

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

**MINUTES
September 29, 2009**

The Executive Branch Audit Committee and the Division of Internal Audits met on March 18, 2009, 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.

MEMBERS PRESENT:

Governor Jim Gibbons, Chairman
Lieutenant Governor Brian Krolicki
Treasurer Kate Marshall
Controller Kim Wallin
Attorney General, Catherine Cortez Masto
(via telephone)
Dana L. Bridgman, CPA, Public Member

MEMBERS NOT PRESENT:

Secretary of State Ross Miller
(prior engagement)

**DIVISION OF INTERNAL AUDITS
STAFF PRESENT:**

William Chisel, Chief
Steve Weinberger, Financial Manager
Mike Colburn, Executive Branch Auditor IV
Warren Lowman, Executive Branch Auditor IV
Vita Ozoude, Executive Branch Auditor IV

SIGN-IN-SHEET

A Copy of the sign-in sheet is attached, or contact Connie Boynton, Administrative Assistant IV, at cboynton@iaudits.nv.gov for more information.

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 called the Executive Branch Audit Committee (Committee) meeting to order at 8:03 a.m., and welcomed those present. William Chisel, Chief for the Division of Internal Audits (Division) called roll. A quorum was noted.

B. Discussion and possible action regarding the minutes from the March 18, 2009 meeting.

Governor Gibbons asked the Committee members for motion of approval of the minutes.

Motion: Move for approval of the minutes of the March 18, 2009, meeting.

By: Governor Gibbons

Second: Controller Kim Wallin

Vote: Motion approved 6-0

C. Discussion and possible action regarding revisions to Division's Annual Report. (NRS 353A.038)

Mr. Chisel addressed the Committee and explained that three booklets were submitted, and he would be addressing the summary booklet. Mr. Chisel asked the Committee to look at Tab 3 of the Annual Report. He said pursuant to statute he is required to submit the report each fiscal year.

Mr. Chisel further explained the Annual report had three sections. He said the Internal Audit Section presents audits for the Committee, which includes performance audits where the Division looks at ways for agencies to operate more efficiently and effectively. He asked the Committee to look at page 10 of the audit report where the performance indicators were located, and pointed out that for every dollar spent on the Internal Audit Section, Nevada would benefit \$42 for fiscal year 2009.

Treasurer Marshall asked Mr. Chisel if these were actual amounts.

Mr. Chisel replied how his Division meets with an agency and will come up with reasonable estimates as to what the savings would be. He further stated that follow-ups are done every six months then every year thereafter until all of the recommendations are implemented. He said the Division strives for reasonableness and then uses the amounts associated with the recommendations as that estimated savings.

Treasurer Marshall explained her concern to Mr. Chisel in the case of the Tahoe Regional Planning Agency (TRPA) audit with regards to significant savings. She reminded the Committee the TRPA was a bi-state agency. She also said it was unclear to her the amount that would be saved with the respect to security deposits seemingly accruing to the Nevada side, because she said most of Lake Tahoe is on the California side. Treasurer Marshall said she thought it would be an incorrect figure, and if it was wrong, it called into question whether or not the benefits were being done incorrectly.

Mr. Chisel asked Treasurer Marshall if she was referring to the \$2.3 million in security deposits, and added the estimate was agreed on by the TRPA.

Treasurer Marshall replied affirmatively and asked if it involved only Nevada properties.

Mr. Chisel replied how he thought it was from both California and Nevada.

Treasurer Marshall stated it needed to be broken out.

Mr. Chisel said his team would make an adjustment for Nevada.

Treasurer Marshall said the ratio of benefits was rather critical.

Mr. Chisel agreed.

Governor Gibbons asked Mr. Chisel how many other agencies had a bi-state agreement wherein California and Nevada share responsibility.

Mr. Chisel said TRPA would be the only one. He added California and Nevada would both benefit and at this point, in fiscal year 2009, 91 percent of the recommendations were fully implemented.

Mr. Chisel continued to describe how there were two other sections in his Division, one being the Financial Management Section. He said the Financial Management Section looks at the agencies written procedures, gives them recommendations, and trains the agencies. Furthermore, he said the performance indicators were located on page 17 of the booklet, and said for fiscal year 2009, 36 percent of state agencies were trained on Internal Controls.

Mr. Chisel said the Post Review Section looks at the agencies expenditures, and performs statistical samplings. He also reported how in the last year one-third of state agencies were reviewed.

Controller Wallin inquired if Mr. Chisel kept track of agencies that do not attend trainings.

Mr. Chisel said pursuant to the Nevada Administrative Code (NAC), every agency had to be trained every five years who were involved in fiscal administration. He also said the Division tracked those who had attended training and those who had not.

Controller Wallin affirmed how all agencies over a five-year period of time needed to get trained. She asked Mr. Chisel if that happens.

Mr. Chisel replied how that was the Division's objective, and how the Division was working on it, he added that the majority had been trained.

Controller Wallin stated she would be curious to know how many had not been trained in the five-year period. She mentioned the American Recovery and Reinvestment Act

(ARRA) funds and the tremendous emphasis that had been placed on Internal Control compliance. She said that was how the state would be judged and audited by the feds.

Controller Wallin said she was curious about the Division's overall test scores, and wanted to know if a pre-test was done.

