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

**MINUTES**
**November 6, 2008**

The Executive Branch Audit Committee and the Division of Internal Audits met on November 6, 2008, at the Capitol Building Annex, Second Floor, 101 N. Carson Street, Carson City, Nevada. The meeting was videoconferenced between the Capitol Building Annex and the Grant Sawyer State Office Building, Governor's Office, 555 East Washington Avenue, Las Vegas, Nevada.

**These minutes were approved by the March 18, 2009 Executive Branch Audit Committee.**

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| **MEMBERS PRESENT:** | Governor Jim Gibbons, Chairman<br>Lieutenant Governor Brian Krolicki<br>Secretary of State Ross Miller<br>State Treasurer Kate Marshall<br>Controller Kim Wallin - absent<br>Dana L. Bridgman, CPA, Public Member |
| **MEMBER VIA TELEPHONE AND VIDEOCONFERENCE:** | Attorney General Catherine Cortez Masto |
| **DIVISION OF INTERNAL AUDITS STAFF PRESENT:** | William Chisel, Chief<br>Steve Weinberger, Financial Manager<br>Mike Colburn, Executive Branch Auditor IV<br>Warren Lowman, Executive Branch Auditor IV<br>Paul Chalekian, Executive Branch Auditor III<br>Joyce Garrett, Executive Branch Auditor III<br>Shannon Selitsch, Executive Branch Auditor II<br>Connie Boynton, Administrative Assistant IV |
| **OTHERS PRESENT:** | See attached sign-in sheet. |

The agenda for this meeting was posted in accordance with the Nevada Open Meeting Law and was mailed to groups and individuals as requested.

**A. Call to Order**

Governor Gibbons, Chairman, called the meeting to order at 1:00 p.m. Attorney General Catherine Cortez Masto was present by telephone and videoconference. Governor Gibbons welcomed those present, and asked the secretary to call the roll. Division of Internal Audits Chief William Chisel accepted that roll. All members were present, with the exception of Controller Kim Wallin. A quorum was noted. Governor Gibbons stated the first order of business would be discussion of possible action regarding the minutes from June 5, 2008.

Governor Gibbons thanked everyone for taking the time to attend the Executive Branch Audit Committee meeting, and stated the reports presented will be discussed in detail. Governor Gibbons mentioned how important it is to look at every state agency in detail to have the most efficient state government in light of public expectations.

**B. Discussion and possible action regarding the minutes from the June 5, 2008 meeting.**

Governor Gibbons asked if the Committee had any questions about the draft minutes from the June 5, 2008 Executive Branch Audit Committee meeting. There were none.

**Motion**: Move for approval of the minutes of the June 5, 2008, meeting.
**By**: Lieutenant Governor Brian Krolicki
**Second**: Secretary of State Ross Miller
**Vote**: Motion approved 6-0

**C. Discussion and possible action regarding amendments to the Division of Internal Audits' annual audit plan for fiscal year 2009 as set forth in the backup material. (NRS 353A.038)**

Mr. Chisel stated to the Executive Branch Audit Committee (Committee) a list had been presented of the audits being proposed for the fiscal year 2009. He said on the list, the Division of Internal Audits (Division) will be looking at the Agency for Nuclear Projects. Mr. Chisel said the Division would also look at a four ten-hour work day schedule for state workers. He also said Utah had implemented the four ten-hour work day schedule.

Mr. Chisel said the Division would develop a Risk Analysis for what the Division considers high-risk agencies within the state, and assigns a certain risk value based on revenues or issues the agencies had during the audit. Mr. Chisel further explained that high-risk didn't mean the agencies were in trouble financially, but agencies may not have had a recent audit. Agencies may also be at high-risk if they deal with a lot of funding. Mr. Chisel said the four audits that are being requested are:

- ✓ **Division of Environmental Protection**
- ✓ **Division of Water Resources**
- ✓ **Western Interstate Commission for Higher Education (W.I.C.H.E.)**
- ✓ **Department Motor Vehicle, Compliance Enforcement Office**

Mr. Chisel asked if there were any questions or requests for additional audits.

Governor Gibbons said before he would turn to questions he wanted to assure everyone the requested audit for the Agency for Nuclear Projects was not done out of any political motivation, but because there were concerns about how money had been managed. He went on to say issues had been raised, and in order to answer questions, an audit of the agency would be necessary. Governor Gibbons then stated Mr. Chisel had already been involved in the project for sometime and asked the Committee if there were any questions or comments.

Treasurer Marshall asked what factors were considered as part of the assessment to determine whether the audit would be risk-based.

Mr. Chisel stated there were a variety of important factors, and some of the biggest factors with the highest weight would have been the time period since the last audit and the agencies total revenues. Mr. Chisel said the Division also works in coordination with the Legislative Council Bureau (LCB). He said other factors would include geographic dispersion, number of staff, or any specific concerns the agency presently had. He also said that the Committee could have a copy of the most current risk assessment or the first page which would show the high risks.

Treasurer Marshall asked when a risk-based audit is determined and if the same factors are applied to every audit.

Mr. Chisel explained factors vary because total revenues vary between agencies.

Treasurer Marshall replied the agencies varied, but asked if the same criteria were applied.

Mr. Chisel responded that was correct, and said a weighting is applied for the criteria, furthermore, he said revenues and recent audits are weighted at a higher value then geographic dispersion.

Treasurer Marshall wanted to know if the Committee could review the analysis that was used to determine whether the audit would be a risk-based audit. She asked if it would be possible to set an agenda item for the Committee in the future to review the process for comment and discussion.

Mr. Chisel responded yes, it could be done for the next meeting and said he felt it was important to be responsive to the Committee and prioritize any audits that are requested to the Committee. Mr. Chisel said thank you.

Lieutenant Governor Krolicki said one of the largest revenue sources in the state had been subject to conversation. He said he did not see any legislative action to do an audit or performance audit on the Insurance Premium Tax. He then asked Mr. Chisel to take the lead and look at the Insurance Premium Tax to make sure the state is receiving monies.

Mr. Chisel replied he would coordinate with LCB to see if an audit had been performed or an audit will be planned for Insurance Premium Tax. Mr. Chisel asked for permission to make the Insurance Premium Tax a requested audit.

Governor Gibbons said okay and asked if the Committee if they had any questions.

Secretary of State Miller inquired when the audits would take place, and what the general schedule would be for the annual plan.

Mr. Chisel explained the Division planned to start and finish the audits for the Agency for Nuclear Power and the four ten-hour work day schedule as soon as possible. He said the goal was for this calendar year. Mr. Chisel also stated he prioritizes according to the Committee and will start the Insurance Premium Tax at the beginning of next calendar year. He said the Division will start the audit for Mental Health and Developmental Services (MHDS) that was approved prior, and Nevada Department of Transportation (NDOT) which is already in progress. He stated the University audit on depreciation was being finished.

Secretary of State Miller requested on the next Executive Branch Audit Committee meeting to present which audits are coming as well as a general idea of the terms to schedule an audit.

Mr. Chisel agreed.

Governor Gibbons asked Mr. Chisel if the proposed audit plan require approval of the Committee.

Mr. Chisel said yes, it did.

