

**MEETING OF THE AUDIT SUBCOMMITTEE
OF THE LEGISLATIVE COMMISSION
Grant Sawyer State Office Building – Room 4412
Las Vegas, Nevada
Legislative Building - Room 4100
Carson City, Nevada
Thursday, December 13, 2012, 9:30 a.m.**



STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747
Fax No.: (775) 684-6600



LEGISLATIVE COMMISSION (775) 684-6800
STEVEN A. HORSFORD, *Senator, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
DEBBIE SMITH, *Assemblywoman, Chair*
Cindy Jones, *Fiscal Analyst*
Mark Krmptic, *Fiscal Analyst*

RICK COMBS, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815
DONALD O. WILLIAMS, *Research Director* (775) 684-6825

MEETING NOTICE AND AGENDA

Name of Organization: Legislative Commission's Audit Subcommittee

Date and Time of Meeting: December 13, 2012 - 9:30 a.m.

Place of Meeting: Grant Sawyer State Office Building,
555 East Washington Avenue - Room 4412
Las Vegas, Nevada

Note: Some members of the Committee may be attending the meeting and other persons may observe the meeting and provide comment through a simultaneous videoconference conducted at the following location:

Legislative Building
401 South Carson Street - Room 4100
Carson City, Nevada

If you cannot attend the meeting, you can listen to it live over the Internet. The address for the legislative website is <http://www.leg.state.nv.us>. Click on the link "Live Meetings – Listen or View".

AGENDA

Note: **Items on this agenda may be taken in a different order than listed. Two or more agenda items may be combined for consideration. An item may be removed from this agenda or discussion relating to an item on this agenda may be delayed at any time.**

1. **Public Comment**
(Because of time considerations, the period for public comment by each speaker may be limited, and speakers are urged to avoid repetition of comments made by previous speakers).
- For Possible Action* 2. **Approval of minutes from September 19, 2012**
- For Possible Action* 3. **Presentation of audit reports (NRS 218G.240)**
 - Paul Townsend, Legislative Auditor
 - a. **Report on Count of Money in State Treasury**
 - Gene Allara, Deputy Legislative Auditor; Shannon Ryan, Audit Supervisor
 - b. **Public Employees' Benefits Program**
 - Lee Pierson, Deputy Legislative Auditor; Rocky Cooper, Audit Supervisor
 - c. **Department of Employment, Training and Rehabilitation, Employment Security Division**
 - Daniel Crossman, Deputy Legislative Auditor; Shannon Ryan, Audit Supervisor
- For Possible Action* 4. **Presentation of Review of Governmental and Private Facilities for Children, December 2012 (NRS 218G.575)**
 - Paul Townsend, Legislative Auditor
 - Sandra McGuirk, Deputy Legislative Auditor; Mike Herenick, Deputy Legislative Auditor
 - Jane Bailey, Audit Supervisor

*For
Possible
Action*

5. Presentation of six-month reports (NRS 218G.270)

- Paul Townsend, Legislative Auditor
- a. Office of the Governor, Office of Energy
– Rocky Cooper, Audit Supervisor
- b. Department of Administration, Buildings and Grounds Section
– Shannon Ryan, Audit Supervisor
- c. Department of Administration, Division of Enterprise Information Technology Services
– Doug Peterson, Information Systems Audit Supervisor
- d. Department of Motor Vehicles
– Doug Peterson, Information Systems Audit Supervisor

6. Public Comment

(Because of time considerations, the period for public comment by each speaker may be limited, and speakers are urged to avoid repetition of comments made by previous speakers).

Note: We are pleased to make reasonable accommodations for members of the public who are disabled and wish to attend the meeting. If special arrangements for the meeting are necessary, please notify the Audit Division of the Legislative Counsel Bureau, in writing, at 401 S. Carson Street, Carson City, Nevada 89701-4747, or call Donna Wynott at (775) 684-6815, as soon as possible.

Notice of this meeting was posted in the following Carson City, Nevada locations: Blasdel Building, 209 East Musser Street; Capitol Press Corps; Carson City Court House, 198 North Carson Street; Legislative Building, 401 South Carson Street; and Nevada State Library, 100 Stewart Street.

Notice of this meeting was faxed for posting to the following Las Vegas, Nevada, locations: Clark County Office, 500 South Grand Central Parkway, and Grant Sawyer State Office Building, 555 E. Washington Avenue.

Notice of this meeting was posted on the Internet through the Nevada Legislature's website at www.leg.state.nv.us.

AUDIT SUBCOMMITTEE MINUTES
September 19, 2012

MINUTES OF THE MEETING OF THE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
September 19, 2012

This is the third meeting of 2012.
This is the fourth meeting of the 2011-2012 Interim.

A meeting of the Audit Subcommittee of the Legislative Commission (NRS 218E.240) was called to order by Senator David Parks, Chair, at 9:37 a.m., Wednesday, September 19, 2012, in room 4412 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada, with a simultaneous video conference to room 4100 of the Legislative Building, Carson City, Nevada.

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Las Vegas:

Senator David Parks, Chair
Senator Mo Denis
Senator Dean Rhoads
Assemblywoman Maggie Carlton

Carson City:

Assemblyman Tom Grady, Vice-Chair

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Paul Townsend, Legislative Auditor
Donna Wynott, Office Manager
Deborah Anderson, Audit Secretary
Jane Bailey, Audit Supervisor
Rocky Cooper, Audit Supervisor
Tammy Goetze, Deputy Legislative Auditor
Stephany Gibbs, Deputy Legislative Auditor
Shawn Heusser, Deputy Legislative Auditor
Dennis Klenczar, Deputy Legislative Auditor
Rick Neil, Audit Supervisor
Doug Peterson, Information Systems Audit Supervisor
Shannon Ryan, Audit Supervisor

The roll was taken. A quorum was present.

Item 1— Public comment

Chair Parks called for public comment. There was none.

Item 2— Approval of minutes of the meeting held on April 17, 2012

Chair Parks called for a motion.

SENATOR DENIS MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF APRIL 17, 2012. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

Item 3— Presentation of audit reports (NRS 218G.240)

– Paul Townsend, Legislative Auditor

Mr. Townsend stated that there are four audit reports, five six-month reports, and an additional follow-up on a 60-day corrective plan of action.

A. Department of Conservation and Natural Resources, Division of State Lands

Mr. Townsend introduced Rick Neil, Audit Supervisor and Tammy Goetze, Deputy Legislative Auditor, to present the report.

Ms. Goetze stated the Division of State Lands was created within the Department of Conservation and Natural Resources in 1957 to provide land and land use planning services to the State, its agencies, and its people. The Division's four main program areas and responsibilities include the State Land Office, the Nevada Tahoe Resource Team, the State Land Use Planning Agency, and the Question 1 Program. As of December 2011, the Division had 18 employees located in Carson City.

Ms. Goetze stated agency expenditures for calendar year 2011 were about \$7.1 million. In addition to personnel and operating expenditures, many of the Division's expenditures are for grants to state and local government agencies and non-profit organizations. In calendar year 2011, the Division's total revenue amounted to \$2.69 million, including \$1.04 million in General Fund appropriations and fees of about \$954,000.

The audit focused on the Division's activities for calendar year 2011 and the objective was to evaluate the reliability of performance measures used in the state's budget process and determine whether fees were collected and deposited in accordance with state laws and regulations.

Ms. Goetze stated the reliability of performance measures can be improved. The Division included seven performance measures in its budget documents for fiscal years 2012 and 2013.

Ms. Goetze stated the results were not always supported by underlying records. Of the Division's seven performance measures, three measures were not adequately supported. Performance measure 2 tracks various planning activities such as review of major projects routed through the State Clearinghouse, development of land use plans and policy plans, and participation on resource advisory committees. However, a listing of these reviews is not prepared or retained to support the results reported. Performance measure 5 tracks the status of environmental improvement projects. The

Division often did not retain electronic spreadsheets used to calculate the measure. Performance measure 7 tracks the number of new authorizations to use state lands reviewed and granted by the Division. The Division did not have any documentation supporting the amount reported. State and Division policies require records used in computing performance measures be retained for 3 fiscal years.

Ms. Goetze stated that the description of one performance measure did not reflect reported information. Performance measure 6 is defined as the number of plans for casino building changes reviewed for compliance. However, this measure tracks more than just the number of plans reviewed. It includes all actions and meetings attended regarding proposed changes to gaming structures. Developing a more descriptive title would make it easier for management and other decision makers to understand what activity is being measured to assist in evaluating the program's performance.

Ms. Goetze stated controls over measures also need improvement. Written procedures did not exist for six of the seven measures describing the calculation methodology. Written procedures demonstrate a commitment to reliable performance measures and help ensure the process for collecting performance measurement data is reasonable and consistent over time. Measurement calculations were not adequately reviewed for four of the seven measures. The State Administrative Manual requires agencies to assign staff the responsibility of reviewing the performance measurement procedures and ensuring they are followed.

Three recommendations were made to improve the reliability of the Division's performance measures.

Ms. Goetze stated that the Division has an effective process for the collection of fees. During calendar year 2011, the Division collected about \$954,000 in fee revenue.

Ms. Goetze stated testing of receipts, totaling about \$380,000, found the Division's controls provide reasonable assurance that fees are collected and processed appropriately. A tested sample of fee agreements found the Division's controls provide reasonable assurance that those individuals required to pay a fee did pay the correct amount in accordance with applicable statutes. The Division's current process for collecting and depositing fees is much improved, as the prior audit noted several problems with the process in place at that time.

Ms. Goetze concluded her presentation stating Appendix A shows the Division's expenditures by budget account for calendar year 2011, Appendix B is the audit methodology, and Appendix C is the Division's response, which shows the agency accepted all recommendations. She offered to answer questions from the Committee.

Chair Parks called for questions from the Committee.

Senator Rhoads asked why the agricultural license plate, which he believed to be popular was not listed on page 11 of the of the audit report.

Ms. Goetze replied that the Division of State Lands administers only the Tahoe plates. Administration of the Mt. Charleston plates were transferred to the Board of

Commissioners of Clark County. The agricultural plate was not administered by State Lands.

Senator Rhoads asked for figures on how much the agricultural plate has generated.

Ms. Goetze stated that she did not have that information.

Chair Parks thanked Senator Rhoads for the question and opened the answer to Mr. Townsend for further clarification.

Mr. Townsend stated that they could look into the figures that he is requesting, but it is not a responsibility of State Lands.

Senator Rhoads thanked Mr. Townsend.

Chair Parks stated that the whole thing about license plates was that the state was trying to find some agency to handle the plates. With the level of activity that the Division of State Lands manages at Lake Tahoe, it was apparently natural to give them the Tahoe plates. When the Mt. Charleston tags came out the question was what does the State do with these. First, the plates went to the Division of State Lands and then transferred to Clark County.

Senator Parks opened to further questions.

Senator Denis stated in the case of three performance measures, he understood what State Lands reported could not be supported.

Ms. Goetze replied that was correct.

Senator Denis asked if that was because in one case they did not keep the records.

Ms. Goetze replied that is correct they just did not keep their underlying records of the calculation.

Chair Parks opened the questions to the Division of State Lands.

Jim Lawrence, Administrator, Division of State Lands expressed appreciation to the Audit Division and particularly Ms. Goetze and Mr. Neil for their thoroughness and completeness in the audit and stated the work they did has been helpful for the Division. Certainly, they were not shy about asking the tough questions and doing thorough research. But at the same time, they were very professional through the whole audit so the Division was able to carry on with business without distractions.

Mr. Lawrence stated all the audit findings were accepted. In the area of the performance measures, the recommendations were found to be very helpful and the Division has begun instituting many of the recommendations, particularly in the area of clarifying one of the measures. In the area of the supporting documentation, the Division found they were in many instances keeping a spreadsheet. Quarterly reporting was done from that spread sheet. However, as the program leads were taking care of their programs, they were continuously updating the spreadsheet. We've already instituted procedures to address this by retaining a snap shot of relevant documentation.

Mr. Lawrence shared his appreciation for the Audit Division's acknowledgement of the improvement in the Division's financial records. Although none of the current staff was present during the prior audit in 2003, the Division was aware of the recommendations and took it amongst themselves as a priority to make sure to do adequate business practices with financial records. The Division is proud of the work done and the finding of having effective measures in place.

Chair Parks thanked Mr. Lawrence and noted the Division accepted all three of the recommendations from the Audit Division.

Senator Denis expressed the use of ratios and percentages in a performance measure makes it more difficult to truly understand what the Division is doing and asked Mr. Lawrence if there will be an adjustment to any of these to reflect this so there is a truer picture.

Mr. Lawrence replied that the Division is looking at their performance measures. The use of ratios in the past, particularly in the area of the State Land Office and the activities of our land use authorizations gave us some sort of reflection of where we were with a pending caseload. The Division recognizes this does create some problems and is looking at making a more meaningful measure when moving forward in performance based budgeting.

Senator Denis thanked Mr. Lawrence for his response.

Chair Parks asked Mr. Lawrence if he had any further comments.

Mr. Lawrence thanked the Legislative Counsel Bureau Audit Division for their very professional work and assistance. The Division looks forward to carrying out the recommendations.

Chair Parks thanked Mr. Lawrence and the audit staff for their work on the audit and called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES, DIVISION OF STATE LANDS. THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.

B. Department of Business and Industry, Division of Industrial Relations

Mr. Townsend introduced Doug Peterson, Information Systems Audit Supervisor; and Shawn Heusser, Deputy Legislative Auditor, to present the report.

Mr. Heusser stated the Division's mission is to promote the health and safety of Nevada employees and ensure that injured employees receive all benefits to which they are entitled. The Division includes the Workers' Compensation Section, the Occupational Safety and Health Administration (OSHA), the Mine Safety and Training Section, and the Safety Consultation and Training Section. The Division's primary source of funding is an assessment levied on all self-insured employers, associations of self-insured

employers, and private carriers of Workers' Compensation. The Division had expenditures of \$18.2 million in fiscal year 2011.

The objective of the Audit was to determine whether internal controls at the Division ensure assessments are accurate and timely, and state laws governing collections are followed, and whether internal controls provide reasonable assurance that information systems facilitate timely inspections of mechanical objects, ensure the timely processing of Workers' Compensation claims, and protect personally identifiable information.

Mr. Heusser stated auditors found that while assessments are accurate and timely, the Division can strengthen its revenue collection process through improvements to internal controls and accounts receivable lists. Internal controls were not adequate to ensure collection efforts were timely and in compliance with state law. Furthermore, past due debts from fines and penalties were not transferred to the State Controller's Office during the required timeframe and accounts receivable reports are not accurate.

Mr. Heusser stated that auditors' testing identified \$180,000 in past due administrative fines and penalties had not been turned over to the Controller's Office. While timely transfer of debt does not guarantee collection, the likelihood of collection decreases as the debt gets older.

Mr. Heusser noted that of 35 Workers' Compensation Section fines and penalties included in the auditors' sample with past due debt, 24 of those had not been turned over to the Controller's Office for collection. At the time of testing, the investigation phase for these cases had been completed an average of 2 ½ years earlier. Further, auditors found the Division had not sent demand letters for 19 of these outstanding fines and penalties. At the time of testing, the demand letters were an average of nearly 16 months overdue.

Mr. Heusser noted that out of 25 OSHA investigations included in testing, auditors identified 12 with past due fines that had not been turned over to the Controller's Office for collection. Failure to timely transfer past due accounts inhibits the ability of the Controller's Office to use all collection efforts available.

Mr. Heusser stated Workers' Compensation and OSHA sections did not maintain complete or accurate aged accounts receivable reports. For example, through auditor testing we identified 189 cases with a receivable amount, which were not included in the Workers' Compensation Section's report. Many of the problems identified in this report stem from inadequate policies and procedures.

Three recommendations were made to help improve the Division's compliance with state law over the collection of fines and penalties.

Mr. Heusser explained the Division does not adequately protect claimants' personal identifiable information, such as social security numbers. While auditors did not identify indications of a security breach, the Division stored unencrypted personally identifiable information on several of its databases. The Division removed one of the databases from its server and is working with a software vendor to remove social security numbers

from another database. The Division sent and received unencrypted emails containing social security numbers. Emails were sent to and received from insurance providers.

Three recommendations were made to help ensure that personally identifiable information is adequately safeguarded.

Mr. Heusser discussed the need for the Division to improve oversight of its information system. Auditors noted several problems reported by management and staff with VERSA. These problems include insufficient reporting capabilities, time-consuming procedures for updating ownership of boilers, and staff needing to manipulate reports to get all elevators and boilers requiring inspection.

Mr. Heusser noted the lack of a prioritized approach in resolving current known issues. Further, auditors explained the Division plans to continue working with the vendor for the Workers' Compensation Section's application, but anticipated replacing the application for OSHA's Mechanical Unit as the vendor claims a complete rewriting of the program would be required to address all concerns.

Mr. Heusser explained the need for the Division to ensure stronger oversight on future system development. For example, the Division did not enforce end user acceptance testing and the holdback of monies clauses. These are important provisions that help to ensure vendors meet contract requirements during implementation.

Two recommendations were made to help improve the Division's monitoring of information systems.

Mr. Heusser concluded his presentation noting all eight of the auditors' recommendations were accepted and he opened for questions from the Committee regarding the report.

Chair Parks called for questions from the Committee.

Senator Denis recapped the two scopes and objectives talked about. One was to ensure the assessments are accurate and timely and that state laws are followed regarding collections. The second was to provide reasonable assurance that information systems are being used correctly.

Senator Denis asked for information regarding the Division's revenue collections and more information explaining the test results.

