

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

**MINUTES
June 1, 2006**

The Executive Branch Audit Committee and the Division of Internal Audits met on June 1, 2006, at the Department of Transportation, 1263 South Stewart Street, Room 302, Carson City, Nevada, at 1:30 p.m.

MEMBERS PRESENT: Governor Kenny C. Guinn, Chairman
Treasurer Brian Krolicki
Controller Kathy Augustine
Dana L. Bridgman, CPA, Member of the Public

MEMBER VIA TELECONFERENCE: Attorney General George Chanos

MEMBERS ABSENT: Lieutenant Governor Lorraine T. Hunt
Secretary of State Dean Heller

**DIVISION OF INTERNAL AUDITS
STAFF PRESENT:**

William Chisel, Chief
Mike Colburn, Executive Branch Auditor IV
Julie Kotchevar, Executive Branch Auditor IV
Paula Ward, Executive Branch Auditor IV
Bill Prowse, Executive Branch Auditor III
Sally Elloyan, Executive Branch Auditor II
Joyce Garrett, Executive Branch Auditor II
Shannon Selitsch, Executive Branch Auditor II
Kirk Starkey, Executive Branch Auditor II
Sherry Holderby, Executive Branch Auditor I
Vita Ozoude, Executive Branch Auditor I
Dennis Stoddard, Executive Branch Auditor I
Steve Jackson, Manager
Janet L. Hardy, Administrative Assistant IV
Connie Boynton, Administrative Assistant III

OTHERS PRESENT: Katie Armstrong, Deputy Attorney General, Office of the Attorney General
Kim Huys, Deputy Secretary of State, Office of the Secretary of State
Steve Wood, Chief Deputy Auditor, Legislative Council Bureau
Geoff Dornan, Nevada Appeal
Cy Ryan, Las Vegas Sun
Wayne Frediani, Nevada Franchised Auto Dealers Association

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. Open Meeting

Governor Kenny C. Guinn, Chairman, introduced Dana L. Bridgman, CPA, as the new Executive Branch Audit Committee (EBAC) member to fill the seat vacated by John Bullis, CPA.

The EBAC meeting was called to order by the Governor at 1:35 p.m., Thursday, June 1, 2006.

B. Discussion and possible action regarding the minutes from the September 7, 2005, meeting as set forth in the backup material.

The Governor stated he would like the Division to offer some assistance on the preparation of meeting minutes to the administrative staff responsible for the Board of Examiner's meeting minutes.

The Governor asked if there were any questions regarding the September 7, 2005, meeting minutes. There were no questions, and he called for a motion.

Motion: Move for approval of the September 7, 2005, meeting minutes
 By: Controller Kathy Augustine
 Second: Treasurer Brian Krolicki
 Vote: Motion approved 3 – 0 (2 abstained)

C. Discussion and possible action regarding amendments to the Division of Internal Audits' annual plan of audits for fiscal year 2006 as set forth in the backup material. (NRS 353A.038)

William Chisel, Chief, Division of Internal Audits, stated annually the Division compiles a list of audits they plan to start for the next fiscal year. The following is a list of the Division's proposed audits for fiscal year 2006; however, they will be starting some of the proposed audits in fiscal year 2007.

Proposed Audits	
Department	Division
Administration	Risk Management *
Administration	Public Works Board – Performance Contracting *
Administration	Mail Services *
	Nevada Institutional Review Board
Business and Industry	Housing Division
Conservation & Natural Resources	Environmental Protection
Conservation & Natural Resources	State Lands Division
Nevada Office of Veterans' Services	Nevada Office of Veterans' Services
Corrections	Staffing
	*And associated agencies

Mr. Chisel concluded his presentation and asked the Committee for questions or additional audit suggestions.

Governor Guinn asked Mr. Chisel if the Division's proposed audit plan follows the five year audit policy established by the Committee regarding the frequency agencies are audited.

Mr. Chisel stated the Division will revisit an agency more frequently than the five year policy based on the following methods:

- ✓ A risk assessment prepared by the Division, and
- ✓ Audits proposed by agency department heads or the EBAC, for example:
 - The Division just recently finished an audit of the Public Works Board but is revisiting the agency regarding a specific issue which also relates to the Purchasing Division and several other agencies may be involved.
 - Veterans' Services is on the Division's proposed audit list due to a request received from Tim Tetz, Executive Director, Nevada Office of Veterans' Services.