Secretary of State Miller called for a motion for approval to amend the Division of Internal Audits' annual plan of audits for fiscal year 2009, including the additions submitted by the Division, as well as Lieutenant Governor Krolicki's suggestion of auditing the Insurance Premium Tax.

**Motion**: Move to approve to amend the Division's annual plan of audits for fiscal year 2009.
**By**: Secretary of State Miller
**Second**: Lieutenant Governor Krolicki
**Vote**: Motion approved 6-0

Governor Gibbons then asked if there were questions or comments with regard to item C. There were none.

**D. Discussion and possible action regarding revisions to the Division's administrative policies and procedures for operations. (NRS 353A.038)**

Mr. Chisel informed the Committee, pursuant to statue, now the Committee was required to approve the Division's policies and procedures. Mr. Chisel said the Division had tentatively updated its policies and procedures for each area along with the administrative section. He said the procedures had been simplified and he added they had proposed a new notation to provide some flexibility to the procedures. He also said in the past before making any changes, the Division would have to go the Committee for approval, but they would like to make some changes and enact those changes before having them approved at the next Committee meeting. Mr. Chisel said the Division's policies and procedures are high level. He also said the Division wants to implement a desk manual that details how procedures are implemented, examples such as how to fill out a leave slip, or the Division's time tracking program, which has great detail and may be voluminous. Mr. Chisel requested to make changes, as needed, for more flexibility, without presenting those changes to the Committee.

Governor Gibbons asked if there was a certainty of understanding within the rules and guidance's that would not adversely affect the operation of an audit.

Mr. Chisel explained it would not effect auditing but would provide flexibility and the ability to adjust the policies and procedures on something as simple as a back-up tape changing to disk. Mr. Chisel said the Division would be currently out of compliance with the policies and procedures until the next Committee meeting.

Governor Gibbons acknowledged Mr. Chisel's concern.

Mr. Chisel explained at the rate of meeting every six months, he would like to be able to address the changes in a timelier manner.

Treasurer Marshall asked if the Division is sufficiently defining the changes that would be made without the approval of the Committee.

Mr. Chisel responded yes.

Treasurer Marshall voiced concern about retroactive policies being rejected by the Committee.

Mr. Chisel said there were two levels: one was the policies, which was presented to the Committee. He explained how these were high level issues, and said the Division has a charter and a strategic plan. He also said the Division has complied with state laws, regulations, and guidelines. Mr. Chisel requested he be able to make the change and have it approved at the next Committee meeting

Treasurer Marshall wanted to distinguish the difference between administerial activities, which were welcome, and policies pertaining to strategic direction activities. She thought the Committee would be abdicating some of the decision making, and stated how she felt the Committee should not relieve itself of authority between meetings.

Mr. Chisel asked Treasurer Marshall if she meant the program section or the administrative part of the policies and procedures.

Treasurer Marshall explained it would be for any policies and procedures that were not administerial. She said she would be concerned if the Division made a change that impacted another agency or individual, and if the Committee ruled against the change, the Division would have to go back and change again because an individual might feel they had cause for action. Treasurer Marshall also explained that if the Committee went back and reversed a decision the Division made due to activities taken under that decision, which had bound the state, she said she would not feel comfortable with the decision, because the state does not know where that would end up. Treasurer Marshall further explained that absolutely a back up disk or other administerial functions used to perform the Division's job in an efficient manner would be acceptable. But she stated how she would be concerned if the Division was seeking to take a policy or strategic action that the Committee should maintain its authority over.

Governor Gibbons stated if State Legislature should change the laws between the time of the Committee meetings, and it affected the Division's audit capability, he would be concerned the Division would be hamstrung until the Committee was able, at some point down the road following the end of the legislative session or the enactment of the law to make the change.

Mr. Chisel said that is correct.

Governor Gibbons stated how his concern was the Division would not be able to go forward with an audit if LCB had significantly done something substantive with a more restrictive law.

Mr. Chisel inquired to what extent the Committee wanted to be involved with the Division's program. Mr. Chisel also said the Division would comply with statutes, and said the request is for all the three sections of the Division. Mr. Chisel then explained the three sections of the Division:

- ✓ **Internal Audit Section** – Performs Audits on agencies within the state.
- ✓ **Financial Management Section** – Assists other agencies within the state with procedures.
- ✓ **Post Review Section** – Performs fiscal audits of other agencies within the state.

Mr. Chisel said any changes currently go through the Committee for approval and the statutes do not differentiate between the three sections of the Division. He said he didn't know if the Committee wanted to be involved with all of the changes.

Treasurer Marshall commented with concern about whether the Committee should relieve authority between Committee meetings.

Governor Gibbons asked Mr. Chisel if he wanted the Committee to approve retroactive changes the Division had made.

Mr. Chisel answered affirmatively for the high level policies and procedures.

Governor Gibbons asked if the Committee would still have the ability to review, approve or disapprove of action taken by the Division.

Mr. Chisel said correct.

Lieutenant Governor Krolicki stated that he did not have a problem with it, and said the window would only be a short time and would give the Division flexibility and the Committee would not be abdicating either. He also said if there is a disagreement, it would be noticed and discussed quickly and could be put in place to affect the Division's audit procedures.

Mr. Chisel replied the Division's policies and procedures are fairly high level, such as the topics of ethics, time tracking, performance measures, audits, and audit follow-ups. And he said the most changes would be a desk manual defining policies and procedures like time tracking. Mr. Chisel also said it is more administrative and he didn't think the Committee needed to spend their time with changes that wouldn't be significant.

Treasurer Marshall was still concerned about the Committee relieving itself of some of its authority. She said that a lack of transparency available to the public that may get to come to a Committee meeting, and she questioned providing insight or criticism, as the case would be. She didn't think that is the way the government should work. Treasurer Marshall agreed the Division did not need to check with her on administerial issues, but if there was difficulty with an issue to call a Committee meeting for a policy or strategy or directions the Committee ought to take.

Mr. Chisel acknowledged her concern.

Lieutenant Governor Krolicki suggested to Governor Gibbons that if the Division had any changes, Mr. Chisel could notify the Committee in writing, and if the Committee was concerned a meeting would be called.

Attorney General Masto asked Mr. Chisel if he was bringing this matter to attention because high level policy decisions needed to be made and the Division had to wait because the Committee could not meet as quickly as the Division would have liked.

Mr. Chisel explained they were not high level issues, but low level policy issues such as administrative time tracking.

Attorney General Masto asked Mr. Chisel if there were concerns in the future that would impede the Division's ability to move forward.

Mr. Chisel replied not at this time, but if there were changes he would like to adapt them without calling a meeting together.

Governor Gibbons announced Director of Department of Administration, Andrew Clinger.

Mr. Clinger explained to the Committee that looking at the headings in the Division's policies and procedures that were handed out in the packet, the Committee would notice the first section to be administerial functions and thought he this was what Treasurer Marshall was referring to. Mr. Clinger asked the Committee to grant some flexibility to the Division under the administrative section, and leave the other sections for the approval at the Committee meetings.

Mr. Chisel explained he also wanted to put the time tracking program under the administrative section.

Attorney General Masto asked Mr. Chisel if the time tracking was an opportunity for him to administer time tracking with the Division's auditors.

Mr. Chisel replied affirmatively.