Mr. Chisel affirmed that was correct.

Controller Wallin replied she would like to see the test scores range from 80 to 90 percent.

Mr. Chisel continued and asked if there were any other questions about the Annual Report.

Governor Gibbons moved to approve the Division's Annual Report.

Treasurer Marshall asked how the Annual Report could be approved when they had already identified a benefit number was wrong. She further stated the \$2.3 million was rather a large figure that was deemed incorrect, and she said it could not be approved.

Mr. Chisel said the change in the total would not be significant.

Treasurer Marshall asked how Mr. Chisel knew when they didn't have an amount.

Mr. Chisel said they were looking at a billion dollars, and \$2 million would represent less than 1 percent.

Treasurer Marshall asked Mr. Chisel if he wanted her to go through and see if the others were correct.

Treasurer Marshall cited the Nevada Office of Veteran Services which was adding Service Officer Positions. She explained that was done in the last legislative session and commented how the state was furloughing.

Mr. Chisel explained to Treasurer Marshall how that was 2008, and he would take a look at them further.

Treasurer Marshall pointed out they went through 2009, 2010 and 2011, and how they should be looked at to see if they were correct before approving. She also said it would be public and an incorrect figure would have us looking silly.

Governor Gibbons asked Mr. Chisel if he wanted to hold off until the Annual Report could be reviewed and presented next time.

Mr. Chisel agreed affirmatively.

Governor Gibbons said the Committee would pass on Agenda item C.

D. Discussion and possible action regarding revisions to Division's Audit Plan.

Mr. Chisel addressed the Committee asking them to look in the summary packet on page 1, which lists the audit plan. He said it was broken out into categories consisting of proposed audits, audits in progress and outstanding audits. Mr. Chisel also said the proposed audits included a study of statewide vehicle usage. He described how Mental Health and Developmental Services was an audit in progress and its estimated completion date was April 2010. Mr. Chisel reminded the Committee how they should request additional audits.

Controller Wallin asked if the state had the resources to comply with the internal controls and procedures, because of the ARRA and agencies being strapped for resources. She asked the Division to concentrate on helping the agencies make sure their internal controls were up to speed for the next six months. Furthermore, she stated she knew the Division had been doing a lot of work, but could not get to all the agencies. She mentioned that some of the smaller agencies did not respond to questionnaires that had been sent out. She asked the Division to do test audits to make sure when the Feds come, they would be compliant.

Mr. Chisel said the current plan was to confine it to fiscal compliance audits. He said he would review the plan with the Financial Management and the Post Review group.

Mr. Chisel described how a risk assessment was done of the state agencies, and the Division came up with about 10 agencies to look at. He said they will go to those agencies next year because most of the money will come out of the next two years, and before all the money gets out they need to be proactive. He said the Division planned to have most all of them completed by August 2010.

Controller Wallin asked Mr. Chisel if he had enough staff.

Mr. Chisel said the staff that would normally work on the expenditure reviews and written internal controls would have to put those projects on hold and focus 100 percent on ARRA. Mr. Chisel said if they proceeded they would be able to address it and the rest of the Division could continue with the two audits. He said if there was a need to do it within six months, then it would have to be done in six months.

Controller Wallin explained the controls should be in place before the money started coming in.

Mr. Chisel replied it was organized based on when the money was being received. He cited the Department of Corrections. He said Corrections will get their money in 2010. He also said it was the Division's objective to use the existing staff.

Controller Wallin asked Mr. Chisel if his Division was using more than the Financial Management Section.

Mr. Chisel said he was.

Controller Wallin said her office would be helping with their quality assurance teams and asked Mr. Chisel if he would be helping with quality assurance as well.

Mr. Chisel said the Division will be focusing on assisting agencies. He also said there would be no additional reports to the Committee. And only those would be given to the agency. He also stated the agency administrators will receive reports on how they are doing. Mr. Chisel said his Division would look at the quality assurance and accuracy.

Controller Wallin stated she just wanted to make sure that the Division had the resources, because it was critical to the state.

Mr. Chisel agreed.

Controller Wallin responded if Mr. Chisel did not have the resources to come back to her.

Governor Gibbons asked the Committee if there were any recommendations for the audit plan other than presented. There were none.

Motion: Move for approval regarding revisions to the Division's Audit Plan.

By: Controller Kim Wallin

Second: Lieutenant Governor Brian Krolicki

Vote: Motion approved 6-0

Governor Gibbons said to let the record reflect the Agenda Item D was approved.

E. Discussion of the consent Agenda-upon request, any item may be removed from this agenda and placed on the regular agenda.

Mr. Chisel responded and said there were five audit follow-ups.

Mr. Chisel described how six-months after an audit was presented to an agency, his Division would return to the agency to see what the status of the audit was, and then write up a letter summarizing the status of the audit, and then present it to the Committee. He further explained with the consent agenda the Committee has the discretion to select which follow-ups to hear.

He then asked the Committee if there were any audits they would like to hear at this time, referring to TRPA, Nevada Business Portal, Purchasing Division, Work Week Energy Savings, or the Agency for Nuclear Projects.

Governor Gibbons asked Mr. Chisel if there was anything significant or outstanding in any of those audits that should be made or brought to the attention of the Committee.