Mr. Heusser explained that when the auditors refer to the assessments being accurate and timely, the assessments are essentially the primary way in which the Division is funded. Those assessments are assessed to the self-insured employers, association of self-insured employers, and private carriers of Workers' Compensation. The Division essentially assesses different companies that provide insurance and funding.

Mr. Heusser further explained that the auditors reviewed the assessments and in those areas, no material issues were found. The Division was collecting the money in that way. What is referred to in the report regarding the exceptions deals with the fines and penalties associated with someone not paying for Workers' Compensation insurance or

someone who has an OSHA violation and they owe to the agency. The second part of the focus and exceptions was in that area.

Senator Denis asked if sending unsecure emails containing social security numbers was due to the Division not having a system in place or if there was a system and it was not implemented.

Mr. Heusser replied that was because they did not have a system in place to ensure the emails were being protected.

Senator Denis thanked Mr. Heusser.

Senator Parks opened for further questions from the committee.

Assemblywoman Carlton stated that in reading the report she gained a better understanding of what the Division actually does. The report looks at different legislative measures, prior reports, and budgets. She acknowledged that in the last couple of years, the legislature has had OSHA before the legislators through interim finance and through the legislative session dealing with staffing issues, having enough inspectors, and the problem competing with the private sector as far as salaries go. Legislators did an evaluation of this particular Division, and she wanted to know if those things were taken into consideration when the auditors were looking at the collection of the fines.

Assemblywoman Carlton stated a bill was heard last session to give them a hammer to collect these fines that would help the Division, but it was vetoed. She asked how the auditors plan to manage something now that could not be fixed in the past.

Mr. Heusser replied at the beginning of the audit a risk assessment was performed and auditors looked at those areas. Noted in the risk assessment was the addition of the staff to OSHA for the investigation purposes. After these investigations take place, the collections are then put into place, and staff is in place in order to work through this to get the letters out, and make those collections.

Mr. Heusser stated that a representative of the agency may be better suited to address Assemblywoman Carlton's question. However, it appears that the Division did have the staff to be able to get these letters out to a certain extent.

Assemblywoman Carlton asked if the Division is not getting a response and the response not being turned over to the controller timely was the problem.

Mr. Heusser replied the demand letters were not being sent out. An initial letter was sent out notifying the business of debt or problem. In most cases tested, a second reminder, demand letter, was not sent out. In cases when the demand letter was sent out, it was sent out late.

Assemblywoman Carlton thanked Mr. Heusser.

Chair Parks stated auditors reported that revenue and expenditures of about \$18.2 million come from the assessments that are levied through the statutory process. Much

of what we are looking at are fines and penalties. Chair Parks asked if the fines and penalties that do not stay with the agency revert to the general fund.

Mr. Heusser replied actually in this particular case the fines and penalties would stay with the agency, as this assessment is not completed through the general fund. This assessment is directly with the Division; therefore, the fines and penalties collected actually stay with the Division. Ultimately, that would go towards the operating budget and what they will need in the assessments.

Senator Parks stated the audit report indicated that much of the delay in turning debt over to collection resulted from supervisory reviews not being completed timely and demand letters not being sent. He asked if this is a situation where we have multiple sections of a Division who are not communicating well with each other.

Mr. Heusser explained what auditors found in this particular situation was the investigations were being completed by the staff doing the investigations for the Workers' Compensation. It was then going to the supervisor and then the supervisor was attempting to handle all the investigations and negotiations. What happened was they ended up with a giant backlog. As a result, the Division has since altered the way they do that to where the investigators can actually work more directly with the businesses in negotiating the fines and setting them into place; therefore, turning it over more quickly to the collection people. There are two different sections working together on the processes to complete the supervisory review quicker.

Senator Parks thanked Mr. Heusser for his response he also expressed his concern for safety with regards to the inspection report of all elevators and boiler not being accurate and asked for further explanation.

Mr. Heusser replied that the Division was able to identify that problem. By running the report a day ahead, they were then able to pick up all of the elevators and boilers that needed to have inspections for that given month allowing them to be able to give the report to their inspectors and be able to complete those inspections. This way they could find a way around the problem with the report in order to identify those items needing inspection.

Assemblywoman Carlton stated that at the end of the year when the Division reconciles their books, any extra monies go back to the one being assessed. When the subcommittee looked at Workers' Compensation three years ago, this was one of the things learned. She asked if it is known the amount collected and returned.

Mr. Heusser replied the amount for the year looked at was approximately \$25 million. He did not recall specifically how much was returned. He stated Assemblywoman Carlton was correct in the assessment and collection process. At the end of the year, remaining funds are returned and an assessment is done the following year. The actual amount of returns can be found and provided.

Assemblywoman Carlton stated how important and helpful that would be. It would be disappointing if money was returned to someone that was fined and that person never paid the fine to begin with. We do not want to give money for an assessment and then

later ask them to pay a fine either. If this is a tracking issue, it needs to be addressed and she asked what methodology is used to insure that does not happen.

Senator Parks thanked Assemblywoman Carlton and asked Mr. Heusser if there was any further comments. None being made he asked the Division of Industrial Relations (DIR) representative to come forward and comment.

Don Jayne, Administrator, DIR, stated that in Southern Nevada, Deputy Administrator, Jan Rosenberg was present and will be joining to add any additional comments as needed. He wanted to start by thanking the Legislative Counsel Bureau Auditors for their professionalism. DIR having some duties for enforcement understand that when you show up on some of these sites you are not always completely welcomed, but this audit was conducted with professionalism and the auditors worked with DIR staff to secure as many answers as possible. There were quite a few questions asked earlier by the Committee that he was tempted to jump in and offered to provide additional clarification if needed.

Mr. Jayne stated one of the things that was unique to this audit was there is a crossover happening in assignments and duties with the 2011 Legislative Session there also was some consolidation of services in the Department of Business and Industry (B&I). The Division provided some staff to B&I from the administration services unit that was centralized. The reason for the reference is a corrective action plan will be completed and the agency will be working closely with B&I. The Division accepted the 8 recommendations as well as the responsibility and the leadership-role required to put the correction action plan together and monitor it through its completion.

Mr. Jayne stated there were three major areas discussed in the audit, the first was collections. Three recommendations were made and accepted. Regarding the clarification of the supervisor in Workers' Compensation and the bottleneck, that did develop. The tightening of the procedures is a main category in here. The agency had interpreted when a debt was due in a fashion that technically is not as tight as it should be and that allowed the Agency's procedures to be not completely in line with statutory requirements. Those procedures have already been re-written for Workers' Compensation, they are being codified and will be the model used by OSHA to parallel those procedures and tighten those up in accordance with the statutory requirements. With that type of bottleneck, the workload backed up and that supervisor is no longer with us. There was not an issue between other departments. The issue was within the Agency and the Agency has moved to correct it. Since the date of the audit, a taskforce of people started moving records and has put them together and the process is moving rapidly.

Mr. Jayne continued with the second general issue discussed in the audit of confidentiality and protecting social security numbers within the system. A particular piece of software in the Agency presents a certain amount of challenge. The Agency does accept the recommendations and has moved towards implementing them. The Agency has statutory obligations and reasons to have social security numbers and particularly in the administration of looking for fraud in Workers' Compensation, a social

security number is an important relevant piece. The Agency will work very closely with B&I, where the Agency's Information Technology (IT) resources exist today and will find ways to mask social security numbers when we have to keep them or remove them from the databases. The Agency has already moved one of those databases from the server. The Agency will also work to find a way to encrypt the emails going back and forth. The Agency can accomplish this with relative minimal expense by using software that will zip the file and password protect it. The Agency can find some solutions that are not terribly burdensome, but the other corrections will involve working in the software, putting a plan together, and getting the resources to finalize that.

Mr. Jayne stated the last two recommendations refer to the software VERSA. The Agency had to develop alternative methods to make it work. The Agency is not as effective as it should be or could be. The Agency continues to address that software. As eluded to in the earlier comments, they intend to come forward at the proper time and request authority to remove that piece of software from our mechanical section.

Mr. Jayne elaborated on one of Assemblywoman Carlton's questions regarding the assessment. Summarizing, yes, the Agency is funded from our Workers' Compensation fund. That is an assessment of insurance companies who are in the Workers' Compensation business. When we reference a self-insured, that is a self-insured who is the insurer for their Workers' Compensation. Self-insured groups are the insurer for their Workers' Compensation obligations as well as the private insurance companies providing that coverage in the market place. Therefore, the assessment that DIR does goes to the insurance industry that is in the Workers' Compensation arena. It does not go directly to the employer who might have had an OSHA violation.

Mr. Jayne explained that the Agency had tried wrestling with that during prior Legislation Sessions and it was very difficult to tack it back to an individual employer and tie it to whether they still owe the Agency a debt and how we get to them. The Agency is not assessing them. That provides some difficulty in that application that he wished the Agency had that in the assessment arena. Because they are not a general fund agency and they collected assessments, they are administrative fines, penalties and premium penalties for not having Workers' Compensation. The Agency has work ahead of them to tighten up. Collections are done along the way. Work condition problems and procedural problems have existed in the past. On average, \$1.8 million in OSHA penalties and fines were collected over the last 3 years. That is a direct offset of the cost to the OSHA program. Those entities with findings and citations in the field are consuming the services. The Agency brings those in and off sets the assessments that are out there. Workers' Compensation collections in the last 3 years averaged \$269,000 and was used to offset those costs.

Mr. Jayne concluded his comments stating the Agency has a long way to go to tighten up and improve. What is collected offsets the assessment to the insurers being a direct effect to the employers who are paying for their Workers' Compensation and the Nevada consumers who ultimately pay for these things through the cost of their insurance premium that is moved on through to the Agency.

Chair Parks thanked Mr. Jayne for his testimony and opened for comments from the committee.

Assemblywoman Carlton asked if the \$1.8 million talked about were the fines that have been assessed.

Mr. Jayne responded that the \$1.8 million figure was an OSHA related figure and yes, it was for penalties.

Assemblywoman Carlton further asked if that money was collected or fined and what was collected.

Mr. Jayne responded that no, the \$1.8 million was collected and would be used to offset the assessment.

Assemblywoman Carlton asked of the \$1.8 collected how much was actually due to the Agency in fines.

Mr. Jayne responded that he did not have that information and said he would provide that to the committee.

Assemblywoman Carlton stated this was something the committee needs for both sides of the equation. Sounds great to say we have collected \$1.8 million but if there is \$10 million out there we have a long way to go. But if there is \$2 million out there then we are being successful. Comparing those numbers is important.

Mr. Jayne continued commenting on the question on what the Agency tends to call a true up for our assessment at the end of a year, the recollection was correct the Agency does this on an yearly basis with no carry forward on the money so it is trued up at the end of a year. The Agency bills for money and returns money depending on the circumstance of an individual year, it could go either way. A simple reason for that would be population being assessed changes year to year. The basis that the Agency uses to calculate depends on the individual premium or claims from an individual insurance company that wrote business in that year. It is tied very specifically to the year and the participants in the market workplace that year. They could have money returned or billed if the money needed was not collected through the year.

Assemblywoman Carlton asked if the modification factor changes for the employer who may have had an incident over the year, his Workers' Compensation insurance to the person you assess will change, how does that effect the assessment on the insurance company.

Mr. Jayne replied that the question is rather complicated. If the experience modification assigned individually to companies that have Workers' Compensation insurance is large enough and have enough claims activity, they can qualify for an experience modifier. A 1.0 MOD would be the average in the industry. If your modifier was 0.9, that would be less than the average in the industry when getting a Workers' Compensation rate. In theory this is because a safe employer with a lower MOD would pay a lower Workers' Compensation premium; hence a lower share of the assessment is being collected by the insurers as part of their premiums. If one had a bad evaluation, as a result of either

severity of claims or frequency in claims, your modifier could be as above 1.0. A modifier of 1.2 would result in paying 20% more than the standard rate used at Workers' Compensation. Employers who have claims that are severe or frequent would have the higher modifier. You can have an OSHA citation and violation that does not involve a claim. However, those practices that the Agency would find in there, if they were poor practices and the Agency found a number of violations at a work site, would normally lead to an expectation of a higher incident rate, accident rate, and ultimately a higher modification rate that would cause a higher Workers' Compensation premium. However, there is not a direct tie to the two. The experience modifier is based on claims that would either increase or decrease their Workers' Compensation premium.

Assemblywoman Carlton asked one final question a little off the audit component referring to staffing issue. She stated a few years ago, that the Agency had problems with competition in the private sector losing trained staff to head hunters from other companies. There was a discussion in subcommittee about how to address this and something about a salary survey to the matter; however, she never received the results. She asked of its progress and where the Agency stands on keeping quality staff, so the workers in this state are protected.

Mr. Jayne replied that those challenges still exist today. The Agency still experiences a high turnover in safety professionals not only in OSHA but also in mine safety and training and safety consultation and training. Those technical skills are valued in the market place and the Agency continues to have a difficult time competing with salaries. The Agency pay scales are below what they should be.

We have not received the recommended salary survey. We suspect that the Agency is going to find that they are under the marketplace. The Agency budget request contains a decision unit to discuss the adequacy of those salaries. The Agency expects to bring that forward in the 2013 Legislative Session.

Assemblywoman Carlton thanked Mr. Jayne and stated that she will go back and reinvestigate where that survey ended up.

Chair Parks called for further questions from the committee.

Senator Denis asked if the VERSA system does more than mechanical unit functions.

Mr. Jayne replied yes, the software supports both the Workers' Compensation section and the sub section of OSHA, the mechanical unit.

Mr. Denis said in 2008 we paid half a million dollars for VERSA and asked if its use for the mechanical unit was specified then.

Mr. Jayne replied unfortunately, he did not participate. As best as he could tell by the documentation he reviewed, there was some interaction with the Agency and the software vendor. By the time the software was put into production, the software was not performing in a fashion that was acceptable for the Agency. It was taking up to seven times as long to enter issues into our mechanical section for permitting of elevators, boilers, and escalators. The Agency has been working with the vendor ever since. In

an Interim Finance Committee meeting in late 2010, the Agency was asked by the chair to work with the vendors to see if it can be fixed and secure some pricing. Recently the Agency had meetings with the vendor. The vendor acknowledged that their software was not a good fit for the Agency's business needs and the vendor will have to rewrite the entire module creating a 5-year commitment at about \$90,000. The Agency is not comfortable and confident that the current vendor can solve those solutions and believes it appropriate for the agency to look for other solutions. There are some very industry specific pieces out there. The Agency should not have to rewrite this code with the vendor in its totality.

Senator Denis stated you would stop using the mechanical unit part of VERSA and come to recommendation of a separate individual system just for the mechanical portion.

Mr. Jayne replied that is essentially correct. The mechanical portion of the VERSA software is a separate module that is only used by the OSHA mechanical section. That is the module that is performing at such a low level that they don't believe it can be fixed short of spending financial and human capital resources, and working with them to create a piece of software that will work in the Agency environment. The Agency believes in the Workers' Compensation side of this would improve in report writing securing something from VERSA called DataMart, which is essentially a report writers' facility to store report-writing data and extract it in a more efficient manner. The Agency has had a chance to make it work in report writing, but the Agency does not believe the issues in the mechanical section are resolvable.

Senator Denis asked if this was something that was purchased to work, we accepted it, and it does not work.

Mr. Jayne stated that the observations are correct that VERSA should have worked and does not. The testing that was done at the time was not done with what he would consider to be under load. It was testing before the system came under full load with the depth and breadth of what the Agency does at full load with the number of objects. He apologized for this and explained the objects are what they refer to as a general term for elevators, escalators, and boilers. The testing that was done at that point and time, he did not think it was adequate to see how the system would perform under load with the number of objects. When the system came under load and the Agency realized what type of issues they had, they worked with the vendor for over a year trying to get those things resolved. The vendor ultimately told the Agency the VERSA module they have is not suited for their business model.

Senator Denis asked as the Agency moves forward, what is going to be done differently so we do not end up with software that does not work. Obviously, one cannot get a refund for something once ordered and accepted, and later decide it is not what was received.

Mr. Jayne agreed and stated as the Agency puts together a corrective action plan they expect to identify the type of process that is appropriate for securing software not using DIR but Modules within in B&I to move forward and try to do it right this time.

Senator Denis stated that he hoped that the Agency staff as they move forward with requests, monitor the contractor, and ensure that the process is proper. Apparently, the Agency did do some of that but these are expensive projects. When asked for something and they do not receive it, do we get a refund? In this case, it seems that the software was accepted as is and then we figured out afterward it did not work for what we really needed and then we had no remedy other than to just say we are no longer using that part of the software and will just get new software.

Senator Denis expressed his concern and hoped this kind of stuff was not going on in other projects.

Chair Parks thanked Senator Denis for his questions and asked Mr. Jayne what software or mechanical inspection information systems that the Agency is potentially looking at to acquire.

Mr. Jayne replied that as the Agency has moved through this they have become aware or some industry specific software that is used in numerous other locations where they have the same sort of obligations that DIR has for the mechanical section. Ultimately, the Agency is working with B&I and their IT professionals to identify, evaluate, and try to put that in a position to move forward. The Agency wants to be careful and look at other software vendors out there. The Agency is aware of at least one very industry specific piece of software that is used in numerous other jurisdictions similar to our needs. There are solutions out there that will perform in an anticipated fashion that would meet our business needs.

Chair Parks thanked Mr. Jayne for his comments and asked for further questions from the Committee. Chair Parks asked if Mr. Rosenberg had any further comments.

Jan Rosenberg, Deputy Administrator, DIR stated that Mr. Jayne spoke very well to the issues so there will be no further comments and opened for questions from the Committee.