The Governor stated the Executive Director of Veterans' Services contacted him and said he is pleased with the assistance they are receiving from the Division.

The Governor asked if there were any further questions regarding the Division's proposed annual audit plan. There were no further questions and he called for a motion.

Motion: Move for approval of the Division of Internal Audits proposed annual audit plan.

By: Controller Kathy Augustine

Second: Treasurer Brian Krolicki

Vote: Motion approved 5 - 0

D. Presentation of the Division of Internal Audits' Six-Month Follow-up Status Reports.
(NRS 353A.090)

1. The following are the sixteen six-month follow-up status reports listed on the consent agenda for possible discussion. All agencies had a representative present to address questions from the Committee:

- ✓ Department of Administration
 - Hearings Division – Bryan Nix, Senior Appeals Officer
 - Public Works Board – Gus Nunez, Deputy Manager
- ✓ Department of Business and Industry
 - Nevada Attorney for Injured Workers – Nancy Ann Leeder, Nevada Attorney for Injured Workers
 - Real Estate Division – Gail Anderson, Administrator
- ✓ Department of Corrections
 - Prison Industries – John McCuin, Administrative Services Officer II
- ✓ Department of Health and Human Services – Mike Torvinen, Administrative Services Officer IV, Director's Office
 - Division of Health Care Financing and Policy – Patrick Cates, Administrative Services Officer IV
 - Claims Processing
 - Managed Care
 - Medicaid Cost Analysis
- ✓ Nevada State Public Defender's Office – Steven G. McGuire, State Public Defender

- ✓ Welfare Division – Barb Darsow, Social Services Program Specialist I, and Roger Mowbray, Administrative Services Officer IV
 - Energy Assistance Program – Linda Mercer, Grants and Projects Analyst Supervisor
 - Child Care Program
 - ✓ Department of Public Safety
 - Division of Emergency Management – Eric King, Administrative Services Officer III
 - State Fire Marshal’s Office – Chad Hastings, Acting State Fire Marshal
 - Division of Parole and Probation – John Allan Gonska, Chief, Captain Mark Woods, and Regina Clements, Accounting Assistant III
 - Records and Technology Division – Captain P.K. O’Neill, Chief, and Shannon Atkins, Accountant Technician I
 - ✓ Department of Transportation – Susan Martinovich, Deputy Director, and Sydnie Schlachta, Transportation Planner Analyst III
 - Road Transfer Process
2. The Committee elected to discuss the following six-month follow-up reports:
- ✓ Department of Administration – State Public Works Board
Bill Prowse, Executive Branch Auditor III, Division of Internal Audits, presented the six-month audit follow-up report for the State Public Works Board.

Mr. Prowse stated Public Works Board has taken no action on the following recommendation:

- Consider Public Works performance evaluations when selecting designers.

This recommendation cannot be implemented until project managers complete and submit project designers’ performance evaluations. Public Works expects project managers to complete the first designer evaluations in July 2006 (erroneously stated as January 2006 in the record). The evaluations can be used in July 2007 when considering project designers for new projects. This concluded Mr. Prowse’s presentation and he asked the Committee if there were any questions.

Gus Nunez, Deputy Manager, State Public Works Board, was present to address questions from the Committee.

The Committee requested clarification on the following:

- Question:
Does Public Works plan to start their implemented evaluation process at the beginning of fiscal year 2007?

Answer:

Mr. Nunez stated as projects are completed, the project managers will complete their evaluation of the designer, design team, and the contractor.

- Question:
Does the completed evaluation tell project managers how to write the requirements to fully implement the recommendation?

Answer:

Mr. Nunez stated once the projects are completed, the Board will then set up the criteria by which to evaluate the projects.

- Question:
What criteria does Public Works use to constitute:
 - An uncompleted project, and
 - A completed project?

Answer:

Mr. Nunez stated any project under design or construction is considered an unfinished project. There are two steps in the completion process:

- Substantial completion – All the systems are operational and the building is ready to be occupied. Only the punch list (items requiring completion but do not prevent the building from being occupied e.g., touch up painting, face plates for electrical outlets, window shades, etc.) needs to be completed, and
 - Final completion – Date the punch list is completed.
- Question:
Regarding the Richard H. Bryan building, why did it take eight months after the building was occupied before the sign was on the building? Does the naming of a building hold up the final completion date?