Attorney General Masto stated to Mr. Chisel having the flexibility for the administrative section had nothing to do with a major policy decision of impacting agencies that were being audited, but more of a control over the efficient use of the auditors.

Mr. Chisel replied yes, and how it is methodology of how the Division tracks time, and whether it was through budgets, or dates and deliverables.

Treasurer Marshall commented if the Division wanted to divide the sections and ask for the ability to make changes in the administerial section, she would not be opposed, if the changes were brought to the Committee later.

Secretary of State Miller reaffirmed to Mr. Chisel's question about changing the time tracking section to the administrative section.

Mr. Chisel replied there was time tracking in each section.

Secretary of State Miller asked Treasurer Marshall if she had any objections to moving time tracking to the administrative section.

Treasurer Marshall agreed with moving the time tracking but stated that she would not be in favor of moving the performance measures

Secretary of State Miller agreed.

Governor Gibbons replied moving time tracking under the administrative section would be an appropriate category for time tracking to fall under.

Secretary of State Miller said that would work.

Mr. Clinger said each area has the time tracking under the general section.

Mr. Chisel agreed with Mr. Clinger.

Lieutenant Governor Krolicki asked Mr. Chisel if that worked for him.

Mr. Chisel replied affirmatively.

Lieutenant Governor Krolicki asked for a motion.

Governor Gibbons said the motion would be to approve the Secretary of State's request for administrative portions of the policies and procedures are granted flexibility to make changes followed by an approval at the subsequent or following Committee meeting. Governor Gibbons then said other changes would have to be proposed, reviewed and approved prior to enactment by the Committee. He asked if everyone understood.

Lieutenant Governor Krolicki asked if the chair made a motion.

Governor Gibbons replied it had been moved.

Secretary of State Miller asked Governor Gibbons if he wanted him to make the motion.

Governor Gibbons said the motion had been made, and seconded by Secretary of State Miller. Governor Gibbons then asked if everyone understood the motion. Mr. Chisel asked if he could recap.
Governor Gibbons replied yes.

Mr. Chisel recapped the areas that the Division will have flexibility to change the administrative areas which are described in the front of the policies and procedures, and also in the time tracking under the general areas within each section. Mr. Chisel said those would then be approved at a future Committee meeting. Mr. Chisel stated the Division will have a desk manual that defines further steps that would be taken to implement a policy such as time tracking. He also said the desk manual is thick in size and wanted the Division to be able to change the details without presenting them to the Committee. Mr. Chisel asked what the Committee thought.

Treasurer Marshall agreed and said as long as it did not involve other items. She requested that Mr. Chisel not put strategic items in the desk manual.

Mr. Chisel agreed and then said the Division would need to obtain prior approval first, because it should be in the strategic plan and he asked the Committee if they wanted a full copy of the strategic plan for approval.

Treasurer Marshall acknowledged.

Lieutenant Governor Krolicki said unless it pertained to time tracking.

Treasurer Marshall replied unless it was a strategic plan for time tracking.

Governor Gibbons said that everyone present should have a fairly good idea of the concept they are after. He asked if there were any questions or comments with regard to the motion with any of the members.

**Motion**: Move for approval of revisions and possible action regarding revisions to the Division's policies and procedures for operations.
**By**: Governor Gibbons
**Second**: Secretary of State Ross Miller
**Vote**: Motion approved 6-0

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

Mr. Chisel stated to the Committee, the Division is required by statue to submit an annual report to the Committee. He explained the Committee should have a copy. Mr. Chisel also explained the report shows three sections and defines what the Division has done for fiscal year 2008. Mr. Chisel asked the Committee to look on page 7 of the annual report where it would show the audit follow-ups for the internal audit section. He said as of June 30, 2008 88 percent of the Division's recommendations had been fully implemented. Mr. Chisel stated he wanted to point the performance measures on page 10, and that page will show the ratio of benefits, each dollar that was spent on the internal auction section. He said for every dollar spent the Division estimated $32 of benefits had been received by Nevadans. Mr. Chisel asked if there were any questions.

Attorney General Masto asked Mr. Chisel to note on page three, the Division had four positions that were currently vacant, she asked if the positions were frozen and if those were auditor positions.

Mr. Chisel said yes they were.
Treasurer Marshall stated she did not have the annual report.

Governor Krolicki stated he saw the $39 figure but the report was separate.

Mr. Chisel explained the annual report was also in the summary and could give also give a copy to any Committee member that needed one.

Dana L. Bridgman, CPA Public Member, responded she received the annual report.

Mr. Chisel said he would get the reports sent out.

Connie Boynton stated the annual reports were sent out to the Committee before the packets.

Lieutenant Governor Krolicki said okay that was the problem.

Governor Gibbons asked if there were any questions from the Committee with regard to the annual report. He said hearing none, and asked if there was a motion to approve the Division of Internal Audits' annual report.

Attorney General Masto asked Mr. Chisel about page 15. She said page 15 talked about agency assistance and the percentage of all agencies attending training sessions which was pretty low from the actual to projected. She also asked Mr. Chisel what as to account for that.

Mr. Chisel replied there had been turnover in the position. He explained there is a new Financial Manager for this fiscal year. He also said the new manager is currently in the process of conducting new trainings and the manager is looking into doing on-line training. Mr. Chisel said this would increase attendance.

Attorney General Masto asked if agencies were not willing or voluntarily signing up for the training classes.

Mr. Chisel said no, it was not.

Lieutenant Governor Krolicki said he would like a chance to review and wanted to continue this agenda item for the next meeting.

Mr. Chisel said sure.

Lieutenant Governor Krolicki said the Committee would look at the annual report later, and that it wouldn't slow the process down.

Governor Gibbons asked if a motion was required for removal of item E. from discussion or action.

Deputy Attorney General Kathryn Armstrong replied it did not.

Governor Gibbons said the Committee would withdraw agenda item E, from the agenda and move to item F.

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

**1. Tahoe Regional Planning Agency (TRPA)**

Mike Colburn, Executive Branch Auditor IV, Division of Internal Audits, presented the audit report.

Mr. Colburn introduced John Singlaub, Executive Director, and Jerry Wells, Deputy Executive Director, and Joanne Marchetta, General Counsel.

Mr. Colburn said TRPA was established by a compact between California and Nevada, ratified by Congress, and the compact guide TRPA'S policies and powers. He said the Compact requires TRPA to establish environmental standards necessary to maintain, the Lake Tahoe Region's scenic, recreational, and natural value while maintaining public health and safety. Mr. Colburn also said TRPA adopts regulations to achieve and maintain these environmental standards, and regulates projects, such as land use, grading, and construction projects within the Lake Tahoe region.

Mr. Colburn stated that before projects begin, TRPA will review the project plans and they will issue a construction permit to builders. Mr. Colburn also said the TRPA collects security deposits for certain permits to ensure builders comply with permit conditions.

Mr. Colburn said the audit addressed two areas:

- Security Deposits
- Staff time tracking

Mr. Colburn said first, the TRPA should either return about $2.3 million in older security deposits to builders or treat the funds as abandoned. He said security deposits should be returned after TRPA's final inspection indicated the builder had complied with permit conditions. Mr. Colburn also said builders typically complete projects within six years and then contact TRPA to get final inspections. He said to resolve older security deposits, TRPA should attempt to contact the builder and determine if the project complied with the conditions, and the remaining unreturned funds should be processed as abandoned.