Terry Johnson, Director, Department of Business and Industry, stated there is going to be an important role for the Department of Business and Industry to play in some of these issues regarding this audit and the one upcoming, on the agenda. In this case, there are two particular items. Collection activities in terms of the monies that were collected and due to the Agency were part of a consolidation in 2011 that was approved by the Legislative. Many of those functions were migrated into the office of the Director of B&I. The Department will be working closely with the Division to improve those collection processes going forward. This will require a cooperative effort and he offered commitment in that regard.

Mr. Johnson stated regarding the IT piece, it is unfortunate that this type of thing happens and has happened in government especially for the last 20 years that he has been a part of different agencies. One of the things he can commit to is going forward

there needs to be a greater emphasis on a needs assessment from the agency level up. Looking at this, after the fact, perhaps there was a little bit of imbalance between what the Department management thought the Division needed and what the Division actually needed. How much of that contributed to the breakdown, he did not know. It is all after the fact at this point because it was all before most arrived on the scene.

Mr. Johnson assured they would look at it as a needs assessment from the agencies perspective and identify what is needed to get the job done. Consistent with the statutory changes as well rather than there being a one size fits all type approach. That might have been employed and may have been misplaced in this instance. There will be some information forthcoming in the action plan about some more concrete steps that will be taken by the Agency to get its hands around this piece of IT design for all the B&I agencies. This has been a long-standing problem in the public sector. Potentially, all state government agencies will look at our example of how to compile a better system of checks and balances in terms of delivery of IT services.

Mr. Johnson also stated he will check into the classification study to see where it stands. That is something that he had been talking with the Division of Human Resources Management, because the administrator has communicated to him some of those challenges that they have had. He has been looking at some of those issues and working with staff on some recommendations to look at what they have submitted. He will follow up on the status of the salary study.

Chair Parks asked for further questions of Mr. Johnson, none being made he thanked the presenting staff and called for a motion.

SENATOR DENIS MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, DIVISION OF INDUSTRIAL RELATIONS. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

C. Department of Business and Industry, Division of Insurance

Mr. Townsend introduced Doug Peterson, Information Systems Audit Supervisor; and Dennis Klenczar, Deputy Legislative Auditor, to present the report.

Mr. Klenczar state the Division of Insurance (DOI) has the responsibility to ensure that insurance companies doing business in Nevada are financially solvent and the Nevada policyholders are treated fairly. To carry out this mission, DOI is responsible for financial and market regulation of the state's \$12 billion insurance industry. Financial regulation seeks to protect the policyholders from insurers who are unable to meet their financial obligations. Market regulation attempts to ensure that insurers are able to provide products to the consumer in a fair and reasonable marketplace and prevent abusive practices that could harm the consumer.

Mr. Klenczar continued explaining DOI has eight operating budget accounts and administers four non-operating budget accounts. Seven of the operating accounts are funded by assessments and various user fees, and one account is funded by an

appropriation. Actual expenditures for fiscal year 2011 were about \$16 million. Exhibit 1 shows fiscal year 2011 funding sources and expenditures for the eight operating budget accounts.

Mr. Klenczar explained the Division consists of the Commissioner's Office and seven operating sections. In fiscal year 2012, the Division had a total of 85 authorized positions. The audit objectives were to determine if the Division effectively monitors revenues and accounts receivable, required industry reports, and examinations. The Audit scope was July 2010 through March 2012.

Mr. Klenczar stated DOI needs to improve its oversight of accounts receivable. Auditors found DOI did not adequately monitor its accounts receivable for certain fees and taxes. For example, collection efforts were often not timely for annual fees and examination fees. Further, accounts were not turned over to the State Controller in a timely manner and some captive insurers did not pay past due premium tax. Auditors review of past due annual fees found untimely collection efforts; accounts for inactive companies were not sent to collections timely; invoices improperly issued were not voided timely; and payments were not entered in the accounting system timely.

Mr. Klenczar expressed Auditors found problems with all 36 invoices tested. Exhibit 3 provides a breakdown of issues noted. For example, two active companies owe annual fees that were due March 2011. There was no evidence of collection efforts prior to auditors' inquiries in May 2012.

Mr. Klenczar continued stating that the examination fees from prior years are still unresolved. Auditors found untimely efforts for collecting past due fees, scheduling hearings, and turning accounts over to the State Controller's Office. The Division's accounts receivable report for examination fees listed 15 companies with a total due of about \$172,500. Auditors found collection efforts were not adequate for all 15 companies. Nine of these companies are still active, have disputed some of the examination fees, and have requested a hearing. However, the active companies with disputes have not had timely hearings. For example, auditors found one company owner requested a hearing in June 2010. As of April 2012, a hearing has not been scheduled and the matter is still unresolved. Auditors have four recommendations to improve the monitoring of accounts receivable.

Mr. Klenczar explained that better monitoring of required industry reports is needed to help ensure adequate financial and market regulation. Auditors found DOI did not always take appropriate action to ensure required industry reports were submitted and reviewed timely. For example, the Corporate & Financial Affairs Section did not always perform timely review of reports significant to monitoring financial solvency for domestic companies. For 12 of 20 companies, the audited financial statements and actuarial opinions were either not reviewed or not reviewed timely. As a result, there is an increased risk companies with financial concerns might not be identified prior to problems occurring.

Mr. Klenczar stated controls need to be improved for required industry reports monitored by the Producer Licensing and Workers' Compensation Sections. Auditors found follow-up was not timely when companies did not submit certain reports and reports were not always reviewed timely. For example, 15 of 20 Producer Licensing reports were not reviewed timely. This included 10 instances when the review was about 1 year after the report had been received. Auditors also found 17 of 20 Workers' Compensation reports were not reviewed timely.

Mr. Klenczar stated auditors found DOI did not take timely enforcement action when certain reporting requirements were not met. For example, as noted in Exhibit 4 we tested 25 Workers' Compensation companies and found enforcement was not timely for all 25 companies. It took from 74 to 335 days after the report was due until Consent To Fine was issued. Auditors have five recommendations to improve the monitoring of required industry reports.

Mr. Klenczar stated examinations of title companies and self-insured Workers' Compensation companies were not performed as required. For example, NRS 692A.100 requires annual examinations of title companies, title agencies, and escrow companies. According to DOI records, 33 of 53 title companies did not have an examination in 2011. NRS 616B.336 requires an examination every 3 years of self-insured Workers' Compensation companies. The purpose of these examinations is to determine the adequacy of the company's security deposit, sufficiency of reserves and the reporting, handling and processing of claims. Auditors found exceptions for 14 of 30 Workers' Compensation companies tested. Auditors have one recommendation to improve compliance with these examination requirements.

Mr. Klenczar stated Appendix A lists some examples of required industry reports. The report contains the audit methodology and the Division's response, which indicates all 10 recommendations were accepted. That concluded his presentation and he opened for questions.

Chair Parks thanked Mr. Klenczar for his presentation and called for questions from the Committee.

Senator Denis asked as the audit was done, did the Auditors get a feeling of how these exceptions for accounts receivable were created or what the true issue was and why they came up.

Mr. Klenczar responded regarding the exceptions for accounts receivable collection efforts this is mostly a case of monitoring oversight, timely monitoring of accounts receivable reports, and similar cause with the required reports and timely issuance of a Consent To Fine.

Senator Denis thanked Mr. Klenczar.

Chair Parks called for agency staff to testify.

Scott Kipper, Insurance Commissioner, stated with him was Todd Rich, Deputy Commissioner, Administration and Personnel.

Mr. Kipper expressed his appreciation of the cooperation and professionalism of Mr. Townsend and his staff. The Division of Insurance regulates roughly an \$11 billion industry in the state with numerous lines of insurance and there are 55 chapters in NRS that deal with insurance. The Division touches every Nevadan every day. The industry generates over \$240 million annually in premium taxes, which go directly to the general fund. In addition, the Division also roughly generates \$40 million in fees that go primarily to the general fund. The Division has a staff of 85, 10 of which are in Las Vegas.

Mr. Kipper noted that the Division is very proud of staff and their intervention of an additional \$675 million recovered for Nevadans in 2011. The Division is obviously hip deep in several areas including the implementation of Healthcare Reform, which has taken up a great deal of energy.

Mr. Kipper stated the audit highlighted several areas of concern regarding accounts receivable, required industry reports and examinations. The Division has instituted or is actively developing additional policies and procedures to address all of these recommendations. The Division has pursued those additional policies and procedures with a great deal more rigor than they had in the past. The Division anticipates that when the six-month review comes up, they will have demonstrated that rigor and all will be pleased with the efforts undertaken.

Mr. Kipper expressed that the accounts receivable has been roughly halved. The outstanding issues of collection have been forwarded to the controller for collections or are currently in the hearing process. The examinations noted in the report have all been instituted where it comes to self-insured groups or for title companies.

Mr. Kipper also echoed Director Johnson's comments that the Division is looking forward to greater cooperation and interaction with B&I and these issues. That concluded his testimony and he opened for questions.

Chair Parks thanked Mr. Kipper for his testimony and asked for questions.

Senator Rhoads asked if the Division could explain how they were able to gather up \$6.33 million dollars more than anticipated.

Mr. Kipper replied the \$6.33 million has been generated for consumers through contacts with the Division of Insurance expressing their concern through the development of the complaint process. When the Division receives a complaint the company is contacted, the policy is reviewed and concerns expressed by the consumers, and essentially act as a consumer advocate generating a response. The response from 2011 generated the additional \$6.33 million that went to Nevadans.

Senator Denis stated there were obviously some issues in timely collections and asked if the issues were due to insufficient staff or procedural. He asked what has changed since then to collect more timely.

Mr. Kipper replied that yes you have touched on the issues but he believed the issue was mainly a procedural issue rather than a staffing issue. The Division has not added

additional staff in the accounts receivable area. However, the Division has managed by using SIRCON, which is a robust software program developed for insurance regulatory needs to identify, highlight, and actively work on collections that are outstanding. As mentioned earlier the numbers have significantly halved. The Division annual fees for example have gone from \$212,000 as mentioned in the report to currently \$9,000. There are, over one year, \$84,000 in fees mostly to do with companies that are either in liquidation insolvency or in hearing. But for those companies that are currently operating that number has been whittled down to \$9,000.

Senator Denis asked if the software SIRCON was new.

Mr. Kipper replied that the Division has had SIRCON for some time. Modules have been added to SIRCON to address and assist the accounts receivable. SIRCON was originally obtained to assist in the tracking of producer licensing and the license requirement of our agents and producers.

Senator Denis thanked Mr. Kipper for his response.

Assemblywoman Carlton stated it was nice to see under recommendation 3 on the past due premium tax that the Division has taken action. The Legislators have said many times in the past but we all know what happens when one pays their car insurance one day late there is a fine involved and there is no begging for mercy. A fine is a fine, and will continue to be a fine and there is no changing that. She is happy to see that the Division is taking the premium tax more seriously and sending it to the legal section. What is fair for me is fair for the company that takes my money for my car insurance, making it equal on both sides of the equation.

Assemblywoman Carlton stated under recommendation 10 the Division has addressed the timeliness of annual examinations for the title agencies and insurers that there is a contract that will allow a contracted vendor to perform the audit of the self-insured Workers' Compensation claims and submit it to the Division. She asked if this was a contract from the past or a new contract. She found it interesting that recently there was just a conversation about Workers' Compensation assessments and then she saw in the audit the examinations of the 25 companies tested were not timely so she was not sure how to tie these two things together, may be more complicated than she want to get into. However, she was curious about this contract that the Division has with this vendor.

Mr. Kipper stated the Division has a number of contracts that are left to professional examination entities that do most to all of the Division's examinations. The Division is not large enough to retain examiners on staff, so we rely on contract vendors. The letter provided to the Auditors stated as of the end of August all licensed titled agencies are now under independent examination by these contractors. The Division of Insurance has been working with title entities to develop a quicker, more streamlined, but just as efficient process for those examinations. The Division appreciates the input received from licensed entities.

Assemblywoman Carlton asked if these were the folks that were supposed to be doing these audits before and did not. Appears there was a lapse in the past, and asked if these are the same vendors that caused some of the problems, did the Division change their deliverables, and what was solved with these vendors.

Mr. Kipper replied that the Division simply dropped the ball. The Division looked at those financials but did not do the examination. Those examinations are now scheduled and are in process.

Assemblywoman Carlton thanked Mr. Kipper for his response.

Chair Parks thanked Mr. Kipper for his comments, cooperation, and for acceptance of the 10 recommendations of the Audit Division. He also expressed his appreciation to the Audit staff.

Chair Parks asked for further questions, none being made he called for a motion.

SENATOR DENIS MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, DIVISION OF INSURANCE. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON. THE MOTION CARRIED UNANIMOUSLY.

D. Department of Health and Human Services, Division of Welfare and Supportive Services

Mr. Townsend introduced Jane Bailey, Audit Supervisor; and Stephany Gibbs, Deputy Legislative Auditor, to present the report.

Ms. Gibbs stated that the report contains the Division's mission, and that it is responsible for providing quality, timely, and temporary services enabling Nevada families, the disabled, and elderly to achieve their highest levels of self-sufficiency. The report also includes brief descriptions of eight major programs.

Exhibit 1 provides a high-level caseload analysis for six programs from fiscal year 2003 to fiscal year 2007 and then from fiscal year 2007 to fiscal year 2011.

Ms. Gibbs stated caseloads for three programs, Supplemental Nutrition Assistance Program (SNAP), Child Health Assurance Program (CHAP), and New Employees of Nevada (NEON) have increased more than 100% from fiscal year 2007 to fiscal year 2011.

Exhibit 2 notes legislatively approved FTE's from fiscal year 2007 to fiscal year 2011 increased 8%.

Ms. Gibbs stated the Division had 248 intermittent staff, most added during fiscal year 2010 to address fluctuations in workload. The report identifies the office locations.

Exhibit 3 lists the expenditures in the Division's budget accounts for fiscal year 2011.

Ms. Gibbs stated the report provides a high-level explanation of the process of issuing the Electronic Benefits Transfer (EBT) cards. Auditors note the two primary information

systems used to administer the EBT cards are the Division's system called Nevada Operations of Multi-Automated Data Systems (NOMADS), and the vendor's system. EBT cards are kept in a secure location and the report discusses authorized representatives. Auditors indicated that when there is no client action on the account, the account becomes inactive after 12 months for SNAP and inactive after 180 days for Temporary Assistance for Needy Families program (TANF). The report briefly discusses the vendor contract.

The audit objectives pertain to controls over the EBT cards and the vendor for EBT account services.

Ms. Gibbs stated the first finding is the Division needs to improve identification of deceased clients. Auditors note the outcome of comparing the dates of death recorded in NOMADS to the dates of death reported by the Office of Vital Statistics. The auditors matched about one third of the "head of household" client names in SNAP and all of the client names in TANF with the names in the database maintained by the Office of Vital Statistics. This data match was limited to those persons who died in Nevada between July 1, 2007, and December 31, 2011. Almost 2,400 names were listed in both databases. However, 749 of the 2,400 were not recorded as deceased in the agency's NOMADS system. Next auditors targeted the 749 names to those who died on or before December 31, 2009, and reviewed a list of 189 names. From this list, a sample of 50 client names was taken to analyze whether there was activity on their EBT card accounts after their dates of death.

Ms. Gibbs stated the next finding in the report was that benefits were paid to deceased clients. Auditors tested 50 client files that did not have dates of death in NOMADS. The results of the testing included that more than \$11,500 of benefits were issued to 27 of 50 clients after their dates of death. These benefits were deposited from a few days to 10 months after the dates of death. Because there was no client-initiated activity on some of these accounts, the vendor later removed \$7,225 of benefits from these accounts. One EBT card was issued to a client through a third party 8 days after the client's dates of death. This account received \$1,600 in benefits and \$1,000 was spent. Many of these purchases were made in another state.

Ms. Gibbs stated that EBT card accounts were used after clients' dates of death. Auditors noted that 13 of 50 accounts tested had purchases totaling \$6,500 after the date of death. Problems were also found when the date of death was recorded in NOMADS.

Exhibit 4 shows the number of clients that had different dates of death in the two systems. It also shows the number of days the dates of death recorded in NOMADS differed from the dates reported by the Office of Vital Statistics.

Three recommendations were made relating to policies and procedures to better identify when clients have died, to more timely stop payments to deceased client accounts, and to prevent the use of benefits after the client's death.

Ms. Gibbs continued by addressing oversight of the EBT vendor's contract relating to reporting and billing. First, auditors discuss problems found in the EBT vendor's reports, primarily involving two routine reports, the Cardholder Information report and the Transaction Inquiry report.

Ms. Gibbs noted that all of the 65 accounts tested did not have client-initiated activity for more than a year but were still shown as active accounts by the vendor on the Cardholder Information report. Some Transaction Inquiry reports were not accurate and complete. Some reports did not include ATM fees and one did not include a benefit deposited into the account. The Division needs to get complete, accurate information so that appropriate decisions can be made.

Ms. Gibbs stated that the Division allowed the vendor to bill at an outdated rate resulting in an estimated \$77,000 overpayment. After bringing this to management's attention, steps were taken to correct the situation.

Ms. Gibbs concluded her presentation stating Recommendations 4 and 5 in the report address the vendor's reports and controls over the vendor's invoices. The report also contains Appendix A that describes the audit methodology and the Division's response to the audit. She expressed the Division accepted the five recommendations.

Chair Parks thanked Ms. Gibbs for her presentation and called for questions from the Committee.

Assemblyman Grady asked regarding benefits paid to deceased clients on page 8 of the report, what effort or method does the State have to go back and collect that money, and how much of the money listed can be verified if any was collected or returned.

