we made three recommendations.

Mr. Ozoude stated the first recommendation is to improve supervisory oversight. He said they noted investigations are not being completed timely. He said twenty-nine percent of investigations opened from January 2009 through December 2012 remained open as of April 2015, and the average age of an investigation is approximately four years.

Mr. Ozoude said other states they surveyed complete investigations within two years. Additionally, he said the division lacks policies and procedures to ensure appropriate progression of investigations. He also added developing policies and procedures for supervising investigations would help ensure appropriate progression.

Mr. Ozoude stated the second recommendation is to standardize the investigation process. He said there currently appears to be no standard method for prioritizing investigations. He said they could not determine why some cases were considered high priority and some were low. Additionally, he said 63 percent of investigations had absent or inadequate evidence of investigative activity and 58 open cases remained assigned to an investigator who left the division in November 2014. Mr. Ozoude stated standardization would ensure timely completion of prioritized investigations, provide sufficient documentation and improve industry regulation.

Mr. Ozoude stated the third recommendation was to develop and implement policies and procedures to be used for both the Las Vegas and Carson City offices. Mr. Ozoude noted a gap in productivity between the northern and southern offices. He also noted southern investigators were 63 percent less productive than the northern investigators in the number of closed cases. He said using this discrepancy, along with salary information, the dollar value of lost productivity was calculated at approximately \$68,000 annually. He commented using the same policies and procedures would help ensure consistent productivity.

Mr. Ozoude concluded his presentation. Governor Sandoval thanked Commissioner Kipper for his service.

Mr. Kipper stated that they concur with the recommendations and provided a review of their implementation progress. He introduced Earl McDowell, the deputy commissioner for consumer services and enforcement. Mr. Kipper stated that the process for case review has been developed and is currently being refined, including a triage system for cases.

Mr. Kipper stated Mr. McDowell had been working closely with the section line and supervisors, performing regular status checks and work product reviews.

Mr. Kipper stated the second recommendation is in process. He said draft policies and procedures to standardize the investigative process were being completed, and they should be implemented by August 2015. He said the third recommendation, for consistent use of procedures in both the Las Vegas and the Carson City office, would follow.

Mr. Kipper stated that the division is working on a module to be built into the current Sircon software that would track the caseload. He added that continued staff training is imperative.

Governor Sandoval asked if the older open cases will also be prioritized for action.

Mr. Kipper responded that they have already been prioritized, and many have been closed after thorough review.

Mr. McDowell outlined the method that was used to deal with the older open cases. He stated investigators spend half time reviewing old cases and half on current ones. He also stated most of the old cases are from the southern office and they are using one of the northern investigators to help with the old southern office cases.

Governor Sandoval asked for the causes of the performance discrepancy in productivity between the northern and southern offices.

Mr. McDowell responded that the southern office received approximately 80 percent of the caseload, but the northern offices had more investigators. He added both offices now have three investigators, and they are working to assign dedicated investigators to licensing issues, which should expedite clearance of the backlog and facilitate productivity going forward.

Attorney General Laxalt asked how many cases were still open.

Mr. McDowell believes there are approximately 130 open cases still remaining but will provide exact numbers.

Governor Sandoval pointed out that 42 cases have been lost because of statute of limitations issues and asked whether other cases are nearing the five-year deadline and should be prioritized.

Mr. McDowell responded those are cases now being worked on.

Ms. Cross asked how closely they are working with the National Association of Insurance Commissioners (NAIC). She stated the NAIC has procedures for investigations that the division could utilize.

Mr. Kipper responded that they are very active within the NAIC and utilize many of their services and will look into their procedures.

Ms. Cross also asked whether case closures were tracked by result and/or as performance measures.

Ms. Lamboley responded that results have been tracked separately by the legal division but added that some of the recently closed cases may have been closed without documented resolution. She added they are working on a software module to better track case status and disposition.

Attorney General Laxalt asked to be provided notice regarding any potential increase in investigations so that his office can properly prepare for prosecution.

Commissioner Kipper confirmed they would.

Governor Sandoval asked what is the goal for the committee meeting in October or November.

Mr. McDowell responded that he hopes to report that recommendations have been completed.

Ms. Lamboley explained the software evaluation involved in using Sircon does not have a determined timeframe because of unknown technical requirements, but they would provide a status update.

State Controller Knecht asked if all investigators are now using the Sircon software.

Ms. Lamboley responded that Sircon is not a module being used at this time. She added they would need to determine how best to implement the module into policies and procedures.

State Controller Knecht asked if the goal was a system that is confidential, reliable and universal.