Mr. Colburn said second, TRPA should enhance tracking staff hours. The Division of Internal Audits said TRPA could increase billings by approximately $352,000 annually. He said currently TRPA tracks time using two databases. One tracked staff time for individual projects and is used to bill builders. Mr. Colburn said the other database is not collecting all the possible billable staff hours. He said the billing database is used to set fees, and the understated hours could result in unbilled fees of approximately $352,000 per year.

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

Governor Gibbons said he would start with the security deposits. He asked at what age were the security deposits considered old.
Mr. Colburn replied, six years or older.

Governor Gibbons asked if that was the time frame within which they have to complete the requirements.
Mr. Colburn said that was correct.

Governor Gibbons asked, if it was the responsibility of TRPA to give notice to the contractor when a project is complete, and the contractor had met all requirements to receive a refund.

Mr. Colburn said the contractor on site would be the one to determine when the project was finished and then would contact TRPA.

Governor Gibbons asked if six years from the date of application or granting of the permit, from that day forward if they had six years within which to do the mitigation.

Mr. Colburn said he would let the agency respond.

Mr. Jerry Wells, Deputy Executive Director of TRPA, explained when the TRPA issue a permit, a permit is good for a three year period. He said the contractor has up to three years to commence construction. He also said they are subject to a construction schedule, he said for a single family home, for example they are given two years to complete the project. He said once they are done, they were to notify us to come out and do a final inspection and then hopefully return the security.

Lieutenant Governor Krolicki stated he had the pleasure of the process. He said the money is held at the bank or asked Mr. Wells if he was talking about the funds they hold.

Mr. Wells, said the funds the audit team looked at was what TRPA calls cash securities, which is where cash is posted. He said TRPA has non cash securities, where a bank holds a CD of a letter of credit.

Lieutenant Governor Krolicki asked if interest is earned when giving cash.

Mr. Wells said back in the 1980's interest would be paid similar to what a bank would pay if cash was posted, and over the years that had changed. He said TRPA tried to stress they post non cash, because they really didn't want to post cash. He also said posting cash meant more management of funds. He said builders post cash because it's simpler and more time efficient for them.

Governor Gibbons asked if all funds are held in trust, and what was done with the earned income.

Mr. Wells said the cash and securities were held in trust and the CD's had the TRPA as payee. He said on the cash securities, most of the interest collected is due to the contractors that were required to get a return on their investment, when they posted the security. Mr. Wells said approximately three years ago, TRPA stopped paying interest on securities and advised the applicants when posted there would be no interest paid to those accounts. He further stated the additional interest accrues to the TRPA's general fund. He said TRPA primarily uses it to fund security return activities as well as permit compliance.
Governor Gibbons asked how much that was per year.

Mr. Wells said he didn't have an exact figure, but it varied from year-to-year depending on the securities that are being held. He said somewhere in the neighborhood of $100, 000 plus dollars.

Governor Gibbons asked why some of the accounts were over six years and steps had not been taken to return them.

Mr. Wells said over the years steps had been taken. He said when an applicant notifies the TRPA when a project is complete, it is handled quickly. He also said the TRPA will go to the site and inspect and then try and return the security. Mr. Wells's further said securities that had accumulated over time are situations where the developer or the owner never contacted TRPA when a project was finished. Over the last several years, TRPA had been much more diligent in trying to go out and look at the property so securities could be returned. He stated Joanne had an approximate number of how many old securities the TRPA had returned in the last few years.

Governor Gibbons asked if there was a process when a Certificate of Occupancy is received, and said that means theoretically the project was completed.

Mr. Wells said the notices usually go to the local jurisdictions and the TRPA doesn't usually get the notices.

Governor Gibbons responded and said according to the audit, some are over six years old and the TRPA had an account of about $2.3 million that was being held, that was greater or equal to six years old.

Mr. Wells said yes that was correct.

Governor Gibbons replied that some should go to unclaimed properties to the state.

Treasurer Marshall stated she had looked into unclaimed properties and she said because the compact is a Federal Compact; a bi-state compact under federal law. She also said the Federal courts had ruled that their laws and ordinances trump state laws, and so state unclaimed property laws do not apply.

Mr. Wells said the TRPA is trying to return the securities but there is a resource issue. He said TRPA spends as much time on that but he said TRPA is also trying to get money back to those that are asking it to be returned first.

Joanne Marchetta, General Counsel for TRPA, replied she would like to offer some statistics. She said in the last three years approximately 800 securities had been released, and 425 of those securities were greater than six years old. She also said 120 were very old California TRPA securities. She said TRPA is working with the California Attorney General's office to find the owners and return the old securities. She added in response to the audit TRPA will reallocate resources. She said they were going to take a look at taking a portion of three positions and focusing the old securities and trying to reduce the backlogs. She also said TRPA didn't want current requests to fall behind and they need to improve the rate at which TRPA is moving the old backlog off the books. She said they would do that by dedicating some additional staff this winter.

Lieutenant Governor Krolicki said when he looked at it he thought abandonment was through unclaimed property in Uniform Code of some kind. He asked if the monies were determined to be abandoned, if it supplemented TRPA's appropriation, budget or general fund.

Ms. Marchetta explained TRPA has rule of procedure related to forfeiture and it is a process that needs to be worked through in order to determine a security has been abandoned. She also said it was a time-consuming and resource-intensive process where TRPA would have to go to the site and review for compliance. She said if noncompliance was found, they would work with the landowner to bring them to compliance. She also said if that couldn't be done or the property owner cannot be located, the rule requires a year long process to locate the owner.

Lieutenant Governor Krolicki wanted to know if that included publishing.

Ms. Marchetta said yes an additional year would be needed to publish a notice of forfeiture.

Lieutenant Governor Krolicki wanted to know what would happen next.

Ms. Marchetta stated it was actually a two to three year process to work through.

Lieutenant Governor Krolicki wanted to know what happens if TRPA still has the cash or security.

Ms. Marchetta said the security is held for a purpose of trying to bring the site to compliance, and she said the first priority is to go to the site and determine whether conditions of the permit have been met.

Lieutenant Governor Krolicki asked if there were no costs of mitigation to that site, was the TRPA still holding cash or security and what happens to it? And he asked if it just pays for the process that TRPA just incurred.

Ms. Marchetta replied TRPA has a process whereby they can deem it abandoned and use it to hire a contractor to do the work. She said what typically happens is the forfeited amounts go to the governing board, which is required by TRPA's rules of procedures. She also said then recommendations are made for how the funds should be used. Ms. Marchetta stated because the funds are held for compliance with environmental conditions of TRPA's regional plan, and as a policy matter TRPA has always recommended the funds be used for environmental benefits.

Governor Gibbons replied $2.3 million was currently in the account with funds more than six years old, and asked what the oldest amount of funds that TRPA has current control of.

Ms. Marchetta responded TRPA had been working through the old files. She said TRPA has 210 of the CTPRA securities, which date back to the 1970's. She also said 120 of those or 60 percent have been returned, and they are working on locating the owners of 64 or 30 percent. She said they have identified 26 violations, or roughly 10 percent.