Answer:

Mr. Nunez stated the building sign was on the punch list, along with other items. In this unusual case, the contract completion date was extended to allow additional time for the punch list to be completed. Under normal circumstances, the punch list completion date is 90 days or less after the substantial completion date or a penalty is assessed to the contractor.

- Question:
At what point is the performance evaluation completed?

Answer:

Mr. Nunez stated once the evaluation system is in place, the performance evaluation will be completed after the project has a final completion date. They will evaluate the contractor on:

- Performance during the contract,
- Promptness in finishing the project punch list, and
- Cooperation with Public Works during the project.

Public Works can only evaluate contractors on the criteria set forth in the Nevada Administrative Code (NAC). They are unable to evaluate some of the contractor's performance during the pre-qualifying process because of the way the NAC is written. The NAC would need to be amended by the Board.

- Question:
Does Public Works want to get the NAC amended?

Answer:

Mr. Nunez stated Public Works hasn't started the regulation process to amend the NAC; however, they have met with the Board regarding an amendment. Some of the changes may require legislative action and require NRS revisions.

- Question:

Is it possible to have part of the evaluation form completed when the project is 90% complete and then have an evaluation section for the final completion and wrap up?

Answer:

Mr. Nunez stated it could be done as a two step process but at this time is only a one step process.

- Question:

Will the Division of Internal Audits keep the Committee advised on the progress of the implementation of this recommendation?

Answer:

Mr. Chisel stated they will bring Public Works Board back to the Committee.

- ✓ Department of Corrections – Prison Industries

Shannon Selitsch, Executive Branch Auditor II, Division of Internal Audits, presented the six-month audit follow-up report for Prison Industries.

Ms. Selitsch stated Prison Industries has taken no action on the following recommendation:

- Evaluate whether paying inmates standard piece rates is more cost effective than paying hourly wages for all shops.

Action on the piece rate pay analysis has been deferred until Prison Industries has established accurate standard labor hours. This concluded Ms. Selitsch's presentation and she asked the Committee if there were any questions.

John McCuin, Administrative Services Officer II, Prison Industries, was present to address questions from the Committee.

The Committee requested clarification on the following:

- Question:

What is Prison Industries' response regarding implementation of the audit recommendation?

Answer:

Mr. McCuin stated 70 percent of their work falls under federal prison industry labor laws which require inmates be paid by the hour.

Prison Industries' auto shop quotes the cost of all standard jobs based on the standards book used by private industry. If the standards book says it takes two hours to complete a job and the inmate completes it in four, the inmate will be paid for two hours work and the enterprise fund receives a profit. If the inmate

was paid for the four hours work it took to do the job, the enterprise fund would have a loss unless the difference could be recaptured in the material cost.

- Question:
Does Prison Industries require inmates to set aside funds to pay for their restitution debt and for their use of Prison Industries building facilities and equipment?

Answer

Mr. McCuin stated the inmates pay Prison Industries 5 percent of their wages for the use of their facility and equipment.

- Question:
What is Prison Industries' expected schedule for implementing the recommendation?

Answer:

Mr. McCuin stated Prison Industries is going to meet with the Division of Internal Audits to explain their situation and feelings regarding the recommendation. They feel they are in compliance with the recommendation and would like to see it go away.

- ✓ Department of Health and Human Services – State Public Defender's Office
Julie Kotchevar, Executive Branch Auditor IV, Division of Internal Audits, presented the six-month audit follow-up report for the State Public Defender's Office.

Ms. Kotchevar stated the Office has taken no action to implement the following recommendation as they stated it requires statutory change:

- Work with the Governor's Office to create a statewide public defense commission.

This concluded Ms. Kotchevar's presentation and she asked the Committee if there were any questions.

Steven G. McGuire, State Public Defender, State Public Defender's Office, and Mike Torvinen, Administrative Services Officer IV, Director's Office, Department of Health and Human Services, were present to address questions from the Committee.

The Committee requested clarification on the following:

- Question:
Did the Public Defender's Office submit a Bill Draft Request (BDR) to the Budget Division?

Answer:

Mr. McGuire stated the BDR has not been submitted.

- Question:
Did the Office miss their timeline on the submission of the BDR? Why has no action been taken by the Office to implement the recommendation?

Answer:

Mr. McGuire stated the Office has had some serious personnel issues, and preparation of the BDR was put aside to keep the Office operating from day to day.

The Committee advised the Office to get in touch with Andrew Clinger, Director, Department of Administration, as soon as possible and get their BDR submitted.