Ms. Gibbs replied that agency would submit these accounts to their investigations unit and then try to collect on them. At the time the audit information was released to the agency, none of these monies were collected. This may have changed since that time. She did reiterate that of the benefits issued, \$7,225 were collected through the usual process used if there is no activity on the benefits in the accounts.

Senator Denis asked if criminal investigation was pursued, if tracking of EBT card usage after a client's death was done and for further explanation of the process in the instance of the card used out of state after death as discussed earlier.

Ms. Gibbs replied no, the agency was unaware of these situations until the Auditors brought it to their attention. However, that does not mean that after they became aware they proceeded to investigate these situations.

Assemblywoman Carlton stated she wanted to make sure she had the numbers correct. The \$11,500 was the 27 out of 50 EBT cards looked at; \$7,225 of that amount was returned (because those people did not access those cards). So the money sat there until it was figured out that the person was deceased and the money came back; therefore, \$3,275 was used by someone on those cards. That would be a portion of the amount out of a budget of over \$200 million; over \$3,000 was then used inappropriately, is this correct.

Ms. Gibbs replied yes, that is correct. She stated the size of sample is relevant narrowing this down quite a bit, referring to the sample of the 2,400 that did not have the dates of death but also to the entire population. There was additional monies in the accounts prior to our dates of testing and that auditors found that \$6,502 was spent after the dates of death was reported by the Office of Vital Statistics.

Assemblywoman Carlton expressed her confusion of the amount of money that went out and the amount of money that was returned. The finding of \$6,502 had been spent and not the \$3,275. She asked if we need to add that together or is the \$6,502 the money that we found misused.

Jane Bailey, Audit Supervisor on this audit replied there was money in the account at the time that some of these clients died so there was a starting balance then and additional \$11,500 was deposited. Of that, what was in the account at the time the person died plus the amount that was deposited after they died, \$6,502 was spent and \$7,225 was returned to the federal government, because it was federal money. SNAP benefits are returned to the federal government. Ms. Bailey asked Assemblywoman Carlton for clarification on the \$200 million dollar amount mentioned earlier.

Assemblywoman Carlton replied regarding Exhibit 3 on page 4 and the total amounts of support numbers that go into it; if you eliminate the collection and distribution account, which are basic pass through accounts, and look at all the remaining numbers amounts listed that is the total amount. She asked if the number on this EBT card was just SNAP benefits or was it other benefits also, or was it singly SNAP.

Ms. Bailey stated it was largely SNAP dollars; however, there is also TANF dollars. She pointed out that since SNAP benefits come directly from the federal government those benefits are not listed in Exhibit 4. You can find them in the report on page 1 where we the report lists Supplemental Nutrition Assistance Program (SNAP). Those benefits total approximately \$497 million directly from the federal government. That is not included in Table 4, because those benefit amounts do not pass through any state budget account.

Assemblywoman Carlton expressed that no one should take money that is not due to them, it is wrong, it is stealing. If we are talking \$497 million dollars in SNAP monies in 2011 and we are looking at the possibility of it might be \$6000 worth of problems it seems like such a small amount and problem compared to all the benefits that are being paid out. There is a margin of error in everything done. She was not saying these people should steal the money or use it inappropriately, they should return it, and they should not use it. She was just trying to get a handle on the depth of the problem and how much time and resources we might spend going after this small amount of money and what could be accomplished with that on the other side the equation. She thanked Ms. Bailey for her explanation.

Chair Parks asked Mr. Townsend to provide a comment relative to this.

Mr. Townsend stated this issue has occurred in other states and we wanted to see the extent of it here in Nevada. Auditors did a detailed analysis of matching data with the

Office of Vital Statistics and information on NOMADS. When auditors looked at a third of the total SNAP records, the population being about 100,000, 750 were identified as deceased in Vital Statistics and still shown as alive in the NOMADS system. Auditors narrowed that down with testing and actually ended up doing a detailed sample of 50 of the 750. Further, auditors went back and tested from December 2009 post-death activity to see if there were benefits being paid.

Mr. Townsend further stated that the auditors were not able to project the amount of the \$11,000 or the \$6,500 due to the nature of the sample being non-statistical. However, it does point out that there is a problem there, not a huge problem, but the problem does exist. Along the way, auditors found some instances where there is a possibility of some fraudulent activity taking place where someone is actually getting a card issued after their date of death. He thought it has been put in good perspective and auditors' recommendations are reasonable for the Division to pursue and allocate the appropriate amount of resources to address it.

Chair Parks thanked Mr. Townsend for his explanation and asked if there were further questions for the audit staff. None being made he called for the Division to come forward to comment and noted their acceptance of the five recommendations.

Steve Fisher, Acting Administrator, Division of Welfare and Supportive Services introduced Naomi Lewis, Chief, Eligibility and Payments Unit, and Brenda Burch, Chief, Investigation and Recovery Unit.

Mr. Fisher thanked Mr. Townsend and his team of Legislative Counsel Bureau Auditors. He also noted that auditors spent a tremendous amount of time in the organization and were professional and cooperative. Regarding the audit, he agrees with Assemblywoman Carlton that the dollar amount in the findings are small in comparison to the \$500 plus million in benefits that we distribute to our EBT accounts.

Mr. Fisher said the Division does agree that these findings are significant and do agree that changes to policies and procedures are necessary. Mr. Fisher agreed, thanked the team for the five recommendations, and stated the Division is actively working on them. Regarding Recommendations 1, 2 and 3, the Division is working with the Office of Vital Statistics and recently received a download of data from them and is assessing that data and comparing it to the NOMADS system to determine timely and accurately when one of the clients becomes deceased.

Mr. Fisher made another point that even though someone passes away, the benefits are for the entire household, so it is possible that there are other household members present in the household who continue to use the EBT benefits that are on the account. The Division is working with the EBT vendor to insure that the reports are accurate as found in the audit finding.

Mr. Fisher concluded stating that the Division has already resolved the issue of the vendor invoices (recommendation 5), as was stated earlier and does have controls in place. He opened up for questions from the committee.

Chair Parks thanked Mr. Fisher and asked for questions.

Mr. Denis stated that he appreciated the explanation and asked if there was a way to monitor an instance when an EBT card is issued after the death of a client and then is used out of state as described in one instance earlier and what the process is. For example if someone tries to spend money on a bankcard in a different location than normal (New York) a phone call is received from the bank asking if they spent money in New York.

Mr. Fisher stated yes, JP Morgan does know where the activity is taking place, whether it is taking place out or in state. However, the Division does not prevent clients from using their EBT cards outside of this state. If a client was in California and wanted to buy food with their EBT card and the particular store provides EBT card service for food purchases, he or she could use their EBT card.

Mr. Fisher explained that they do have an Investigation and Recovery Unit that does their best to monitor and look for anomalies with high spending dollars out of state.

Senator Denis stated that was good to know. He hoped that the Division would be monitoring clients' spending benefit funds out-of-state every month, a possible concern that the client is not residing in Nevada but is using benefits. However, it sounds like this is being addressed and asked if this has been an issue in the past.

Mr. Fisher while looking at the Chief of Investigation and Recovery mentioned that she shook her head yes. He asked if the committee wanted her to come to the table and testify.

Senator Denis replied yes that would be good.

Brenda Burch, Chief Investigator, Welfare Division and Director for the operations of the EBT system replied in regards to the question about out-of-state spending, the Division does review a report on a monthly basis of all transactions that take place outside of Nevada. The report is evaluated for specific anomalies. If someone is using their EBT card out of state month after month that is a red flag for the Division. The Division immediately checks to make sure they are a resident of Nevada or has moved to that state by contacting the state and the client's property owner to confirm residency. The Division has found numerous instances where people have forgotten to tell us that they have moved. Those cases are closed and often calculated for over payment and recovery of the funds to the SNAP or TANF program.

Senator Denis said so they forget they moved but they did not forget to spend the money.

Ms. Burch stated she was trying to be kind. The Division does find fraud and instances where there is forgetfulness, both.

Senator Denis asked if there are criminal actions taken if necessary.

Ms. Burch replied yes. Agreements with our local district attorneys in Northern and Southern Nevada pursue and prosecute these cases.

Senator Denis asked how does our system compare to others across the county in catching fraud in the Welfare System.

Ms. Burch replied that Nevada is fairly consistent with other states across the country. We do maintain contact with other state agencies and welfare investigators. We are consistent with the same type of methodology and practices in detecting and preventing fraud. We are proud of how we run things in Nevada. We do look for ways to prevent fraud and protect the integrity of the program and benefits: SNAP, TANF, Medicaid, childcare, and energy assistance. We are basically watching over it all.

Senator Denis said great, thank you very much.

Assemblywoman Carlton recapped that the Division had stated that it receives the monthly reports, regarding the vendor side of the discussion as far as the ATM fees and benefits. She asked if we look at how much of the benefit that goes on to the card ends up being absorbed by the vendor and do we know or have that number.

Ms. Burch responded no, she did not have that number with her, but can easily obtain that from the EBT system.

Assemblywoman Carlton stated that she knows the State pays the vendor a certain amount to manage these cards and the ATM fee is deducted from the benefit. The fee is not absorbed by the State or the vendor. She explained that if there is a \$300 benefit, and \$20 in ATM fees, the constituent would get \$280 not \$300. She was wondering about the amount of total ATM fees and where they are being used.

Ms. Burch replied yes, that is correct. If there is a \$300 cash deposit to an EBT card for a TANF client that amount could be subject to fees and surcharges at ATM machines if that ATM owner charges a fee with withdrawal. Each individual who inserts an EBT card is given the choice to decline to withdraw the money or accept the \$2 or \$3 fee for the transaction. She said she can pull those fees and provide that information for a certain period of time.

Assemblywoman Carlton stated it would be nice to know how much of the money is being spent. Another question was I know on these benefits we can look at where the benefits are being spent, is there a way to section out whether it is being spent at the traditional grocery store verses a small convenience store. She asked if there is a way to look at those numbers to see where the money is being spent.

Ms. Burch replied the Division can easily view where that money was spent and where the cash was withdrawn, whether it was an ATM, bank, or a regular grocery store. By the way, retailers do not charge fees for a cash back situation. As far as SNAP EBT, there are absolutely no fees and that it is against the law to charge any fees for a SNAP purchase. The Division can easily see where the SNAP or the cash is spent or used.

Assemblywoman Carlton replied thank you very much I appreciate that.

Chair Parks shared a hypothetical situation to learn how it would be handled. Presuming a person receiving benefits leaves Nevada, goes to California, and passes away. No notification was received for many months after they pass. He asked what

would be the process that the Division of Welfare and Supportive Services would follow to retrieve any money that was on the account or had been spent on a card.

Mr. Fisher replied under those circumstances, if it is a SNAP benefit on the card or account with 360 days without any use on the account those funds are expunged, swept from the account. If it is a TANF cash benefit, on the account the same process happens after 180 days.

Chair Parks asked what if there had been some usage on the account and later the Division finds the individual had been deceased for a year.

Mr. Fisher replied in that circumstance that case would be turned over to the Investigation and Recovery Unit for investigation to find if there is potentially fraud, a criminal act, or a family member within that household using the card.

Chair Parks stated he was curious what the investigation unit would do at that point or how determination is made that fraud had not taken place.

Ms. Burch replied that the Investigation and Recovery Unit has developed steps that are followed through in the investigation process. Almost all the big box stores have video, some minor markets have video, and that tells who used that card. All transactions are in real time and listed in the EBT system, the Division see them as they occur, and can follow additional steps. We try to contact the family to ensure that the benefits were used appropriately or identify if some kind of fraud was committed.

Chair Parks thanked the Division staff for the comments and stated he felt better about it and asked for further questions from the committee. None being made he thanked all involved with the audit, and called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, DIVISION OF WELFARE AND SUPPORTIVE SERVICES. THE MOTION WAS SECONDED BY SENATOR DENIS. THE MOTION CARRIED UNANIMOUSLY.

Item 4— Presentation of SIX-MONTH REPORTS (NRS 218G.270)

A. Office of Veterans' Services

Mr. Townsend stated there are five six-month reports and these are the reports that are prepared by the Department of Administration. The Department reviews the agencies six months after the sixty-day plan of corrective action has been filed and verifies the implementation status and reports back to the Audit Division. Auditors then communicate these results to the Audit Subcommittee. He introduced Rocky Cooper, Audit Supervisor, to present the report.

Mr. Cooper noted that there are representatives in Las Vegas that can respond to questions and representatives in Carson City including Caleb Cage, from the Nevada Office of Veterans' Services.

Mr. Cooper continued with the report. In October 2011, the Audit Division issued an audit report on the Office of Veterans' Services that contained 8 recommendations. The six-month report prepared by the Department of Administration on the status of the recommendations shows that as of July 2012, five recommendations were fully implemented and three recommendations were partially implemented. The three partially implemented recommendations related to difficulties ensuring accurate account receivable records at the Veterans' Home. As indicated in the table the anticipated date for full implementation of the three recommendations is January 15, 2013. During the audit, auditors identified several issues related to unreliable account receivable records. Therefore, residents with large receivable balances were not always monitored to ensure payment of outstanding debt.

Mr. Cooper stated according to the six-month report, the Veterans' Home experienced some setbacks in implementing the recommendations including high turnover in key accounting positions and ongoing software issues resulting in inaccurate aging reports. To address these issues the Veterans' Home hired new accounting staff and hired a consultant to review the system and provide training. In addition, a RFP for a new software program is being pursued and the accounting staff is working on correcting the data inaccuracies before installation of the new program.

Mr. Cooper asked one question for the Agency,

Is the Veterans' Home still on target to meet its plan date of January 15, 2013, for full implementation of the remaining three recommendations?

Caleb Cage, Executive Director, Nevada Office of Veterans' Services expressed his appreciation to Mr. Townsend and his staff for the excellent work in assisting the Office for their recommendations to improve AR procedures within the agency. Regarding the question he answered yes, the office is still on track for planned implementation by January 15, 2013, of all three of the remaining recommendations, numbers 2, 3, and 4.

Mr. Parks thanked Mr. Cage for the comment and asked if there was further comment on the review.

Mr. Cooper concluded his presentation but wanted to bring attention that the Veterans' Home faces quite a few challenges in collecting their revenues. They are collecting \$15 million and that includes Medicaid, Medicare, Private Pay, Private Insurance, and Veterans' Home Per-diem. They have a challenging task ahead of them and need qualified staff and training to get the things done in the future. Auditors will continue to monitor the agency's progress and report back during the 2013 Legislative Session.

Chair Parks asked if anyone in Las Vegas wished to make any comments.

Frank Bellinger, Administrator of Veterans' Home stated he would like to confirm Director Cage's comment that they are well on track to fully implement all recommendations by the January date.

Chair Parks called for a motion.

SENATOR DENIS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE OFFICE OF VETERANS' SERVICES. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

B. Department of Health and Human Services, Aging and Disability Services Division

Jane Bailey, Audit Supervisor stated that in October 2011, the audit report on the Aging and Disability Services Division was released that contained three recommendations to improve administrative controls over performance measures. In July 2012, the Department of Administration provided its six-month report. The Department of Administration indicated that one recommendation was fully implemented and two were partially implemented. The two partially implemented recommendations were to clearly define the terms and identify the assumptions needed to perform the calculations described in the performance measures' titles and to use the Division's existing knowledge, skills, and abilities to strengthen controls over information used to calculate the performance measures.

Ms. Bailey stated that the Department of Administration reported that the Division is in the process of developing new performance measures and is working with the provider of one of its service databases to move to the next generation system that contains error and logic checks and other controls to help ensure that the data are accurate.

Ms. Bailey stated that the auditors have one question related to these two recommendations,

When will the Division complete the remaining work on their performance measures?

Janet Murphy, Deputy Administrator, Aging and Disability Services replied that recommendation 1 is complete. The Division has submitted their budget and with that budget, they have submitted new performance measures for the activity budget based on direction from the budget office. Regarding recommendation 3, the Division is still continuing to work with the vendor and have not yet migrated to the next generation as they are still working through some bugs. The Division plans to do that migration within the first quarter of 2013. In the meantime, they are reviewing all of the reports, data from the reports, and have changed procedures to ensure the accuracy of the data reported on the Division's performance measures. She opened for further questions.

Chair Parks asked for questions of the committee, none being made he thanked the Division staff for the comments and asked Ms. Bailey if she had anything to add.

Ms. Bailey stated that the Audit Division will continue to monitor the implementation of the one remaining recommendation.

Chair Parks called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, AGING AND DISABILITY SERVICES DIVISION. THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.

C. Department of Conservation and Natural Resources, Division of Environmental Protection

Shannon Ryan, Audit Supervisor stated that in October 2011, the Audit Division issued an audit report on the Division of Environmental Protection. That report had nine recommendations related to enhancing controls over accounts receivable, performance measures and the regulations of permittees. The Department of Administration in July 2012 reported that the Division had implemented eight of the recommendations in the report with one recommendation remaining partially implemented. The Department indicated the Division had developed new policies and procedures to ensure fees were charged in accordance with laws and regulations, but the controls could not be verified until permit invoices were issued in 2013. By developing controls regarding ensuring fees are accurate, auditors believe the Division has met the intent of the recommendation and consider it to be fully implemented. The auditors did not have any questions for the Division, but appreciate the Division's efforts regarding the timely implementation of the recommendations. That concluded her presentation.

Chair Parks thanked Ms. Ryan for her presentation and asked if anyone was present and would like to address the committee.

Ms. Ryan said yes, I do believe that Colleen Cripps is here from the Division.

Colleen Cripps, Ph.D., Administrator, Division of Environmental Protection stated that the Division does not have any further comments. Dr. Cripps thanked the Audit Division and the committee and was glad the Division was able to get all the recommendations addressed within the six month time period.