Governor Gibbons stated that some of the securities are more than 30 years old

Ms. Marchetta replied the California Tahoe Regional Planning Agency (CTRPA) securities were not within their control and were governed by the California Resources Agency. She said in response to the audit, they would amend the rules of procedure to streamline the forfeiture process, so it doesn't take two to three years to determine abandonment. She also said she thought that would make more sense where categories are identified to be older securities.
Governor Gibbons asked if there were any other questions.

Secretary of State Miller replied Ms. Marchetta talked about some of the complexities involved in returning the security deposits or forfeiting them. He said there was a conclusion in here we estimated up to $2.3 million insecurity deposits could be forfeited to the TRPA. He asked Ms. Marchetta if she had any thoughts or comments about the conclusions.

Ms. Marchetta stated the $2.3 million was not readily available, and said they would have to work through the process to identify the rightful owners. She said TRPA anticipates most of the $2.3 million to be returned to owners. She also said they would take the remaining forfeited funds, seeking the approval from the TRPA's governing board and use some portion of that to remove the rest of the backlog.

Governor Gibbons asked Mr. Colburn if he agreed with the assessment.

Mr. Colburn said the Division did not study how efficiently of the TRPA returned funds, but did test samples of items that were returned, including older securities. Mr. Colburn said the process was quick, once the owner comes forward. He also said he didn't know about the 90 percent and would have to go with representation.

Secretary of State Miller asked Mr. Colburn if he would dispute their representation of $2.3 million is not just sitting out in surplus, the state could just chop off their budget. He also said there will be a lot of costs related to getting the money back to the owners.

Mr. Colburn replied TRPA's procedures were extensive.

Governor Gibbons said accounts that are six years and some that are 30 years have not found their way back to the rightful owners. He said there are probably people who don't know they are entitled to get that back when they have completed all the requirements under their permit. Governor Gibbons also pointed out that there seemed to be an inefficient tracking, accounting or time delay between when the money comes in and when the money goes back, and he said 30 years was too long.

Ms. Marchetta Mr. Singlaub both agreed with Governor Gibbons.

Lieutenant Governor Krolicki said if the securities were declared abandoned, it would be like abandoned property under the unclaimed laws. He asked if someone could still have a claim to the asset after abandonment of 10 years or more. He also asked would if it would be lost in the abandonment procedures.

Ms. Marchetta answered no, and said if TRPA had not taken final action on their procedure, they would still have a claim. She said if TRPA had taken action, the owners would have no claim.

Lieutenant Governor Krolicki asked if that was California law, because it was not Nevada law.

Ms. Marchetta said that was TRPA law, because of the preemptive effect by virtue of the congressional consent of the Compact. She said the Compact is considered Federal law and the TRPA's forfeiture provisions are governed entirely by the Compact. She also said neither California nor Nevada law applied to this instance, and TRPA had its own Code of Ordinances and rulemaking on this matter.

Lieutenant Governor Krolicki said he understood those were the TRPA rules but still an unsatisfactory answer. He said he did not agree if someone could demonstrate the asset belonged to them or to an estate of a rightful owner and did not have recourse. He also said Ms. Marchetta said it was Federal law, not Nevada law, not California law and TRPA is a federally compacted agency, and TRPA also lives within some of our laws and our budgets, and finds it unfortunate. He also stated this would not be solved today, but would love to see a pathway or low cost way to share information and share databases with the State Controller in California and the State Treasurer in Nevada or at least fly the flag before going to the final abandonment process.

Ms. Marchetta said good enough. And that she was not going to respond.

Governor Gibbons asked the Committee if there were any questions.

Dana Bridgman, CPA, Public Member, asked why there was no Federal escheatment process for unclaimed property, rather than going back to the agency.

Ms. Marchetta said she was not aware of any additional Federal law that would govern the issue, and to keep in mind this was not typical abandoned property. She said TRPA will hold it for public purpose, and the extent it is abandoned, would not be used for paying staff enhancements. She said they use it strictly to hold the money to trust for the first instance. She also said they were trying to achieve the environmental benefit that was associated with the permit conditions. She stated there may be a difference between the types of property that would be forfeited that would be strictly private property. She also stated there were instances where the owner doesn't call them to do a security return inspection because there was some element of non compliance on the property, or they don't want TRPA to visit the site. She also said they were losing some element of environmental gain.

Lieutenant Governor Krolicki mentioned he received his deposit back and got an inspection.

Governor Gibbons asked the Committee if there were any further questions.

Dana Bridgman, CPA, Public Member, asked of the two systems which one are the employees paid from their time tracking, and said she assumed it was the Primavera, because it was higher.

Mr. Wells stated the TRPA uses two different systems for two different purposes. One was for tracking the actual time it takes to review a project that a project reviewer spends on a project. He explained that system is Accela. He said at the same time they had an agency-wide time sheet tracking how employees spend their time across all work programs. He explained that system is Primavera, and the idea is they are tracking their time in Accela for billable purposes, which was only a portion of the staff, only those who were assigned to reviewing project applications. He also said other staff would work on regional plan or other things, and that all came out of one fund. He also said the project review staff is only to bill for the hours that they spend on projects. He stated if they exceed a deposit an applicant put down he said they can bill the applicant for the difference in their time. Mr. Wells continued to say one of the reasons there were differences between the total hours in Primavera versus Accela is TRPA just implemented that program in April, just a few months before the audit began, and staff had to get use to logging billable hours. He also commented staff never had done that before and obvious under billing had occurred. He said in Primavera the staff is putting in the full 40 hours, because that is how they are paid.

Dana Bridgman, CPA, Public Member asked Mr. Wells whenever a situation occurs, is it best to tie those together.

Mr. Wells replied affirmatively, and said they have already taken steps to do that. He said in Primavera they have a timeline that says billable hours versus non-billable hours for project review. He also said the supervisors then review the two systems before it goes to payroll and hoped that would cure it.

Secretary of State Miller asked Mr. Wells if it was possible to create a system that all hours would be tracked by Accela.

Mr. Wells said it was possible but that particular system was designed specifically for permitting operations. He said this system is used by other government agencies that are involved in permitting. He said the Primavera program is designed more for work in project management, and they have not found a piece of software yet to do both well.

Secretary of State Miller said recommendation number four is to enhance policies to ensure all staff hours are recorded in Accela. He then said he did not want to misquote Mr. Chisel, but he thought he said we had an 88 percent success rate and revisit in six months when the recommendations had been followed through. He said he had a cause for concern if the recommendation was put in place, would it ensure all staff hours were recorded in Accela.

Mr. Singlaub replied the staff that does permit reviews, are billable to people who submit projects to us.

Mr. Wells said billable hours would be more specific than all staff hours

Secretary of State Miller asked what would make sense to the audit team.

Mr. Colburn said sure that was how our Division will evaluate the implementation of recommendation.

Secretary of State Miller responded, barring any objections of the Committee and when the time was appropriate he would make a motion to include that language.

Governor Gibbons responded he was not sure this required a motion for approval.
Secretary of State Miller said okay.
Governor Gibbons asked the Committee if there were any questions. There were none.

**2. Secretary of State**

Warren Lowman, Executive Branch Auditor IV, and Paul Chalekian, Ph.D. Executive Branch Auditor III, Division of Internal Audits presented the audit report.

