

MINUTES OF THE MEETING OF THE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
December 13, 2012

This is the fourth meeting of 2012.
This is the fifth 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., Thursday, December 13, 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
Assemblywoman Maggie Carlton
Assemblyman Pat Hickey

Carson City:

Assemblyman Tom Grady, Vice-Chair

Subcommittee Member Excused:

Senator Mo Denis

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Paul Townsend, Legislative Auditor
Donna Wynott, Office Manager
Deborah Anderson, Audit Secretary
Eugene Allara, Deputy Legislative Auditor
Jane Bailey, Audit Supervisor
Daniel Crossman, Deputy Legislative Auditor
Rocky Cooper, Audit Supervisor
Sandra McGuirk, Deputy Legislative Auditor
Mike Herenick, Deputy Legislative Auditor
Doug Peterson, Information Systems Audit Supervisor
Lee Pierson, Deputy Legislative Auditor
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 September 19, 2012

Chair Parks called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF SEPTEMBER 19, 2012. THE MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND CARRIED UNANIMOUSLY.

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

– Paul Townsend, Legislative Auditor

Mr. Townsend stated there are several audit reports, a review of children's facilities and four six-month reports.

A. Report on Count of Money in State Treasury

Mr. Townsend introduced Shannon Ryan, Audit Supervisor, and Eugene Allara, Deputy Legislative Auditor, to present the report.

Mr. Allara stated in accordance with NRS 353.060, the auditors counted the monies and securities in the State Treasury on Friday, June 29, 2012 and prepared Ex. A with supporting schedules one through three in the report. The Money Count included actual and physical examination, direct confirmation with financial institutions, and other procedures considered necessary to fulfill the statutory requirements.

Mr. Allara stated in accordance with NRS 353.075, the report was filed with the Secretary of State on November 26, 2012.

Mr. Allara continued his presentation stating the count of monies and securities on June 29, 2012, showed \$166 million on deposit with financial institutions, \$2.2 billion of state owned securities, and \$1 billion of securities held for safe keeping for a grand total of \$3.5 billion. Details are shown in Schedules 1-3 of the report.

Chair Parks called for questions from the Committee.

Assemblyman Grady asked if the State borrowed against the Local Government Investment Pool amounts shown in Schedule 2 of the report.

Mr. Allara replied that he did not believe the State borrowed any funds at this time.

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

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE REPORT ON THE COUNT OF MONEY IN STATE TREASURY. THE MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND CARRIED UNANIMOUSLY.

B. Public Employees' Benefits Program 2012

Mr. Townsend introduced Rocky Cooper, Audit Supervisor, and Lee Pierson, Deputy Legislative Auditor, to present the report.

Mr. Pierson stated the Public Employees' Benefits Program (PEBP) was established in 1999 to manage the state's group health insurance program. The program has a nine-member board that oversees operations. The board appoints an executive officer to direct day-to-day activities. There were about 41,000 PEBP participants in fiscal year 2012 consisting of state employees, state non-Medicare, Medicare retirees, and local government.

Mr. Pierson stated fiscal year 2012 reserves consisted of nearly \$129 million, which included \$77 million in planned reserves to cover claims and unforeseen expenses and \$52 million were unallocated or excess reserves. In March 2012, the PEBP Board made a program change to spend \$29 million in excess reserves and the remaining \$23 million is to be included in PEBP's budget request for fiscal years 2014 and 2015.

Mr. Pierson stated during the budget request process for the current biennium the Governor instructed PEBP to keep its state subsidy levels flat or at the same level as fiscal year 2011. PEBP estimated maintaining the same level of benefits as fiscal year 2011 would cost an additional \$85 million in state funding. To address this shortfall, the Board approved several changes including replacing the self-funded PPO Plan with a consumer driven high deductible health plan (the Plan).

The audit objectives were to determine whether PEBP could provide additional information on the costs of healthcare procedures to assist participants with healthcare decisions; whether there are adequate controls over contract management; if information technology controls are sufficient to protect the confidentiality, integrity, and availability of participant information; and whether accounting policies and procedures are complete and up to date.