✓ Department of Transportation – Road Transfer Process

Susan Martinovich, Deputy Director, and Sydnie Schlachta, Transportation Planner Analyst III, Department of Transportation, were present to address questions from the Committee.

The Committee requested clarification on the following:

• Question:

Why were only 7 out of 600 miles of roadway transferred to local governments, and why is this process moving so slowly?

Answer:

Ms. Martinovich stated the Department has been working on the road transfer process by implementing the following:

- Identified a person in the Department to specifically oversee the road transfer process.
- Inventoried all roads, and identified which roads could be transferred to local governments or abandoned.
- Determined the value of the road based on the Department's upcoming preservation program. This program will show the upkeep cost on the road for the next three years.
- Sent letters to all counties in which the roads are located and offered them a lump sum payment to take over ownership:
 - Responses from all counties were less than enthusiastic stating they are undermanned, understaffed, and underfinanced. Therefore, they were unable to take on the additional burden of roadways.
 - The Department initially planned to relinquish all rights and ownership to the counties with a length and width description of the road. With this vague description, counties will not accept ownership of the roadways. They want the Department to perform a time consuming title search, and gather all the background information.
- Encouraged counties to see the benefits related to road ownership, for example:
 - Permit process easier, and
 - May be able to build some long-term maintenance cost into the funding for snow removal or gravel etc.
- Set up meetings with rural areas to discuss transfer or abandonment of their roads.
- Worked with the Department's Attorney General staff to ensure there will be no long-term effects to people if the state abandons the roads, such as:
 - The road goes to an underlying owner who then blocks other owners from using the road leaving people stranded.
- Evaluated roads for abandonment.

- Question:
Has the Department explained the state's position to local governments regarding the maintenance of non-state highways?

Answer:

Ms. Martinovich stated the Department advised local governments of the state's position on non-state highways:

- Cease to keep the roads in excellent condition,
- Evaluate minimizing structure features such as replacing overlays with chip seals, and
- Encourage local governments to accept funds being offered by the state and apply them to road maintenance cost.

- Question:
Are some local governments working better with the Department than others?

Answer:

Ms. Martinovich stated after local governments were notified of the state's position not to do business as usual with them, some entities are beginning to consider the state's payment proposal. However, they are still receiving disinterested responses from other entities. The Department is monitoring responses weekly.

- Question:
The Department has been working on the road transfer process for seven years and has transferred only seven miles of highway. The state cannot afford to take care of non-state highways. What is the Department's plan to speed up this process?

Answer:

Ms. Martinovich stated since the audit was issued, they have made progress identifying roads for transfer. With the new tracking system, they feel confident the process will now move along faster.

- Question:
Has the road transfer process issue been placed on the agenda for the Board of Transportation's next meeting?

Ms. Martinovich responded saying it is on the agenda.

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

1. Department of Health and Human Services – Health Division – Bureau of Early Intervention Services

Julie Kotchevar, Executive Branch Auditor IV, Division of Internal Audits, presented the audit report to the Committee.

Ms. Kotchevar stated for fiscal year 2005, the Bureau served 2,400 children. The audit focused on the following two objectives:

- Can Early Intervention Services increase collections?
- Can Early Intervention Services decrease operation costs?

As a result of the audit, five recommendations were issued:

- ✓ Implement a centralized electronic scheduling and billing system.
 - Cost of installation would be \$125,000 of which 48% would be offset by grant funding and cost allocations.
 - A centralized system could increase collections by \$500,000 annually.
- ✓ Track, bill, and reconcile appointments from a central calendar.
 - A reconciliation of 79 appointments showed 30% were not billed.
- ✓ Establish and document employee performance measures for average productive hours each week and average time spent serving each child.
 - Bureau can reduce operating costs and ensure efficient use of resources by enhancing performance measures, monitoring staff productivity, and evaluating staffing needs.
- ✓ Develop management reports to document average productive hours each week and average time spent serving each child.
- ✓ Estimate staffing needs; if the 49 contractors are still necessary, consider converting them to state employees.
 - Discussion with Bureau management revealed 49 of the 139 contractors provide the same services as regular state employees. They carry the same caseloads, work in state offices, and use state owned computers. Additionally, the contractors cost the state \$11,300 more per employee per year than state employees.
 - If the Bureau needs existing staff levels, it should consider converting some of its contractors to state employees. This could save approximately \$550,000 per year in personnel costs.