Mr. Lowman introduced his colleague, Dr. Chalekian, and told the Committee the Division was asked to conduct a cost benefit analysis of a proposed Nevada Business portal. Mr. Lowman said the Nevada Business portal would be a single website for businesses to perform transactions with the state. He identified the Secretary of State's Commercial Recordings Division and the Department of Taxation as the initial participants in a business portal. He said as businesses register with the Secretary of State through the portal, they would be required to pay their business license fee to the Department of Taxation at the same time. He said currently these are separate and distinct processes. Mr. Lowman also said they estimated the net benefit to the state from using a business portal would be between $14 and $34 million over five years. He said the Division recommends Nevada establish a business portal.

Mr. Lowman continued and said he wanted to discuss the overall cost benefit estimates. He stated the Division worked with several Executive Branch agencies and the Secretary of State's office to estimate costs for establishing a business portal. He also stated in order to make as conservative an estimate as possible; the calculation to establish a portal was as comprehensive as possible. Mr. Lowman said the estimate included costs for software, hardware, maintenance, staff, and vendor services. Mr. Lowman then said the estimate also included costs to the Department of Taxation for interfacing with the business portal and for processing credit card payments for the business license fee.

Overall, he said, the Division estimated the cost of the portal to be $15 million over a five year span. Mr. Lowman stated the estimated benefit to the state ranged from almost $29 million to just over $49 million over five years. The range in the estimated benefit reflected a difference in interpretation of which businesses are required to pay the business license fee. He said the high range was based on the premise that all businesses registered with the state and not exempted by federal or state laws, should pay the business license fee. Mr. Lowman said the low range excluded business registered under Nevada law with the Secretary of State that were physically located outside of Nevada and do not do business in the state. Mr. Lowman concluded by saying the business portal would help the Secretary and the Department compares and identify businesses that should pay the business license fee and enhance revenues for the state as a result. In summary he said the Division estimated the net benefit to Nevada for a business portal would be between $14 and $34 million over five years.

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

Governor Gibbons sought clarification to Mr. Lowman he wanted to look at the low figure of $29 million over five years and asked for confirmation that Mr. Lowman indicated those excluded businesses registered or incorporated here, but located outside the state.

Mr. Lowman stated that was correct.
Governor Gibbons asked about the shell corporations not doing business in the State of Nevada, but had registered in the state.

Mr. Lowman answered that part of the audit included adjustment of the overall numbers the Secretary had and also what the Department of Taxation had. He said for shell corporations there were over 10,000 and the Division reduced the overall benefit by that number overall to calculate what the difference was and where the additional revenues would be found.

Governor Gibbons replied the cooperation of the person or entity would tell them whether or not they would conduct business in Nevada, and asked at which time a business fee would be assigned.

Mr. Lowman referred the question to the Department of Taxation and announced Dino Diciano, Director.

Mr. Diciano addressed himself to the Committee and asked Governor Gibbons to repeat the question. Governor Gibbons did so.

Mr. Diciano responded affirmatively.

Governor Gibbons asked what that would be based on, and said he didn't understand what the requirement was, because some businesses pay more, some pay less.

Mr. Diciano addressed Governor Gibbons that this was a discussion he had with the Nevada Tax Commission. He said it had been his understanding that a shell corporation or someone who incorporations in the state, and does not actually do business in the state does not owe $100 for a business license. He said he thought that was the difference.

Governor Gibbons asked Mr. Diciano if everyone would be assessed a $100 fee.

Mr. Diciano responded that was correct.

Governor Gibbons asked if the license fee did not step up in terms of the number of employees.

Mr. Diciano said if a business only conducts a service, they would not have what is referred to as a sales and use tax permit. And he said the business would still be subject to a modified business tax. Furthermore, he stated businesses that were in retail would have to have a state retail license in order to conduct business in the state.

Governor Gibbons asked if a business was obligated to pay $100, whether they were actually doing business or not doing business. He further asked if it were a shell corporation, was there a legal question involving the taxation of somebody not doing business in Nevada.

Mr. Diciano answered affirmatively.

Governor Gibbons asked how the state could get around that.

Mr. Diciano responded how there would have to be clarification through a legislative process. He said he did ask jointly the Secretary of State and the Attorney General's opinion sometime ago. He said he could not speak for Catherine, but that she responded to the letter indicating it was Department policy, and that was what we had followed. He furthermore stated if a business does not physically have a store front, or sell a product, or provide a service in the state, it would not owe the $100 business license fee.

Governor Gibbons said theoretically that would be a waiver clause at the bottom of the incorporation list or something like that.

Mr. Diciano said that was correct. He said to Governor Gibbons the bottom line was it was a matter of interpretation. And that is how they had interpreted it.

Treasurer Marshall inquired how much of a financial difference there was between his view and their view.

Mr. Diciano replied and said he believed it was in the report, and said he thought that was the distinction between the $29 million and the $49 million.

Treasurer Marshall responded she understood and wanted to note a couple things. She said she was glad Mr. Diciano was there because she said the Treasurer's Office deals with this requirement, which was passed in the last legislative session to use Automated Clearing House (ACH) versus other means of payment. She said she thought the Secretary of State was wise in getting himself exempt from the requirement, but she didn't believe the Department of Taxation is exempt from the requirement, and asked if that was correct.

Mr. Diciano responded it was correct.

Treasurer Marshall said one thing she didn't see in the analysis and asked Mr. Chisel earlier was if the amount of the money being requested was over $10,000, there was an ACH requirement.

Mr. Lowman said the business license fee was $100, and if there is a late fee, that would be $100 as well.

Treasurer Marshall asked why Mr. Lowman did not take that into account and said you never have to worry about the ACH requirement.

Mr. Lowman responded if it was at the $10,000 limit that would be correct.

Treasurer Marshall said the fact that the taxation is in there doesn't impact the Secretary of State's exemption.

Mr. Lowman said he would defer, and could get back to her on that.

Treasurer Marshall said okay. She said it seemed the Department of Taxation had some questions as to the cost for the credit card fee. She said it was the view of the Treasurer's Office that the credit card fees were huge and cumbersome and she said she believed there will be a Bill Draft Resolution (BDR) that might be introduced in the coming legislative session to assign convenience fees that may be passed to the consumer. However she said they did not have the ability right now and there seemed to be a question in the

Department of Taxation's memo as to whether or not the cost correctly identified the credit card fee cost. She asked Mr. Lowman to comment.

Mr. Lowman said when the cost was analyzed, the Division attempted to estimate what the cost would be to Taxation if they were to process the $100 fee through a credit card payment. He said he looked at the transaction fees and the number of transactions that would be there for the number of businesses that would be required to pay the business license fee, and then came up with an estimate. He said he did not recall what the exact number was.

Mr. Chalekian introduced himself to the Committee and replied the estimate was $600,000.

Treasurer Marshall asked if they agreed with it, because the memo said they were concerned that might not be correctly assessed.

Mr. Diciano asked if he could correct the statement. He said he was not questioning the amount that was concluded in the audit report. He said he was questioning our ability under the current budget to be able to process the fees. He further stated that they were not currently budgeted for that amount. He thought the report said $600,000 and he said they would need additional staff to take acceptance of credit cards. He also said that was not currently in the budget.

