

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

May 1, 2012

The Executive Branch Audit Committee and the Division of Internal Audits met on May 1, 2011, at the Capitol Building Annex, Guinn Room, Second Floor, 101 N. Carson Street, Carson City, Nevada. The meeting was video conferenced between the Capitol Building Annex and the Grant Sawyer State Office Building, Governor's Office, 555 East Washington Avenue, Las Vegas, Nevada

MEMBERS PRESENT:

Governor, Brian Sandoval, Chairman

Lieutenant Governor, Brian Krolicki

Secretary of State, Ross Miller
(absent, schedule conflict)

Treasurer, Kate Marshall (via telephone)

Controller, Kim Wallin

Attorney General, Catherine Cortez Masto
(via video conference in Las Vegas)

Dana L. Bridgman, CPA, Public Member
(absent, schedule conflict)

**DIVISION OF INTERNAL AUDITS
STAFF PRESENT:**

Steve Weinberger, Interim Administrator
Warren Lowman, Executive Branch Auditor IV
Vita Ozoude, Executive Branch Auditor IV
Dennis Stoddard, Executive Branch Auditor III
Connie Boynton, Administrative Assistant IV

OTHERS PRESENT:

Copy of sign-in sheet available, contact Connie Boynton, Administrative Assistant IV at cboynton@admin.nv.gov.

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

A. Call to Order

Governor Sandoval, Chairman, called the meeting to order at 9:08 a.m. Governor Sandoval welcomed those present. Roll was called and a quorum was noted.

B. Public comments

Governor Sandoval addressed the public for comments in Carson City and Las Vegas. There were none.

Controller Wallin noted to the Committee that Jennifer Chisel was her Deputy Attorney General (DAG) and asked if it would pose any conflict.

Governor Sandoval asked Ms. Chisel if she thought it posed any conflict.

Ms. Chisel announced she represented the Committee and felt she could represent as a whole without conflict.

C. For Possible Action – Approval of the June 13, 2011, Executive Branch Audit Committee Meeting Minutes.

Governor Sandoval asked the members if they had comments regarding the minutes.

Lieutenant Governor Krolicki noted there was a title error on the first page and it was corrected.

Controller Wallin asked if the minutes could be sent out sooner if the next meeting is scheduled months away.

Mr. Weinberger said the plan was not to wait so long for the next EBAC meeting and was hoping to schedule the next meeting in the fall. He agreed the minutes would be sent out sooner.

A quorum was lost and a recess taken from 9:11 to 9:20 a.m. due to cell phone range from Treasurer Marshall who was in travel mode. At 9:20 Treasurer re-connected with the Committee members and Governor Sandoval asked Treasurer Marshall if she had any comments or questions on the minutes. She did not and the minutes were approved.

Motion: Move for approval of the minutes of the June 13, 2011 meeting.

By: Lieutenant Governor Krolicki

Second: Controller Wallin

Vote: Motion passed unanimously for those present.

D. For Possible Action – Approval of the Division of Internal Audits 2011 Annual Report released September 28, 2011. (NRS 353A.065)

Mr. Weinberger stated the Annual report was released last year, and it was the standard report that is issued every year. He said it included the Division's performance measures for each section.

Controller Wallin said the Annual report contained projections of 100 percent for fiscal year 2010 and 2011 on page 17 for recommendations that were fully implemented. She said page seven showed that only 90.55 percent were fully implemented. She wanted an explanation of what was being measured.

Mr. Weinberger explained that the 90.55 percent on page seven was performance measures for their performance audits. He said their recommendations were to research using better business practices and generate more revenue or save on expenses.

Mr. Weinberger stated that page 17 contains performance measures for Post Review recommendations which were strictly for compliance. He said the Post Review section finds transactions that do not follow established guidelines; whether it was the State Administrative Manual (SAM) or a federal procedure or statute. He pointed out the agencies do not want to be non-compliant with anything that is required and, he said that is why the results tend to be 100 percent.

Controller Wallin questioned Mr. Weinberger whether it was a good performance measure or not because it is always at 100 percent and annually the agencies examined were 33 percent.

Mr. Weinberger replied they would be better off using the percentage of agencies examined and then use the customer surveys that were sent out. He stated historically the post review recommendations implemented had always been 100 percent. He added that the agencies have specific required guidelines and, there was no excuse for not following those guidelines.

Controller Wallin said it looked confusing because there were the Audits, follow-ups and then Post Reviews to make sure of compliance. But she said basically Post Review, were transactions processed for error rate impact.

Mr. Weinberger said the Post Reviews objective was strictly compliance with requirements for the agencies, and they were to make sure the agencies comply.

Mr. Weinberger added the performance audit measures were regarding the recommendations made to help agencies save or generate additional funding. He also said there was a little subjectivity there, because the agency might dispute the recommendations or might not have the funding for the recommendations made.

Controller Wallin said that based on the audits there could be added value by having Post Review do some of the compliance for the Single Audit.

Mr. Weinberger stated the Division was headed in that direction. He added Post Review starts with reviewing agencies expenditures for compliance with State requirements. He said if they happen to find an expenditure for a reimbursement to a sub-recipient from a grant, they would check it for compliance with federal requirements.

Governor Sandoval asked for confirmation from the Attorney General that she could hear the meeting from the Las Vegas location.

Attorney General Masto confirmed and commented there were members of the public at the Las Vegas location but they were off video range.

Governor Sandoval thanked the Attorney General and the meeting continued.

Lieutenant Governor Krolicki commented every dollar spent on Internal Audits benefited the state \$73. He said it was a great number and, it was a good investment for the state. He said he hoped to see triple digits soon and was proud of the Internal Audits team.

Mr. Weinberger thanked the Lieutenant Governor and said they would do all they could. He said that it covered fiscal year 2011 and had an updated schedule on tab 8 for fiscal year 2012. He also said it went through March of this year and, the number had actually gone up.

Lieutenant Governor Krolicki stated we touted that number regularly in prior years, and he congratulated the team for the achievement.

Mr. Weinberger thanked him.

Governor Sandoval asked the committee if there were any comments or questions.

There were none.

Motion: Move for approval of the Division of Internal Audits 2011 Annual Report.

By: Attorney General Masto

Second: Lieutenant Governor Krolicki

Vote: Motion passed unanimously for those present.

E. Presentation of the Division of Internal Audits' six-month follow-up status reports. (NRS 353A.090)

Mr. Weinberger said the six-month follow-up reports could be found on tab 4. He said that in the past, the Committee was asked if they preferred all of them be presented or some specific follow-ups be presented.

Governor Sandoval indicated he would appreciate a brief presentation on each follow-up.

Mr. Weinberger acknowledged and told the committee that he would present the first follow-up on the Office of the Secretary of State, Business License audit.

Mr. Weinberger stated the Office of the Secretary of State (Office) performed many functions, including reporting and certifying state election results, regulating Nevada's security industry, maintaining commercial recordings documents for Nevada businesses and issuing business licenses.

Mr. Weinberger reported the audit addressed the issuing of business licenses. He stated a Nevada business license authorizes a business to provide goods and services. He added, the initial and annual renewal business license fees were \$200. He said some businesses can qualify for a business license fee exemption. Mr. Weinberger also said, businesses must apply with the Office to receive a business license and/or exemption. He said unless exempt, the business pays a fee, and the office issues a business license and, if the business applies for an exemption, the Office would issue an exemption certificate.