This concluded Ms. Kotchevar's presentation and she asked the Committee if there were any questions.

Alex Haartz, Administrator, and Amy Roukie, Administrative Services Officer IV, Health Division, were present to address the Committee's questions.

The Committee requested clarification on the following:

- Question:
Why does it cost the state more to pay a contracted employee versus a state employee for doing the same job?

Answer:

Ms. Kotchevar stated the state pays an administrative fee to the employment service which is over and above what the contracted employee is paid, versus the standard wage a state employee is paid.

- Questions:
Regarding implementation of an electronic scheduling and billing system, can the data be collected with the existing equipment and staff or is there equipment cost?

Answer:

Mr. Haartz stated they have accepted all of the audit recommendations. Implementation has already begun with the purchase of new software. This expanded the existing equipment and software to centralize billing and a calendar system. The cost of \$100,000 plus the software was based on the initial Request for Proposal (RFP) from the Department of Information Technology.

The Health Division has tried to reduce the existing cost differential by reducing some of the disincentives of becoming a state employee. They agree if the Division can't hire an employee; it shouldn't cost the state more to have a temporary employee doing the job.

- Question:
Do you need legislative action to be able to hire outside the state when the Division has a vacancy?

Answer:

Mr. Haartz stated in the past nine months, the Division has restructured the temporary employment contract. When vacancies occur, they move someone into the position off the temporary list. They have recruited approximately nine individuals from this list and don't believe legislative action is needed as the job classifications already exist.

For the record Mr. Haartz thanked Mr. Chisel and his staff for their help.

- Question:
Does the Division of Internal Audits track the return on investment?

Answer:

Mr. Chisel responded saying one of the Division's performance measures is to track the state's return on investment. This tracking takes place during the audit follow-up process.

The Governor also responded stating the Division maintains a cumulative record of savings.

2. Department of Health and Human Services – Division of Child and Family Services (DCFS) – Unified Nevada Information Technology for Youth (UNITY)

Sally Elloyan, Executive Branch Auditor II, Division of Internal Audits, presented the audit report to the Committee.

Ms. Elloyan stated their audit focused on the Division's child welfare case management database known as UNITY and on how the Division can reduce the amount of information missing from the UNITY system.

Based on July 31, 2005 UNITY report, 21 percent of their open cases was missing the child's location. Further review found the majority of cases reported had the location documented but on the wrong UNITY screen. This resulted in a child's location being reported to the federal government as missing when in fact it was not. However, 8 out of 52 cases reviewed revealed the child's location was not documented anywhere in the

system. Although each paper file ultimately contained the child's location, this information should be readily accessible in the UNITY system. Fully documented case files in the UNITY system should result in Nevada meeting federal reporting requirements.

As a result of the audit, four recommendations were issued:

- ✓ Develop and distribute a report ranking missing Adoption and Foster Care Analysis and Reporting System (AFCARS) data elements by work group.
 - Nevada's reports do not meet the federal reporting requirements because of inadequate documentation in the UNITY system.
 - Surveyed four states and noted they regularly distribute reports ranking teams by the amount of missing information. Other states' staff represented this allowed the social workers and managers to compare their case documentation with other teams, created a competitive environment, and thereby, reduced the amount of missing AFCARS data.
- ✓ Require social workers who are missing over 10 percent of AFCARS data elements to attend refresher UNITY training.
 - Reviewed training records of 92 social workers and their supervisors which revealed social workers missing the least amount of AFCARS information had received approximately 15 percent more training on the UNITY System.
- ✓ Develop and implement performance standards requiring social workers to have no more than 10 percent AFCARS data elements missing.
 - Defining the amount of documentation required will ensure staff is accountable for the completeness of information entered into UNITY.
- ✓ Ensure no more than 10 percent of AFCARS data elements are missing.

This concluded Ms. Elloyan's presentation and she asked the Committee if there were any questions.

Michael Willden, Director, Department of Health and Human Services, Fernando Serrano, Administrator, DCFS, Diane Comeaux, Deputy Administrator, DCFS, Otto Lynn, Manager of Data Statistics and Customer Support, DCFS, and Paul Bowen, Information Systems Manager II, DCFS, were present to address questions from the Committee.

The Committee requested clarification on the following:

- Question:
Is there any way the UNITY system could be set up with an override to ensure all information is input at the time of data entry?

