

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

**MINUTES
September 28, 2006**

The Executive Branch Audit Committee and the Division of Internal Audits met on September 28, 2006, at the Department of Transportation, 1263 South Stewart Street, Room 302, Carson City, Nevada.

MEMBERS PRESENT:

Governor Kenny C. Guinn, Chairman
Treasurer Brian Krolicki
Controller Steve Martin
Dana L. Bridgman, CPA, Public Member

MEMBER VIA TELECONFERENCE:

Attorney General George Chanos

MEMBERS ABSENT:

Lt. Governor Lorraine T. Hunt
Secretary of State Dean Heller

DIVISION OF INTERNAL AUDITS

STAFF PRESENT:

William Chisel, Chief

Executive Branch Auditor IV:

Mike Colburn
Julie Kotchevar
Paula Ward

Executive Branch Auditor II:

Joyce Garrett
Shannon Selitsch
Kirk Starkey

Executive Branch Auditor I:

Vita Ozoude
Dennis Stoddard

Supervising Auditor II:

Joe Greenstein

Administrative Assistant:

Janet L. Hardy
Connie Boynton

OTHERS PRESENT:

Department of Administration:

Deborah Reed, Budget Analyst
Cathy Gregg, Budget Analyst

Department of Business and Industry,

Financial Institutions Division:

Carol Tidd, Commissioner
Steve Kondrup, Deputy Commissioner

Department of Corrections:

Glen Whorton, Director
Darrel Rexwinkel, Deputy Director,
Support Services
Lori Bagwell, Administrative Services
Officer IV
Cliff Cardella, Sr. Correctional Officer
Ed Gibson, Correctional Officer

Legislative Counsel Bureau:

Dennis Klenczar, Deputy Legislative
Auditor
Janet Bailey, Audit Supervisor

Nevada Institutional Review Board:

Robert Gentry, Executive Director

Office of the Attorney General:

Katie Armstrong, Deputy Attorney General
William Prowse, Investigator

Office of the Military:

Brigadier General Cindy Kirkland,
The Adjutant General
Miles Celio, Administrative Services
Officer

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Department of Employment, Training and
Rehabilitation, Employment Security Division:
Cindy Jones, Administrator
Martin Ramirez, Deputy Director, DETR

Office of Secretary of State:
Scott Anderson, Deputy Secretary for
Commercial Recordings

Las Vegas Sun:
Cy Ryan

Public:
Sandra Cole
Dr. Dean Friesen
James Hein

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

The building was evacuated prior to the meeting delaying its start.

Governor Kenny C. Guinn, Chairman, determined a quorum was present and called the meeting to order at 9:10 a.m.

B. Discussion and possible action regarding the minutes from the June 1, 2006, meeting as set forth in the backup material.

The Governor asked if there were any questions regarding the June 1, 2006, meeting minutes. There were no questions, and he called for a motion.

Motion: Move for approval of the June 1, 2006, meeting minutes
By: Treasurer Brian Krolicki
Second: Controller Steve Martin
Vote: Motion approved 5 – 0

C. Discussion and possible action regarding amendments to the Division of Internal Audits' annual audit plan for fiscal year 2007 as set forth in the backup material. (NRS 353A.038)

William Chisel, Chief, Division of Internal Audits, stated they would like to add the Department of Corrections, Substance Abuse Treatment Programs, and Department of Health and Human Services, Health Division, to the Division's annual audit plan for fiscal year 2007.

The Governor requested clarification from Mr. Chisel on his request to audit the Department of Corrections when the Department was just audited.

Mr. Chisel stated an audit of the Department of Corrections as a whole would be a huge undertaking; therefore, they are auditing the Department in segments. This specific audit is the result of a request to audit the Department's Substance Abuse Treatment Programs.

The Governor asked Mr. Chisel if this audit request would come out of the Division's allotment of additional time set aside for requests such as this. Mr. Chisel stated it would.