Treasurer Marshall said that was fair. She said one of the things they tried to do their unclaimed property function was to send out notices and tell how the unclaimed property statutes had certain requirements that must be met, and statute requires an 18 percent interest assessment when filed late. She added that could be a benefit to businesses in Nevada.

Governor Gibbons asked what the costs were for instituting the Nevada Business portal and asked for estimation on staffing.

Mr. Lowman said they included an estimate for additional staff to design, develop and to operate the portal itself, and he said they looked at additional staffing for the Department of Taxation.

Governor Gibbons asked if the Secretary of State had given assurances the staff could be achieved under his current budget.

Mr. Lowman replied he had received no assurances from anyone, and they were simply trying to show the facts as they were discovered.

Secretary of State Miller stated that Mr. Lowman of Internal Audits looked at the associated costs and determined that there was a net benefit. He said there was a tremendous net benefit to the state if it was implemented, and asked Mr. Lowman if that was correct.

Mr. Lowman said yes that was the finding.

Lieutenant Governor Krolicki asked what other office could really domicile a portal besides the Secretary of State.

Mr. Lowman said for the purposes of the audit, they focused on Taxation.

Mr. Chisel said they were looking at an option of possibly a stand alone, where it would have a budget of its own. Mr. Chisel also mentioned housing by the Secretary of State. He said the Division did not pursue the location or cost benefit for that, but had focused on the cost benefit of the portal.

Governor Gibbons said conceptually it was a good idea, but in reality there are some unknown questions that have to be met. He stated whether or not it would be a liability to the state for assessing a tax event to a non-taxable entity. Governor Gibbons talked about whether the cost of staffing was determined and whether or not projections of revenues on a per year basis could be substantiated in terms of what the expectations will be. Governor Gibbons said the state is obligated to look at new ideas and he said it would probably be up to the Legislature to create an opportunity unless the Secretary of State would make a BDR request.

Lieutenant Governor Krolicki asked Secretary of State Miller if this was part of the budget request.

Secretary of State Miller said it had not been included, because the budgets were due before the report came out.

Lieutenant Governor Krolicki said it would have to be a supplemental.

Governor Gibbons asked if there were any questions in regard to the audit. There were none.

**3. State Purchasing Division**
Joyce Garrett, Executive Branch Auditor III, and Shannon Selitsch, Executive Branch Auditor II, Division of Internal Audits, presented the audit.

Ms. Garrett addressed the Governor and Members of the Committee and said she would be presenting the audit, and was joined by her colleague on the audit, Shannon Selitsch. She introduced Greg Smith, Administrator, Kim Perondi, Division Purchasing Officer, and Jenelle Gimlin, Program Chief of the Commodity Food Program, representing the State Purchasing Division.

Ms. Garrett stated the Purchasing Division oversaw three main sections:

- ✓ **State Purchasing Program** – Handles the purchase of goods and services for state agencies.
- ✓ **Commodity Food Program** – Provides the administration and distribution of food donated by the Federal Government to low income individuals at schools, senior centers and food banks.
- ✓ **Property Management Program** – Maintains inventory records for the state's fixed assets and manages state excess property by handling the distribution and disposal of items from state agencies that are no longer useful.

Ms. Garrett said the audit identified approximately $1.1 million in reduced fees, and approximately $800,000 in freed up and reallocated funds in two areas:

- ➢ Enhancing program oversight.

- Increasing efficiency of the purchasing process.

Ms. Garrett said the Division could enhance program oversight by addressing four areas:

- Enhancing cost allocations.
- Reallocating paper program resources.
- Evaluating funding of programs.
- Reducing the Food Program's reserve level.

Ms. Garrett said to ensure programs pay for themselves; cost allocations are used to track the cost of resources in one agency budget that are shared among different programs. She said $42,000 in costs was found that were not properly allocated from the Commodity Food Program to the Paper and Excess Property Programs. Ms. Garrett said cost allocations under the Division need to be amended to accurately reflect program costs.

Ms. Garrett stated the second area was to reallocate the paper program resources. She said since the in-house copy paper program was discontinued in 2007, resources such as warehouse storage space were no longer required. She also said the cost to administer the paper program was about $180,000 per year. Ms. Garrett went on to say the Division should reallocate the resources to other functions or reduce costs.

Ms. Garrett stated the third area was to evaluate funding policies for programs. The audit found the Excess Property Program did not recover operating costs in fiscal year 2006, and was supplemented by the Division and the Food Program. She said the Division should evaluate program funding policies to determine if programs should be self-supporting.

Ms. Garrett stated the fourth area was to reduce the Commodity Food Program's reserve level by approximately $1.1 million. She said the program collects fees from schools to cover the cost of ordering, storing and distributing the food. She continued and said at the end of each year, any fees not used for the Food Program operations are carried forward to the next year in the form of reserve. She said the Food Program management indicated an adequate reserve would be equal to about 10 percent of annual operating costs. She said the Division of Internal Audits estimates the reserve should be reduced about $1.1 million, and could be done by various methods, including lowering fees.

Ms. Garrett said the second major area addressed would be to increase the efficiency of the purchasing process by addressing the following three areas:

- Increasing the purchase order limit.
- Increasing the inventory tracking threshold.
- Increasing use of purchase cards.

Ms. Garrett said the Division should increase both the purchase order limit and the inventory tracking threshold to $5,000. She said currently state agencies can buy direct from vendors for purchases up to $1,000. She said if they increased the limit to $5,000, the Division of Internal Audits estimates this would reduce the number of purchase orders the Division would process by up to 45 percent, which represents $173,000 in staff time. She also said if the limit for tracking the state's fixed assets was increased to $5,000 it would reduce workload for both Division staff and state agencies. The State Controller tracks assets valued at $5,000 and above, so setting a standard of $5,000 for the Division would provide consistent guidelines and simplify the process of inventory tracking.

Second, Ms. Garrett said Purchasing should increase the use of purchase cards. She explained the purchase card is a credit card issued to state employees for state business purchases. She said if the state agencies increased the card's use, Nevada could free up to an estimated $380,000 in staff time associated with the purchasing process. She said six other states were surveyed that had implemented a purchase card program and all of the states represented the card streamlined their purchasing process.
This concluded Ms. Garrett's presentation, and she asked the Committee if there were any questions.

Treasurer Marshall stated she had a couple questions. She asked Ms. Garrett if the paper program had been suspended indefinitely, and asked Ms. Garrett if that changed her analysis.

Ms. Garrett responded it would change in some ways. She said areas identified, such as 9,000 square feet in the Reno warehouse, for which rent was being paid to Buildings & Grounds. She stated there were some expenses that could be eliminated and some resources could be reallocated to another program, division or returned to Buildings & Grounds and stop paying rent. She also said the Division can tell us what actions they have taken to address these areas that were once dedicated to the paper program.

Treasurer Marshall said okay. And then said with respect to the purchasing card program that Ms. Garrett mentioned one of the benefits was an opportunity to receive rebates, and told Ms. Garrett not many rebates had been issued due in part because they require timeliness of payment which is difficult to meet.

Treasurer Marshall stated when you have a purchasing card program, there are serious reconciliation issues. She provided an example of giving someone a purchasing card and running down to Wal-Mart to get a stack of stickies, but in addition they pick up a soda. She asked if the Division had taken into account staff time to reconcile those issues.