Mr. Pierson stated auditors found a wide range in costs for some healthcare procedures, by comparing costs for procedures in Nevada and reviewing fiscal year 2012 claims processed by the Plan in Elko, Carson City, Reno, and Las Vegas. As a result, the amount participants and PEBP pays for the same procedures can vary significantly. Costs can vary widely because providers charge different amounts and negotiate varying discounts with insurance providers. When planning nonemergency procedures participants should consider comparison-shopping. This could save the participants and the Plan money.

Mr. Pierson stated PEBP is taking steps to provide participants with information on costs. PEBP has made several pricing tools available to assist participants with pricing prescription drugs and healthcare costs on its website. In addition, PEBP is working with its third party administrator (TPA) to provide participants with a pricing tool based on PEBP claims data. Although PEBP is taking steps to provide participants with additional tools to price costs, more needs to be done. PEBP should periodically inform participants of the wide range in healthcare costs, tools available, and the best methods to compare prices.

Mr. Pierson expressed additional information would help participants verify that billing statements are correct. Explanation of Benefits (EOB) statements provided to participants after a claim is processed do not provide clear descriptions of services billed or medical billing codes. After processing the claim, PEBP's TPA sends participants an EOB statement through the mail that identifies the patient, provider, services billed, discounts, deductibles, amount paid by the Plan, and the patient's responsibility. EOBs currently use broad descriptions such as professional services, radiology, or laboratory to describe billed services. These general descriptions do not provide enough information for participants to verify services were billed correctly. Ex. 4 shows a comparison between procedures billed by the provider and the information provided to the participant. Based on the limited information provided, it is difficult for the participant to verify billings are correct.

Mr. Pierson stated Current Procedural Terminology (CPT) codes are not provided to participants. CPT codes were developed and are maintained by the American Medical Association, and define medical, surgical, and diagnostic services. All healthcare procedures and services have a corresponding CPT code. Although CPT codes were provided in the past on EOB statements, codes are currently excluded from EOBs. PEBP is concerned that disclosing CPT codes and clear descriptions on EOBs sent through the mail could result in improper disclosure of medical information and violate HIPAA privacy requirements. However, PEBP's TPA could provide participants with clear descriptions of healthcare services billed and CPT codes through its secure website. This would address privacy concerns and provide participants with additional information to verify services were billed correctly. Three recommendations were made to provide participants with additional cost information when making healthcare decisions.

Mr. Pierson expressed contract management can be improved. Audit staff found monitoring of vendor performance can be strengthened in three areas. One way to strengthen vendor performance is by ensuring all contracts include performance standards, as required by policy. Seven of 13 contracts did not include performance standards. These seven contracts could include performance standards addressing items such as timeliness and accuracy. Vendor performance can further be strengthened by requiring vendors to submit performance results in quarterly reports and ensuring required annual audits and evaluations of vendors are done.

Mr. Pierson further expressed contract weaknesses make it difficult to assess the wellness vendor's performance. First, the contract did not include deadlines to report performance results. Although Year 1 for the Wellness Program ended on June 30, 2011, performance results were not reported until March 2012. Therefore, results were not available timely for PEBP to monitor performance and consider program changes. Second, the dates for implementing the Wellness Program each year were not included in the contract. Third, program information was not consistently reported.

Mr. Pierson stated PEBP's contracting policies and procedures do not reflect current practice and need updating. Five recommendations were made to improve contract management.

Mr. Pierson expressed information technology controls need strengthening. PEPB has good information technology controls over participant information. However, access to credit cards and other sensitive information could be further restricted. Five of PEBP's staff had access to credit card information even though their job functions did not require access. Several old files containing credit card numbers no longer needed should have been deleted. Additional steps should also be taken to limit access to sensitive participant and dependent information. Eight vendors and PEBP staff could view sensitive information even though this information was not needed to perform their jobs.

Mr. Pierson further expressed background investigations were not conducted on staff. During the audit, PEBP implemented a policy to conduct Nevada Department of Public Safety Civil Name Check background investigations on new hires and existing employees every 3 years. The Civil Name Check was designed for employment screening purposes and searches Nevada criminal history. However, PEBP's practice does not follow state requirements to conduct FBI or nationwide fingerprint based investigations on new hires. To comply with state requirements, PEBP should implement state security standards requiring FBI fingerprint background checks of new employees and conduct civil name checks of existing employees at least every 3 years. Five recommendations were made to strengthen information security controls.