Ms. Lamboley confirmed that it is a priority.

3. Department of Motor Vehicles, Report No. 15-06 - Motor Carrier Division, Fuel Tax, Vita Ozoude, executive Branch Audit Manager.

Mr. Ozoude stated that Administrator Wayne Seidel and Deputy Administrator Dawn Lietz are representing the Department of Motor Vehicles, Motor Carrier Division. The audit focused on improving the administration of fuel taxes, and three recommendations were made.

Mr. Ozoude stated the first recommendation is to increase emphasis on fuel tax revenue in the risk assessment used for selecting audits. He said it was the division's goal to audit 25 percent of licensees each year to ensure they audit everyone at least once every four years, but does not use fuel tax revenue as a primary component when selecting audits. He added emphasizing fuel tax revenue as the primary component of the audit selection method is a more effective use of audit resources and could increase audit adjustments by approximately \$120,000 annually and decrease audit expenses by \$2,000 with no adverse impact on audit coverage.

Mr. Ozoude stated the second recommendation is to modify the tax return form to include a column dedicated to liquefied natural gas (LNG). He said LNG reporting is combined with other fuels making it difficult to specifically identify LNG sales and applicable taxes due. He also said modifying the current tax form would increase transparency and allow auditors and examiners to verify accuracy.

Mr. Ozoude said the final recommendation was to provide clear instructions to licensees regarding the conversion of special fuel to reportable gallons of fuel. Mr. Ozoude said the instructions as noted lead to double conversion when converting special fuels from volume or weight to a liquid gallon equivalent, which lowers the reported gallons of fuel.

Mr. Seidel stated they accept the three recommendations and have begun an action plan for implementation. Mr. Seidel stated with regard to the first recommendation, they would raise the tier one audits from a four-year cycle to a three-year cycle. He added beginning July 1, 36 tier one suppliers would be audited over the next three years, through June 2018.

Mr. Seidel said in regard to the second recommendation, a separate column for LNG is being programmed and will be completed August 15, when the July 1 tax returns begin to arrive.

Mr. Seidel said in regard to the third recommendation, clarified directions have been posted, suppliers have been notified, and the new conversion methods will go into effect on July 1.

State Treasurer Schwartz asked for clarification that approximately \$3 million in revenue was missed.

Mr. Weinberger clarified that those are audit adjustments and can be either assessments on under-reported revenue or refunds on overpaid taxes.

State Treasurer Schwartz asked whether any substantial amounts of revenue were missed by the department.

Mr. Weinberger said he was unable to comment as to revenue missed but stated that the goal of the recommendation was to focus on bigger licensees in terms of revenue.

Ms. Lietz explained the history of the auditing process.

State Controller Knecht asked about the deadline of June 2018.

Mr. Seidel explained that that 2018 is the completion of the three-year cycle to audit all 36 suppliers as recommended.

Ms. Cross asked how double-conversion losses were determined.

Ms. Lietz answered that discovery of the double conversion issue followed passage of SB399 and explained the process that was used to rectify the situation.

F. Presentation of the Follow-Up Status for Legislative Counsel Bureau's Audit Report Recommendations Issued April 28, 2014. (Tab 5)

Mr. Weinberger stated that follow-up on implementation efforts of executive branch agencies is statutorily required. Since the last meeting, three have been completed with no significant concerns.

Mr. Weinberger asked if the next meeting could be held in late November or December to give agencies enough time to implement the recommendations.

Governor Sandoval agreed.

Secretary of State Cegavske requested information regarding Internal Audit recommendations that have not been fully implemented.

Mr. Weinberger said that an annual report is due September 30, which show percentage of recommendations implemented, along with a schedule of outstanding recommendations with associated dollar amounts.

Secretary of State Cegavske asked when the audit of her office she requested would occur.

Mr. Weinberger stated audits have been opened at the Attorney General's Office and the Controller and the Secretary's audit is next.

G. Public Comments

Governor Sandoval asked for public comments or questions in the Carson City or Las Vegas meeting locations.

State Controller Knecht said they he met with Mr. Weinberger and his staff last week, outlined an extensive audit program for the Controller's Office. He is optimistic and hopeful that it will be effective and helpful.

Governor Sandoval recommended Ms. Cross be included on the agenda.

Mr. Weinberger said that was a clerical error and will ensure she is included on future agendas.

H. Adjournment

Governor Sandoval noted there were no questions or comments.


Motion: Move for approval of motion of adjournment.
By: Controller Knecht
Second: Secretary of State Cegavske
Vote: Motion passed unanimously for those present.

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