Chair Parks thanked Dr. Cripps for the comments and asked if the Subcommittee had any questions. None being made he called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES, DIVISION OF ENVIRONMENTAL PROTECTION. THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.

D. Department of Health and Human Services, Oversight of Child Care Facilities

Rick Neil, Audit Supervisor stated that in October 2011, the Audit Division issued an audit report on the Department of Health and Human Services, Oversight of Child Care Facilities. The plan of corrective action was filed in January 2012. NRS 218G.270 provides the Director of the Department Administration shall issue a report within six

months outlining the implementation status of the audit recommendations. As of July 18, 2012, the Department of Administration indicated that all six recommendations were fully implemented. Auditors agree and therefore do not have any questions for agency officials.

Chair Parks thanked Mr. Neil and asked if anyone from the agency wishes to make any comment.

Wendy Simmons, Chief of the Bureau of Healthcare Quality and Compliance, where the Child Care Licensing Program resides, stated that the Bureau wanted to reiterate what we have heard all morning and thanked the Audit Committee for their review and support as the Division brought forth the corrective actions for the audit.

Chair Parks thanked Ms. Simmons for her comments and called for a motion.

SENATOR DENIS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, OVERSIGHT OF CHILD CARE FACILITIES. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

E. Department of Health and Human Services, Division of Child and Family Services

Rick Neil, Audit Supervisor stated that in October 2011, the Audit Division issued an audit report on the Division of Child and Family Services. A plan of correction action was filed in January 2012. Per NRS 218G.270, the Director of the Department Administration issued a report within six months. As of July 18, 2012, the Department of Administration indicated all three recommendations were fully implemented. Auditors agree and therefore, do not have any questions for Division of Child and Family Services officials.

Chair Parks asked if there were any comments from the Division.

Danette Kluever, Deputy Administrator, Division of Child and Family Services thanked the audit team for their recommendations. The recommendations actually put the Division ahead of when the Governors' performance based budgeting instructions came out. The Division was able to reduce the amount of performance measures and increase the amount of outcome based measures and will be presenting them in the next budget process.

Chair Parks thanked her for the comments and asked for committee questions. None being made he called for a motion.

SENATOR DENIS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, DIVISION OF CHILD AND FAMILY SERVICES. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

Item 5— Update on Plan for Corrective Action (NRS 218G.250)

Chair Parks stated that the plan is regarding the Division of Mental Health and Developmental Services Substance Abuse Prevention and Treatment Agency (SAPTA).

Rick Neil, Audit Supervisor stated that at the last Audit Subcommittee meeting, in April, when the Audit Division presented the audit report on SAPTA, the audit subcommittee decided to review the sixty-day plan of correction action at the next meeting, which brings us to today. As a reminder, the audit report contained nine recommendations to help ensure grant recipients comply with audit requirements that provide assurance funds are spent for intended purposes. In addition, the report contained seven recommendations to improve fiscal monitoring performed by SAPTA personnel to provide additional assurance about subrecipients' use of grant funds. In accordance with NRS, SAPTA filed a sixty-day plan of corrective action on July 3, 2012. The plan included detailed steps on how the agency intends to implement the 16 recommendations. Auditors have reviewed the plan of corrective action and agree with the direction taken by the agency. The plan includes system changes such as workflow restructuring and reassignment of staff. In addition, the plan includes enhancing written policies and procedures in many areas such as identification of and focus on high-risk entities, tracking of audits due on subrecipients, follow-up on problems noted on audits and fiscal monitors, and imposing graduated sanctions on subrecipients failing to comply with grant requirements. Nevertheless, Mr. Neil suggested the audit subcommittee obtain additional information about the agency's 60-day plan. He invited the head of the agency, SAPTA, Deborah McBride to ask her one question. There is an attachment to the 60-day plan that shows two proposed positions on the agency organization chart. The question is,

Would implementation of any of the audit recommendations be affected if the proposed positions are not improved?

Deborah McBride, Director, SAPTA, replied yes, the Agency did look at that in designing our system changes to see what we may need to help meet the recommendations. The agency felt the two proposed positions that we put in for would help us meet and implement all of the audit recommendations that we received.

The agency put in for a Management Analyst III position located in the fiscal team that would be ultimately responsible for all of the oversight of the subrecipients' audits, to ensure all audit recommendations were met. This position would oversee all those monitoring activities of the prevention and treatment teams, including scheduling the audits, doing fiscal monitors, audit tracking, follow up on audit recommendations and findings and make sure corrective action plans were acceptable, turned in timely, and responses reviewed. Also, this position would oversee the certification and billing of subrecipients. The agency felt this was a very important position.

The other position was a quality assurance position in our treatment program that would additionally oversee from a program perspective to make sure that everything was in compliance and followed up on as a supplement to what the Management Analyst III position would do from a fiscal perspective.

Chair Parks thanked Ms. McBride for her comments and opened for questions.

Assemblyman Grady asked if the agency requested these two positions in the budget proposal and has the Governor accepted them.

Ms. McBride replied yes, the positions were put into the budget request and she does not know if the Governor will keep that in his budget.

Chair Parks stated that it is a little early to know whether or not the Governor has included them in his proposed budget and opened for further questions.

Mr. Neil suggested the agency consider a plan B if those positions are not approved, including how they may reorganize the Office in such a way to possibly still implement those recommendations.

Chair Parks asked for further comment or concern from Ms. McBride.

Ms. McBride stated said no further comments but thanked the auditors for their assistance and recommendations and will consider a plan B.

Chair Parks thanked her for the comments and opened for committee questions. None being made, he called for a motion.

SENATOR DENIS MOVED TO ACCEPT THE UPDATE ON PLAN FOR CORRECTIVE ACTION (NRS 218G.250) REGARDING THE DIVISION OF MENTAL HEALTH AND DEVELOPMENTAL SERVICES, SUBSTANCE ABUSE PREVENTION AND TREATMENT AGENCY. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

Item 6—National State Auditors Association Report on Nevada Legislative Auditor's System of Quality Control

Paul Townsend, Legislative Auditor, stated he was very proud to discuss the report from the National State Auditors Association on the Audit Division's recently completed quality control review, or peer review. This essentially answers the question of who audits the auditors. The Audit Division performs audits in accordance with very rigorous government standards and those standards require that every three years the Division be subject to an external peer review. This most recent peer review was conducted by experienced auditors from the states of New York, Illinois, and Alaska and resulted in a very positive report. He expressed his appreciation to the staff of the Audit Division for doing an incredible job of meeting the standards and to the Audit Subcommittee in their support provided to our office.

Mr. Townsend asked that the report be accepted by the subcommittee.

Chair Parks called for a motion to accept the report.

SENATOR RHOADS MOVED TO ACCEPT THE NATIONAL STATE AUDITORS ASSOCIATION REPORT ON NEVADA LEGISLATIVE AUDITOR'S SYSTEM OF QUALITY CONTROL. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

Chair Parks stated that he personally has dealt with many audits, reports, analysis, and management type audits. He is always impressed with the caliber of work performed by the Audit Division.

Item 7—Public Comment

Chair Parks called for public comment. He noted there was none.

Chair Parks stated that Senator Rhoads will be completing his service to the State of Nevada; he has spent a long time as a member of the Audit Subcommittee doing a great job. He has served the state of Nevada for 34 years, 17 regular sessions and 12 special sessions. He has been on the Audit Subcommittee for 10 years not only as a member but has also been chair of the subcommittee. Chair Parks thanked Senator Rhoads for his very fine service to this subcommittee and wished him well.

Senator Rhoads thanked Chair Parks and said he has sincerely enjoyed this committee. He believes this committee to be one of the best for monitoring what the government in the State of Nevada is doing. He gave a lot of credit to Mr. Townsend. He was pleased to have served the State of Nevada Legislature and the Audit Subcommittee. He expressed his appreciation to the staff of both the Audit Division and the State Agencies.

Chair Parks thanked Senator Rhoads for his years of service.

Chair Parks called for a motion to adjourn the meeting.

ASSEMBLYMAN GRADY MOVED TO ADJOURN THE MEETING OF THE AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

The meeting adjourned at 12:21 p.m.

Respectfully submitted,

Deborah Anderson, Audit Secretary

Senator David R. Parks
Chair of the Audit Subcommittee
of the Legislative Commission

Paul V. Townsend, Legislative Auditor
and Secretary to the Audit Subcommittee
of the Legislative Commission

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

5a

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747
Fax No.: (775) 684-6800



LEGISLATIVE COMMISSION (775) 684-6800
STEVEN A. HORSFORD, *Senator, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
DEBBIE SMITH, *Assemblywoman, Chair*
Cindy Jones, *Fiscal Analyst*
Mark Krmptic, *Fiscal Analyst*

RICK COMBS, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815
DONALD O. WILLIAMS, *Research Director* (775) 684-6825

December 4, 2012

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701

In February 2012, we issued an audit report on the Office of the Governor, Office of Energy. The Office of Energy filed its plan for corrective action in March 2012. NRS 218G.270 provides that the Office shall issue a report within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Office of Energy on the status of the 14 audit recommendations. Based on our review of the six-month report and other documents provided, we determined that 12 recommendations were fully implemented and 2 recommendations were partially implemented. The two partially implemented recommendations relate to statutory requirements for developing a plan to reduce grid-based energy consumption in state-owned buildings.

**Recommendation
Number**

| | |
|---|---|
| 6 | Develop a long-term plan requiring Executive Branch agencies to reduce energy consumption in state-owned buildings. |
| 7 | Provide biannual reports to the Legislative Commission as required by statute. |

Energy Reduction Plan

NRS 701.215 requires the Office Director to prepare a plan requiring Executive Branch agencies to reduce grid-based energy purchases for state-owned buildings by 20% by 2015. This law became effective in 2005. Although a plan has not been developed, steps are being taken to reduce grid-based energy consumption.

The Office's six-month report indicates that data has been collected regarding information on energy consumption in state-owned buildings. For the first time, information on energy consumption in state-owned buildings was presented in the Office's 2011-2012 Status Report to the Governor and the Legislative Counsel Bureau. The status report shows a 6.3% reduction in energy use from 2005 to 2011. In addition, the Office reported current information indicating the State has now achieved an 8.3% reduction since 2005.

Members of the Audit Subcommittee
of the Legislative Commission
December 4, 2012
Page 2

Biannual Reports

During the 2009 Legislative Session, the Legislature passed Senate Bill 358 to amend NRS 701.215. Senate Bill 358 required the Office to file biannual reports with the Legislative Commission indicating the general progress towards energy reduction in state buildings, and to identify agencies that fail to cooperate in the design and implementation of the plan. Biannual reports have not been filed with the Legislative Commission.

The Office's six-month report indicates that various strategies are under consideration by the Office and the Public Works Division to achieve additional reductions in energy consumption in state-owned buildings by 2015. These strategies are currently in development; however, when more specifics have been developed, these strategies, together with a general discussion on the progress to date, will form the basis of the biannual report pursuant to NRS 701.215(3)(c).

Questions

1. When does the Office anticipate it will be able to develop a plan to reduce grid-based energy consumption in state-owned buildings?
2. When does the Office anticipate it will be able to file biannual reports with the Legislative Commission indicating the general progress towards implementing the plan for energy reduction in state buildings?

Sincerely,



Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

Enclosure

cc: Governor Brian Sandoval

Gerald Gardner, Chief of Staff, Office of the Governor

Jeff Mohlenkamp, Director, Department of Administration

Steve Weinberger, Administrator, Division of Internal Audits

Stacey Crowley, Director, Office of Energy

SIX-MONTH REPORT



**OFFICE OF THE GOVERNOR
NEVADA STATE OFFICE OF ENERGY**

October 25, 2012

Mr. Paul Townsend, CPA
Legislative Counsel Bureau
Legislative Building
401 S. Carson Street
Carson City, NV 89701

RE: Six-Month Report on the Status of Recommendations

Dear Mr. Townsend,

This correspondence addresses the six-month status of recommendations from the audit and from subsequent correspondence that addressed corrective action related to the recommendations of the audit.

1. Ensure grant recipients provide required reports timely, including supporting documentation.

Status: During the past six months, NSOE staff has been diligent about requiring our grant recipients to report in a timely manner. Additionally, quarterly reports (SF 425) have been prepared and submitted on time. These reports are submitted electronically and encapsulate the work performed by each grantee and sub-grantee on a quarterly basis. Each quarterly report has been reviewed and approved by the Department of Energy through the end of the grant period. (Refer to Attachments A and B.)

Going forward, the NSOE has updated its Internal Controls and Policies and Procedures to further reinforce our efforts to ensure that grant recipient reports comply with grant requirements and the sub-award agreement. The NSOE Fiscal Manager, in coordination with Administrative Services Division budget staff, monitors reporting due dates and notifies program managers of upcoming reporting requirements.

2. *Implement controls to help ensure program information is reliable, including appropriate documentation, accurate and timely recording of transactions and events, and supervisory review.*

Status: The NSOE has updated its Internal Controls and Policies and Procedures to ensure that sub-recipients comply with all federal regulations and requirements and that all program information is reliable, accurate, and well documented. Procedures include the use of monthly fiscal monitoring and quarterly project monitoring to ensure that sub-recipients are submitting timely invoices and expenses that comply with grant requirements and conditions, progress reports and/or status updates are provided with invoices, and all expenses are adequately logged and tracked to ensure that recipients are on target for spending the money and that all expenses are balanced to DAWN. All internal monitoring forms will receive supervisory review and signature.

Furthermore, performance measures have been revised to achieve the agency's primary activity. The performance measures are supported by appropriate documentation and are obtained from credible sources. A considerable amount of staff time has been devoted to ensuring the accuracy of the data upon which the performance measures are based. The data have been reviewed internally as well as with agencies and entities that supplied information (e.g., PUCN, Public Works Division, NV Energy) to ensure that their data was correctly interpreted and utilized. (Refer to additional discussion on performance measures under Recommendations #11 through #14.)

Due to variances in state reporting methodologies, the Department of Energy decided that states no longer needed to report on hours worked, renewable energy generated, energy savings, or per capita energy consumption. States were measuring and reporting this information differently, which was causing inconsistencies in the reports received by DOE. DOE removed these sections from the quarterly reports where this data was reported so it could no longer be input into the PAGE system. As a result, all prior data reported in these sections was lost and is no longer tracked.

3. *Develop and implement a monitoring schedule for grant funded projects to help ensure compliance with grant requirements.*

Status: As mentioned previously under the response to Recommendation #1, during the past six months, NSOE staff has been diligent about adhering to our grant monitoring schedules and requiring our grant recipients to report in a timely manner. Additionally, quarterly reports (i.e., SF 425) have been prepared and submitted in a timely manner. These reports were submitted electronically and have been reviewed and approved by DOE through the end of the grant reporting period. (Refer to Attachments A and B.)

Going forward, the NSOE Fiscal Manager will complete a monthly Fiscal Monitoring Report (Refer to Attachment C.) for all grant-funded projects to ensure compliance with grant requirements, as indicated in Recommendation #2. The Fiscal Manager will maintain a monitoring schedule to ensure that fiscal and project reviews are conducted in conjunction with monitoring visits, when applicable, for grant funded projects.

4. *Ensure monitoring visits to project sites are adequately documented.*

Status: Please refer to the responses for Recommendations #1, #2 and #3. Additionally, the Grant Project Monitoring Report is to be completed quarterly by the NSOE Program Manager for all sub-recipients that require monitoring visits to ensure compliance with grant requirements and to maintain accurate documentation, as noted in Recommendation #2. (Refer to Attachment D.)

5. *Follow federal regulations and guidance for grant payments, including advances, reimbursements, and remittance of interest.*

Status: Federal guidelines continue to be followed for grant payments. DOE has approved our financial documents, closed out the grant, and commended NSOE for its work. The NSOE updated its Internal Controls and Policies and Procedures to include an advancement of funds policy that must be signed by sub-recipients prior to the release of funds. The policy requires sub-recipients to provide the NSOE a copy of their procedures to minimize the time between the transfer of funds and their disbursement. The policy also provides a schedule with timelines in which the sub-recipient is required to provide details to the NSOE regarding the disbursements.

6. *Develop a long-term plan requiring Executive Branch agencies to reduce energy consumption in state-owned buildings.*

7. *Provide biannual reports to the Legislative Commission as required by statute.*

Status of Recommendations #6 and #7: Progress is being made towards achieving this goal. The following activities have been completed over the past few months.

- The Energy Benchmarking Report for Nevada State Buildings, prepared by CLEAResult, was completed on April 30, 2012. This report benchmarked the energy performance of the state buildings that implemented energy-related improvements with SEP ARRA funds. For most buildings, the report looked at an eight-year period from January 2004 through February 2012. The report is available on the NSOE website at [http://energy.nv.gov/Programs/Completed Projects/](http://energy.nv.gov/Programs/Completed%20Projects/). Please see the project titled "State Building Energy Upgrades". No funding is available to continue this contract.