Mr. Chisel explained to Governor there was not and how the agencies had taken great strides to implement the recommendations.

Governor Gibbons asked if there were any questions or comments with regards to the consent agenda. There were none.

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

Treasurer Marshall asked Governor Gibbons with respect to Item No. 4, and she acknowledged she was taking the item out of order, that they had received a lot of information that seemed to suggest there were some legal issues surrounding the audit that may or may not have been considered. She asked if it was possible to take that audit out of the rotation, and asked if the Attorney General (AG) could look at the letter that was addressed to the board, and see if it needs to go back for consideration.

Governor Gibbons said that it could be discussed.

Controller Wallin said she had concerns with item No. 4 as well.

Treasurer Marshall said that option was better because of the issues raised in the letter, and how the audit should not be discussed right now and how legal should weigh in on it. She said there may be other issues, legal issues not considered, and it would be a more appropriate to wait.

Lieutenant Governor Krolicki asked the Committee if they were not going to discuss it.

Treasurer Marshall said it could be discussed after legal looks at the letter.

Lieutenant Governor Krolicki asked if it would be presented at a future meeting, and he explained how there were people here ready to present.

Treasurer Marshall said she would rather have legal weigh in first, and she said the letter raised constitutional issues along with other concerns.

Lieutenant Governor Krolicki said he understood there could be no definitive discussion without the Deputy Attorney General (DAG), but he said that if there were people there who would like to make comments or put the context in writing, he said he thought it would be helpful in the interim to understand as it is looked at in the future.

Governor Gibbons thought it was possible to insert that information into the record today, and have legal look at it from an interpretive standpoint based on the information the Department of Higher Education (NHSE) wished to convey to the Committee. He said he did not think it would prejudice or change the legal status of the letter or the legal implications of the letter, but just having the information on hand may help. Governor Gibbons then asked if there was anyone from NHSE that wanted to discuss the letter.

Governor Gibbons then welcomed Mike Reed, Vice Chancellor of Finance.

Mr. Reed thanked Governor Gibbons, and said he was waiting for Dan Klaich, Chancellor to arrive at the Governor's office in Las Vegas or his office. He said as soon as Mr. Klaich arrived they would make contact with the Committee.

Treasurer Marshall said given the issue, she was asked to do this one other time after a legal analysis.

Mr. Reed said his preference, and speaking for Dan and the others would be to wait, because of the need for further communication to make a determination as to how to proceed.

Governor Gibbons asked Mr. Reed for reassurance that he did not wish to add anything at that point until Mr. Klaich appeared.

Mr. Reed reassured Governor Gibbons that he did not wish to go further at this point.

Governor Gibbons asked Mr. Reed if he would be willing to come back to the next meeting to discuss the letter, after it had been reviewed by the DAG.

Mr. Reed said they would, and he thanked Governor Gibbons.

Mr. Chisel stated to Governor Gibbons that the NHSE audit had been distributed and asked if they should be withdrawn.

Governor Gibbons said if the letter applied to the audit and their interpretation of the legal status, than the presentation should be withheld until they have had a chance to be reviewed.

Mr. Chisel said thank you.

1. Department of Health and Human Services - Division of Mental Health and Developmental Services, Lake's Crossing Center and Substance Abuse Prevention and Treatment Agency

Warren Lowman, Executive Branch Auditor IV, presented the audit report.

Mr. Lowman introduced Dr. Harold Cook, Administrator along with the Director of the Lake's Crossing Center, Dr. Elizabeth Neighbors, representatives for the Division of Mental Health and Developmental Services, Lake's Crossing and Substance Abuse Prevention and Treatment Agency.

Mr. Lowman began by addressing the Committee and said how this was the first of three audit reports within the Division of Mental Health and Developmental Services, he said this report also included Lake's Crossing Center and the Substance Abuse Prevention and Treatment Agency (SAPTA). Mr. Lowman said the first of the two audit objectives focused on Lake's Crossing Center and enhancing billing revenues.

Mr. Lowman described how Lake's Crossing Center was Nevada's maximum security mental health facility. He said it provides treatment services for those individuals charged with a crime and sent there by the courts to restore their mental competency so they could stand trial for their alleged crimes. He also described, along with psychiatric care, Lake's

Crossing staff support the courts with pre-commitment evaluations of a person's competency to stand trial, as well as testimony should a competency evaluation be contested.

Mr. Lowman described how according to the Nevada Revised Statutes (NRS), Lake's Crossing had the authority to bill for these services, including both the psychiatric treatment and the support of the courts. However, Mr. Lowman said Lake's Crossing had not billed for all possible services.

Mr. Lowman said Lake's Crossing could enhance billing revenues in the three areas:

- ✓ **Billing for Treatment Services.**
- ✓ **Billing Counties Consistently.**
- ✓ **Establishing Policies and Procedures for its Billing Process.**

Mr. Lowman described how several of the recommendations could benefit the state ranging from \$744,000 to \$1.2 million annually. Mr. Lowman also stated the largest potential source of revenue for Lake's Crossing came from billing Medicare for clients who have disability benefits. He reported how Lake's Crossing was not currently billing Medicare. He said if a client had disability benefits, Lake's Crossing could begin billing Medicare for prescription drugs now. However, Mr. Lowman said to be able to bill Medicare for hospitalization and other treatment costs, Lake's Crossing must do two things:

- ✓ **Bill all Clients Undergoing Treatment.**
- ✓ **Become an Approved Medicare Facility.**

Mr. Lowman said this would be doable, but not without additional cost and time.