Answer:

Mr. Lynn stated there are system edits in UNITY already, but not all cases require the same information. An enhancement called the NAG Window has been written and is currently being tested. If a child doesn't have an element completed, the worker will receive an alert saying the child's record needs an element. The proposed system will take the worker directly to the screen where the missing information needs to be input.

- Question:
Is a report on missing elements generated and circulated to management or do you have some kind of review process to see how effective the NAG process is?

Answer:

Mr. Lynn stated they currently have a report which shows the missing elements for all children. The report is circulated to supervisors and social workers to ensure information in the system is current.

- Question:
The state would hate to see a child get lost in the system because of missing information and is troubled about the 10 percent threshold. DCFS management should red flag this issue until it is rectified. Why does the Division still have a 10% threshold of missing information?

Answer:

Ms. Comeaux stated she agreed with the Committee; the 10 percent threshold is clearly not their ultimate goal to reach. The 10 percent standard is set by the federal government, usually to pass compliance. DCFS's goal is to ensure no missing information.

- Question:
Sometimes due to the lack of technology or training, implementation of a new program is difficult to get up and running smoothly. Does the Division feel, with the combined Clark County figures presented to the Committee today, they are on the way to a resolution?

Answer:

Ms. Comeaux stated there are a number of issues existing in Clark County:

- Extremely high case loads,
- A huge increase in number of children needing their care,
- Time spent face to face with children as opposed to inputting data, and
- Existing vacancies make it difficult to stay on top of data entry.

Clark County has reduced the approximately 1,000 children missing placement information in the system at the time of the audit to fewer than 200, and expects to continue reducing these numbers.

- Question:
When Nevada Operations of Multi-Automated Data Systems (NOMADS) converted approximately 100,000 cases to a new system, the data entry process was a time-consuming job. Is the Division facing a similar situation with UNITY?

Answer:

Ms. Comeaux stated the situation with the files is very similar and the amount of information to input for each child is substantial.

- Question:
Is the Division aware of every child missing data or is there a backlog of cases?

Answer:

Ms. Comeaux stated they are inputting and recording information into the system in a timely manner. However, as indicated by Sally, the paper files have all the information. The Division knows where the children are and the elements that need to be input into the system.

- Question:

Is the Division on schedule with implementation of the recommendations issued in the audit?

Answer:

Ms. Comeaux stated they have accepted all the recommendations and are on schedule with implementation as outlined in their audit response.

- Question:

NOMADS received some federal funding to help with the conversion from paper files. Because the computer is the first place people look for information, can the Division obtain some assistance to input the cover sheets into UNITY?

Answer:

Mr. Willden stated NOMADS received funds for technical assistance to help with the conversion from paper files and other automated files to NOMADS. With UNITY, the conversion is basically complete. They can explore the possibility of federal resources to help catch up. UNITY is on target and will have automated records in good shape by the end of July 2006.

- Question:

The Division stated there are a number of data elements required and when a child's location was sub-selected they found it. Is the Division equally confident all the other data elements are also in the paper files?

Answer:

Ms. Comeaux stated they are confident most of the data is in the paper files.

3. Department of Business and Industry – Office of the Labor Commissioner – Prevailing Wages

Joyce Garrett, Executive Branch Auditor II, Division of Internal Audits, presented the audit report.

Ms. Garrett stated the audit addressed:

- Should the Office revise methods for setting prevailing wages?

Prevailing wages, under Nevada law, are the lowest wages paid to workers on public works projects. Public works projects are publicly financed construction and reconstruction or repairs of public entities.

The Office sets prevailing wages based on voluntary annual survey responses from contractors engaged in construction work in Nevada. Prevailing wages are established for specific job classes (e.g., carpenter and electrician).

The audit focused on ways the Office could develop a more representative prevailing wage rate:

- Methods to increase survey responses, and
- Modifying the prevailing wage calculation.

Last year the Office's voluntary wage surveys received from Nevada contractors resulted in a response rate of 26 percent. In comparison, Oregon law requires contractors respond to their wage surveys and they have a 93 percent response rate.

Information gathered from the annual wage survey process is used to establish the prevailing wage. The Office uses three steps to calculate wage rates based on the number of hours worked:

- ✓ If there is a single wage that represents the majority (51 percent or more) hours worked on construction projects, then the prevailing wage is based on the majority.
- ✓ If there is not a majority, the prevailing wage defaults to 40 percent or more of the number of hours worked.
- ✓ If there is not a single rate paid to 40 percent or more, then the prevailing wage defaults to an average.