- The LPB contract was also completed on April 30, 2012. (Both the LPB and CLEAResult contracts were paid for by SEP ARRA funds, and those funds ended in April.) The primary purpose of this contract was to identify savings to the state resulting from errors discovered in utility bills. Additionally, a large and useful database of energy usage in state-owned buildings was created by LPB and is available for the state's use. Data collection ended in April 2012 because SEP ARRA funding also ended. No funding is available to continue this contract.
- For the first time, information on energy consumption in state-owned buildings was presented in the 2011-2012 Status Report, which was submitted to the Governor and the Director of the LCB on July 1, 2012. The Status Report is available on the NSOE website at <http://energy.nv.gov/uploadedFiles/energynvgov/content/Documents/StatusofEnergyReport.pdf>. The primary sources for this data were NV Energy and the Public Works Division. NV Energy serves 95 percent of the buildings owned by the state. The remaining 5 percent are served by various municipal utilities, co-ops, and general improvement districts. Staff from the NSOE is working with these service providers to develop a procedure to start tracking the remaining 5 percent of the state's buildings. While the data in the Status Report shows a 6.3% reduction in energy use, current information indicates that by the end of 2011 the state had achieved an 8.3% energy reduction since the 2005 benchmark year.
- As part of the effort associated with the creation of Performance Measures for the NSOE, various strategies are under consideration by our Office and the Public Works Division to achieve additional reductions in energy consumption in state-owned buildings by 2015. These strategies are currently in development; however, when more specifics have been developed, these strategies, together with a general discussion on the progress to date, will form the basis of the biannual report (NRS 701.215(3)(c)).

8. *Develop a comprehensive solar project checklist including but not limited to the following items: preparing a financial analysis, completing energy conservation measures, verifying solar panel location will not be needed for other purposes during project life, and ensuring net metering credits will be used.*

Status: A comprehensive checklist was developed by the NSOE based on a solar assessment form created by the National Renewable Energy Laboratory (NREL). (Refer to Attachment E.) The checklist was developed by NREL to assess the feasibility of installing solar facilities on federally-owned properties. Based on this model, the NSOE has created a two-page checklist that can be utilized to assess the feasibility of installing solar facilities on state-owned sites. The checklist is intended to be utilized as a tool to pre-screen sites for development and refers to utilizing a Solar Decision Tree developed jointly by EPA and NREL to analyze sites that may present a higher degree of complexity such as environmental or contamination issues.

9. Track and record cost savings from solar energy projects by comparing solar costs to grid-based costs.

Status: The Audit Report recommends that “. . . the NSOE track energy usage and costs incurred by state agencies from purchasing solar energy and compare them with grid-based costs.” Depending on the financing mechanism used to procure the solar energy system, a variety of cost comparisons can be utilized to determine the value of these projects for the state. Comparisons of solar costs to grid-based costs for a Power Purchase Agreement (“PPA”) financing structure can be presented for the Nevada National Guard; however, since this is the only agency with a PPA, it is the only agency for which such a comparison is applicable. In the future, as other agencies enter into a PPA, or other financial structure for solar energy projects, information on those agencies can be added to the comparison of costs. The utility can provide much of this information; however, they would not track Operations and Maintenance costs of the solar systems. The results will be presented in the Status Report, which is submitted to the Governor and the Director of the LCB on July 1st of every year. (The 2012 Status Report will be prepared by July 1, 2013.)

10. Develop policies, procedures, and instructions to ensure RFP evaluation committee members have clear guidance on the proposal evaluation process.

Status: As matter of NSOE policy, the attached RFP Evaluation Guidelines, or something similar, will be provided to every evaluation committee member along with the attached score sheet and instructions. (Refer to Attachment F.) RFP evaluation committee members will be provided with the opportunity to ask questions about scoring and the evaluation process prior to completing their evaluations.

As an example, in May 2012 NSOE solicited proposals to assist the New Energy Industry Task Force with the Economic Analysis of the Renewable Energy Industry in Nevada. The RFP was prepared and posted to state standards, and an evaluation committee was given proper instructions and followed established protocols in the selection process. (Refer to Attachment F.)

11. Develop performance measures for each goal.

12. Ensure that all performance measures include a descriptive title that clearly indicates what is being measured.

13. Develop and maintain performance measures that can be used to assess performance over time and retain supporting documentation for reported results for at least three fiscal years.

Status of Recommendations #11 through #13: As part of the Governor's Priorities and Performance Based Budget (PPBB) and our biennial budget process, NSOE has developed one primary activity and three performance measures. (Refer to Attachment G.) Our primary activity is to promote energy efficiency, conservation, and clean energy development. The success of this activity is measured by three performance measures -- an increase in renewable energy generated in Nevada, a reduction in per capita energy consumption, and a decrease in energy consumption in state-owned buildings.

As shown in the attachments, the sources and methodology used to develop each performance measure are documented; the measures have descriptive titles that clearly indicate what is being measured; and annual goals for 2012, 2013, 2014, and 2015 are identified for each measure. All supporting documentation has been retained, which will make it easier to monitor the progress on an annual basis. We anticipate utilizing these performance measures for several years, which will address the issue of frequent changes to our performance measures and the inherent difficulty in monitoring progress when this situation occurs. We plan to retain the supporting documentation for three fiscal years or longer. From a practical standpoint, retaining good supporting documentation allows us to annually duplicate our methodology and utilize the same resources; thereby, making it easier to monitor progress.

14. *Revise policies and procedures for performance measures to ensure staff receives adequate guidance and state requirements are followed.*

Status: NSOE Internal Controls, Policies and Procedures have been modified to comply with this recommendation and the standards of the state.

- The Director or Deputy Director provides a copy of the performance measures to the Budget Division of the Department of Administration as part of their biennial budget request.
- The Director and Deputy Director ensure the performance measures are a reliable measurement of the agency's primary activity.
- Documentation is maintained by the Deputy Director describing how the performance measures were developed (e.g., sources, formulas).
- The performance measures are monitored annually and progress towards achieving the goals is presented in the Status of Energy Report, which is submitted to the Governor and the Director of the Legislative Counsel Bureau on or before July 1st of each year. It should be noted that the data on one of the performance measures, Per Capita Energy Consumption, is available nearly one year later (e.g., Calendar Year 2011 data is anticipated to be available in November 2012.)
- The Status of Energy Report, which includes an update on the performance measures, is presented to staff in July of every year at a regularly-scheduled staff meeting.

It is important to note that, unlike previous goals and performance measures, the three performance measures mentioned previously are quantifiable, which makes it much easier to measure progress.

Please contact me if you have any questions about the information presented.

Respectfully submitted,

A handwritten signature in black ink that reads "Stacey Crowley". The signature is written in a cursive, flowing style.

Stacey Crowley
Director

cc: Governor Brian Sandoval
Evan Dale, Dept. of Administration

Attachments

AUDIT HIGHLIGHT

Audit Highlights



Highlights of Legislative Auditor report on the Office of Energy issued on February 2, 2012. Report # LA12-13.

Background

The Office of Energy (Office) is responsible for implementing the Governor's energy policy and serving as the State's point of contact with the U.S. Department of Energy (DOE). The Office administers grants and contracts that encourage conservation and energy efficiency, the development and utilization of Nevada's renewable energy resources, and the promotion of economic development. It facilitates cooperation between key stakeholders and leads initiatives to attract energy related businesses to Nevada. The Office is also involved in several activities including developing energy plans, energy policy development and implementation, technical assistance, education, and public information. The agency is part of the Office of the Governor, and is located in Carson City.

Purpose of Audit

The purpose of this audit was to: (1) determine if the Office complied with State Energy Program (SEP) Formula and SEP ARRA grant requirements, (2) evaluate the Office's energy reduction planning and project selection processes, and (3) evaluate performance measures including the reliability of reported results. Our audit focused on grant compliance and energy reduction planning and project selection from July 2009 through December 2010, and included follow-up work on project selection and grant expenditures through August 2011. The audit also focused on performance measures and reported results for fiscal year 2010 and projections for 2011.

Audit Recommendations

This audit report contains five recommendations to improve grant oversight including subrecipient reporting and on-site monitoring. In addition, five recommendations address energy reduction planning and project selection. Finally, four recommendations were made to improve the reliability and effectiveness of performance measures.

The Office accepted 12 recommendations and rejected 2 recommendations.

Recommendation Status

The Office's 60-day plan for corrective action is due on April 26, 2012. In addition, the six-month report on the status of audit recommendations is due on October 29, 2012.

Office of Energy

Office of the Governor

Summary

The Office can improve its oversight of energy grants. Periodic reports from subrecipients were infrequent and unsupported. When reports were provided, information was not always complete or reliable. In addition, the Office has not developed a site monitoring schedule to ensure projects comply with grant requirements. Furthermore, grant payments to subrecipients were not always managed according to federal regulations and guidance.

The Office's energy reduction planning and project selection processes can be improved. A plan to reduce grid-based energy consumption in Executive Branch agencies has not been prepared as required by statute. As a result, the State may have missed opportunities to further reduce energy costs in state buildings over the past 6 years. In addition, an energy plan would have been a useful tool when allocating ARRA funding. Finally, the Office needs to ensure that planned solar projects at state agency sites adequately protect State interests and result in lower energy costs.

The Office can take steps to improve the reliability and effectiveness of its performance measures. Current practices for developing and monitoring performance measures make it difficult to assess performance. Additionally, the Office has changed its measures in each of the last three Executive Budgets, making it difficult to assess performance over time. Finally, we could not verify the reliability of measures because documentation supporting reported results was not maintained.

Key Findings

Grant subrecipients did not always provide the Office with required quarterly reports. We found only 10 of 78 required quarterly reports were submitted to the Office from June 2010 through March 2011. When subrecipients did provide information, it was not always adequately supported. As a result, information generated by the Office and reported to the federal government was not always reliable. (page 5)

The Office has not developed a site monitoring schedule for ARRA funded projects to define when monitoring visits should take place. Office staff visited 15 of 119 projects that were subject to inspection during our audit period. Aside from one series of site visits, conducted jointly with DOE staff, on-site monitoring was typically informal and not well documented. (page 7)

The Office complied with other grant requirements reviewed. In addition, the Office was timely at committing funds to qualified projects and promoting projects that leveraged grant funds. (page 9)

The Office has not prepared a plan requiring Executive Branch agencies to reduce grid-based energy purchases for state-owned buildings by 20% by 2015, as required by state law. Additionally, required biannual reports on the general progress toward energy reduction in state buildings have not been provided to the Legislative Commission. During our audit, the Office began taking some steps to develop a plan. (page 11)

The State recently contracted with a vendor to allow state agencies to enter into agreements to build vendor owned solar energy systems. The vendor will pay costs to construct, operate, and maintain solar energy systems, and sell energy generated from the solar panels to state agencies. Savings or losses will not be known for many years because the contracts to purchase power from the vendor may last 20 years or more. Therefore, careful review is needed before entering into agreements with the vendor. (page 18)

The Office can take steps to improve the process for evaluating Request For Proposals. We found a wide range in scores among evaluators when scoring the same proposal. Additionally, evaluators did not always score all evaluation criteria areas. As a result, weaknesses in the evaluation process could impact applicants selected. (page 22)

The Office's practices for developing and maintaining performance measures make it difficult to assess performance. Most goals lack corresponding performance measures to assess progress towards achieving goals. In addition, some measures are not worded clearly enough to understand what is being measured. Finally, the Office has frequently changed its measures, making it difficult to assess performance over time. (page 26)

The reported results for most performance measures were not reliable for two reasons. First, documentation supporting reported results was not always retained. Second, when the Office retained supporting documentation, results were not always reported accurately. (page 30)

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747
FAX NO.: (775) 684-6600



LEGISLATIVE COMMISSION (775) 684-6800
STEVEN A. HORSFORD, *Senator, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
DEBBIE SMITH, *Assemblywoman, Chair*
Cindy Jones, *Fiscal Analyst*
Mark Krmpotic, *Fiscal Analyst*

RICK COMBS, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815
DONALD O. WILLIAMS, *Research Director* (775) 684-6825

December 4, 2012

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701

In February 2012, we issued an audit report on the Buildings and Grounds Section that contained 10 recommendations. The Section filed its plan for corrective action in April 2012. NRS 218G.270 provides that the Director of the Department of Administration shall issue a report within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the 10 recommendations contained in the report. As of October 29, 2012, the Department of Administration indicated that five recommendations were fully implemented and five were partially implemented. The five partially implemented recommendations shown below relate to ensuring performance measures and information submitted to the Legislature are accurate and state agency lease payments related to renegotiated leases are proper.

| Recommendation Number | | Anticipated Date for Full Implementation |
|-----------------------|---|--|
| 1 | Develop written policies and procedures for performance measures to ensure reported results are reliable, including data gathering and processing, computations, supervisory review of calculations and methodology, and retention of supporting documentation. | December 31, 2012 |
| 3 | Use information technology solutions to create efficiencies and assist staff in calculating performance measures. | June 30, 2013 |
| 4 | Periodically review the appropriate market data analyses to assess and obtain lease rates and terms that are most beneficial to the state. Document the analysis of market rates and trends to negotiated lease rates and terms. | September 30, 2013 |
| 6 | Develop procedures to ensure management reviews and approves information published and submitted to the Legislature. | December 31, 2012 |
| 7 | Develop a procedure to assist state agencies in ensuring lease payments on renegotiated leases are made in conformance with the proper lease agreement. | December 31, 2012 |

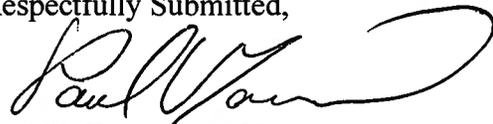
According to the Department of Administration's six-month report, the Section is currently developing policies and procedures for several recommendations. Additionally, the Section is developing and exploring IT related solutions for two recommendations related to performance measures and leasing activities.

Members of the Audit Subcommittee
of the Legislative Commission
December 4, 2012
Page 2

Question

1. Has the Section made progress on the three recommendations noting December 31, 2012 as the intended implementation date?
2. Is the Section still on target to meet its planned implementation dates for the two recommendations related to developing IT solutions and reviewing market data analyses?

Respectfully Submitted,



Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

Enclosure

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Gus Nunez, Administrator, Public Works Division

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: October 29, 2012

Subject: Legislative Audit of the Department of Administration, Buildings and
Grounds Section

On February 2, 2012, your office released an audit report on the Department of Administration, Buildings and Grounds Section (Section). The Section subsequently filed a corrective action plan on April 27, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 10 recommendations contained in the report. The extent of the Department's compliance with the audit recommendations is as follows:

Recommendation 1

Develop written policies and procedures for performance measures to ensure reported results are reliable, including data gathering and processing, computations, supervisory review of calculations and methodology, and retention of supporting documentation.

Status – Partially Implemented

Agency Actions – The Section is currently in the process of developing written policies and procedures for performance measures to ensure reported results for data gathering and processing, computations, supervisory review of calculations, methodology and retention of supporting documentation are reliable. The

Section anticipates full implementation of this recommendation by December 31, 2012.

Recommendation 2

Periodically determine actual ancillary cost rates to be used in performance measure calculations and lease negotiations.

Status – Fully Implemented

Agency Actions – The Section used actual ancillary utility costs of State-owned buildings obtained from the utility data compiled by LPB Energy Management in performance measure calculations for the 2014/2015 budgets. Janitorial costs used in the calculations were obtained from B&G's janitorial contracts in effect as of March 2012. At the start of each year, the Section will review all janitorial contracts to update its ancillary cost calculations.

Recommendation 3

Use information technology solutions to create efficiencies and assist staff in calculating performance measures.

Status – Partially Implemented

Agency Actions – The Section is working on using information technology solutions to create efficiencies and assist staff in calculating performance measures by developing a new leasing Access database. The Section hired an additional staff to help input leasing data into the database. Additionally, the Section is still in the process of testing and augmenting the reporting capabilities of the database. The Section anticipates full implementation by June 30, 2013.

Recommendation 4

Periodically review the appropriate market data analyses to assess and obtain lease rates and terms that are most beneficial to the state. Document the analysis of market rates and trends to negotiated lease rates and terms.

Status – Partially Implemented

Agency Actions – The Section updated its policies and procedures to periodically review appropriate market data analyses regarding rates and terms that are beneficial to the state. The Section included in its 2014/2015 budget request funds for a third party market data subscription. The information provided through the subscription service will help in the analysis of market rates and trends. The Section anticipates full implementation by September 30, 2013.

Recommendation 5

Establish a process and document the analysis of lease negotiation activities including evaluating the cost of lessor funded tenant improvements and the cost/benefit of moving agencies to premises with more advantageous lease rates.

Status – Fully Implemented

Agency Actions – The Section established a process for the analysis of lease negotiation activities. This process includes evaluation of the costs of lessor funded tenant improvements and the cost/benefits of moving agencies to premises with more favorable lease rates. All leasing activities including reasons for moving an agency and any lessor funded improvements are now being documented and maintained.

Recommendation 6

Develop procedures to ensure management reviews and approves information published and submitted to the Legislature.

Status – Partially Implemented

Agency Action – The Section is currently developing policies and procedures to ensure management reviews and approves information published and submitted to the Legislature. The Section anticipates full implementation by December 31, 2012.

Recommendation 7

Develop a procedure to assist state agencies in ensuring lease payments on renegotiated leases are made in conformance with the proper lease agreement.

Status – Partially Implemented

Agency Action – The Section is currently developing procedures to assist agencies in ensuring lease payments on renegotiated leases are made in conformance with the proper lease agreement. The Section anticipates full implementation by December 31, 2012.

Recommendation 8

Strengthen policies, procedures, and controls over procurement card issuance including limits, approvals, and agreement.

Status – Fully Implemented

Agency Actions – The Section revised its policies and procedures to strengthen controls over procurement card issuance. Some of the procedures included cancelling cards previously given to employees whose job duties no longer require use of procurement cards and ensuring that each over limit transaction is approved by the cardholder's supervisor. In addition, daily transaction logs with the invoices/receipts attached must be approved by the cardholder's supervisor on a daily basis and turned into the Procurement Card Administrator within one day of the supervisor's approval.

Recommendation 9

Periodically review procurement card activity to ensure compliance with policies and procedures.