Mr. Lowman said Lake's Crossing had identified \$67,000 in costs to achieve their final state licensing status before proceeding with certifying the facility for Medicare purposes. He also noted an additional staff member may be necessary to administer the new billing policies and procedures, and the position would initially cost \$67,000 a year. Mr. Lowman stated the Division estimated it may take up to five years for Lake's Crossing to become a Medicare approved facility after achieving final state licensure.

He said Lake's Crossing should take a look at its fee structure for supporting the courts, making sure it is covering its costs, and setting its fees accordingly. He described how Lake's Crossing had not been billing Clark County for testimony related to challenges to competency evaluations or other expert testimony. He estimated Clark County could be billed approximately \$28,500 per year. Mr. Lowman explained Lake's Crossing needed to establish policies and procedures for its billing process. He stated the Financial Management section would be ready to assist Dr. Neighbors put the policies and procedures in place to assure Lake's Crossing would meet the NRS and the State Administrative Manuals (SAM) internal control requirements.

Mr. Lowman said the second objective was focused in SAPTA and enhancing benefits to the State. He explained SAPTA administers the State's substance abuse programs, and he said it coordinated state and federal funding, to include funding substance abuse treatment providers. Mr. Lowman said the audit showed SAPTA may be able to increase services at no additional cost to the State, which could benefit Nevada by approximately \$1 million annually. He said he believed additional funds may be available if SAPTA

adopted a new reimbursement methodology and evaluated eliminating the provider incentive program. Furthermore, he said with respect to a new reimbursement methodology, the current cost reimbursement method did not link provider payments to services provided. Mr. Lowman said SAPTA reimburses providers based on the costs they reported.

Furthermore, Mr. Lowman said he believed an alternative reimbursement methodology, either fee-for-service or performance-based reimbursements, would more closely link services to payments and may improve efficiency and the quality of treatment services. He said under the current reimbursement method, in fiscal year 2008, the Division identified a difference of \$300,000 between payments to providers and services provided. Currently, he said providers are required to report total expenditures and total services provided regardless of funding resources. Mr. Lowman also said providers in general had multiple sources of funding, and the data they report did not break out what revenue sources paid for what treatments. He said as a result, SAPTA was unable to determine how its funds were being spent. The Division recommended SAPTA require providers report more specifically how federal and state dollars were being spent.

Mr. Lowman also stated with respect to the provider incentive program, the Division believed the \$700,000 set aside for provider bonuses may be better spent to the benefit of the State. He said the bonuses were meant to incentivize providers to meet a 90-day treatment program for each client and to get providers to report accurate data for SAPTA's federal reporting requirements. Mr. Lowman also said the Division's review of the existing provider contracts shows SAPTA already had the authority to withhold funds if the provider wasn't meeting these objectives.

In summary, Mr. Lowman said the Division's audit of Lake's Crossing and SAPTA had identified up to \$2.2 million in potential benefits to the State.

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

Governor Gibbons asked Mr. Lowman if the change would require a salutatory change.

Mr. Lowman said he didn't believe it would. He said it was a reporting requirement that is part of the contract that it calls for providers to report the information that they are asked to report.

Lieutenant Governor Brian Krolicki inquired why they hadn't been certified in the past for Medicare Reimbursements.

Dr. Harold Cook, Administrator for MHDS said when the facility was first built back in the '70s; there was no thought put towards billing for the forensic program. He said the staffing and the operations for the facility were bare bones. He also said the necessity of becoming CMS certified had never come up before. He said that possibility had not been looked at. Furthermore, he said there would probably be additional staffing needs, and the possibility of physical plant renovations for the building, along with different

operations. He also said in the past they have requested resources to achieve joint commission certification, but those had not been typically approved by the Legislature.

Lieutenant Governor Brian Krolicki thanked Dr. Cook for all he did, recognizing his job was not easy. He asked if the costs to be certified and eligible had been looked at, and making sure the cures were not greater in cost than the gains.

Mr. Lowman described how they were looking at it from being able to charge Medicare from a million to a million and-a-half. He also said the Division didn't look into what the specific costs would be because the Division didn't know what the criteria would be to achieve that.

Lieutenant Governor Brian Krolicki said if the state is looking at multiple employee additions, or even more, then the state would quickly be in the seven figure range. He said it was well thought out, but he thought the background was important as the state goes forward.

Mr. Lowman said based on our analysis at this point \$67,000 was estimated as a cost for the smoke alarm system. He said as far as the other items brought up, the Division hadn't identified those and hadn't found any evidence of requirement yet. He said it hadn't been analyzed and thought it was part of the plan.

Treasurer Marshall stated the state didn't really know how much it was going to cost.

Mr. Chisel said all the division could identify was \$67,000.

Ms. Bridgman, CPA clarified it was \$130,000 all together for infrastructure and staff.

Mr. Lowman said the staffing recommendation was to help administer the new billing policies and procedures that the Division had recommended.