Mr. Weinberger reported the audit provided four recommendations, and the Office fully implemented three and partially implemented one:

- ✓ The Office implemented our recommendation to evaluate obtaining information needed to determine whether businesses would meet the exemption requirements. The Office implemented a declaration of exemption process which requires applicants to declare under penalty of perjury they meet the requirements of the exemption. The Office represents that this process reduced monthly exemption claims by 83 percent resulting in a monthly revenue increase of approximately one million dollars.
- ✓ The Office fully implemented our recommendation to consider the cost benefit and resources needed to use local government data or techniques to find unlicensed businesses. It reclassified one position for which it is currently recruiting and has a contractor working on the process.
- ✓ The Office fully implemented our recommendation to evaluate the cost benefit of verifying compliance with business license exemptions. The Office would have to maintain databases containing large amounts of both public and personal identification information and currently does not have the resources to do so.
- ✓ The Office partially implemented our recommendation to coordinate with State agencies and local governments to ensure they collect Nevada business identification numbers as a part of their processes. The Office started coordinating with State agencies and local governments and notes that four state organizations, five cities and one county are either collecting or incorporating Nevada business identification numbers in their processes.

Mr. Weinberger concluded his presentation and asked the committee if they had any questions.

Controller Wallin indicated the Controller's office worked in conjunction with the Office of the Secretary of State in setting up vendors into their system. She said their system was changed to require vendors to have a Nevada business license. She added they give the vendor 30 days to get the information. The process stops when the vendor fails to give the information. She then commented that they wouldn't pay a vendor until they get their Nevada business license. Controller Wallin said they were working with agencies to make sure that vendors had Nevada business licenses. She commented it seemed to be working great.

Governor Sandoval asked the committee if there were any comments or questions.

There were none.

The next six-month follow-up was the Division of Welfare and Support Services, Child Care Subsidy Program. Vita Ozoude presented the follow-up. Representing the Division was Jack Zenteno, Chief, Child Care Program.

Mr. Ozoude reported the Division was within the Department of Health and Human Services and operated temporary programs throughout the state to assist Nevada families, the elderly and the disabled. He said one the programs operated by the Division was called the Child Care Assistance and Development Program, and the purpose of the program was to help eligible families afford child care and allow parents to work or attend school. The program helps parents by subsidizing a portion or all of their child care costs.

Mr. Ozoude reported the audit focused on improving the Division's Child Care Subsidy Program. He said 11 recommendations were issued and nine were fully implemented with two partially implemented. Mr. Ozoude said he would begin with the fully implemented recommendations:

- ✓ The Division developed and implemented a policy requiring contractors to monitor billings when providers appear to fail to meet child care licensing requirements.
- ✓ The Division developed and implemented a new policy and procedure to refer alleged provider failures to meet child care licensing requirements to the Division of Child and Family Services.
- ✓ To comply with the recommendation to only pay recreational providers for the child's actual attendance, the Division reduced the number of approved slots and budgets for each provider as an alternative solution effective July 1, 2011. The Division represented the new method stabilizes funding for recreational providers while reducing program expenditures by \$850,000 annually.

Governor Sandoval broke into Mr. Ozoude's presentation and explained that he did not have to read the entire presentation but concentrate on a question regarding this particular section.

Governor Sandoval said the third was implemented in July 2011. He asked if we have saved any money since implementation last July.

Mr. Ozoude referred the question to Mr. Zenteno.

Mr. Zenteno replied it was correct, and they did implement the recommendation on July 1. He stated they had seen significant savings from the reduction of the contracted amounts to the Boys and Girls Clubs, along with the Head Start programs.

Governor Sandoval asked for quantification.

Mr. Zenteno said the amount was roughly \$850,000. They had some additional program cuts and that brought it down approximately another 20 percent.

Governor Sandoval asked what happens to the money saved.

Mr. Zenteno said they are currently dealing with the budget shortfall. He said it was their expectation that the timeline of the wait list be decreased since implementing the wait list January 1, so they could release the wait list.

Governor Sandoval said it worked out well, because they were moving the money over to be able to serve more families.

Mr. Zenteno replied, absolutely.

Lieutenant Governor Krolicki asked if the list was triaged by who was there first or by a particular situation.

Mr. Zenteno said both were used, along with budget tiers. He said people become eligible based on their percentage of poverty. People at 90 and 95 percent would be the first they would identify. Furthermore, he said as soon as they have savings, they would identify families that are on the waiting list at 99.5 percent. He said they then take them off the

waiting list and, when additional funds become available, they would have 80 percent they could also take off the list. He concluded, they take the neediest off the list first and then continue to work down the line.

Governor Sandoval asked the committee if there were any comments or questions on the remaining six-month follow-ups, which included The Department of Health and Human Services, Division of Health Care Financing and Policy, Nevada Check up, and the Personal Care Services.

There were none.

F. Presentation regarding ongoing follow-up requested by the Committee.

Mr. Lowman presented the Committee requested follow-up on the Division of Mental Health and Developmental Services and the monitoring of doctor attendance. This was Mr. Lowman's third follow-up of the audit on doctor attendance at Rawson Neal Hospital. Representing the Division of Mental Health and Developmental Services were Interims Administrator, Richard Whitley and State Medical Director Dr. Tracey Green.

Mr. Lowman previously reported on the Division's progress in July and August of 2011. He said the present follow-up includes a review of data from the second quarter of the current fiscal year. Mr. Lowman stated the Division was undergoing a leadership change since the last report, and they were working to implement the recommendation to monitor doctor attendance.

Mr. Lowman stated the review showed doctor attendance remained at about the same level as when the Division first conducted the audit, approximately two years ago. He also stated doctors were working in the hospital for about four to five hours of a 10-hour shift in the Patient Observation Unit and five to six hours of an eight-hour shift in the hospital wards. Mr. Lowman said there was a slight uptick in attendance in September 2011, when a sign-in/sign-out sheet was used to attempt to monitor doctor attendance at work.

Mr. Lowman said the new Division leadership implemented several actions beginning in January 2012 to monitor doctor attendance. These included:

- ✓ Appointing a new doctor leadership team in the hospital.
- ✓ Creating review and report requirements.
- ✓ Enhancing the hospital electronic access control system.

Mr. Lowman reported the next scheduled follow up on the Division's efforts would be at the committee meeting and will be the annual review of all the outstanding recommendations.

Governor Sandoval thanked Dr. Green for being present and said he wanted to get to the bottom of the issue. The Governor asked for clarification on a doctor's reported working an eight hour shift, but actually only working five-six hours shift. He asked if they were doing charts during the other portion of the day. He wanted to make sure the state was paying the doctors for services and not for simply attendance. Governor Sandoval said it was his understanding that before, some of them had other jobs and private practices and in essence were double-billing. Governor Sandoval wanted to make sure the state was getting its money's worth.

Governor Sandoval asked why they weren't supportive of requiring doctors to sign-in and sign-out.

Dr. Green replied she was serving as the Acting Medical Director of Mental Health and Developmental Services. First, she felt the sign-in/sign-out and key card methods were inadequate in accurately representing all of the time of the physicians. She mentioned some of the important areas where there was no reflection of the key cards. Furthermore, she said there were no key cards in the medical records areas or the administrative meeting areas, as well as the financial meeting or residency teaching areas. She said there wasn't really a system in place to monitor the physicians and all their time. She also said it was difficult to look at the hours and really know whether they accurately represented the hours the physicians worked.

Dr. Green said in response to the stopping of the sign-in/sign-out sheet, she saw it more as an arbitrary sign-in at the start of the day and sign-out at the end of the day, and it was not being monitored by a constant physician representative. She said it did not allow for what was occurring in between the sign-in/sign-out process time, and it wasn't giving a complete picture of accuracy of the physicians there.