Mr. Pierson expressed accounting policies and procedures have not been updated in more than 7 years despite changes to accounting functions, and the policies and procedures should be revised to reflect current practice. One recommendation was made to update accounting policies and procedures.

Mr. Pierson concluded his presentation stating Appendix A shows reserves and plan adjustments to reserves in fiscal year 2012. Appendix B lists PEBP vendors and payments made to these vendors during fiscal years 2011 and 2012. Appendix C is the audit methodology. The agency's response shows that all 14 recommendations were accepted.

Chair Parks called for questions from the Committee.

Assemblyman Hickey asked if the changes made during PEBP's workshops were in the purview of the Audit.

Mr. Pierson explained the PEBP process to change the plan was not specifically audited. The Plan changes were included in the background section as information for the reader.

Assemblywoman Carlton stated the audit methodology had a reference to healthcare utilization; however, a specific response on utilization was not in the report. She asked after the recent changes, are participants still utilizing PEBP's benefits to maintain

wellness at a desired rate. In addition, she asked if the auditors looked at utilization rates with the new program or if that was outside the purview of the Audit.

Mr. Pierson replied the audit methodology describes the information used to begin the audit and to gain an understanding of the program. A decision was made on specific areas to address which are the four sections in the report, but the auditors did not specifically audit utilization or changes in utilization.

Assemblywoman Carlton expressed her concern of making sure the participants understand the EOB statements. She understood that the recommendation on the EOBs was accepted but asked when PEBP was expected to address the issue.

Mr. Pierson replied that PEBP will be making changes through the TPA's website that will provide participants with electronic access to EOB statements with a log-in name and password. The electronic EOBs will include clear descriptions of services billed and CPT codes. The agency could better explain where it is at in that process.

Chair Parks thanked the audit staff and asked the representatives of PEBP to come forward and comment.

Jim Wells, Executive Officer, Public Employees' Benefits Program, on behalf of his staff, thanked Mr. Townsend for the report and audit recommendations. The Program has begun implementing the recommendations, specifically the electronic EOBs. The TPA has committed to setting up the website and a prototype has been viewed. The EOBs will be completed in the first quarter of 2013.

Assemblywoman Carlton asked how members of the plan who do not have computer access will be able to check their EOBs for accuracy. Her concern was the senior population without computers and then access getting their health plan information.

Mr. Wells replied those members of the plan who do not have computer access can call the TPA and get the details for their EOB. Sending private medical information through the mail is against HIPAA privacy policies as it is too easy for others to access private information. Generic EOBs will be sent through the mail and further explanations can be obtained online or by phone.

Assemblywoman Carlton reconfirmed the generic EOB will still be mailed to the participants and if further information is needed they can call the TPA or go online.

Mr. Wells replied that is correct.

Assemblywoman Carlton asked for further explanation why a generic EOB statement can be mailed and the full EOB statement cannot be mailed. Why the change from previous EOB mailings to only generic mailings, and was this due to the cost of more pages being mailed?

Mr. Wells replied that as of July 2011, there was a change in the TPA. The old TPA was in the process of making this change when the new TPA claims system came in to place. It is inappropriate according to HIPAA regulations to include certain medical language in mail that could be compromised if opened by a person other than the

intended recipient. Therefore, the current TPA suggested mailing generic medical information to the insured and if additional detail is needed it is obtained in a secure manner by phone with verification or by the webpage with log-in name and password.

Assemblywoman Carlton stated participants pay premium dollars for healthcare and are now given more responsibility in managing their care. She wanted to make sure participants are getting the information needed.

Assemblywoman Carlton stated that she especially did not want to see Medicare participants going through a different vendor. It seems there are more hoops to go through when the goal is to incentivize people to manage their own care and understand it. She asked if the plan is making it more difficult for participants to get the information in order to be able to manage their care.

Mr. Wells replied while HIPAA has been around for a long time, amendments have been made to include the High Tech Act with additional privacy and security requirements. The penalties for improper disclosure of information have increased. Therefore, more caution is taken in providing medical information.

Assemblywoman Carlton noted the Civil Name Checks started after the audit but she was disturbed background checks had not been previously done on employees. She asked where PEBP was in the process, if there are any areas of caution or warnings that need to be made, if everyone passed the background investigations, and what are the future systems in place for the investigation.