Lieutenant Governor Brian Krolicki also said he understood many of the costs and if there were additional costs it would be one shot and get the benefit going forward.

Lieutenant Governor Brian Krolicki also appreciated the work the audit staff as this was a kinder, gentler audit review.

Controller Wallin said she would like to see a follow-up next time. She wanted to know what it was going to cost, so the State doesn't have to wait five years to determine what it's going to cost. Mr. Cook replied his plan would be to have several performance improvement staff look at the cost. He said he routinely surveys two civil facilities to ensure they are in compliance with CMS and the joint commission requirements. He also said he could do the same for the Lake's Crossing Center and they could provide a basis for estimating the cost to implement the recommendation.

Controller Wallin said thank you.

Lieutenant Governor Brian Krolicki said it was a great follow-up conversation to have.

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

2. The Department of Transportation – Utilization of State Equipment

Mike Colburn, Executive Branch Auditor IV, presented the audit report.

Mr. Colburn introduced Assistant Director, Rick Nelson, representative for the Department of Transportation.

Mr. Colburn explained to the Committee, how the Department of Transportation (Department) maintains over 5,400 miles of roadway. He discussed how road maintenance included removing snow, repairing potholes, sealing cracks and paint striping. He reported the Department uses approximately 1300 pieces of heavy equipment to maintain the roadways. He said heavy equipment including snow plows and dump trucks are used to sand highways, along with loaders to load the dump trucks, and graders to clear brush along road shoulders.

Mr. Colburn said the Department spends \$10 million a year to replace both light vehicles such as cars and heavy vehicles. However, he said in fiscal year 2009 no purchases had been planned. He said for fiscal years 2010 and 2011, the Department had planned to purchase \$5 million in vehicles for each of those years.

Mr. Colburn said the Department could enhance fleet efficiency by doing the following four steps:

- ✓ **Consider Alternatives for Low Usage Equipment (thereby reducing fleet size)**
- ✓ **Utilize Equipment Usage Reports for Decision Making.**
- ✓ **Improve Cost Data for Identifying when to Replace Equipment.**
- ✓ **Eliminate Custom Paint Requirements.**

Mr. Colburn reported how using these methods the Division estimated the Department could save \$737,000 a year.

Mr. Colburn said the Department should first consider alternatives for low usage equipment and his team reviewed the Department's heavy equipment usage. He said his team initially selected equipment with the lowest 25 percent of usage for possible disposal, and in review and discussions with Department management identified 69 pieces of equipment that might not be necessary. Furthermore, he said the equipment had little or no evidence of usage for at least three fiscal years.

Mr. Colburn said by disposing of low usage equipment, the Division estimated the Department could eliminate costs of about \$8.9 million in replacement equipment. He said the equipment had an average life of about 14 years and could avoid \$618,000 depreciation annually. He also said the Department could avoid an estimated \$39,000 in insurance and preventative maintenance for this equipment.

Mr. Colburn said the Department should evaluate renting vehicles when it lacks certified operators. He said crane trucks use a boom to raise or lower workers when they are working on signs or lights. Mr. Colburn said the Department had limited use of the cranes because they do not have certified operators. Furthermore, he said the Department should address the lack of certified operators for the crane trucks, and evaluate the cost/benefit of those operations. He said the Department could train staff, rent or purchase equipment, or contract with operators to do the work.

Second, Mr. Colburn addressed the need for utilization of vehicle usage reports for decision making. He said the Department's Equipment Division issues quarterly vehicle usage reports to the districts, and the usage reports identify how many miles or hours each piece of equipment was used during the quarter.

Mr. Colburn stated the Department should establish parameters and monitor equipment to ensure they are used within those parameters. He said the reports should be useful in determining which equipment should be eliminated and not replaced.

Third, Mr. Colburn addressed the Department should improve the collection of equipment cost data for identifying when equipment should be replaced. He said the Department uses age and usage for determining when to replace equipment; however, he said the Department is interested in using additional equipment cost and reliability data to determine when to replace the equipment. He said those costs would include repairs such as labor and materials and operating costs such as fuel. He further explained how reliability was the amount of time lost due to repairs. He said some costs were not included in the Department's cost data, and to ensure proper costs, the Department should include all employee costs including those of stockroom employees.

Fourth, Mr. Colburn addressed how the Department should consider eliminating custom paint from equipment bid specifications. He said the Department policy required most of its heavy equipment to be painted School Bus Yellow. However, he said some vendors charge an additional cost for this. He said the Division noted vendors frequently offer their own construction yellow paint at no additional cost.

Mr. Colburn said the Department management represented it wanted the fleet to consist of one standard color for road safety and to distinguish it from privately owned equipment on the road. However, he said the Department staff working in the field felt that drivers relied more on vehicle lights for safety. Mr. Colburn also mentioned how Arizona and Oregon had chosen to use manufacturer's colors because they did not believe there was a difference in safety. Mr. Colburn thought the Department should consider eliminating the custom paint when it purchases heavy equipment, and he said the Department would save an estimated \$80,000 a year in equipment paint purchases.

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

Governor Gibbons commented in regards to equipment ownership and certification issues. He summarized that if you rent the equipment you would still end up with a certification problem.