Status – Fully Implemented

Agency Actions – The Section developed policies and procedures to ensure that a periodic review of procurement card activity is performed. A daily transaction log which documents procurement card transactions is reviewed and authorized by the cardholder's supervisor. The log is then turned into the Procurement Card Administrator for review and input into an excel spreadsheet. The Procurement Card Administrator reconciles the daily charges on the excel spreadsheet to the monthly bank statement for each cardholder.

Recommendation 10

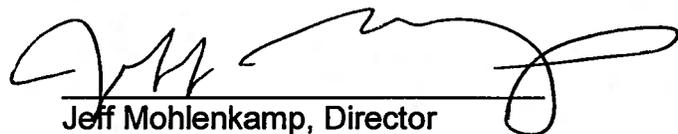
Develop procedures to periodically review and analyze cardholders and limits to determine if issued cards and limits are adequate and necessary.

Status – Fully Implemented

Agency Actions – The Section developed procedures to periodically review and analyze cardholders and limits to determine if issued cards and limits are adequate and necessary. A daily transaction log is approved by the cardholder's supervisor and reviewed and reconciled by B&G's front office staff. Each month, the Procurement Card Administrator reconciles and verifies the daily transaction logs to the monthly statements from the procurement card issuer. All cardholder changes such as changing limits must have prior approval from the Division of Public Works Administrator or designee.

The degree of ongoing compliance with these recommendations is the responsibility of the agency.

Paul Townsend, Legislative Auditor
October 29, 2012
Page 5

A handwritten signature in black ink, appearing to read 'Jeff Mohlenkamp', written over a horizontal line.

Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Gustavo Nunez, Administrator, State Public Works Division
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



Highlights of Legislative Auditor report on the Buildings and Grounds Section issued on February 2, 2012. Report # LA12-10.

Background

The Buildings and Grounds Section (B&G) was established to protect state assets. Its mission is to proactively manage state facilities; provide efficient office space within budget; and reliable water delivery.

Among other duties, B&G provides physical building and grounds maintenance, housekeeping, and security for most state-owned buildings in Carson City, Reno, and Las Vegas. This area also provides, locates, and negotiates leases for office space for state agencies when state-owned buildings are not available.

Senate Bill 427 of the 2011 Legislative Session reclassified Buildings and Grounds from its own division to a section within the State Public Works Division organized under the Department of Administration. The bill also converted mail services to an internal service fund administered by the State Library and Archives Division of the Department of Administration.

Since 1993, B&G has been required to establish a comprehensive energy tracking program for buildings occupied by state agencies. In the 2011 Legislative Session, Senate Bill 426 transferred the responsibility of the program to the Office of Energy. However, B&G is still required to participate in carrying out the provisions of the statute.

Purpose of Audit

The purpose of our audit was to determine if adequate controls and processes were in place to ensure the efficient, effective, and proper administration of certain program and administrative activities including performance measures, leasing, purchase card procurements, and energy tracking.

Audit Recommendations

This audit report contains 10 recommendations to improve controls and enhance B&G activities. These recommendations take the necessary steps to improve the reliability of performance measurements, enhance the transparency of lease procurement activities, and strengthen controls over purchase card transactions.

B&G accepted the 10 recommendations.

Recommendation Status

B&G's 60-day plan for corrective action is due on April 26, 2012. In addition, the six-month report on the status of audit recommendations is due on October 29, 2012.

Buildings and Grounds Section

Department of Administration

Summary

Buildings and Grounds can improve its oversight of activities related to the proper administration of performance measures, leasing, and procurement card activities. We found reported results for performance measures were not always reliable because errors were made regarding calculations and classifications. In addition, a weighted average methodology provides a more accurate reflection of B&G's activities. Due to calculation and methodology errors, the measures reported by B&G were significantly different than those determined after corrections were made. Since measures are used by the Legislature and other stakeholders to determine B&G's performance, accuracy and reliability are critical to assessing performance and ensuring public trust.

Administration and documentation over certain leasing activities can be improved. B&G did not always analyze or document certain facets of lease negotiations. As a result, we could not always determine whether leases were advantageous to the State. Additionally, errors and inaccuracies were noted regarding the number and amount of renegotiated leases and related savings published by B&G. Leasing activities are a significant function for B&G and better procedures will help ensure the State receives the best lease rates available.

Purchase card transactions were not always in compliance with B&G or statewide policies and procedures. Our testing revealed transactions exceeded established limits, improper transaction approvals, incomplete agreements, and other minor errors. Furthermore, B&G has a significant number of cardholders and monthly financial exposure from issued purchase cards. While we did not find instances of fraud or abuse, items purchased can be easily converted to personal use making proper and effective controls necessary.

Key Findings

Key performance measures were not reliable due to mathematical and clerical errors, the inclusion of inaccurate and unsupported costs, and the misclassification of certain properties. We examined four measures that evaluated leasing activities and found them to be unreliable. (page 7)

Three of the four performance measures tested had methodological flaws in their calculations. B&G used a simple averaging methodology to calculate performance measures for each urban area and the overall state rate. Using a weighted average provides more accurate results regarding B&G's performance. A simple average gives equal weight to all leases, ignoring the size of the leased premises, while a weighted average takes into account the proportional relevance of each component. (page 9)

When corrected for mathematical, clerical, and methodology errors, higher state and market rates were determined. We found corrected performance measures for state leasing rates went from \$1.52 per square foot as calculated by B&G to \$1.61. In addition, market rates went from \$1.74 as calculated by B&G to \$1.85. Finally, a nearly \$1 million reduction to the overall savings achieved from leasing activities resulted from changes to per square foot leasing rates. (page 11)

B&G did not document lease negotiation activities for many of the leases we reviewed. As a result, we could not always determine whether negotiated lease rates were advantageous to the State. Better analysis and documentation will ensure rates obtained are appropriate. (page 13)

Renegotiated lease savings were overstated. Savings for 6 of the 20 leases reviewed were not the result of renegotiations, but were renewals of expired leases. Errors resulted in about half of the savings reported being improper. (page 14)

Payment errors were made in 5 of 29 renewed and renegotiated leases tested for about \$145,000 in overpayments. While B&G negotiates and executes lease agreements, agencies make quarterly payments. The majority of the overpayment, related to one lease agreement, has been recovered. (page 15)

Purchase card transactions exceeded established limits in 6 of 26 purchases reviewed. Limits were exceeded because transactions were split and limits were electronically adjusted temporarily by B&G personnel. We also found certain purchase card agreements, also required by statewide policies were not always fully executed prior to card issuance. (page 17)

B&G has significant exposure to potential loss because it has issued procurement cards to most employees and monthly limits are high for certain cards. Also, some employees used cards infrequently indicating cards may not be a necessity. (page 20)

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747
Fax No.: (775) 684-6000



LEGISLATIVE COMMISSION (775) 684-6800
STEVEN A. HORSFORD, *Senator, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
DEBBIE SMITH, *Assemblywoman, Chair*
Cindy Jones, *Fiscal Analyst*
Mark Krmpotic, *Fiscal Analyst*

RICK COMBS, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815
DONALD O. WILLIAMS, *Research Director* (775) 684-6825

December 4, 2012

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701-4747

In February 2012, we issued an audit report on the Department of Administration, Division of Enterprise Information Technology Services. The Department filed its plan for corrective action in April 2012. NRS 218G.270 provides that the Department of Administration shall issue a report within 6 months after the plan of corrective action is due outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the 15 recommendations contained in the report. As of October 29, 2012, the Department of Administration indicated that 11 recommendations were fully implemented and 4 were partially implemented. The four partially implemented recommendations are shown below.

**Recommendation
Number**

| | |
|---|--|
| 1 | Update the state's primary computing facility's contingency plan and ensure the plan includes a prioritized disaster recovery component. |
| 2 | Develop a plan to periodically test the state's primary computing facility's IT emergency plans to ensure critical IT resources can be restored in an orderly and timely manner. |
| 3 | Conduct an initial high-level statewide risk assessment to identify and prioritize information security risks, establishing a baseline that can be built upon in subsequent years. |
| 7 | Conduct quarterly reviews of user lists as indicated in state information security standards. |

Recommendation Number 1

Recommendation number 1 that the Department of Administration considered to be partially implemented was to update the state's primary computing facility's contingency plan. The Department of Administration reported the Division is working with the Division of Emergency Management to update the Continuity of Operations and Disaster Recovery Plan. The update includes conducting testing and exercises to identify and prioritize hardware or software requirements to recover information in a contingency.

Question

1. When does the Division anticipate having an updated contingency plan?

Recommendation Number 2

Recommendation number 2 that the Department of Administration considered to be partially implemented was to develop a plan to periodically test the state's primary computing facility's IT emergency plans to ensure critical IT resources can be restored in an orderly and timely manner. The Department of Administration reported the Division is continuing to compile documentation from a test to confirm the State has necessary platforms available to restore critical IT resources in an orderly and timely manner. The Division reportedly successfully tested the state's ability to deliver employee payroll information to the State Controller's Office from the southern area location after a simulated system outage in the northern location.

Question

2. When does the Division anticipate developing a plan to periodically test the facility's IT emergency plans?

Recommendation Number 3

Recommendation number 3 that the Department of Administration considered to be partially implemented was to conduct an initial high-level statewide risk assessment to identify and prioritize information security risks, establishing a baseline that can be built upon in subsequent years. The Department of Administration reported the Division's Office of Information Security re-enabled the Critical Business Technology Assessment Planning program previously maintained by the disbanded Planning Division of the Department of Information Technology. The program provides a centralized portal for state agencies to declare and prioritize critical technology assets. Once state agencies have provided information, the Division will be able to prioritize applications and data for security assessments and to establish the high-level statewide risk assessment.

Question

3. When does the Division anticipate completing a high-level risk assessment?

Recommendation Number 7

Recommendation number 7 that the Department of Administration considered to be partially implemented was to conduct quarterly reviews of user lists as indicated in state information security standards. The Department of Administration reported the Division's

Members of the Audit Subcommittee
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Page 3

Office of Information Security is working to conduct quarterly reviews of user lists as indicated in state information security standards. The Division is in the process of automating the review process and integrating directory services. Once all users and servers are integrated into a common directory, the Division will be able to run a report in order to conduct recommended quarterly reviews. The Division expects to establish the ability to conduct recommended reviews by January 2013.

Question

4. Does the Department still anticipate full implementation by January 2013?

Respectfully Submitted,



Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

Enclosure

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
David Gustafson, Director, Division of Enterprise Information Technology Services

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: October 29, 2012

Subject: Legislative Audit of the Division of Enterprise Information Technology Services

On February 2, 2012 your office released an audit report on the Department of Administration, Division of Enterprise Information Technology Services (Division). The Division subsequently filed a corrective action plan on April 24, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 15 recommendations contained in the report. The extent of the Department's compliance with the audit recommendations is as follows:

Recommendation 1

Update the state's primary computing facility's contingency plan and ensure the plan includes a prioritized disaster recovery component.

Status – Partially Implemented

Agency Actions – The Division is working with the Division of Emergency Management to update the Continuity of Operations and Disaster Recovery Plan. The update includes conducting testing and exercises to identify and prioritize hardware or software requirements to recover information in a contingency.

Recommendation 2

Develop a plan to periodically test the state's primary computing facility's IT emergency plans to ensure critical IT resources can be restored in an orderly and timely manner.

Status – Partially Implemented

Agency Actions – The Division is continuing to compile documentation from a test to confirm the State has necessary platforms available to restore critical IT resources in an orderly and timely manner. The Division reportedly successfully tested the State's ability to deliver employee payroll information to the State Controller's Office from the southern area location after simulated system outage in the northern location.

Recommendation 3

Conduct an initial high-level statewide risk assessment to identify and prioritize information security risks, establishing a baseline that can be built upon in subsequent years.

Status – Partially Implemented

Agency Actions – The Division's Office of Information Security re-enabled the Critical Business Technology Assessment Planning program previously maintained by the disbanded Planning Division of the Department of Information Technology. The program provides a centralized portal for state agencies to declare and prioritize critical technology assets. Once state agencies have provided information, the Division will be able to prioritize applications and data for security assessments and to establish the high-level statewide risk assessment.

Recommendation 4

Review the security of occupational licensing board servers storing confidential licensee data.

Status – Fully Implemented

Agency Actions – The Division began reviewing the security of occupational licensing board servers storing confidential licensee data in September 2012. The first review was of the Board of Veterinary Medicine. The review is part of the Division's Office of Information Security's new procedures implementing a systematic engagement plan and checklist to review security issues. The Division

has set a goal of performing at least 2 reviews per month as the new procedures are implemented.

Recommendation 5

Offer information security services to occupational licensing boards and ensure they are aware of the state's information security standards.

Status – Fully Implemented

Agency Actions – The Division offers information security services to occupational licensing boards and ensures they are aware of the state's information security standards as part of the Office of Information Security's new procedures implementing a systematic engagement plan and checklist to review security issues. As licensing boards and commissions are reviewed, they will designate staff members to receive updates from the Division about the state's information security standards.

Recommendation 6

Implement a process to periodically review state web servers for confidential information that may be accidentally posted on them.

Status – Fully Implemented

Agency Actions – The Division's Office of Information Security periodically reviews state web servers for accidentally posted confidential information. The Division provided a copy of a log file from a recent scan evidencing its short term solution using two manual tools for scanning. A permanent solution will be acquired through the Homeland Security Grant Program.

Recommendation 7

Conduct quarterly reviews of user lists as indicated in state information security standards.

Status – Partially Implemented

Agency Actions – The Division's Office of Information Security is working to conduct quarterly reviews of user lists as indicated in state information security standards. The Division is in the process of automating the review process and integrating directory services. Once all users and servers are integrated into a common directory, the Division will be able to run a report in order to conduct

recommended quarterly reviews. The Division expects to establish the ability to conduct recommended reviews by Jan 2013.

Recommendation 8

Conduct quarterly audits of PIV card accounts as required by existing policy to ensure cards are only issued to current employees or contractors.

Status – Fully Implemented

Agency Actions – The Division's Office of Information Security conducts quarterly audits of PIV card accounts as required by existing policy to ensure cards are only issued to current employees or contractors. The Division provided copies of the Nevada Card Access System (NCAS) Audit Procedures and results of the first audit conducted in April 2012 as evidence the recommendation has been implemented. The Division reports the next audits are scheduled for November 2012.

Recommendation 9

Develop a procedure to identify computers without current virus protection.

Status – Fully Implemented

Agency Actions – The Division developed a procedure to identify computers without current virus protection. A newly acquired software solution generates weekly reports which identify computers without current virus protection.

Recommendation 10

Develop a procedure to periodically check software update installations to detect failed or missing updates.

Status – Fully Implemented

Agency Actions – The Division developed a procedure to periodically check software update installations to detect failed or missing updates. The check is part of the Division's Office of Information Security's new procedures implementing a systematic engagement plan and checklist to review security issues.

Recommendation 11

Encrypt sensitive data in all newly developed applications.

Status – Fully Implemented

Agency Actions – The Division revised the state data sensitivity standard and will encrypt sensitive data in all newly developed applications. The Division administrator (Chief Information Officer) approved the policy and standards, and encryption language was added to the Data Sensitivity regulation in October 2012.

Recommendation 12

Encrypt sensitive data in existing applications as is practical or as applications are upgraded.

Status – Fully Implemented

Agency Actions – The Division revised the state data sensitivity standard and will encrypt sensitive data in existing applications as is practical or as applications are upgraded. The Division administrator (Chief Information Officer) approved the policy and standards, and encryption language was added to the Data Sensitivity regulation in October 2012.

Recommendation 13

Amend state information security standard to include a provision that confidential personal data be encrypted whenever possible.

Status – Fully Implemented

Agency Actions – The Division amended the state information security standard to include a provision that confidential personal data be encrypted whenever possible. The Division administrator (Chief Information Officer) approved the policy and standards, and encryption language was added to the Data Sensitivity regulation in October 2012.

Recommendation 14

Implement a process to communicate interim risk awareness and recommended risk mitigation measures to all state entities while a formal policy is being developed to address a state security risk.

Status – Fully Implemented

Agency Actions – The Division implemented a process to communicate interim risk awareness and recommended risk mitigation measures to all state entities through the Division's listserv. The Division is developing a formal policy to address a state security risk and plans to use an application previously developed by the State (Critical Business Technology Assessment Program) to systematically identify, prioritize, and document critical applications. The Division notes this is the first step in the disaster recovery process.

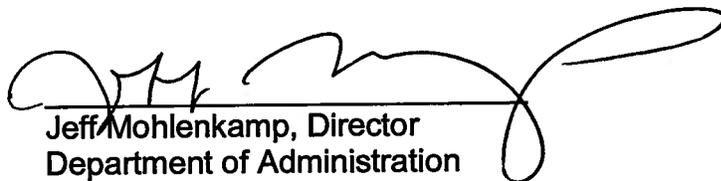
Recommendation 15

Enforce state information security policies for all user passwords, including those of staff with administrator level access.

Status – Fully Implemented

Agency Actions – The Division enforces state information security policies for all user passwords, including those of staff with administrator level access. The enforcement is part of the Division's Office of Information Security's new procedures implementing a systematic engagement plan and checklist to review security issues.

The degree of ongoing compliance with these recommendations is the responsibility of the agency.


Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
David Gustafson, Administrator, Division of Enterprise Information
Technology Services
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



Highlights of Legislative Auditor report on the Division of Enterprise Information Technology Services Information Technology Security issued on February 2, 2012.
Report # LA12-12

Background

With legislation in 2011, the Department of Information Technology was changed to the Division of Enterprise Information Technology Services and was transferred to the Department of Administration. The mission of the Division of Enterprise Information Technology Services is to provide services to coordinate efficient, effective, and secure use of information systems and personnel. The Division consists of the following units: Administrative Services, Information Security, and Technical Operations. The Administrative Services unit supports the Division's budgeting, personnel, service rate billing, and purchasing functions. The Information Security Unit, known as the Office of Information Security, provides statewide information security services. The Technical Operations unit provides programming, web services, mainframe and server services, telecommunication services, and numerous other information technology services. For fiscal year 2011, the Division employed 130 full-time employees statewide and had authorized expenditures of over \$28 million.