Mr. Wells responded he agreed with the exposure to PEBP participants' personal health information and data is of utmost importance and should not be disclosed or accessible to inappropriate personnel. Several years ago when Mr. Wells started with PEBP, background checks were not done. PEBP does not have authority to do background checks. Civil Name Checks are in place for all new hires effective January 2012 and there have been no criminal findings for newly hired employees. Now, PEBP is working with the Division of Human Resource Management to implement the complete fingerprint background checks for all new employees and it will begin sometime next year. We are also in the process of creating a waiver form to be approved for all current employees to fill out and get Civil Name Checks in the first quarter of next year.

Assemblywoman Carlton asked if PEBP established the criteria for those background checks and will PEBP go through the state central repository or will they be forwarded to the FBI.

Mr. Wells responded PEBP has established the criteria for background checks in PEBP's internal policy. Current employees' Civil Name Checks are statewide checks. Newly hired employees' background checks are through the FBI.

Assemblywoman Carlton stated existing employees will not be going through an FBI background check.

Mr. Wells confirmed her statement.

Assemblywoman Carlton asked if there are concerns about that.

Mr. Wells responded there has always been a concern of no background checks. Administrative personnel have access to private data. Unfortunately, the current statutes do not allow PEBP to do an FBI background check on current employees, a specific provision allowing current employee background checks needs to be written into statutes.

Assemblywoman Carlton stated this is something that needs to be addressed next session.

Chair Parks stated after his review of the report, he noticed his personal experiences are similar though he is not a PEBP member. Persons having elective surgeries may have issues when the TPAs change. EOBs were very different. Thus asking if PEBP has a program where participants can look at what the costs are and what the insurance will cover before they elect to have a medical procedure is important. Personally, from his experiences this is lacking.

Mr. Wells agreed there is a lack of transparency in the medical community. PEBP is working towards putting information on its website so participants can access the most common procedures and get a range of top and bottom end pricing for the location of services. Members who do not have computer access can obtain the same information by calling the TPA number located on the ID cards. In TPAs, there are disruptions. The current EOBs are not as detailed as the old ones they are better than July's EOBs. The EOBs will become more user friendly in 6 to 12 months. The contracted price and out of pocket price for pharmacy is now on the website and can be obtained by a phone call.

Chair Parks expressed most participants want to know what a procedure is going to cost them out of pocket, after the copay and minimums have been met.

Assemblyman Grady asked if PEBP will be putting in a bill draft request to change the law so background checks can be done.

Mr. Wells responded it was not included in PEBP's bill draft requests for 2013 submitted to the Governor's Office in May 2012. However, PEBP will continue to look at it.

Assemblyman Grady expressed his concern stating the PEBP and everyone has a priority to make a bill draft request, yet no one has made a request and the Legislative Session is about to begin.

Assemblyman Grady asked if the Medicare retiree problems encountered when PEBP participants entered the program was resolved and running smoothly.

Mr. Wells replied during the transition there were issues that came up. PEBP has attempted to address them as they have come up, and continues to address these problems. PEBP is receiving fewer complaints and a few issues remain that need to be addressed. A claims audit of the TPA and an audit for the Medicare retiree program was done. The audit showed some glaring weaknesses, which have been addressed through a corrective action plan with the vendor. The corrective actions will be reviewed

on December 17, 2012, to ensure the changes were implemented. There are still unique individual issues that need to be addressed.

Assemblywoman Carlton thanked Assemblyman Grady for asking his questions. She stated the importance of excess reserve monies and asked for further discussion on how the decisions were made. She said in the last IFC meeting, there were some disbursements of a portion of excess monies and other changes were made. She wanted to make sure she understood correctly that there was an additional \$23 million on top of what a normal reserve should be.

Mr. Wells replied as of the end of June 30, 2012, as shown in Ex. 2 of the report, PEBP had an excess of the required reserves to operate the program. This was in anticipation of a three year loss coming up as a result of the six-year underwriting cycle consisting of three good years and three bad years and the balance after six years. Nationwide we are in a period of low utilization and it is beginning to change. The financial statements for the first quarter are showing a loss. PEBP is not going into the excess reserves for the current fiscal year. PEBP's plan is to continue reducing the amounts required for the incurred but not reported liability, catastrophic reserve, and reserves for unused health reimbursement arrangement accounts.