Dr. Green described since that time there had been a number of changes that occurred. She said they were all aware of the difficulty they had in the past in hiring physicians at Rawson Neal. She expressed how happy they were to say that had changed. She also said at one time they had a hodgepodge of different types of physicians hired. She said they had contract, part-time contracts, state employees and locums, and she said currently, they have no contracts and no locum physicians on the inpatient service. Dr. Green said they were currently all state employees.

Dr. Green explained that in the past, they had no medical director leadership and they now had a full-time medical director and a full-time associate medical director.

Dr. Green described in regards to monitoring they were using a three-part system that had more accurately reflected the hours worked. She said the first part were the key cards. She also said she thought the auditors revealed something that needed to be looked at further. Dr. Green said they have a single point of entry using the key cards, but she said the doctors were using that one point of entry for entry and exit. She also pointed out they monitored all movement with key cards.

Dr Green secondly reported they had outlook calendars that were checked on a regular basis, with sign-in/sign-out at all medical meetings and all medical records for accountability.

Dr. Green thirdly reported they use time sheets. She said the timesheet showed time off, along with vacation and sick leave. In regard to monitoring, they had the medical director monitoring and reconciling on a biweekly basis. Dr Green explained if there were gaps in the data or any poor-performing physicians or outliers in any large group, they were having one-on-one consultation and professional counseling sessions with them. She said if necessary, there would be further follow-up.

Dr. Green reported they now had a system of both monitoring and measuring for real accuracy of physician attendance.

Governor Sandoval complimented Dr. Green in taking a leadership role on the issue. He said he was concerned about patient care and pay for employees who were not working. The Governor said he didn't believe that was something that gets emphasized enough. He

wants to ensure the physicians were there giving the patients the care they needed. Governor Sandoval commented it was hard for him to understand how patients were getting the care they needed if the doctors were only working one hour a day.

Governor Sandoval asked Dr. Green if she was satisfied with the doctors providing the services they were required to provide, and the patients were getting the care they needed.

Dr. Green replied, absolutely, and they were moving toward productivity as their next goal and to really look at length of stay, quality of care and medication oversight. She agreed that there were a number of issues that should be evaluated at the facility.

Governor Sandoval asked Dr. Green if that was going on now.

Dr. Green replied yes.

Lieutenant Governor Krolicki commented he found it provocative that the audit found no correlation between the doctors' attendance and the physician's productivity and how well they do what they do. He said they don't want somebody that just checks in and is not productive. The Lieutenant Governor said he wanted to see a performance standard. He wanted the timesheet and the productivity all in one piece so it could be measured. He said it worked for the patients and taxpayers.

Dr. Green agreed and commented what was interesting was the data of some of the doctors with the fewest hours had some of the highest productivity.

Controller Wallin told Dr. Green she appreciated they were using the technology to break out the productivity such as training, meetings, education or patient care.

Dr. Green explained they have what is called "on-pod", time and she said they would have a reflection of pod time which they believe will correlate to patient care time and off-pod time. She said that would be meeting time which would correlate to the education, pharmacy and resident training and teaching.

Controller Wallin asked Dr. Green if she had seen an increase in hours since they started keeping track in January.

Dr. Green said yes, and she would be happy to present the data. And she said they had seen improvements throughout the last three months.

Controller Wallin asked if they were over the five or six hours now.

Dr. Green replied absolutely.

Governor Sandoval explained he wanted to be fair because he was not a physician, and he knew there were other hours when they were not bedside. He asked if that function was performed on or off-site.

Dr. Green explained those functions were performed off the key card area but on-site.

Governor Sandoval asked the committee if there were any comments or questions.

There were none.

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

Jennifer Chisel, Committee counsel, stated for the record she wanted to disclose that the Executive Director of the Department of Taxation, Mr. William Chisel was her husband. She said the relationship between them would not affect her representation of the Committee for this item.

Governor Sandoval thanked Ms. Chisel and proceeded with the meeting.

1. Department of Taxation – Audit and Collection Processes

Vita Ozoude, Executive Branch Auditor, presented the audit of the Department of Taxation, Audit and Collection Processes. Representing for the Department of Taxation was Bill Chisel, Executive Director.

Mr. Ozoude said the Department administers tax programs as required by statutes, regulations and policy. Additionally, Mr. Ozoude said the Department establishes property tax assessment and guidelines for counties, conducts audits, collects and distributes taxes and fees. He said the Department collects and distributes 19 types of taxes and fees, including sales and use tax, real property transfer tax, and net proceeds of minerals tax.

Mr. Ozoude said the Department's budget for fiscal 2011 was approximately \$27 million, with 328 full-time employees. He said the Department's operations are carried out by the following five divisions:

- ✓ Administrative Services/Fiscal
- ✓ Executive
- ✓ Information Technology
- ✓ Assessment Standards and
- ✓ Compliance

Mr. Ozoude said they focused their audit efforts on the Compliance Division's sales and use tax. He said sales and use tax contributed approximately 70 percent of the \$4.5 billion in revenues administered for fiscal year 2011. He said they limited their audit scope even further by concentrating on taxable sales, as use tax contributed less than nine percent of the audit assessments for fiscal years 2010 and 2011 combined.

Mr. Ozoude explained the Compliance Division was comprised of two main sections:

- ✓ Audit Section
- ✓ Revenue Collection Section

Mr. Ozoude explained the audit section ensures taxpayers comply with tax laws by performing audits and assisting in educating taxpayers on proper tax compliance.

He said the revenue section collects taxes, debts and delinquencies. He also said they administer programs to discover unregistered businesses and pursue liquor and cigarette contrabands.

Mr. Ozoude reviewed the Compliance Division's audit and revenue collection processes and addressed two areas:

- ✓ Enhancing Audit Coverage
- ✓ Improving Collections

He said they could enhance audit coverage by implementing an audit selection based on risk assessment and by using cost benefit analysis to reallocate current staffing. Mr. Ozoude reported during the initial stages of the audit, the Department represented the audit selection was based on the following:

- ✓ Five Percent Random Samples
- ✓ 45 Percent Leads
- ✓ 50 percent risk

Mr. Ozoude stated additional discussions with staff and analysis of audits performed disclosed that audits were selected based on supervisor's judgments, and smaller audits were selected to achieve high penetration rates.

Mr. Ozoude said the Department should use risk assessment when selecting audits. He also said the survey of six states revealed they use risk assessment in audit selections. He said in a prior audit of the Department, their survey showed that using risk to identify potential taxpayer audits consistently outperforms other methods.

In addition, Mr. Ozoude said the Department had not emphasized taxable sales as a major component of the risk assessment. He said other states and the federal government emphasize taxable sales and/or revenue in their risk assessment. Furthermore, he said, using supervisor's judgment and choosing smaller audits negates the benefits of using risk assessment.

Mr. Ozoude revealed, another component of the Department's risk matrix was the North American Industry Classification System (NAICS) codes assigned to businesses. He added, some of the businesses, were assigned incorrect designations and risk weighting; for example, he said some had blanks or several names that were for industry code. Mr. Ozoude said the Department should correct the code designations and risk weights assigned to businesses as incorrect NAIC codes and designations distort the Department's risk matrix. He said they noted a disparity between numbers of audits performed and the amount of non-compliance assessments documented in each of the offices. He said the department should consider re-allocating staff to areas that would provide greater benefit to the State.