Purpose of Audit

This audit included a review of information technology controls at the Division of Enterprise Information Technology Services during fiscal year 2011. The objective of our audit was to determine if the Division's information security controls were adequate to protect the confidentiality, integrity, and availability of sensitive information and information systems.

Audit Recommendations

This audit report contains 15 recommendations to improve the confidentiality, integrity, and availability of state information systems.

The Division accepted the 15 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on April 26, 2012. In addition, the six-month report on the status of audit recommendations is due on October 29, 2012.

Division of Enterprise Information Technology Services

Department of Administration

Summary

The Division needs to strengthen information system controls to ensure adequate protection over systems and data. The availability of key state information systems can be better ensured by updating and testing the state's primary computing facility's emergency plans. Also, the security of confidential personal information could be improved with better security oversight of occupational licensing agencies or boards. In addition, web server content should be better monitored to prevent accidental release of confidential information. Furthermore, a systematic process to identify statewide information security risks could improve use of security resources.

Former employees had current network access and better controls are needed over the computing facility access cards. Computer virus protection and critical security updates need to be better monitored. In addition, stronger security can be achieved by encrypting data in newly developed software applications, alerting state agencies more timely about newly identified risks, and enforcing state password standards.

Key Findings

The State's primary computing facility did not have a written disaster recovery plan. In addition, the facility's disaster recovery capability has not been tested since 2006. Such testing reduces the time needed to restore critical IT services such as those that may impact public health and safety. In addition, the contingency plan we were provided by the Division had not been updated in over 10 years despite numerous changes in the state's information technology infrastructure and changes in employees responsible for enacting parts of the plan. Without periodic updating and testing of these plans, there is greater risk that mission critical IT resources will not be restored in an efficient and timely manner when a disaster or other major system failure occurs. (page 3)

Most state occupational licensing boards that collect confidential personal information of licensees do not currently receive security oversight from the state's Office of Information Security. The Division indicates that state boards and commissions have avoided any assistance or oversight by them. These boards normally collect applicant social security numbers used in determining if the applicants have any unpaid child support payments. Given the confidential nature of the data collected, the Division's security oversight could help prevent unintended disclosure of the information. (page 6)

We found Division hosted state websites were not monitored for the release of sensitive confidential information as recommended in our prior audit. As a result, we found confidential personal information was again posted on a state website that was viewable to anyone on the Internet. While the primary responsibility for monitoring website content is the agency owning the website, a backup monitoring process is needed to detect any confidential personal information that is unintentionally posted on the websites. (page 7)

We identified nine computer user accounts of former employees whose network access had not been disabled. These accounts could have been identified and disabled if the Division was conducting quarterly reviews of user lists as required by state information security standards. (page 9)

We identified 18 Personal Identity Verification (PIV) cards that needed to be deactivated. These PIV cards are used by Division employees to gain access to restricted office or computing locations. The PIV cards needing deactivation could have been identified and deactivated if the Division was conducting the quarterly audits of the PIV card system as required by the Division's own policies. (page 9)

Four of the 32 Division computers we sampled did not have current virus protection as required by state security standards. Without current virus protection, there is increased risk that employees with infected computers will lose productive time while their computers are purged of the infected files. In addition, we identified 7 of 32 computers that did not have critical software security patches installed as required by state security standards. (page 11)

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747
Fax No.: (775) 684-6600



LEGISLATIVE COMMISSION (775) 684-6800
STEVEN A. HORSFORD, *Senator, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
DEBBIE SMITH, *Assemblywoman, Chair*
Cindy Jones, *Fiscal Analyst*
Mark Krmpotic, *Fiscal Analyst*

RICK COMBS, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815
DONALD O. WILLIAMS, *Research Director* (775) 684-6825

December 4, 2012

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701-4747

In February 2012, we issued an audit report on the Department of Motor Vehicles. The Department filed its plan for corrective action in April 2012. NRS 218G.270 provides that the Department of Administration shall issue a report within 6 months after the plan of corrective action is due outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the 16 recommendations contained in the report. As of October 29, 2012, the Department of Administration indicated that 14 recommendations were fully implemented and 2 were partially implemented. The two partially implemented recommendations are shown below.

| Recommendation Number | |
|-----------------------|--|
| 4 | Improve the reconciliation process and enhance procedures accordingly to ensure reconciliations of the Department and state accounting systems are complete, accurate, and timely. |
| 14 | Develop a single strategic planning document to coordinate the Department and its divisions' strategic plan including critical components such as mission statements, goals, strategies, objectives, and performance measures. |

Recommendation Number 4

Recommendation number 4 that the Department of Administration considered to be partially implemented was to improve the process and procedures over reconciliation of the Department and state accounting systems. The Department of Administration reported the Department of Motor Vehicles had revised existing policies and procedures to require supervisory monitoring of the reconciliation process to ensure complete, accurate, and timely reconciliation of the Department and state accounting systems. The first reconciliation will be completed within forty-five days from the end of September.

Question

1. Has the Department completed the first reconciliation?

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Page 2

Recommendation Number 14

Recommendation number 14 that the Department of Administration considered to be partially implemented was to develop a single strategic planning document. The Department of Administration indicated the Department of Motor Vehicles is in the process of developing a single strategic planning document to coordinate the Department and its divisions' strategic plans including critical components such as mission statements, goals, strategies, objectives and performance measures. The Department anticipates full implementation of this recommendation by December 31, 2012.

Question

2. Does the Department still anticipate full implementation by December 31, 2012?

Respectfully Submitted,



Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

Enclosure

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Troy Dillard, Interim Director, Department of Motor Vehicles

SIX-MONTH REPORT



**STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION**

209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: October 29, 2012

Subject: Legislative Audit of the Department of Motor Vehicles

On February 2, 2012, your office released an audit report on the Department of Motor Vehicles. The Department subsequently filed a corrective action plan on April 25, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 16 recommendations contained in the report. The extent of the Department's compliance with the audit recommendations is as follows:

Recommendation 1

Enhance monitoring practices and related policies and procedures to ensure vehicle registration decals are accurately accounted for and safeguarded.

Status – Fully Implemented

Agency Actions – The Department revised its policies and procedures to ensure proper accountability and safeguarding of decals. We reviewed documentation provided by the Department and determined that decals are safeguarded and accounted for.

Recommendation 2

Improve the decal forecasting process through verification of supporting decal tracking forms and offices' decal inventory control sheets.

Status – Fully Implemented

Agency Actions – The Department revised its policies and procedures to improve the decal forecasting process by reviewing supporting decal tracking forms and inventory control sheets prior to the decal forecasting process. We reviewed information used in the most recent forecast and determined that decal tracking forms and inventory control sheets are reviewed and used as a basis for decal forecasts.

Recommendation 3

Investigate the financial viability and potential benefits of implementing a print-on-demand vehicle registration decal program.

Status – Fully Implemented

Agency Actions – The financial viability and potential benefits of Print-on-demand technology were considered and deemed desirable. The Board of Examiners approved the print-on-demand vehicle registration decal program in September 2012. The new technology is expected to be implemented in March 2013, after a 90 day programming period expected to begin January 2013.

Recommendation 4

Improve reconciliation process and enhance procedures accordingly to ensure reconciliations of the Department and state accounting systems are complete, accurate, and timely.

Status – Partially Implemented

Agency Actions – The Department revised existing policies and procedures to require supervisory monitoring of the reconciliation process to ensure complete, accurate and timely reconciliation of the Department and state accounting systems. The first reconciliation will be completed within forty-five days from the end of September 2012.

Recommendation 5

Formalize written procedures and perform timely supervisory review and approval of monthly electronic fund reconciliations.

Status – Fully Implemented

Agency Actions – The Department revised existing policies and procedures to require a timely supervisory review of the electronic fund reconciliation process. The revision became effective on September 18, 2012. The first reconciliation review occurred in September 2012 for August transactions.

Recommendation 6

Enhance written monitoring procedures to define management's expectations for transaction monitoring and ensure consistent and effective review procedures are performed at each office.

Status – Fully Implemented

Agency Actions - The Department developed written procedures to enhance transaction monitoring and ensure consistent and effective procedures are performed at each office. We reviewed supporting documentation and determined that each office monitors transactions according to procedures.

Recommendation 7

Develop procedures to require verification that all registration exemptions recorded in the DMV information system are properly supported.

Status – Fully Implemented

Agency Actions - The Department developed procedures requiring proper supporting documentation for all registration exemptions recorded in the DMV information system. The new procedures became effective on June 11, 2012.

Recommendation 8

Improve procedures to ensure individuals pass criminal history background checks before being granted access to the DMV information system.

Status – Fully Implemented

Agency Actions – The Department established a new procedure that requires approval from the DMV Information Security Officer (ISO) prior to granting new employees access to the DMV information system. The ISO's interim access approval relies on a report generated by IntegraScan, a company specializing in online criminal history searches. Once an employee is cleared through IntegraScan, he/she is given temporary access to the DMV system while the Department awaits the results of the FBI background check. This process was

deemed necessary to avoid delays in hiring associated with the FBI criminal background check. The new procedure became effective on August 1, 2012.

Recommendation 9

Work with county branch offices to improve controls over the use of shared access to the DMV information system.

Status – Fully Implemented

Agency Actions – The Department made programmatic changes that eliminate the need for shared access to the DMV Information system in county branch offices.

Recommendation 10

Develop an approach to improve the timeliness of processing administrative fines and fees associated with motor carrier citations.

Status – Fully Implemented

Agency Actions – The Department developed policies and procedures to improve the timeliness of processing administrative fines and fees for motor carriers. The new policies require the Motor Carrier Division to conduct a desk audit of the records of all Motor Carrier companies or persons issued citations. The procedures detail the process to be taken by Motor Carrier staff from receipt of citations from the Nevada Highway Patrol and the Compliance Enforcement Division to completion of the desk audit, including outstanding assessments for previous violations. The procedures became effective on April 9, 2012.

Recommendation 11

Develop procedures to control the removal of citations from the Department's unprocessed citations log.

Status – Fully Implemented

Agency Actions – The Department developed procedures to address the removal of citations from the unprocessed citations log. The procedures require annual review of the citation log to identify citations that have been cancelled or deemed unable to process. Identified unprocessed citations are noted and summarized for supervisory review. The procedure became effective March 9, 2012.

Recommendation 12

Evaluate and revise performance measures to increase the percentage of measures that are outcome oriented.

Status – Fully Implemented

Agency Actions – The Department established new performance measures which are aligned with the Department's activities as defined in their FY 14/15 Priorities and Performance Based Budget. Sixteen of the 54 new performance measures, or 30%, are outcome-oriented whereas previously, only 15 percent were outcome-oriented.

Recommendation 13

Develop a process to evaluate and revise performance measures to ensure proper alignment of measures with strategic goals and key activities.

Status – Fully Implemented

Agency Actions – The Department developed a process to evaluate and revise performance measures to ensure proper alignment of performance measures with strategic goals and key activities. The process requires evaluation and revision of performance measures if appropriate, every two years in conjunction with budget preparation to ensure these measures reflect current strategic goals and key activities. The process became effective on September 7, 2012.

Recommendation 14

Develop a single strategic planning document to coordinate the Department and its divisions' strategic plan including critical components such as mission statements, goals, strategies, objectives, and performance measures.

Status – Partially Implemented

Agency Actions – The Department is in the process of developing a single strategic planning document to coordinate the Department and its divisions' strategic plans including critical components such as mission statements, goals, strategies, objectives and performance measures. The Department anticipates full implementation of this recommendation by December 31, 2012.

Recommendation 15

Ensure documentation to support performance measures is maintained consistent with state requirements.

Status – Fully Implemented

Agency Actions – The Department developed procedures to ensure that supporting documentation is maintained consistent with state requirements. Based on our discussion with Department staff and a review of supporting documentation, we determined that documentation to support performance measures is now being maintained for 3 years.

Recommendation 16

Evaluate and revise performance measure calculation methodologies and descriptions and align with supporting calculations and documentation.

Status – Fully Implemented

Agency Actions – The Department created procedures that require performance measure calculation methodologies and descriptions to be evaluated and revised every two years. Current performance measure calculation methodologies and descriptions have been evaluated, revised, and aligned with the supporting calculations and documentation.

The degree of ongoing compliance with these recommendations is the responsibility of the agency.


Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Bruce Breslow, Director, Department of Motor Vehicles
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



Highlights of Legislative Auditor report on the Department of Motor Vehicles issued on February 2, 2012. Report # LA12-11.

Background

The Department of Motor Vehicles (DMV) is a multi-functional agency with responsibilities that include the collection and timely distribution of certain Highway Fund revenue and improving traffic safety through licensing, registration, monitoring and intervention programs. The Department is comprised of eight divisions: Director's Office, Administrative Services, Field Services, Central Services and Records, Compliance Enforcement, Motor Carrier, Management Services and Programs, and Motor Vehicle Information Technology.

Total revenues collected by the Department during fiscal year 2011 exceeded \$1 billion which is distributed to the federal government, State Highway Fund, local governments, State General Fund, and other recipients. The Department maintains 18 field offices statewide and has contracted with seven rural counties to perform certain DMV functions. The Department also offers access to certain services through alternate sources including its website and 27 kiosks located in DMV offices and partner locations statewide.

Purpose of Audit

The purpose of this audit was to determine whether sufficient controls are properly functioning over certain Department revenues and assets, and evaluate the reliability and adequacy of performance measures. The audit included a review of control activities over certain assets and revenues from July 1, 2009, to December 31, 2010, and prior fiscal years in some areas. Additionally, we reviewed performance measures for fiscal years 2008 to 2010.

Audit Recommendations

This audit report contains 16 recommendations to improve administrative controls. These recommendations are needed to account for registration decals; improve reconciliations; and enhance controls over driver licenses, DMV system access, and administrative citations. Furthermore, the Department should enhance its performance information.

The Department accepted the 16 recommendations.

Recommendation Status

The Department's 60-day plan for corrective action is due on April 26, 2012. In addition, the six-month report on the status of audit recommendations is due October 29, 2012.

Department of Motor Vehicles

Summary

The Department needs to improve its administration of controls over certain processes to ensure its revenues and assets are properly safeguarded and accounted for. We found the Department can improve its control procedures over vehicle registration decals and reconciliations of its internal records to the state accounting system. Additionally, improvements are needed to controls over the issuance of driver licenses and allowing access to the DMV information system. Enhancements in these areas will help reduce risks of loss, fraud, and abuse.

The Department should also enhance its performance management system to include more outcome oriented measures and better align its measures with programs and goals. Additionally, documentation supporting reported performance measures needs to be better maintained. These improvements should benefit the Department in evaluating the success of its programs.

Key Findings

Enhancements are needed to the Department's controls over vehicle registration decals to ensure they are properly accounted for and safeguarded. We found records used to account for decals were inaccurate and unreliable in 13 of 14 months tested and some decals could not be readily accounted for. Additionally, forecasts used to determine future decal needs were inaccurate and contributed to overproduction of decals. Department records indicated more than 1 million decals were overproduced at a cost of about \$250,000 for fiscal years 2008 through 2011. The Department can enhance its processes and related policies and procedures to increase accountability for decals and reduce the risk of overproduction and undetected decal loss. (page 6)

Improvements are needed to the reconciliations of the Department's internal accounting records to the state accounting system. Reconciliations were not accurate or complete with unreconciled balances as high as \$2.5 million and unsupported adjustments of more than \$1.3 million. Additionally, some reconciliations were not reviewed timely and procedures were not always sufficiently developed to support the reconciliation process. Although we identified no evidence of missing funds, improvements to the reconciliation process and procedures would enhance the Department's ability to ensure revenues are properly recorded and distributed. (page 11)

Improvements are needed to the controls over monitoring certain transactions in field offices. Specifically, controls over the review of driver license applications and supporting documentation need to be formalized to ensure the integrity of licenses issued. Additionally, controls need to be enhanced to ensure vehicle registration tax exemptions are only issued to qualified individuals. (page 14)

Criminal history background checks were not always completed before individuals were allowed to access and perform transactions in the DMV information system. Two of eight individuals we tested in county branch offices were granted access to the system by Department personnel without having a background check. Allowing access without verification of qualification could result in unqualified individuals accessing sensitive customer information. (page 18)

The Department's Motor Carrier Division has not assessed administrative fines timely on some motor carriers. As of December 31, 2010, the backlog of citations was more than 1,500 valued at an estimated \$600,000 in billable assessments. Improved timeliness in issuing assessments should result in increased probability of collections. (page 19)

The Department could enhance its performance information through better coordination and alignment of its strategic planning process. First, an increase in the number of outcome oriented measures would enhance the Department's ability to measure the success of its programs. Next, the Department could enhance its alignment of performance measures with key program activities and goals. Finally, it would benefit from consolidating pertinent strategic planning information into a single planning document. These steps should help management better measure the performance of its programs and determine whether its goals are being reached. (page 21)

Key performance measures reported in the Executive Budget were not reliable. We selected a sample of eight performance measures reported in the Department's Executive Budget. Our testing found that five of the eight measures lacked supporting documentation. The remaining three measures had an inaccurate description and were based on unsound methodologies. Performance measures must be reliable to ensure proper budgetary and policy decisions are made by Legislative and Department decision makers. (page 25)