The federal government and six other states, including Oregon, set prevailing wages using a two-step process: majority and average. They found the average wage is lower than the wage represented by the 40 to 50 percent category for some job classes. Therefore, eliminating the 40 to 50 percent category would lower prevailing wages for some job classes. They estimate this would reduce public construction costs in Nevada by approximately \$700,000 each year.

As a result of the audit, three recommendations were issued:

- ✓ Evaluate the following methods to increase survey responses:
 - Amend statute to require contractors to respond to prevailing wage surveys, or
 - Provide contractors incentives, such as preference in bidding on public construction projects, to respond to wage surveys.
 - This should result in a more accurate representation of wages paid in construction industry.
- ✓ Evaluate the cost-benefit of automating the prevailing wage survey process.
- ✓ Consider modifying method for determining prevailing wages.

Implementing these recommendations could reduce public construction costs by approximately \$4.7 million each year.

This concluded Ms. Garrett's presentation and she asked the Committee if there were any questions.

Michael Tanchek, Labor Commissioner, Office of the Labor Commissioner, was present to address questions from the Committee.

The Committee requested clarification on the following:

- Question:
Do businesses see a positive side to not respond to state surveys so wages might come down; and therefore, not fall under the majority wage of 50 percent or more hours worked?

Answer:

Mr. Tanchek stated there isn't a problem with union contractors filing their prevailing wage rates. However, when he met with non-union contractors from the north and south, the common response he received was there was too much paperwork involved in working on public works projects; therefore, they don't bid on them.

- Question:

Are all union contractors responding to surveys and participating?

Answer:

Mr. Tanchek stated yes, because there is a strong incentive to participate to keep wages in line with collective bargaining agreements.

- Question:

Is there a law change required?

Discussion regarding the question:

Ms. Garrett stated a law change would need to be made to require a response to surveys be mandatory.

The Governor stated there isn't a law requiring the state to have prevailing wage jobs. Based on notification he received from the Attorney General's Office, they are established by an executive order of the Governor.

Mr. Tanchek stated he felt they should meet to discuss this further.

The Governor asked Mr. Tanchek to call his office and make an appointment.

4. Department of Motor Vehicles – Field Services Division and Central Services Division – Dealer Registration and On-line Services
Kirk Starkey, Executive Branch Auditor II, Division of Internal Audits, presented the audit report.

Mr. Starkey stated the Department administers laws and regulations for drivers and vehicles using public roads. The Department's two largest divisions are:

- ✓ Field Services Division – Responsibilities include processing vehicle titles and registrations, and issuing drivers' licenses for customers visiting its offices, and
- ✓ Central Services and Records Division – Responsibilities include providing authorized commercial users with vehicle title, registration, and driver license information.

The audit focused on two areas:

- Can the Department reduce customer wait times?
- Can the Department enhance user access to information?

The Department can continue to reduce customer waiting time at field offices. Over the past four years, the average customer wait time at the five largest field offices decreased 27 percent. Finding an alternative to registering newly purchased vehicles at field offices is one of the last remaining areas where the Department can significantly reduce customer wait times.

The auditors identified one method to expand the Department's voluntary dealer registration program by offering the dealers financial incentives to participate. This voluntary program allows the dealer to enter customer registration data into the Department's database system, collect registration fees on behalf of the state and issue license plates, decals, and registration cards.

By allowing vehicle purchasers the option to register with the dealer, they estimate there would be a reduction of 126,000 field office customers and could potentially reduce the time other customers wait for service.

The Department can improve efficiency by authorizing commercial users' access to on-line vehicle title and registration related information. Currently these users must use the phone, fax, or mail to request this information. The Department estimated implementing an on-line access system would cost approximately \$70,000. They could recover the implementation cost with a \$1 increase to the current fee now charged for providing this information. In addition, setting up on-line data access would free up staff now answering the phones.

The auditors' survey of commercial users revealed 16 out of 18 surveyed were willing to pay a higher fee to obtain on-line access. The users expect to:

- ✓ Reduce their staff time spent obtaining information,
- ✓ Provide better service to their customers, and
- ✓ Operate more effectively with 24-hour, 7-days a week access to data.

As a result of the audit, four recommendations were issued:

- ✓ Continue to evaluate methods for customers to register vehicles without visiting field offices.
- ✓ Consider amending statute to compensate dealers.
- ✓ Consider amending statute to permit dealer compensation greater than two dollars for each registration processed.
- ✓ Allow authorized commercial users on-line access to vehicle registration and title information.