Mr. Ozoude said using risk assessment to select audits, incorporating taxable sales as a major risk matrix, correcting the NAIC designations and risk weighting, and reallocating staff would ensure compliance with state laws and enhance overall audit coverage.

Mr. Ozoude said the Department could improve revenue collections by evaluating the cost benefits of pursuing cases staff did not normally work and transferring additional cases to the State Controller for collection. He said the Compliance Division's revenue collection section was responsible for tax debts and tax delinquencies. Mr. Ozoude said tax debts were created when:

- ✓ Tax Revenues were Submitted without Payment
- ✓ Tax Returns were Submitted with Errors in Calculations
- ✓ Returned Checks,
- ✓ Audit Assessments, and
- ✓ Late Fees for Returns not Filed before Due Date

Mr. Ozoude said a tax delinquency occurs when a registered taxpayer fails to file a tax return and submit payment.

Mr. Ozoude stated the Revenue officers work all tax debts and delinquencies greater than or equal to \$500 dollars, and individual debts from same taxpayer that aggregates to \$500 dollars. He said each Revenue officer works an average of 218 cases. He also said it was the Department's goal to have each officer work between 250 and 400 cases. Mr. Ozoude mentioned that Revenue officers from other states work anywhere between 150 to 400 cases.

Mr. Ozoude said the Department uses their computer system to send automated notices on accounts less than \$500 dollars and delinquencies with unknown amounts. He said the automated notices were sent monthly until the taxpayer responds, or they receive information the address is no longer valid. Furthermore, he stated delinquencies with unknown amounts represent about 30 percent of the average number of cases per revenue office, and those could result in substantial revenues.

Mr. Ozoude suggested the Department sample delinquencies with unknown amounts to determine the cost benefits of pursuing the delinquencies.

Mr. Ozoude said the Department has 3,481 cases per Revenue officer and therefore, the State may not be collecting as much tax revenues as it could. He said other states in their survey use collection agencies to improve collections efforts. The Department currently works with the Controller's Office and has transferred \$11 million, which represented 4.4 percent of the total debts owed to the Department. He said the Department should continue to evaluate which debts to work and which to transfer to the Controller. Mr. Ozoude said the Controller contracts with collection agencies to pursue the debts. He said using collection agencies to pursue debts that are not currently being worked by the Revenue officers could increase total collections.

Governor Sandoval asked Bill Chisel, Director of Taxation, if he had a presentation.

Mr. Chisel thanked Internal Audits for their hard work on the audit. He said it had provided him a road map, as he was now working as the Director of the Department of Taxation. He said he would address some of the items right away.

Mr. Chisel noted the two areas he looked at was the audit selection process, which he said was updated. He said they enhanced their risk selection and put more emphasis on larger dollar audits.

Mr. Chisel said they looked at their collection process, and were planning on transferring work credit instruments over to the Controller.

Mr. Chisel described how they would change their process in which they pursue accounts receivables. He said anything under \$500 would be automated and sent over to the Controller. He also said they would focus on anything above \$500. He said it was the best use of their resources. He thought it should bring the number down of cases per Revenue officer to around 250. He said the number was around 3,000.

Governor Sandoval asked from 3,000 to 250.

Mr. Chisel answered 250. The threshold of the vast majority was under \$500 dollars, and he said there was a large amount of what they call delinquencies that have no dollar amount assigned to them. He said they would take a look at the ones to close out and focus on those of high risk. He commented high risk was about \$25,000 dollars and they would use other staff to go through those.

Mr. Chisel explained that was how they would bring the number down, and he said it would take two or three months to reprogram the system, and they would work in conjunction with the Controllers Office.

Governor Sandoval said, he was looking at page 14, and it showed Reno with the amount of \$567 and 29 audits per auditor. He asked why Reno was less productive then the Henderson and Las Vegas offices.

Mr. Chisel explained it was primarily due to less staff in Reno and because of turnover. He additionally used some staff for mining audits. He said he would watch the next couple years and anticipated staffing would be adequate, and he hoped those numbers would drop.

Governor Sandoval asked if the \$567dollars was something that could be corrected with the risk assessments.

Mr. Chisel agreed.

Lieutenant Governor Krolicki stated it was not a volume thing and he wasn't sure why re-deploying certain staff to other means would knock the number down or make it less.

Mr. Chisel said part of it was the large refunds for some construction projects, which he said impacted the net audit assessment. Mr. Chisel confirmed they would monitor it and it was one of the management reports that had been developed to monitor the productivity.

Controller Wallin acknowledged Mr. Chisel was doing a great job and her office had been working with Taxation to identify what debts to come over to her office. She said they were really starting to get a handle on the debt offset. In fact, she said she snagged \$600,000 in mining returns that were given out. She commented it was a good thing.

Controller Wallin did some follow-up and was curious to see what the audit results had been in FY 2011. She said on page three, approximately \$16 million in additional collections or audit bills were collected. She asked Mr. Chisel if that was correct.

Mr. Chisel replied it was pretty consistent but did not know the exact number.

Controller Wallin stated that now Mr. Chisel was there and maybe as a follow-up, she wanted to see risk assessments. She said they were starting to see improved collections.

Mr. Chisel stated their hope was to see higher dollar taxpayers. He said the result could also be a reduction in penetration of the number of specific taxpayers audited. He commented that they would be looking more at dollars, and she would look more at the number of businesses.

Controller Wallin said when doing a comparison of all other states and their taxation departments, she said her penetration was approximately less than two or three percent. She said they needed a balance it with dollars as well.

Mr. Chisel replied he was looking at what was the best interest of the State, and to look at dollars verses the number to focus their resources.

Controller Wallin agreed. She said it was definitely a better measure. She said they would still have penetration to ensure compliance and if penetration goes down then dollars go up and maybe they could ask for more resources to do additional audits to keep the penetration to keep the balance.

Controller Wallin asked on page 10, exhibit 4 if the average non-compliance assessments based on taxable sales was annual.

Mr. Chisel replied yes.

Controller Wallin said page 11 read about percent of audits performed based on taxable sales. She said it got down to risk assessment 25 percent of the audits \$17,500 or less that was spent basically was a sales category and, 25 percent was spent in the hundred thousand to \$999,000. She said seven percent was one million and above.

Controller Wallin asked as they started looking at risk assessment for the higher volume sales, what would be the time frame on the audits.

Mr. Chisel said they would focus on sales tax. He explained when looking at larger audits to anticipate them taking longer. He said presently they were looking at about one to two weeks per audit, and he thought a month or less to do a million-dollar property.

Controller Wallin reported that in the CPA community they say that sometimes they were getting audits with their clients for months and it ended in a no charge audit. She wanted to know if productivity would be looked at.

Mr. Chisel said if someone is out there several months he, would like to know who that was but, said it shouldn't happen unless there was a specific area being looked at besides sales tax.

Mr. Chisel explained if the larger audits resulted in no change, they would not go right back to them and, they would be assigned to lower risk.

Controller Wallin asked Mr. Chisel if his out of state auditors were employees of our state.

Mr. Chisel confirmed they were.

Controller Wallin wanted an explanation of page 15, exhibit IX table. She said Arkansas had average taxable sales of \$297 million in sales for 37 companies.

Mr. Chisel replied Wal-Mart was there and he determined Wal-Mart wasn't high risk, even though they had a lot of money, he said they had a good internal control system.

Controller Wallin said Texas had one auditor and 1700 accounts and commented it wasn't really high volume.

Mr. Chisel said he wanted to watch as they implemented the risk assessment and the audits. Mr. Chisel wants to give it a year or two to see how it played out, and then they could evaluate.