Assemblywoman Carlton asked if we have been in the new system long enough to look at utilization and evaluate how far these reserves are beyond appropriate reserve amounts.

Mr. Wells replied PEBP is at the beginning of being able to make good comparisons. With the high deductible PPO, some participants are avoiding or not getting necessary preventative care that could end up being higher medical costs in the future.

Assemblywoman Carlton stated the new program has not been in effect long enough to make that evaluation. What plans were looked at to give the program those results?

Mr. Wells replied the State of Indiana has had a high deductible plan in place since 2006 and their analysis in 2010 was able to determine a significant amount of medical care was deferred or forgone.

Assemblywoman Carlton appreciated his response and asked Mr. Wells to share this information with her, and she looked forward to his cooperation in providing needed information in the upcoming months. She thanked Mr. Wells for his responses and was concerned about state and participant premium dollars just sitting there when it can be used for health care. The bottom line is being healthy and having money in a bank account does not make you healthy.

Chair Parks stated, regarding the bill draft request for background checks Assemblyman Grady previously spoke about, we will find a way to include it in next session.

Chair Parks opened for comments from the public. None being made he thanked the audit staff and called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE REPORT ON THE PUBLIC EMPLOYEES' BENEFITS PROGRAM. THE MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND CARRIED UNANIMOUSLY.

C. Department of Employment, Training and Rehabilitation Employment Security Division

Mr. Townsend introduced Shannon Ryan, Audit Supervisor, and Daniel Crossman, Deputy Legislative Auditor, to present the report.

Mr. Crossman stated he was going to present an overview of the audit of the Employment Security Division, of the Department of Employment, Training and Rehabilitation beginning with some background information on the Division.

The program is part of a joint state and federal insurance system that provides temporary partial wage replacement to protect workers against the hardships of unemployment.

Mr. Crossman stated the report provided information on the economic recession and its impact on the State, resulting in significant loss of jobs and high unemployment as shown in Ex. 3. Consequently, the Division has experienced a significant increase in claims and unemployment benefits paid to unemployed workers as shown in the exhibits on page 5.

Mr. Crossman stated the report describes the Unemployment Trust Fund where state unemployment taxes paid by employers are deposited and used to fund unemployment claims for which the State is responsible. Additionally, the report details in general terms the three types of benefit programs claimants may qualify for, and the respective termination dates.

Mr. Crossman stated the audit report discusses the state's borrowings from the Federal Government to pay claims when the state's unemployment tax collections and reserves were exhausted. Since 2009, more than \$1.1 billion has been borrowed. Ex. 7 shows, as of September 30, 2012, about \$498 million has been repaid, leaving a balance owed of \$676 million.

Mr. Crossman stated the report next defines the scope and objective of the audit. The audit objective was to determine if certain control activities related to the verification of continued claimant eligibility were adequate to prevent and detect unemployment claim overpayments.

Mr. Crossman stated the Division can better identify and prevent payments to individuals not meeting ongoing eligibility requirements by implementing certain processes. The Division does not have a process to identify claimants who are

incarcerated and do not meet the eligibility requirements to receive benefits. Auditors identified 67 claimants who received unemployment benefits while incarcerated in January 2012, and who collected about \$240,000 improperly. There were about 97,000 individual claimants in January 2012.

Mr. Crossman stated testing was performed on inmates in Department of Corrections' facilities and the Washoe County Detention Center. Ex. 8 on page 10 shows 31 inmates received benefits totaling more than \$208,000 while incarcerated at a Department of Corrections facility with 12 of those inmates collecting benefits for more than 6 months and averaging nearly \$13,000 in improper benefits.

Mr. Crossman stated 36 inmates in the county detention center collected benefits totaling more than \$33,000 while incarcerated as described on page 11 of the report.

Mr. Crossman stated while the number of claimants who were incarcerated appears small compared to the total claimants, a significant amount of improper payments can be avoided by performing a cross match of incarceration records with claimant records.

Mr. Crossman stated auditors estimate, based on the results of testing, using published jail and correctional facility population information, the amount of unemployment benefits paid to incarcerated individuals to be as much as \$5 million over the last 3 years.

Mr. Crossman identified the need for legislation to ensure the Division is given access to incarceration information from local and state detention facilities to identify ineligible claimants.