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

Ginny Lewis, Director, Department of Motor Vehicles, Clay Thomas, Deputy Director, Department of Motor Vehicles, Martha Barnes, Administrator, Central Services Division, Tom Fronapfel, Administrator, Field Services Division, and Chuck Conner, Data Processing Manager II, Automation, were present to address questions from the Committee.

The Committee requested clarification on the following:

- Question:
 - People can access information and services from the following sources:
 - Self-service kiosks (similar to bank ATM machines),
 - On-line services, and
 - Special lines at the field offices.

There is a different level of need regarding car dealerships. What progress has been made convincing car dealerships to use Department on-line services?

Answer:

Ms. Lewis stated subsequent to the audit and as they indicated in their response, they met with dealers and auditors to see what their expectations were. When the meeting concluded, it was made clear to all key players the Department wanted the dealer's data, and if they could have the data from the dealer's report of sales (DSR) transmitted electronically directly into the Department's database:

- Customers could register new cars on-line,
- Data would be entered once resulting in less errors, and
- Registration records could be linked to drivers which would clean up the Department's database.

While the program remains voluntary, they found dealers were receptive to the new concept and are willing to work with the Department. For the record, the Department is not convinced a BDR is necessary as stated in their audit response.

- Question:
Can the Department handle the on-line access system cost of approximately \$70,000?

Answer:

Ms. Lewis stated the Department has already started an in-house process by giving on-line access to one of the Department's largest record requesters. They have access to records in a controlled environment. Once the big users are up and running and feel comfortable and secure, the Department will venture out and offer on-line access to those who need access to records other than 8:00 am to 5:00 pm, Monday through Friday; for example: banks and car dealers.

- Question:
If a person buys a new vehicle and decided to register the car on-line, are they still allowed 30 days to pay the registration fee?

Answer:

Ms. Lewis stated the purchaser will still have 30 days from the date of purchase to register the vehicle whether they choose to register on-line or come into a field office.

- Question:
Can a new vehicle be registered at the kiosk?

Answer:

Ms. Lewis stated the kiosk could be equipped to handle new vehicle registration. The data is entered into the Department's on-line database and the registration along with decal or license plate would be mailed to the new owner.

The Governor thanked Ms. Lewis and the Department of Motor Vehicles for their hard work and the big push to save state funds in terms of staffing and facilities.

- F. Presentation of Division of Internal Audits audit follow-up report for the Legislative Counsel Bureau (LCB) audit recommendations issued between January 6th and May 9th 2005 – William Chisel, Chief, Division of Internal Audits.

The Division of Internal Audits performs the follow-up process on all LCB audit findings and recommendations. They work with agencies to help them implement recommendations. Six-months after the audit issue date, the Division reports to LCB through the Department of Administration on recommendation status. During the time period between January 6, 2005 and May 9, 2005, the following LCB audits show they are moving forward:

- ✓ UCCN – Capital Construction Projects & Contracting
- ✓ UCCN – Cost of Administration, Athletics, and Host
- ✓ Transportation Services Authority
- ✓ Commission on Postsecondary Education
- ✓ Office of Historic Preservation
- ✓ Western Interstate Commission for Higher Education

- G. Public Comment

There were no comments from the public.

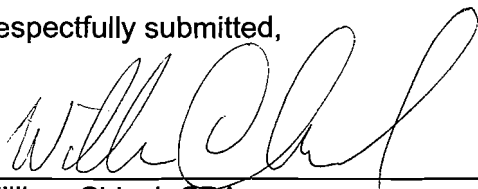
- H. Comments of Committee Members

There were no comments from the Committee members.

- I. Adjournment

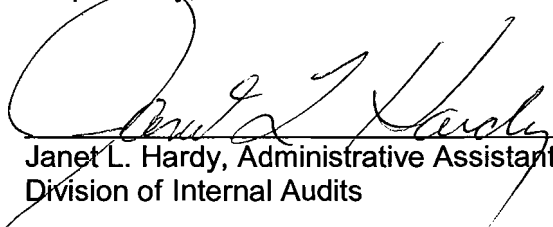
The Governor adjourned the meeting at 3:37 p.m.

Respectfully submitted,



William Chisel, CPA
Chief
Division of Internal Audits

Prepared by,



Janet L. Hardy, Administrative Assistant IV
Division of Internal Audits