Controller Wallin asked the the North American Industry Classification (NAIC) codes updated and corrected when auditors were out on site.

Mr. Chisel explained if they identified a code was incorrect, it is fixed then but, he said it was difficult to determine from a risk assessment whether they were incorrect. He said it's the businesses that input those.

Controller Wallin asked if it was possible to have the taxpayer identify their NAIC codes at the beginning of every quarter or the first quarter of every year.

Mr. Chisel said it could be looked at.

Governor Sandoval asked how far along Nevada was as far as having systems in place.

Mr. Chisel reported the audit selection risk assessment had been put in place two months prior and, he said the collection process would take a little longer because the computer system needed to be updated. He said they anticipated three to four months for the system update to be implemented. He said at that time they would coordinate with the Controller's office in transferring the instruments to the collection agencies.

Governor Sandoval asked Mr. Chisel if he had all the resources to accomplish what needs to be done.

Mr. Chisel said yes they did. He said their goal was to focus on a penetration rate of the dollars verses the number of businesses.

Governor Sandoval asked the committee if there were any comments or questions.

There were none.

2. Department of Employment, Training, and Rehabilitation (DETR) - Workforce Investment Board

Steve Weinberger, Interim Administrator, presented the audit on the Workforce Investment Board. Representing for the Department was Frank Woodbeck, Director and Dennis Perea, Deputy Director.

Mr. Weinberger said DETR oversees the Workforce Investment System in Nevada. He said the system's primary goal was to improve the employability of participants. He said the audit focused on whether DETR could provide more oversight of the system.

Mr. Weinberger stated the U.S. Department of Labor, the State of Nevada, local entities and contract providers all take part in either delivering or monitoring system services to participants. He said the System funding flows from the U.S. Department of Labor to the State of Nevada and then to local entities and finally to contract providers. He explained:

- ✓ The U.S. Department of Labor funds the system and monitors state and local entities for compliance with the Workforce Investment Act and,
- ✓ The State uses the State Workforce Investment Board, (or State Board) and DETR to administer its part of the system.

Mr. Weinberger explained the State Board provides general oversight of the system and, board membership includes state officials, elected officials and other local or labor group representation. He also explained DETR supports the State Board by performing its daily operations. Mr. Weinberger said DETR allocates and disburses funds to local entities and identifies industries where opportunities might exist for participants.

Mr. Weinberger stated local entities use local Workforce Investment Boards (or local boards) and their administrative agencies to administer their part of the system.

- ✓ The local boards provide regional oversight of the system. Board members include local elected officials, businessmen, educators, labor groups and others.
- ✓ The administrative agencies support the local boards by conducting its day to day operations.
- ✓ The southern local board is responsible for system activities in Clark, Esmeralda, Lincoln and Nye counties.
- ✓ The northern local board is responsible for the rest of the state.

The local boards contract with providers to implement the system by training participants for work readiness, preparing them for the work environment and increasing their work skills.

Mr. Weinberger said the audit determined DETR could improve oversight of the workforce investment system by limiting how much local boards spend on their own programs and the amount of unobligated funds carried over to the next fiscal year. DETR could also improve oversight by reconciling system expenditures with local boards.

Mr. Weinberger explained DETR should develop expenditure limits on local boards and propose the limits to the State Board for approval. If approved, he said DETR should sanction local boards that do not comply with the expenditure limits.

Mr. Weinberger explained The Workforce Investment Act allowed local boards to be reimbursed for their costs to administer the system. They noted the northern board uses approximately 11 percent of their funding for cost reimbursement while, the southern board uses about 21 percent. Mr. Weinberger said after deducting contract provider and administrative costs, the northern office has approximately 70 percent of their funding available for participants while southern office has about 62 percent.

Mr. Weinberger said Internal Audits estimates that southern participants could have an additional \$1.9 million dollars available to them if the southern board limited its use of funds for cost reimbursement to the level used by the northern board.

Mr. Weinberger said DETR should develop unobligated funding limits on local boards and propose the limits to the State Board for approval. He said if approved, DETR should sanction local boards that do not comply with the expenditure limits.

Mr. Weinberger continued by saying unobligated funds were created when the boards do not spend or obligate all their budgeted funds at the end of the fiscal year. The local boards budget for unobligated funds to continue operations until new federal funding is allocated or if new opportunities for trainings arise. He said while some unobligated funding is necessary, the amount carried forward from year to year varied among the two local boards. The southern board projects it will have about 15 percent of this year's funding unobligated at the end of fiscal year 2012 and, the northern board plans to have about 10 percent of its funding unobligated. Mr. Weinberger said they estimated if the southern board were to reduce its unobligated funds to the level of the northern board, an additional \$700,000 dollars would be available to help southern participants in fiscal year 2012.

Mr. Weinberger said DETR and local boards should reconcile system expenditures at least annually. They noted a variance for fiscal years 2009 through 2011 of about \$2 million, or four percent, between DETR reported expenditures and the southern board reported expenditures. They also noted a variance of approximately \$615,000 between DETR reported expenditures and the northern board reported expenditures for that same time period.

Additionally, Mr. Weinberger said the southern board's Certified Public Accountants (CPA) noted material weaknesses in the single audits for fiscal years 2010 and 2011.

Mr. Weinberger said the Department was interested in pursuing a single state model where Nevada would only have a state board. He also said when a state only has a State Board; it is known as a single state. Currently, he said the State has two local boards.

Mr. Weinberger said the Department believes that becoming a single state would save money by eliminating the cost of local board administration and that monitoring providers would be easier since it will be done by the state board. He said to become a single state; Nevada would have to obtain a waiver from the U.S. Department of Labor. He also said if the State obtains a single state waiver it should limit costs at or below 11 percent of funding, create policies and procedures to carry out the roles of the local boards, and create separate entities to administer and monitor the program.

Mr. Weinberger said they surveyed two single state boards and noted the average cost was about 12 percent of the total Workforce Investment Act funding. He said as previously stated, Nevada's local boards had averaged about 11 and 21 percent for the northern and southern boards respectively.

Mr. Weinberger stated Nevada's single state board would have to assume the role of the local boards. He said the current system provides contracts between the local boards and providers who implement the system by training participants. Furthermore, he said when a provider's contract is not renewed; the local board takes on the responsibility of that provider. He suggested if Nevada's single state board had to take on the responsibilities it would have to provide case managers to work directly with participants and identify and monitor training and would have to track participants after completion of training and during employment.

Mr. Weinberger stated the single state board would have to assume other roles of the local boards such as promoting the system regionally. He also stated Nevada's single state board would have to administer and monitor its programs. He stated Alaska obtained a

single state waiver and has segregated these functions among two separate entities and Nevada should do the same.

Mr. Weinberger concluded his presentation and asked the committee if they had any questions.

Mr. Weinberger added that when they looked into the discrepancies between the north and the south it appeared the southern board employees were making 22 percent more than the northern employees.

Lieutenant Governor Krolicki asked why that was.

Mr. Woodbeck replied it was the privy of the board executive director as to how the pay scales were set. He believed they adopted Clark County pay scales but that didn't determine every single employees pay.

Governor Sandoval mentioned there were eight salaries that exceeded \$100,000 and two that exceeded \$90,000 and that didn't include retirement of healthcare. He noted the top salary was \$168,000.

Governor Sandoval wanted an explanation of two different numbers on page 10.