Mr. Colburn said from his understanding some of the equipment did not require certification, because it functions a little differently. Mr. Colburn turned the question over to Mr. Nelson, representative for the Department.

Mr. Nelson said the crane trucks were purchased years ago, and subsequent to that new purchase laws came into effect that required additional operator certification. He described how when a crane is rented; it is usually to perform a specific task. And, he said if there was a situation where the Department needed to make a heavy lift of an overhead sign or something like that; there was a couple of ways it could be done. He said a crane and driver could be rented, and that is what is customarily done, or he said to hire out the service and change out the particular sign. He said in which case the contractor would come with their own equipment to address the issue. He also said the mission could still be accomplished by either eliminating these cranes from the fleet or deal with the certification issue.

Mr. Nelson said the problem the Department has with the certification is that a thousand hours is a lot of time, and it is something that someone has to do everyday. He said the Department does not have the kind of work that requires that amount of operator time. Mr. Nelson said the Department could probably, exchange those trucks for smaller crane trucks that would fall below the certification requirement or they could just hire out for that equipment when it is needed.

Treasurer Marshall was concerned, about what would happen if a big flood came and the Department did not have the equipment needed, and how it would create huge costs for the area being flooded.

Mr. Colburn responded to Treasurer Marshall and explained to her that similar concerns had been taken into account. He described how he and Mr. Nelson and discussed what equipment was redundant, and what equipment pieces might be needed in an emergency. He said some of the equipment was actually added back in.

Lieutenant Governor Krolicki asked if the cranes were included in the answer.

Mr. Colburn replied affirmatively.

Lieutenant Governor Krolicki commented how cranes were unique equipment, and questioned if there was some kind of man-made or natural disaster, how fast rented equipment from Denver or Los Angeles could be delivered. He said the abilities to move cranes to where they are needed swiftly were more difficult. He asked what the value of the equipment was, and what the secondary market for that kind of equipment was. He also acknowledged there was a maintenance aspect to it, but the State was not going to get a whole lot from a sale. He said it was truly a compelling reason to move forward and liquidate the fleet.

Governor Gibbons sought to clarify there was no change, even in an emergency or natural disaster, from using a crane that required an operator that was certified. He said natural disasters don't eliminate the certification requirement. He said the Department would still need a crane operator on staff who would meet the thousand hours per year,

and he said whether equipment was rented for a specific purpose or rented for an emergency.

Governor Gibbons said thank you and affirmed how the Department was still required to have somebody certified on staff to operate the crane.

Mr. Nelson said correct.

Treasurer Marshall inquired if the Department had the equipment, would they need only to bring in a person. She commented how it might be easier to bring in an individual than to get the equipment and person moved here.

Lieutenant Governor Krolicki said it would take days to move equipment, while it only takes hours to move a person.

Mr. Nelson said one of the things the Department was looking at in evaluating the crane issue with respect to certification was the length of the boom. He said if the booms were shorter, no certification would be required. He also said several of the crane trucks do have the shorter boom that can be used, but he said there were a few that were bigger and better. Furthermore, he said if you could get a 15-foot boom for one price, and for just a few dollars more, you could get a 25-foot boom, in those days the Department often went for the bigger boom, to provide more flexibility.

Mr. Nelson discussed how looking at the issue of the cranes and the requirements of certification or no certification, the majority of a task can be accomplished with the shorter boom which would fall under the non-certification requirement. He said when it is time to liquidate or replace, the Department would probably go with the smaller unit that does not require certification, and would still fulfill the task. He also said the cranes were now available locally in both the North and the South. Furthermore, Mr. Nelson described how less lead time was needed in an emergency situation and the Department tries to negotiate agreements up front with vendors to supply equipment. He said when an emergency comes up the Department would not be trying to negotiate price, while there was flooding or a snowstorm underway.

Mr. Nelson continued to describe how at the beginning of every year, they go through and try to identify the pieces of equipment that may be needed in an emergency. He said the Department will then attempt to locate them and determine if they can prearrange some fee schedules, so in the event of an emergency there would be no arguing about prices or availability.

Controller Wallin inquired about the potential cost savings going with the shorter booms to replace the larger booms. She questioned the 69 that were going to be replaced with the shorter booms.

Mr. Nelson explained there were a lot of different classes in the 69 pieces.

Mr. Colburn explained there were only two or three cranes as he recalled.

Mr. Nelson confirmed that was correct.

Lieutenant Governor Krolicki asked if they were looking to actually accelerating the liquidation of the fleet or just not replacing equipment when it fully amortized. He said it sounded like the Department would not be replacing it. And he said the he was comfortable with that, as opposed to going out in the marketplace.

Mr. Nelson discussed the possibilities of liquidating some pieces of equipment, and he said how, in addition to the list of 69, the Department discovered the list to be much larger. And he said after taking a strategic look at the equipment and where it needed to be, they had in fact found some of the equipment that was used for traffic control no longer met the crash safety standards and can no longer be used. He said, in those cases the Department would want to liquidate those pieces immediately. Mr. Nelson concerned how if someone was to put one of those fleet out on the road in an emergency that was not crash worthy, the Department could end up with liability issues. He also said it is not costing the state anything to keep the equipment in the yard and the Department may hold onto some of pieces for spare parts. Mr. Nelson said in all cases the Department will look at the strategic needs for the equipment and then make decisions accordingly.