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

Motion: Move for approval of the Division of Internal Audits' amended annual audit plan.
By: Controller Steve Martin
Second: Dana Bridgman, CPA
Vote: Motion approved 5 - 0

D. Discussion and possible action regarding the Division of Internal Audits' Annual Report. (NRS 353A.038)

William Chisel, Chief, Division of Internal Audits, stated pursuant to the requirements set forth in state statute, the Division is submitting to the Committee their annual report for approval. The annual report represents a summary of the Division's accomplishments for fiscal year 2006:

- ✓ Internal Audits section – Performance indicators summarize estimated benefit to Nevadan's as \$23.80 to \$1.
- ✓ Financial Management section – Provided training on internal control procedures to 26 percent of all state agencies.
- ✓ Post Review section – Examined 35 percent of all state agencies' expenditures, and reported the results to the Board of Examiners.

The Governor asked Mr. Chisel to explain the ratio benefit of \$1 to \$23.80 to him as if he were a legislator.

Mr. Chisel stated the \$1 represents the state's cost for the Internal Audits section and the \$23.80 represents the benefit. When recommendations issued through audit reports are implemented, the Division tracks the implementation status and quantifies the benefits. Benefits can include anything from reduced state expenditures to additional health care benefits to seniors.

George Chanos asked Mr. Chisel to clarify the term benefits.

Mr. Chisel stated benefits can include cost savings, enhanced revenues, or reducing staff in one area of the agency and placing staff in other areas to better utilize the work force.

Mr. Chanos asked Mr. Chisel to clarify the financial benefit to the state of reduced costs or increased revenue.

Mr. Chisel stated benefits are to the state and Nevadans, e.g.:

- ✓ By using existing resources, the audit of the Senior RX Program determined ways to run more efficiently resulting in additional benefits to seniors of Nevada of approximately \$1,500,000 per year.

The Governor responded to Mr. Chanos stating the first year he was in office there wasn't an internal audit staff. He couldn't fathom how that could be with a state the size of Nevada. With the tremendous turnover of department heads and cabinet members, there wasn't a consistent pattern of how things were done. The insufficient follow-up process allowed recommendations issued to go unimplemented for years, and state agencies were functioning inefficiently; therefore, he established the Division of Internal Audits. The

Division was not established to look for who stole a dollar; the state has other ways of dealing with those matters. The Division of Internal Audits was established to perform executive audits:

- ✓ Reviewing the methodology of state agencies, and
- ✓ Recommending ways state agencies can function more efficiently.

Since inception, the Division of Internal Audits has saved the state millions of dollars which would have normally been spent inefficiently. He is pleased with the implementation tracking procedure the Division has developed resulting in a 95 percent overall implementation, and with the fact he hasn't received one complaint since he established the Division.

Steve Martin asked Mr. Chisel how the follow-up process, shown on page eight of the report, works on partially implemented recommendations.

Mr. Chisel responded stating six months after an audit report is presented to the Committee, the Division revisits the agency to determine implementation status of recommendations. Implementation status is categorized as:

- ✓ Fully implemented,
- ✓ Partially implemented: agencies are still working to fully implement the recommendation,
- ✓ No longer applicable because of statute changes or other changes within the agency, or
- ✓ No action was taken to implement the recommendation(s).

The Governor stated if the agency hasn't completed what they agreed to complete in writing by the time the internal audit staff goes back in six-months, the agency is required to respond in writing and give justification for non-implementation. The Division prepares a report of their findings for the Committee's review and input from an administrative stand point.

Mr. Martin asked if he read the report correctly, e.g., with the Highway Patrol audit completed in January, 2002, the report shows they have implemented 17 recommendations.

Mr. Chisel indicated to Mr. Martin his interpretation was correct.

The Governor stated the Division's audit process is an evolutionary process and withstands changes. The system works because it has implementation, follow-up, and action. If he were a certified public accountant, he would recommend this process to all private companies because it is a great program.

Ms. Bridgman agreed with the Governor.

The Governor stated on every outside company he served on the Board of Director's as chairman of the audit group, they implemented this audit process. Whether it is gaming, banking or anything else under regulatory requirements this program helps them immensely.

Ms. Bridgman stated Sarbanes Oxley requires this process. However, the state had the process in place before it was required.