- ✓ "Less: Local board use of funds", 21.02 percent. (Calculations based on financial information provided by Nevadaworks in northern Nevada, and Workforce connections in southern Nevada.
- ✓ "Less: Provider Average Administrative Costs", 13.20 percent. (Based on available budgeted of actual provider expenditure documents for fiscal year 2011.

Mr. Weinberger said the "Local board use of funds" are those funds the local boards are keeping and using as their internal cost reimbursement. He said the Provider Average Administrative Costs were the administrative costs kept by the providers. He said it was a little more down south, but not that much.

Governor Sandoval recognized there was essentially three layers of administrative costs.

Mr. Weinberger agreed it was true given the state, local board and then the contracted providers.

Mr. Woodbeck interjected and said some of the discrepancy in terms of the number of employees in the southern board was because they did some program oversight on programs that were normally overseen at the board level. This increased the employee count in the south.

Mr. Woodbeck said it was not common practice. He said if they were a statewide board, all programs would be provided by the service providers. Mr. Woodbeck said the salary discrepancy had been noted. He said the part of the provider average administrative costs could be identified as being a fund that would take care of potential overruns.

Governor Sandoval asked about DETR's plan to go to a single state.

Mr. Woodbeck explained the plan was to go to one statewide board of governors, and the purpose was to align quickly with economic development terms and economic development goals for training and use those resources more effectively toward the training. He said they had put together an administrative plan in which the staffing at DETR would support the Governor's Board and the oversight of Workforce Investment Act (WIA) funding expenditures. Furthermore, he said their costs would be at less than 11 percent, in terms of their plan, and 20 employees.

Governor Sandoval stated that under the plan, instead of only 61 percent of the money going to the participants, it would get to the high 80's.

Mr. Woodbeck said yes, and they estimated they could add between five and six million in training.

Lieutenant Governor Krolicki said in other states, the boards had to dissolve themselves and asked if that was something they could just do or did they need to agree to it then dissolve.

Mr. Woodbeck explained it was a requirement of the Department of Labor (DOL) and they submit a state plan every five years and this was the year for a submittal. He said part of the plan was to request a waiver to not change the workforce investment areas or, not change the allocation of funds, but just to dissolve the two local boards.

Mr. Woodbeck explained the northern board had volunteered to dissolve based on the fact that their executive director retired in January. He also said they were determined to go in a different direction. Furthermore, he said there was some pushback from local elected officials for dissolving the southern board. He said they were going to present a plan to the local elected officials that showed how they could more effectively expend those funds. They are hoping to get a majority vote from them to go with the plan and voluntarily dissolve, but, the DOL was the final arbiter.

Mr. Woodbeck said the timeline for the plan was December 31 and they would have to submit it by July 1.

Lieutenant Governor Krolicki said they were curious as to the results of the boards' receipt of the information and certainly the exercise of the Audit Committee would be actively engaged in that process when appropriate.

Governor Sandoval asked where they were with regards to the application of waiver with DOL.

Mr. Woodbeck replied they were in process preparing the state plan currently and had asked for an extension from the April 30 deadline to July 1. He said the regional office of DOL recommended asking for the extension. He said at this point in time he had submitted to the Governor's Office a revision for the Governor's Workforce Board, which would be the oversight board, and that they are explaining that to the local elected officials. He said they also had in place the sector councils, which some of the people who now serve on those boards and have input regarding training initiatives for the various industry sectors. He also said the bylaws of those sector councils had been approved by the Governor's Board as of last week, which included oversight by at least three local elected officials on each of the

seven sector councils, as well as the input of a member of the Senate or Assembly, Nevada System of Higher Education (NHSE), community colleges, and regional development authorities that were being formed. Mr. Woodbeck said they would transfer the oversight and the input, as far as training was concerned, to the sector councils who report to the Governor's Board.

Governor Sandoval said the message to the local government officials was your constituents would get millions of dollars more money?

Lieutenant Governor Krolicki added up to 6 million?

Mr. Woodbeck stated that was correct.

Governor Sandoval said there would be great opportunity to train in each of the sectors that were identified within the Economic Development Plan.

Mr. Woodbeck agreed.

Governor Sandoval said there would be one board which will have direct impact on the six million dollars is spent?

Mr. Woodbeck agreed and commented that the fiduciary responsibility for the WIA funding would revert from the local counties and cities to, the state. He said the local elected officials are in favor of that. He also stated the local elected officials he referred to were city council and county commissioners.

Lieutenant Governor Krolicki stated that Alaska and Idaho received waivers and asked if Nevada expected to get a waiver.

Mr. Woodbeck said he was not sure but was trying to build a case that would be difficult to overlook, and trying to engage our congressional delegation in the same process. He said the timing is perfect because we now have a new economic development system in place and we are engaging that system with the plan.

Mr. Woodbeck said the money would not increase over the year and he said they would have to find ways to be more efficient and they were finding them now. He said they set up a mechanism to oversee the compliance with contracts, issuance of contracts, and the engagement of community colleges. He also stated they have all the grant and audit processes in place

Controller Wallin asked how long it would take for a response form DOL if they file in July.

Mr. Woodbeck said he was not sure but hopes it would be done by December 31.

Controller Wallin asked if they were going to limit their expenditures as the audit recommended

Mr. Woodbeck said they lost the Executive Director in March and their interim Executive Director was implementing a number of expenditure limitations and a number of expense cuts that he just started. He said they would do a fine job in reaching the expenditures, and both Boards were notified about the expenditure limitations.

Controller Wallin asked if they were looking at strengthening their subsidy and mentoring, because there had been issues.

Mr. Woodbeck agreed and replied absolutely.

Controller Wallin asked what type of performance measures they had.

Mr. Perea, Deputy Director for DETR said currently they negotiate federal performance indicators with the DOL. He is not happy with them because they deal with percentages and if you had 10 individuals and eight outcomes you get to the 80 percent and serve very few people. He stated they were trying to put more on price per participant data so they could see more money making it to the client. Right now it was very high compared to the Idaho model. He said it was about \$3,000 per participant adult workers retaining unemployment. Mr. Perea said in the previous years it was completely out of whack, up to about \$24,000 on dislocated workers per participant.

Mr. Woodbeck said they now have a pilot program with Western Nevada College and will cost between \$2,000 and \$2,500 per participant. He said when participants complete the program they will be guaranteed employment because, they do apprenticeships as far as training within the small manufacturing.

Mr. Woodbeck said they need to know that there are employers out there that will hire individuals. He said they had also invested some state intercept partnership grant money into a particular company in the training when they know that company will be hiring individuals. He also said DOL has praised them for doing this, so they will do more.

Mr. Perea clarified the numbers he talked about were mostly the South and not a statewide number.

Lieutenant Governor Krolicki said the monies that were being talked about were federal monies from DOL and, asked if there was any impact if we reduce the cost on to the General Fund of Nevada or, was it really just re-purposing of the federal monies for job training programs.

Mr. Woodbeck said ultimately there was a double benefit. He said the more people they employ or retrain was an impact, and secondly he said as the companies and industries grow it will be a positive impact to the economy. Mr. Woodbeck said yes, there was a General Fund impact, and could they pinpoint it each time, he said no but; they would be able to see it over time.

Lieutenant Governor Krolicki said there were hard costs such as the General Fund or part of the State's balance sheet like PERS and PEBS. He said they would have to get a handle on the overhead costs.

Mr. Perea said this program would be cost allocated so there would be nominal savings in fixed costs.

Mr. Woodbeck added it would lower personnel.

Lieutenant Governor Krolicki said there would be an eventual benefit if the costs were contained on the personnel side.

Lieutenant Governor Krolicki asked if this was Future liabilities for the state, through things like PERS.