Lieutenant Governor Brian Krolicki said it made sense.

Ms. Bridgman, CPA, asked Mr. Nelson if the Department negotiated the number of hours a vendor had for delivery of equipment.

Mr. Nelson said those agreements aren't formal agreements, but advanced negotiations. He said the Department doesn't take it as far as having to respond in so many hours. He said the Department just wants to make sure what is available out there, and what the vendors would be able to send the State's way, if needed. In general, he said an agreement is made on a Blue Book cost upfront, which is fair market value as opposed to an inflated cost and that supply and demand would kick in if there was an emergency.

Ms. Bridgman, CPA, asked Mr. Nelson if it was a Blue Book value cost based on a rental.

Mr. Nelson affirmed a rental rate.

Ms. Bridgman, CPA, asked if the \$657,000 was cost avoidance from the standpoint of maintenance. She added that sounded like a lot of the equipment was no longer safe, based on State requirements.

Mr. Colburn replied the size of the fleet reductions determines cost.

Ms. Bridgman inquired if the State thought they would assume income from a sale.

Mr. Colburn replied it was not included in the reports figures..

Governor Gibbons inquired about the School Bus Yellow paint, and wanted to know if it was a specific manufacturer's color.

Mr. Nelson responded he thought it was DuPont paint and in fact, all school buses were required to be painted that color. He also mentioned since the audit started, the Department had been doing some research on the School Bus Yellow paint. He said the Department was now taking a serious look at the color issue.

Treasurer Marshall went back to the emergency situation. She asked the Department if they had anything in writing with any potential supplier that the equipment could be accessed in a timely manner and at a reasonable price.

Mr. Nelson answered Treasurer Marshall, saying they only had oral discussions.

Lieutenant Governor Krolicki asked how the private sector would engage, given an emergency.

Mr. Nelson said the Department would go to the contracting community and tell them what they needed. He said they also have contractors on board, and the contractors have always been right there to help in any capacity.

Treasurer Marshall said she would like to see a clause in future contracts to protect the Department from good intentions going bad. She said even a clause saying, if the state required other equipment, it would be at Blue Book value. She asked Mr. Nelson if that would be something to consider.

Mr. Nelson said he believed so, and yes.

Ms. Bridgman, CPA, said perhaps the state should go get a Most Favored Customer clause in case the equipment needed to be pulled off a job, the Department would get the equipment but she said they would probably have to pay more for a clause like that.

Mr. Nelson said usually in a situation where there is a flood or major snowstorm, the contracts aren't underway.

Lieutenant Governor Krolicki said selling the vehicles or not selling, the question on Homeland Security or natural disaster would be interesting perhaps to work with the Federal Homeland Security, and to have contracts already in place. He said that would make good sense.

Lieutenant Governor Krolicki asked the Department if they were comfortable with the recommendations and if they would endorse them.

Mr. Nelson agreed with the recommendations and stated the Department had been fortunate in having been recognized as having one of the best hundred fleets in government for many years. He further stated the ways to get there is by implementing ideas and strive for efficiency, both fiscally and operationally and the Department will continue to move forward.

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

3. Department of Business and Industry – Division of Insurance Premium Tax

Vita Ozoude, Executive Branch Auditor IV, presented the audit.

Mr. Ozoude introduced Scott Kipper, Insurance Commissioner, representing the Division of Insurance.

Mr. Ozoude explained to the Committee how the Division of Insurance was responsible for regulating insurance companies in Nevada. He said they were responsible for ensuring consumers are protected when dealing with the insurance industry.

Mr. Ozoude said Nevada receives taxes from insurance companies on premiums written in Nevada. He defined Insurance Premiums as the amounts of money charged by insurance companies for obtaining insurance coverage, and further that individuals and businesses obtain insurance coverage for property, life and health. He also commented on how all states, including Nevada, levy taxes on insurance premiums, and he reported that Nevada's premium tax rate is approximately 3.5 percent.

Mr. Ozoude addressed the two following areas:

- ✓ **Premium Tax**
- ✓ **Annuity Elections**

Mr. Ozoude addressed the Premium Tax first and said the state could increase premium tax revenues by performing desk audits of all premium tax returns submitted by insurance companies. He said currently Nevada does not perform these audits. He described how desk audits involve comparing information reported to the state and information reported to the National Association of Insurance Commissioners. He said desk audits also involved reviewing premium tax returns for inconsistencies, mathematical accuracy, performing trend analysis, and insuring the proper taxes are being paid. Mr. Ozoude said his team surveyed over 35 states and revealed how they performed desk audits of premium tax returns annually.

Mr. Ozoude said the Division first compared the premiums reported to the state by Nevada insurance companies, to premiums reported by these companies and to the National Association of Insurance Commissioners. And he said based on these comparisons, the division then calculated an average variance of \$23.3 million per year in potential premium taxes for the period 2004 through 2007. He projected the desk audits could have determined if the variances were a result of reconciliation differences or a result of unreported revenues.