Ms. Selitsch, sitting next to Ms. Garrett introduced herself to the Committee for the record. She said there was an Administrator that would oversee all of the purchases and be able to see a detailed account for any transactions that occurred on the purchase card.

Mr. Chisel said studies were done of transferring from a purchase order to a purchase card. He said a conservative estimate was taken into account. He said time, and time studies figure about $7 per transaction.

Treasurer Marshall confirmed with Mr. Chisel this amount per transaction included time required to reconcile the receipts to the bills. Mr. Chisel responded it did.

Treasurer Marshall said she wanted to note for the record, when the State Treasurer's Office redid the banking contract for the State of Nevada, they requested the bank help them identify the opportunity to pay vendors electronically, which would involve a voucher or purchase order. She added it would, however, reduce the state's cost, increase balances with the bank and she said it would increase the amount of money the state has to invest and earn interest on. She said it was estimated if the state was only able to do that for 20 percent of the large vendors, they may be able to save the state $1 million per year. She said they were currently in that process and it hadn't been ruled out because the Controller's Office needed to assist them in identifying the vendors. She stated if there was

a switch from a purchase order to a purchase card, it would undermine the state's ability to pay vendors electronically and the two policies would be in contention or in conflict with one another.
Treasurer Marshall said the state might not be able to save as much money, because the Purchasing Division is being asked to use a purchase card, when the state would rather pay vendors electronically, which would result in no paper, less staff time, and bulk payments to vendors. She said the state's cash balance increases and more interest is earned. She said she wanted to note there may be tension with other efficiencies the state may be able to get.

Greg Smith introduced himself as Purchasing Administrator and spoke to Treasurer Marshall. Mr. Smith said this comes at a great time because the Purchasing Division is currently in the process of switching providers for the purchasing card program. He said he could assure the Committee that prior to any rollout, whether it was an expanded rollout or a re-rollout to pilot agencies, he could work with the Treasurer's Office to make sure anything being done works together and not in conflict.

Treasurer Marshall stated she enjoyed working with Mr. Smith.

Mr. Smith responded he did too.

Governor Gibbons said he wanted to go over the tracking aspect of a $1,000 limit versus the $5,000 limit the Controller has. He asked Mr. Smith what prevented Purchasing from using $5,000 inventory tracking.

Mr. Smith said he brought Ms. Perondi with him because she was the expert in that area, and wanted her to address the questions. He said there were staff efficiencies that allowed staff to concentrate on more proactive contract management issues if they do free up this time. However, he said there was conflict along with these issues and wanted Ms. Perondi to respond.

Ms. Perondi introduced herself as Kim Perondi with Purchasing. She said she wanted to give a brief history. She also said she dealt with the conversion to the Advantage system, from the old system when inventory was tracked at $500 and not $1,000. She further said when that happened more than half of the state's assets were no longer accounted for. She also said right now Advantage is a semi-automated process, and the fixed assets are captured through a purchase order. She said while they support the $5,000 limit because of reduction in effort, she said there would be risk of losing control of tracking state assets.

Mr. Smith stated they may be able to exempt certain items to make sure they are kept track of. He said computers and firearms are exempt so they could be tracked for inventory.

Governor Gibbons asked the Committee if there were any other questions.

Dana L. Bridgman, CPA, Public Member replied she had a couple of comments. She said the company she works for actually has all those programs and they had recently raised the limit on inventory tracking. She said they also use the purchasing card. She also stated that certain codes can be put in to prevent the purchasing of beverages, etc. She said there are controls but they had to be set right up front. She asked when the inventory tracking limit went from $500 to $1,000.

Ms. Perondi replied it was in approximately 2000.

Dana L. Bridgman, CPA, Public Member stated just as the cost of things increase, except for computers, you end up in the same place in the ability to track assets She said raising the limit did not necessarily give less visibility, depending on how long ago the limit was raised. She also said she found an 80/20 rule as far as 80 percent of the assets were at a higher dollar and the lower dollar assets that were looked for and were not found because it had been thrown away. She also said it made sense to look at that recommendation and save labor costs.

Ms. Perondi added they did look at it during the conversion to the Advantage system. When the system was designed she said they built a way to track items under the amount that was required and governed by agencies internal controls. She said they are willing to go forward with upping the limits; however, they would like the opportunity to make everyone aware and to analyze all the impacts as far as internal controls and the number of assets that would be converted.

Dana L. Bridgman, CPA, Public Member asked if they considered purchasing things in bulk, such as computers, and tracking them individually rather than expensing the computers as one bulk purchase and tracking one purchasing amount for inventory. She said that would be a big number to track.

Mr. Smith said right.

Governor Gibbons asked what percentage of state assets would no longer be tracked if you went to $5,000.

Ms. Perondi said a significant amount.

Governor Gibbons asked 70 percent.

Mr. Smith responded and said it could be higher and said 70 or 80 percent would not be a stretch by any means.

Ms. Perondi said she would get back to them. She stated when they went from $500 to $1,000 it was more than half.

Governor Gibbons stated that it would free up a tremendous amount of resource in terms of staff's time tracking inventory.

Governor Gibbons asked the Committee if there were any more questions. There were none.

**G. <u>Presentation of the follow-up status for Legislative Counsel Bureau audit report recommendations issued November 1, 2007. – William Chisel, Chief, Division of Internal Audits</u>**

Mr. Chisel stated to the Committee that Division of Internal Audits has a responsibility to work with agencies that have had LCB audits. He said the Division assists them in implementing their recommendations and go out to determine the status of the recommendations. He asked the Committee to look in the general summary packet tab 1, page 3. He said there were three agencies that the Division looked at for LCB audit follow-ups. He said no significant concerns existed at this time regarding the agencies responses. Governor Gibbons asked if there were any questions, there were none.

**H. Public Comment**

Governor Gibbons asked if any member of the public if they wanted to testify before the Board.

Karen Hoppe, Chief Deputy Controller for State Controller Kim Wallin stated that Controller Kim Wallin was traveling and unfortunately could not be in attendance. Ms. Hope also stated Controller Wallin wanted her to make comments regarding the Nevada State portal. She asked if a technology solution had not yet been determined, she would ask the project managers to consider the use of the Extensible Business Reporting Language (XBRL). She went on to explain the XBRL was an open source code and could be cost effective in developing a solution. She also explained Controller Wallin had been involved in a pilot with the Department of Agriculture in the last six months and had been very successful. Ms. Hoppe acting on State Controller Wallin's behalf asked if the project moved forward, that the technology be considered, and she would certainly answer any questions the Committee or project manager might have in the future.

Governor Gibbons asked anyone else in the general public that wished to testify before the Committee. There were none.

**I. Comments of the Committee Members**

There were none.

**J. Adjournment**

Governor Gibbons called for a motion of adjournment

**Motion:** Move for approval of motion for adjournment.
**By:** Treasurer Kate Marshall
**Second:** Secretary of State Ross Miller
**Vote:** Motion approved 6-0

**The Governor adjourned the meeting at 2:48 p.m.**

Respectfully submitted by,

William Chisel, CPA
Chief
Division of Internal Audits

Prepared by,

Connie Boynton, Administrative Assistant IV
Division of Internal Audits