Mr. Woodbeck replied yes.

Attorney General Masto asked what the cost was to the General Fund to go to a single state board in terms of full time employees (FTEs).

Mr. Woodbeck said there was no cost to the General Fund. They would use federal workforce investment funds for the additional FTE's.

Attorney General Masto asked with respect to the local elected officials, if they were aware of any officials that currently work for the local Workforce Investment Board or that is a contractor for a local Workforce Investment Board.

Mr. Perea and Mr. Woodbeck that they believed it was Ms. Bustamante Adams but she was no longer there, they would have to check.

Governor Sandoval asked what the resistance was.

Mr. Woodbeck said the resistance is philosophical. He said there's north-south resistances because they believe the funding would favor the north rather than the south. He said he explained to local officials in the south that those were fund allocations that come from DOL. He said if those were to be tampered with they would be sanctioned and he said the fund allocations were not going to change and, neither was the Workforce Investment area going to change.

Secondly, Mr. Woodbeck stated they were not cutting funding to service providers. He said the service providers that had been successful in the past would have an opportunity to bid on Request for Proposals (RFP's). He said the locals did not want to lose control, when, in fact, the system that's being created would give them more local input than before.

Governor Sandoval confirmed the single board would have statewide representation.

Mr. Woodbeck confirmed it was designed that way.

Lieutenant Governor Krolicki stated it was not a north or south issue but a precious resource being put into workforce development,

Mr. Woodbeck stated the development of industry would naturally benefit the south more than the north because, that's where the population base was and that was where the workers were. He said the training and retraining needed to be done there. He said they wanted to provide assessments to long-term unemployed to find their strengths and weaknesses. He said once those were identified they would become reemployed.

Attorney General Masto asked if some of the funding criteria was based on need, population and unemployment.

Mr. Woodbeck said the funding for the state overall was based on employment levels and funding allocation within the state was based on population.

H. Approval of the Division's Annual Audit Plan (NRS 353A.045)

Mr. Weinberger addressed the Committee to look on page four of the summary. He stated they had three previously approved ongoing audits, two requested audits that were approved during the April 6, 2011, Audit Committee. He said they had one new audit to propose for Committee approval.

Mr. Weinberger asked the committee if there were any comments or questions.

There were none.

Mr. Weinberger stated they provided a risk assessment schedule on page seven which was approximately a year old. He said he planned on re-doing it because he questioned some of the methodologies. Mr. Weinberger said he planned on calling other audit shops from other states to see if it could be enhanced for the Committee's information.

Motion: Move for approval of the Division of Internal Audits Annual Audit Plan.

By: Controller, Kim Wallin

Second: Lieutenant Governor Krolicki

Vote: Motion passed unanimously for those present.

I. Presentation of the follow-up status for Legislative Counsel Bureau's audit report recommendations issued September 29, 2010, December 8, 2010 and April 12, 2011.

Mr. Weinberger stated this is the Division's follow-up on Legislative Counsel Bureau Audits and no significant items were noted. There were no questions from the Committee.

J. Presentation of the Estimated Benefits to Nevadans from the Division of Internal Audits' Recommendations.

Mr. Weinberger said a detailed schedule was shown tab eight. He said the ratio of dollar benefits to every dollar spent on Internal Audits increased from \$68 to \$86. He said this was due mainly to the Secretary of State's implementation of requiring the business license applicants to declare under penalty of perjury that they qualify for an exemption. Furthermore, he said this recommendation resulted in a \$7 million dollar increase for fiscal year 2012.

Lieutenant Governor Krolicki mentioned in the beginning part, it was \$74 as opposed to \$68 and wanted to make sure they were reconcile.

Mr. Weinberger clarified the Annual report had actually been first released in September 2011 and he went through and updated the schedule. He said he found recommendations that were not implemented like they expected and lowered it to \$68.

Lieutenant Governor Krolicki remarked that was appropriate and, wanted to make sure the same benchmarks were being used.

Mr. Weinberger stated that was accounted for.

Governor Sandoval made a remark about Nevada Office of Veterans' Services with the adding of positions to increase revenue by \$7 million.

Mr. Weinberger replied that was correct and gave a little background to the Governor. He said when the audit was performed Nevada Office of Veteran Services said they did not have enough service officers to outreach and service all the vets in the state. Internal Audits recommended they get four more service officers. Mr. Weinberger said they implied that for each service officer they obtained, they would receive \$3 million in federal money to help assist those veterans. He said it came to about \$7.2 million with only two service officers.

Mr. Weinberger said they do have a schedule of non-implemented recommendations and they have the other two service officers on there. He said it would be about \$7 million apiece for the other two service officers.

Mr. Weinberger explained he had talked to the agency last week and told them he wanted them to do an analysis of the two service officers they did hire and verify the approximate \$7 million more. He said if that was the case they would coordinate with the Budget Division to see if there was something they could do to get more money to hire the other two positions.

Governor Sandoval said this was news to him and wanted to first ensure if this was done, they would actually get the money. He said they did not know if the two positions that were already approved were generating that amount of money.

Mr. Weinberger said he put the request out last week and they were currently working up the numbers so we could have verification.

Mr. Lowman addressed the Committee. He said Director Mohlenkamp asked him to pass along some comments that pertained to the discussion. Mr. Lowman stated they did find that the number of officers was driving the benefits for the Nevada veterans. He said they were looking at projecting from FY12 an increase of \$10 million up from \$70 million in FY12 to \$80 million in FY13. He did say that, in general, the Nevada population is about 12 percent, whereas, the national average was about eight percent. This area did require consistent monitoring to see the benefits that were coming back. Mr. Mohlenkamp asked me to pass on the Department's thanks to the Lieutenant Governor for having the Division of Internal Audits include the column for outstanding monies so it could be better monitored and use it as a tool to continue to look for benefits.

Governor Sandoval said he would like to see them take action to go through IFC and not wait.

Lieutenant Governor Krolicki absolutely agreed.

Mr. Lowman explained we were under the national average of about \$1,400 per capita for veterans' benefits about \$950 in Nevada, per capita.

Lieutenant Governor Krolicki stated that on a per capita basis, Nevada had an abundance of veterans. He said these folks are working hard at the Department. He said to leave that much resource for our veterans on the table was something that needed swift attention. He

also said he would echo the financial benefits to be available to veterans today and the IFC route would be the way to go.

Governor Sandoval said he did not want to wait until the audit was done. He said the point he was making today was to go after it.

Controller Wallin added that sometimes we get in a tunnel vision that we can't spend money but, she said we don't look what we are going to make on the other side. She said this is what they need to do.

Controller Wallin complimented Mr. Weinberger on adjusting the benefit costs and making them more reasonable.

Mr. Weinberger thanked her.

K. Presentation of the Divisions annual follow-up report status.

Mr. Weinberger said they added a column for the estimated dollar amounts to the recommendations. He said this was a request from Lieutenant Governor Krolicki from the last EBAC meeting. Furthermore, he said he could now prioritize with his resources of which to follow-up on. He asked the Committee if they had any specific questions.

Lieutenant Governor Krolicki said the Division of Mental Health stood out because the bulk of fees and the most recommendations but, to be fair he said they were most likely on track to cure the challenges they had under those recommendations.

Mr. Weinberger said the biggest recommendation they had outstanding was the \$1.7 million that dealt with monitoring doctor attendance. He said that was discussed today and they had some good ideas to enhance their doctor tracking and attendance tracking. Mr. Weinberger concluded he would find out as soon as we can, especially with the larger dollar amounts if they were implementing their recommendations.