Second Mr. Ozoude said the Division of Insurance could enhance annuity elections by coordinating with the Department of Taxation to ensure the Commissioner consents to any changes in annuity elections. He described how taxation of annuities could be on the front end, which means the tax was paid when the money was received from the purchaser, on the back end, which means the tax was paid when the money was paid back to the purchaser.

Mr. Ozoude said statute required the consent of the Commissioner for any annuity changes made to an original election. He said the Division noted 13 changes, and 5 did not receive the Commissioner's consent. He also said proper reporting of annuity elections helps ensure the appropriate taxes are paid to the state.

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

Governor Gibbons asked who would be performing the desk audits.

Mr. Ozoude clarified how the Division of Insurance was recommended to perform the desk audits.

Ms. Dana Bridgman, CPA, asked about the financial solvency of insurers.

Mr. Kipper addressed the Committee. He said the Division of Insurance currently performed regular examinations of insurance companies to assess solvency. He said the Division of Insurance looks at quarterly and annual financial statements that come in from the insurance companies. He said in addition to those, he said they perform field examinations on all domestic companies either annually, every two years, or every three years. He mentioned that these functions were not included in the scope of this audit, but he said they were being done on a regular basis.

Ms. Dana Bridgman, CPA, commented examining the procedures to ensure those audits were effective, would be a good use of resources.

Mr. Kipper added the functions that were described previously were part of the accreditation of the Nevada Insurance Division. He said the accreditation was performed by the National Association of Insurance Commissioners (NAIC). Furthermore, he said the NAIC sends out regular auditors to the state offices to ensure the policies, procedures and the training of staff was in line with national standards. He mentioned how an accreditation team came out to the offices in May and they affirmed the fact that we were fully accredited and were performing audits how they should be.

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

G. Presentation of the Uniform system of Internal Accounting and Administrative Control for Agencies (NRS 353A.020).

Mr. Chisel addressed the Committee and prompted them to look at the Self-Assessment Guide for Internal Controls. He told the Committee they were the updated guidelines for all the fiscal areas and grants. He also said the Division had addressed some of the Committee on Sponsoring Organizations (COSO) requirements and the recent ARRA requirements. Mr. Chisel explained it was written in the format of questions, so the agencies could use them while reviewing their internal controls for compliance. Mr. Chisel said pursuant to statute the Division is responsible for establishing the internal control guidelines for the state and when updates are made the Division should consult with the Committee.

Mr. Chisel asked the Committee if they had any questions or comments.

Controller Wallin described how this would help agencies with compliance on their internal controls. One of her concerns was whether the self-assessment asked if agencies have the proper resources to carry out functions and ensure proper internal controls. Furthermore, she asked if the self-assessment asked agencies if they have had any restructuring of their organization, resulting in staff reductions, changes in supervision, and segregation of duties.

Mr. Steve Weinberger, the Financial Manager for the Division, replied how those kinds of questions would be found in the Internal Control Standards section of the self-assessment questionnaire. He said the Division uses the same risk-assessment based on COSO that was sent out.

Ms. Dana Bridgman, CPA, asked if each agency was required to complete the assessment.

Mr. Chisel answered how every two years the agencies complete their self-assessment and submit it to his office, and then his staff were required to submit the self-assessment to the Legislature per statutory requirements.

Ms. Bridgman, CPA, asked if this was the first time there had been a tool available to the agencies.

Mr. Chisel replied there had been prior tools, but whenever updates were needed, they sought to consult with the Committee. He said this was not an action item, and it was being presented for their comments. He further said the division was making significant changes due to ARRA and some updates for the COSO requirements, and he said the Division has a new Financial Manager who is in the process of tightening things up.

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

H. Presentation of the follow-up status for Legislature Counsel Bureau audit report recommendations issued September 24, 2008, and December 11, 2008.

Mr. Chisel stated to the Committee how one of the tasks of the Division of Internal Audits was to do follow-ups of the Legislative Counsel Bureau (LCB) audits. He said LCB perform audits, and eight months later his Division, works with the agencies to establish the status of those recommendations. He said that these assessments are then submitted to the LCB. Mr. Chisel reported how seven follow-ups were completed since the last Committee meeting, and there were no significant issues regarding those follow-ups.

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

I. Public Comment

Governor Gibbons asked if any member of the public wanted to testify before the Committee. There were none.

J. Comments of the Committee Members

There were none.

K. Adjournment

Governor Gibbons called for a motion of adjournment

Motion: Move for approval of motion for adjournment.

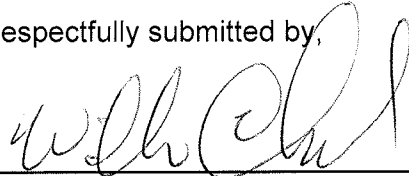
By: Treasurer Marshall

Second: Controller Wallin

Vote: Motion approved 6-0

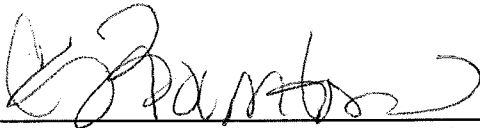
The Governor adjourned the meeting at 9:15 a.m.

Respectfully submitted by,



William Chisel, CPA, Chief
Department of Administration
Division of Internal Audits

Prepared by,



Connie Boynton, Administrative Assistant IV
Department of Administration
Division of Internal Audits