The Governor asked for consideration of acceptance of agenda item D as set forth in the back up material. He asked if there were any further questions regarding the Division of Internal Audits' annual report. There were no further questions, and he called for a motion.

Motion: Move for approval of the Division of Internal Audits' annual audit report.
By: Controller Steve Martin
Second: Treasurer Brian Krolicki
Vote: Motion approved 5 - 0

E. Presentation of the Division of Internal Audits' Annual Audit Follow-up Status Report. (NRS 353A.090), William Chisel, Chief.

Mr. Chisel stated agencies are moving forward with implementation of outstanding recommendations, and the Division is having no problems. The Division has made great strides in the past seven years.

The Governor stated not many grids are beautiful, but this one is to him. Since agenda item E was discussed with agenda item D, and there were no further questions, he suggested they move on to agenda item F.

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

1. Department of Corrections – Relief Factor

Paula Ward, Executive Branch Auditor IV, Division of Internal Audits, presented the audit report.

Ms. Ward stated the Department houses approximately 12,000 offenders in twenty institutions throughout the state:

- ✓ Prisons,
- ✓ Conservations camps, and
- ✓ Restitution centers.

The audit addressed whether the Department:

- Should enhance correctional officer staffing?

When determining the proper staffing level, the Department should consider time officers are away from their posts and the methods used to compensate for it.

Posts are manned locations, such as secured gun towers or cell blocks, which are strategically located within the institution to provide security. The Department establishes posts and positions during the initial design of the institution and in turn, submits them to the Budget Division and to the Legislature for approval.

Most posts are manned twenty-four hours a day, seven days a week; however, this exceeds the time officers are available to work due to:

- ✓ Regular days off,
- ✓ Annual leave,
- ✓ Sick leave, and
- ✓ Training.

To address time officers are away from posts, Nevada adopted a "relief factor" of 1.6 in the late 1970's. The Department multiplies the 1.6 relief factor by the number of approved positions to determine how many officers are needed to provide security. However, the 1.6 relief factor does not address two other reasons officers are away from posts:

- ✓ Vacancies (i.e., hiring process and six weeks of pre-service training), and
- ✓ Off post duties (e.g., military leave, weapon qualification, transporting offenders to appointments).

For the year ended March 2006, the Department tracked the time positions were vacant or officers were off post at the seven largest institutions. As a consequence, authorized posts were only manned 83% of the time at these seven institutions.

Other states surveyed had updated their relief factors within the past six years and use either vacancy and/or time officers were off post in their calculations. Oklahoma, Oregon, and South Carolina's relief factors range from 1.75 to 2.00.

The Department has compensated for the additional time officers have not been available by pulling officers from lower risk posts and placing them at higher risk posts, shutting the post down completely, or approving overtime.

As a result of the audit, one recommendation was issued:

- ✓ Evaluate increasing the relief factor – Evaluating the relief factor assists the Department in ensuring institutions have an adequate number of correctional officers to maintain security.

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

Glen Whorton, Director, Department of Corrections, was present to address questions from the Committee.

The Committee requested clarification on the following:

- Question: What process does the Division of Internal Audits use to select other states as a comparable?

Answer

Ms. Ward stated the Division will often seek assistance from the agency in their selection of comparable states and take into further consideration:

- Population, and
- Institution operation procedures.

For their audit, three comparables were used; however, up to ten comparables can be used to obtain the most accurate end result.

- Question: How do you propose to keep the relief factor current given the variables and lag time, (e.g., release time for military duty, filling vacant positions when hiring is tighter and more difficult, and transportation services for inmates)?

Answer:

Ms. Ward stated the variables are why the audit states "evaluate". The audit compares statistics from data obtained rather than relying on past year's data. Based on the Department's present tracking system, the relief factors haven't changed much in the past several years.

Glen Whorton stated the Department developed an automated information system for staffing which will aid them in obtaining information for the relief factor in the future. He believes with regard to the recommendation they are in compliance.

- Question:

Because correctional officers, first responders, highway patrol, local police, and law enforcement personnel are pulled off their jobs at a much higher percentage rate during times of conflict such as the gulf war and the war in Iraq, would the release time for military service be the highest negative deviation for these positions?