L. Presentation of the Division's Self-Assessment. Report on compliance with the Institute of Internal Auditing Standards. (NRS 353A. 045 (9)).

Mr. Weinberger said the final item was the presentation of the independent validation of the Division's self-assessment. He said he created a summary of the recommendations issued by the validator and those were reports actually issued by the validator.

Mr. Weinberger asked the Committee if they had any questions.

Controller Wallin asked Mr. Weinberger if they had training dollars so they could keep their continuing education.

Mr. Weinberger stated they had enough.

Controller Wallin said that is why she lets Internal Audit staff come to her office and receive trainings.

Mr. Weinberger said yes, and they take advantage of that.

Controller Wallin said they would continue to expand.

Mr. Weinberger explained the CPA has training requirements of 40 hours. He said in his own policies and procedures if they're not CPA's it's 20 hours of training.

Controller Wallin stated she just wanted to make sure they had the resources.

M. Committee Members' Comments.

No comments from the Committee members.

N. Public Comments.

Mr. Ardell Galbreth told the Committee he serves as the Interim Executive Director for the Southern Board, Workforce Connections. He said he was appointed as the Interim Director about one month ago.

Mr. Galbreth addressed agenda item number G-2. He said the local elected officials gave him a direct call to not wait for the end of December or next year and wanted him to put things in action immediately and shared the information with the Committee.

Mr. Galbreth stated the six-digit salaries that were mentioned were eight and now had been reduced to three under the formula grant. He said there was reduction in force culminated by a reduction of 54 percent of the staff. He explained by the end of September the staff will be down to 33 from 72. He said there will be a cost savings due to those reductions and reallocation of the budget line items to just over \$200,000. He also said for the coming year, rather than indicated, 30 percent will be going for staff support at the local board level.

Mr. Galbreth said he outlined a budget that had been approved by the Southern Board of Workforce Connections, where there will be no more than 10 percent for program costs and 10 percent for administrative costs. He stated 80 percent of all funds received from federal grants would be allocated to serving costs. He said, as a result, the past program year, 5,149 clients were served. He said they anticipated approximately 9,000 clients to be served, for the upcoming year budget, at least \$1.7 million. He said in addition to what has been cut will be added to program delivery services in Southern Nevada. Again, he mentioned each of the budget line items had been reduced with a cost savings of \$1.3 million. He left small handouts available to the Committee (Enclosed).

Mr. Galbreth said they will continue to consult with Director Woodbeck and Deputy Director Perea. He said they had a Southern Board plan that would align with the state plan.

He said he was talking about the sector initiatives as well as the engagement with economic development, higher education, and the community college system to be utilized as a primary training forum. He said he wanted to make sure there was a clear understanding from elected local officials and board members in southern Nevada. Mr. Galbreth said they applauded the initiative of the state and he feels they want the same thing.

He said the feedback he's gotten from most of the board members was; they want to continue to have local control. He also said they wanted to make sure the initiatives or efficiencies were brought in line. He stated they had new financial staff and, they implemented processes to alleviate most of the report findings. He said they also now have a new financial software system in place. He stated that all of the findings in the report have been addressed or are being addressed.

Mr. Galbreth asked the Committee if they had any questions.

Governor Sandoval asked if he would be opposing or challenging the request to the DOL.

Mr. Galbreth said that decision would have to be made by the local elected officials. He again, stated the concern was them still wanting to retain local control. He also said there was concern from the community members who had spoken at some of their meetings in opposition to one statewide board.

He stated that he had served with the State as Deputy Director, of DETR and, with the Workforce Investment Board and, was well aware of the different types of dynamics it takes to make this work. He said he believed the initiative' that's been announced and what Director Woodbeck had put in place was valid.

Mr. Galbreth said he believed they had a good outlook as far as increasing the number of people served, and making sure they were engaged in the sector council with regards to health care. He said a good example would be to understand that when individuals train in the health care field, more likely the training cost may be higher than someone with less skill training, and looking at those issues most of them had been implemented.

Attorney General Masto wanted clarification of the referencing of "local elected officials".

Mr. Galbreth clarified the "local elected officials" that serve as the consortium of the Southern Nevada Workforce Investment area. He said that included Clark, Esmeralda, Lincoln and Nye counties, along with Boulder City, Henderson, North Las Vegas and Las Vegas. He said they also served on the Board.

Attorney General Masto asked if it did not require resolution by those county commissioners in those particular counties rather than just, the local elected officials who were sitting on the Board.

Mr. Galbreth said he did not have an answer but would direct it to the local elected officials and get back to her.

Attorney General Masto said thank you.

Lieutenant Governor Krolicki congratulated Mr. Galbreth on his first 30 days of his interesting career. He said he had quite the challenge.

Lieutenant Governor Krolicki noted they had reduced their workforce in half.

Mr. Galbreth stated it would be 54 percent by the end of September. He said they had a reduction in staff he implemented the second day of his appointment. He said that included the implementation of a hiring freeze and a three-phase reduction force through the end of December. However, he said they would most likely get there by September 30.

He said they do have an opportunity to apply for additional grants from the U.S. Department of Labor. He also said if they did get additional grants, they could possibly cause him to hire additional staff to cover those grants. If they didn't get additional grants they would have a total staff reduction of 54 percent.

Lieutenant Governor Krolicki reported that the Executive Branch Audit Committee and its auditors were doing exactly what Governor Guinn imagined when he suggested the establishment. He said everyone was doing their role. He said it should be somewhat startling that it took this process to identify the surplus expenditures. He also said he appreciated people who wanted local control.

Lieutenant Governor Krolicki noted this was a compelling story as to why a single state system made sense. He said this was about working together to make things better and efficiencies had been identified. He said he was delighted some changes had already taken place. He concluded it was important to notice the changes that took place on people's watch after the Executive Branch auditors starting shedding some light.

He said he hoped the Southern Nevada Workforce board would have an open mind as the process goes forward.

Controller Wallin said she was impressed they dropped staff by 54 percent. She asked how that compared to the staff in the Northern Board.

Mr. Galbreth said the northern staff might have as many as 12. He noted the reason for that was the Southern Board has additional programs to operate and oversee. He said they had taken the lead on the state intercept partnership grant and a grant from the U.S. Department of Justice for prison entry. He said they also had a youth bill grant for youth between the ages of 16 and 24, to get into construction skills in the north during the summer.

Controller Wallin said she was trying to get a handle on why southern Nevada received two times more money than northern Nevada by looking at staff comparison. She said her other concern was cutting staff going to impact the services we provide to our citizens.

Mr. Galbreth said one of the advantages is that he has been in the workforce development system for some time in Nevada. He said it did not take him long to realize they had an excess of staff talent. Therefore, he said when he was appointed as Interim Executive Director, it did not take him long to do an analysis to determine that he had non-essential staff, and that they could deliver the same support and services to the citizens, clients and job seekers in southern Nevada.

Governor Sandoval asked if there was any further public comment.

There was none.

O. Adjournment.

Governor Sandoval called for a motion for adjournment.

Motion: Move for approval of motion for adjournment.

By: Controller, Kim Wallin

Second: Lieutenant Governor Krolicki

Vote: Motion passed unanimously for those present.

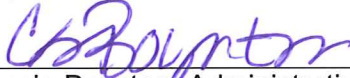
The meeting adjourned at 11:17 a.m.

Respectfully submitted by,



Steve Weinberger, CPA
Interim Administrator
Department of Administration
Division of Internal Audits

Prepared by,



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