Ex. 11, on page 14, shows our survey of 13 states that perform cross matches of unemployment and incarceration records and their methods for obtaining those records.

Mr. Crossman stated auditors requested test information from three entities. The Department of Corrections and one local detention facility provided the data while the other declined the request. ESD management indicated the Division does not have specific authority through state or federal law to compel agencies to provide records of incarceration.

Five recommendations were made to improve the controls over continued eligibility to identify claimants who are ineligible for benefits while incarcerated.

Mr. Crossman stated the results of a comparison of death records with claimant records identified 15 individuals who claimed benefits in January 2012 but died during or before January 2012. Twelve of the 15 individuals stopped claiming after death and three did not. Although the three cases represent a small percentage of claims paid, in these

instances, more than \$40,000 in benefits were improperly obtained after the claimants were deceased.

Mr. Crossman stated the Division needs to develop a process to identify deceased claimants. Furthermore, it needs to develop a process to disable the account of the deceased to ensure the account is not reopened. One of the three claimants stopped claiming benefits in February 2010 but the claim was reopened 6 months later even though the claimant had died in April 2010. Weekly benefit claims continued for 83 weeks until benefits were exhausted, resulting in more than \$33,000 paid to the account of the deceased person.

Mr. Crossman stated auditors recommend the Division develop processes to compare death records to claimant records periodically and to place permanent stops on accounts of deceased.

Mr. Crossman stated there is potential for claimants to be improperly receiving unemployment benefits while claiming workers' compensation benefits. NRS 612.265(9) requires private carriers of workers' compensation insurance to provide the Division, on a monthly basis, the names of individuals who receive benefits. The Division is then required to compare this information with unemployment claimant records to determine if individuals are improperly receiving the two types of benefits concurrently.

Mr. Crossman stated to ensure claimants are not receiving benefits concurrently, auditors recommend the Division institute a process to request workers' compensation claimant information from private carriers and compare it to unemployment claimant information, to detect and prevent improper payments.

Mr. Crossman stated the last section of the report deals with identifying claimants who have returned to work and are not reporting, or are under reporting their earnings, resulting in improper payments. Improper payments are a concern for the unemployment program nationwide. Because of the high rate of overpayments, the Federal Government has established initiatives for states to significantly reduce improper payments.

Mr. Crossman stated Nevada's improper payment rate associated with claimants that have returned to work was more than 5% in 2011 compared to a national average of 3.4%. According to the Department of Labor (DOL), improper payments related to claimants not properly reporting earnings after returning to work was \$29.5 million in CY 2011 in Nevada.

Mr. Crossman stated the largest component of the improper payments is claimants that return to work and continue to claim while under reporting or not reporting earnings as shown in Ex. 12. Earned wages reduce the amount of benefits claimants are paid.

Therefore, there may be incentive for people to not report, or under report, the amounts they are earning. To address this issue, the DOL has requested states to compare new hire information with claimant records to identify claimants that have returned to work.

Mr. Crossman stated the Division performs comparisons of records of newly hired people in Nevada and nationally with unemployment claimant records and has processes to scrutinize claims if certain scenarios are met.

Mr. Crossman stated the audit analysis only looked at cases the Division dismissed as being low risk to identify potential performance improvements that could help further reduce improper payments. The auditors looked at the lists of new hires that were also claimants, for 20 days and identified 497 individual cases the Division cleared as low risk. Of those, the auditors found 154 cases where there was the potential for improper payments to be made and where the Division could do more to identify such cases.

Mr. Crossman stated the auditors identified three areas for improvements based on the application of the Department of Labor's recommended operating procedures for the new hire process and our survey of seven states with low improper payment rates.

Mr. Crossman stated reported earnings need better scrutiny. The earnings reported by claimants are not sufficiently scrutinized to ensure the amounts reported are accurate. Reported earnings reduce the benefit paid to the claimant. The Division's practice is to accept any reported amount as reasonable when reviewing new hire hits and to rely on a quarterly review of certain reported earnings to identify errors. However, the Division's processes could be improved. The Division should scrutinize reported earnings at the time of the new hire and compare to employer reported wages when available. Additionally, it can improve its processes to systematically compare the reported earnings with the wages reported by employers on a quarterly basis.