Answer:

Mr. Whorton stated this is correct.

- Question:

The Department facilities house approximately 12,000 offenders which are approximately 500 to 600 over projections. With the increase in projections, there is a need for more offender transportation for medical services and overtime to cover. To compensate for this increase, the Department can not cut down on some areas because they should not. Is this the point you're making?

Answer:

Mr. Whorton stated with the increase in offenders, there will be consistent use of staff overtime or posts will be shut down to accommodate the need. It is correct to say the majority of our staff populate the National Guard and Military Police. Based on the national press reports, Mr. Whorton doesn't see the situation going away any time soon. He is supportive of the auditors and feels they have given a true representation of the Department's situation.

- Question:

If the relief factor is increased to 1.82 from 1.6, would the Department require additional funds of approximately \$28 million annually?

Answer:

Mr. Whorton stated funds would be required biennially.

- Question:

How much would the overtime payback be to offset the projected \$14 million in funds required annually to facilitate better offender coverage in facilities?

Answer:

Mr. Whorton stated overtime will not be to the degree it has been in the past. Posts would essentially be manned at the straight rate of 1.0 instead of 1.5 in terms of time and a half.

During the six week training of new staff, the Department pays the new staff member's salary as well as the salary of the staff member to fill the position during the six weeks or they have to shut the position down. The most essential contact he has with the correctional staff relates to this issue of pulls and shut downs.

Mr. Whorton wished he could say this would result in a savings to the state, but stated the reality is there would be an increase in the Department's effectiveness.

- Question:
How does the Department plan to obtain the necessary general operating dollars required to increase the relief factor?

Answer:

Mr. Whorton stated he is meeting with Andrew Clinger on September 29, 2006 with regard to the Department's budget, and this subject will be the major element of discussion.

2. Office of the Military - Maintenance

Kirk Starkey, Executive Branch Auditor II, Division of Internal Audits, presented the audit report.

Mr. Starkey stated the audit addressed:

- Can the Office of the Military improve facility maintenance?
- ✓ Use existing staff to extend maintenance program to the military facilities in Reno, Stead, Las Vegas, and Henderson:
 - Estimate a reduction of facility replacement costs by up to \$500,000 per year.
 - Develop performance indicators to measure efficiency and effectiveness.

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

Brigadier General Cindy Kirkland, The Adjutant General, and Miles Celio, Administrative Services Officer II, Office of the Military, addressed questions from the Committee.

The Committee requested clarification on the following:

- Question:
The savings of \$500,000 for maintenance repair and replacement, did you break that down as far as General funds versus Federal Funds?

Answer:

Mr. Starkey said he took the total square footage of the facilities and broke it down by what would be the state's and federal government's responsibility.

- Question:
Is this related to General Fund only?

Answer:
Mr. Starkey stated this would be state funded. [sic]

- Question
What is the coordination of the maintenance on a piece of valuable equipment if you do not get the maximum use out of it for a lifetime of service?

Answer:
The Adjutant General stated in the past the Office did not have adequate maintenance staff to cover the number of facilities scattered throughout the state. Their maintenance staff has been increased through legislation. In the past six months, the Office has developed a maintenance program for the armories. Federal dollars received by the Office help with the purchase of supplies for maintenance.

- Question
Would funding come through if you lost the availability of the additional years on this equipment?

Answer:
The Adjutant General stated because of the increased use and demand on the facilities, increased mobilizations, and the federal requirements for using those facilities, it would fall to the state to provide the resources. The Office has been successful in the last several years obtaining additional federal funds for programs they would not otherwise contribute to.

- Question:
Will the Office's new maintenance program keep these incidents from happening in the future?

Answer:
The Adjutant General stated the Office will never be able to prevent all maintenance problems. However, by hiring additional maintenance staff in both the north and south, maintenance costs should be decreased.

- Question:
What governs whether Buildings and Grounds shares more of their services with the Office?

Answer:
Mr. Celio stated Buildings and Grounds does not provide maintenance support to the Office in the same capacity as they support other agencies. The Office has an internal custodial maintenance section. They attempted to use outside contractors in Las Vegas but because of the rapid growth in that area, contractors did not want to come out.

3. Department of Employment, Training and Rehabilitation, Employment Security Division
Shannon Selitsch, Executive Branch Auditor II, Division of Internal Audits, presented the audit report.

Ms. Selitsch stated the Division has several key functions including:

- ✓ Employment, and
- ✓ Unemployment Insurance Services.

The audit addressed the following:

- Can the Division reduce benefit overpayments?
- Can the Division deter fraud?

The Division can reduce benefit overpayments by identifying those individuals who continue to collect unemployment benefits while earning wages. Currently the state's database does not identify individuals who collect unemployment benefits in Nevada, and:

- ✓ Return to work in other states, or
- ✓ Return to work for a multi-state employers (i.e., Wal-Mart), or
- ✓ Return to work for the federal government or military.

Utilizing the federal database "National Directory of New Hires" would detect individuals who are not listed in the state database. The auditors estimate the use of this database could reduce paying unemployment benefits to those employed by up to \$2.6 million dollars a year. The agency estimates implementation costs to be approximately \$100,000.

The Employment Security Division may deter fraudulent unemployment benefits by assessing penalties. A survey of California, Colorado, and Utah, revealed they assess penalties from 15 percent to 100 percent of the fraudulent payment. Assessing a 15 percent penalty could provide the Division additional operating funds of approximately \$140,000.

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

- ✓ Use the National Directory of New Hires database to reduce overpayment of unemployment benefits.
- ✓ Seek amending statute to permit assessing penalties on fraudulent payments.

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

Cindy Jones, Administrator, Employment Security Division, and Martin Ramirez, Deputy Director, Department of Employment, Training and Rehabilitation, addressed questions from the Committee.

The Committee requested clarification on the following:

- Question:
Is there a way to integrate the National Directory of New Hires database with the State of Nevada New Hire Directory to obtain quarterly reports from employers' listing of employees and their social security numbers?

Answer:

Ms. Jones stated they collect wage data for all the employees who are reported by employers as part of a due course of executing the unemployment insurance program. The State of Nevada New Hire Directory database is already in place and the Agency utilizes it to internally cross match. The implementation of the National New Hire Directory would enable the Agency to detect those who are now employed in another state and also collect benefits against wages earned in Nevada.

• Question:

To cover the implementation cost of \$100,000, will the Agency need to reallocate some of the funds from their \$53 million budget?

Answer:

Mr. Ramirez stated the Department of Labor has made funds available for states to become part of the National New Hire Directory. The Agency has been notified their request for supplemental funds has been approved, and is waiting for the Budget Division's approval of their work program to accept those funds.

• Question:

When a 15 percent penalty is assessed, what is the collection rate?

Answer:

Ms. Jones stated penalties are charged above and beyond the payments the employee should not have received.

• Question:

Are charges brought against those apprehended for falsifying information when they apply for unemployment benefits?

Answer:

Mr. Ramirez stated at this time the Agency does not do this. The recommendation does have merit and would deter fraudulent overpayment. Statutory language would need to be amended to implement this recommendation, and there would be a significant amount of programming to the unemployment insurance systems to allow the Agency to collect and segregate the fraudulent overpayment dollars from the regular overpayment amount. The Agency's proposal would be to amend and submit the appropriate Bill Draft Request (BDR) at the next legislative session.

During fiscal years 2008 and 2009, the Agency will be conducting a comprehensive replacement cost study on both of the unemployment insurance systems which pay benefits and collect contributions. The Agency would like to replace both systems and integrate this function into the replacement proposal. The study will cost approximately \$2.5 million and will collect the technical requirements to replace both systems. The recommendation would be more effectively implemented if the Agency integrated the replacement of both systems, and did not spend any funds at this time.

- Question:
What is the ratio of federal funds to general funds?

Answer:

Mr. Ramirez stated all funds are from unemployment insurance trust fund dollars.

Ms. Bridgman stated the obvious deterrent to fraud is the idea someone is watching. Advertising to get the word out when they are applying for benefits is a powerful message.

Ms. Jones stated with the implementation of the National New Hire Directory, the Agency will institute an outreach campaign to the employer community to solicit their assistance in reaching new hires and educating them of the dangers associated with collecting unemployment insurance once they begin working.

4. Department of Business and Industry, Financial Institutions Division

Vita Ozoude, Executive Branch Auditor I, Division of Internal Audits, presented the audit report.

Mr. Ozoude stated the Division is charged with enforcing laws and regulations pertaining to depository and non-depository institutions:

- ✓ Depository institutions provide customers a place to deposit, save and borrow money, and include state chartered banks and credit unions.
- ✓ Non-depository institutions provide services such as payday loans and check cashing, and include installment loan and short-term loan companies.

The audit addressed the following:

- Can the Division enhance its regulatory process?

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

- ✓ Perform annual examinations of non-depository institutions as required by statute.
 - Mr. Ozoude stated their review of the Division's listings revealed during fiscal years 2005 and 2006 the Division examined approximately 31 percent of non-depository institutions. By examining all non-depository institutions annually, the Division could increase examination fees by approximately \$640,000, and ensure the Division is in compliance with laws and regulations.
- ✓ Hire examiners timely.
 - The Division has 18 authorized examiner positions. An estimated average of seven positions remained vacant during fiscal year 2006. Hiring examiners timely will enable the Division to complete all the required examinations of non-depository institutions.
- ✓ Bill non-depository institutions timely for examinations as required by statute.
 - As required by statute, the Division should bill non-depository institutions for completed examinations. Mr. Ozoude stated they reviewed a sample of completed examinations and found only 56 percent were billed. Billing for all examinations completed would have resulted in additional examination fees of \$116,000 for fiscal year 2006.
- ✓ Submit all sub-standard examinations to the Disciplinary Committee.

- Per policies and procedures, the Division should submit sub-standard examinations to the Disciplinary Committee. Mr. Ozoude stated they reviewed records pertaining to 36 institutions with sub-standard ratings, and only six were forwarded to the Disciplinary Committee. By complying with policies and procedures, the Division can ensure sanctions are evaluated and imposed when necessary.
- ✓ Re-examine institutions with sub-standard ratings within one to six months.
 - The Division should re-examine institutions with sub-standard ratings within six months. Mr. Ozoude stated they examined 36 sub-standard rated institutions and noted none were re-examined as required by the Division's policies and procedures. This should ensure timely corrective actions are taken and Nevada consumers are protected.

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

Carol Tidd, Commissioner, and Steven Kondrup, Deputy Commissioner, Financial Institutions Division, addressed questions from the Committee.

The Committee requested clarification on the following:

- Question:
Would additional staff help the Division perform more examinations and increase revenue?

Answer:

Ms. Tidd stated the understaffing problem has been rectified, and they are now fully staffed. Additionally, the Division had major changes to the agency's licensing groups; therefore, many examinations were put on hold for the last six months of last year.

- Question:
What is the Division's largest licensing group?

Answer:

Ms. Tidd stated the NRS 604A is their largest licensing group at approximately 500 licensees which are short term loans, title loans, payday lenders, and check cashing.

The Governor stated because of the abuse taking place, these licensees have had more legislative changes made to them.

- Question:
If you have more individuals for auditing, do you charge service fees; whether it be state banks, savings and loans, pay day lenders or anyone else?

Answer:

Ms. Tidd stated that is correct. Non-depositaries are charged an hourly rate, so if the Agency examines 20 hours, it is 20 times the hourly rate. Depositories pay on an assessment level and this is where the hours are really being spent.

- Question:
Does the Division work jointly with the FDIC in the regulating and examining process?

Answer:

Ms. Tidd stated they receive requests because the FDIC is the insurer and the Division is the chartering agency.

- Question:
What is the training background required of staff performing the examinations?

Answer:

Ms. Tidd stated the Division has implemented an extensive in-house training program, which included money services business training online with Bank Supervisor, FDIC school, and they require a bachelor's degree in finance. We have a mentoring program in place using the senior examiners. The Division also just completed an extensive training at the National Credit Union Administration. Staff is required to complete about 200 hours of training each year, not including the FDIC schools which can be another 80-160 hour commitment.

- Question:
Is there more than one place for a check cashing business or pay day loan business to get a license?

Answer:

Ms. Tidd stated licenses are issued under NRS 675 and NRS 604.A depending on the type of lending business you are looking to obtain a license for. Licensees had to decide which type of lending business they wanted to pursue then obtain a license under the appropriate NRS.

- Question:
With the Division's staffing situation resolved and the in-house training in place, will the Division be able bring the backlog current?

Answer:

Ms. Tidd stated they have hit the perfect storm where everybody is at the 18 month schedule. The Division is utilizing new people for NRS 604.A and NRS 675 examinations and sending more experienced people into the banks.

- Question:
The Governor's Office has received devastating letters from people who have borrowed for example \$350 and then are required to pay back \$2,000. Have payday loan businesses been tightened down?

Answer:

Ms. Tidd stated their biggest challenge is issuing cease and desist orders on activity taking place on the internet. The Division is trying to get jurisdiction over lenders online; however, the lender may be located in England, Kazakhstan, India, or Korea. The website looks fine, and they may even throw in a local

address; we are consistently going after these people. The Division has cease and desist orders circulating in Europe for which they haven't received any response back.

The Division is working on a campaign with the Certified Public Manager (CPM) group in Las Vegas to go after these online groups.

5. Nevada Institutional Review Board (NIRB)

Vita Ozoude, Executive Branch Auditor I, Division of Internal Audits, presented the audit report.

Mr. Ozoude stated the Board was established in 2005 to monitor clinical research on complementary and integrative medicine. Complementary and integrative medicine combines modern and alternative therapies for the treatment of disease or disability. For example, cancer patients often seek additional therapies such as acupuncture or herbal medicine to help manage the side effects of chemotherapy.

The audit addressed the following:

- Can the NIRB enhance effectiveness?
- Can the NIRB provide timely reports?

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

- ✓ Establish an annual plan for reviewing research.
 - NIRB will be able to organize and prioritize its activities as well as provide deadlines for the researchers by using an annual plan.
- ✓ Submit written reports quarterly to the Homeopathic Board as required by statute.
 - For the quarter ended December 31, 2005, NIRB did not provide the required written reports timely.

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

Robert Gentry, Executive Director, Nevada Institutional Review Board, and Dr. Dean Friesen, addressed questions from the Committee.

The Committee requested clarification on the following:

- Question:
Is there a reason the Board hasn't met the standards of the law?

Answer:

Mr. Gentry stated the four directors appointed by the Homeopathic Examiners were removed from the Board, and the director appointed by the Governor was removed. The Board was unable to comply with the standards of the law because of the lack of members and funding from the legislature. With the exception of one fund raiser which generated \$28,000 in funds, all Board members were considered volunteers and were not compensated for serving on the Board. The Board has been dysfunctional or dismantled since the first of April.

- G. Presentation of Division of Internal Audits audit follow-up report for the Legislative Counsel Bureau (LCB) audit recommendations issued October 26, 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 is released, the Division issues a report to LCB through the Department of Administration on the status of recommendations. Follow-up reports were issued on the following LCB audits:

- ✓ Cultural Affairs – Director's Office
- ✓ State Library and Archives
- ✓ Transportation Services Authority
- ✓ Division of Industrial Relations
- ✓ Risk Management Division

No significant concerns exist at this time regarding agencies' responses.

- H. Public Comment

There were no comments from the public.

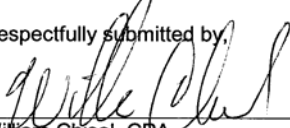
- I. Comments of Committee Members

There were no comments from the Committee members.

- J. Adjournment

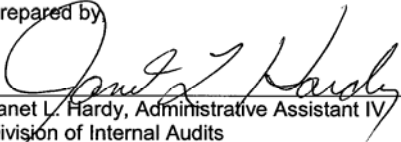
The Governor adjourned the meeting at 11:10 a.m.

Respectfully submitted by,



William Chisel, CRA
Chief
Division of Internal Audits

Prepared by



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