Mr. Crossman stated in one case, a claimant reported earnings of \$240 in the week of the new hire date. In subsequent weekly claims, the claimant gradually reduced reported earnings to \$20 and continued to report \$20 for 12 straight weeks. Wages reported by the employer indicated the claimant only reported about 23% of actual earnings.

Mr. Crossman stated claim stops and a better record of new hire information are needed in the claims system. In certain cases when a claimant stops claiming after being hired, a stop could be placed on the account to require the claimant to contact a claims examiner to discuss the intervening employment, if they wish to reopen the claim. Additionally, the Division would benefit from recording basic new hire information in the claims information system to ensure that information is available to the claims examiner when and if the claimant calls to reopen the claim.

Mr. Crossman stated certain cases need additional review. The Division does not question a claim when the claimant does not report earnings after a new hire notice as long as the claimant reports some earnings within a month of the hire date. In these instances, claimants may not be reporting wages when earned, as is required, but rather wait until they are paid to report earnings. Furthermore, in some instances, claimants stopped filing after the new hire date but then returned to claim benefits later without reporting any earnings. All seven state auditors contacted indicated they investigate cases where no claim is made the week of the new hire date but claims are made in subsequent weeks.

Mr. Crossman stated the Division could improve its administrative controls over the new hire program by implementing a supervisory review process to ensure that its staff are consistently and properly treating new hire cases. Additionally, the Division's policies and procedures over this process need significant improvement.

Mr. Crossman stated Ex. 13 shows the recent trend of a higher percentage of cases being cleared and lower percentage of cases being investigated for potential problems. The information suggests more attention is needed to ensure cases are being properly classified.

Four recommendations were made to enhance the new hire process.

Mr. Crossman concluded his report stating the report also contains the audit methodology and the Division's response. The Division accepted all recommendations.

Chair Parks opened for questions from the Committee.

Assemblyman Hickey asked if DETR has shared its plans on introducing any bill draft requests (BDRs) for legislation regarding audit recommendations or should we follow-up with them ourselves.

Mr. Crossman responded that we did discuss with the Division its intention to amend a BDR that has already been submitted and the Division would be better able to address where that stands currently. The Division is in favor of legislation to ensure the Division would be able to obtain those records. The response in the audit report indicates the Division would request a legislative change in 2015 if legislation cannot be accomplished in the upcoming session.

Assemblywoman Carlton asked regarding the incarceration portion of the audit, did the auditors break it out as far as individuals waiting for trial or are these individuals all post sentence/trial incarcerations.

Mr. Crossman responded the auditors did not break it out in that manner. These individuals were incarcerated regardless of their status.

Assemblywoman Carlton expressed her concern and stated she understands the post-trial incarceration portion but not the before trial portion. An individual is innocent until proven guilty. What happens if an individual is in jail for one day and is able to post bond? How in depth were the auditors able to get into regarding the time of incarcerations?

Mr. Crossman replied that the individuals must be available to work for a majority of the week, at least four days to be eligible for benefits. If claimants were incarcerated four days or more in a benefit week, we considered them unable to obtain benefits because of their inability to work during that week. The information that we used for the periods of incarceration were from the records we received from the Department of Corrections and Washoe County, which indicated the days in which the claimants were in those facilities.

Assemblywoman Carlton stated there was no distinguishment between pretrial and post; therefore, we do not know where they stood as far as the adjudication of the individual's case.

Mr. Crossman replied we only received the intake and release dates.

Assemblyman Hickey stated as a stand in for the Committee he thanked the auditors for their work. Now having first-hand knowledge of what the Audit Division does and the value of this for all of us in the upcoming session. Especially, in providing greater efficiencies and finding more money so we can do more or less depending on what the Chairperson of Ways and Means leads us towards. Thank you.

Chair Parks invited the Employment Security Division to come forward and provide comments.

Kelly Karch, Deputy Administrator of Employment Security Division (Division) for the Unemployment Insurance Program, stated the demarcation point was July 2008 and in the past 4 ½ years the Division has had a heavy workload with many issues and has addressed all issues. The first priority is to get the benefits paid. In July 2008, the Federal Emergency Compensation Program was established and the Division began receiving a large number of Nevada unemployment claims. The Division did not have the staff at that time, but made sure payments were made. Payments were being made to more than 142,000 unemployed Nevadans weekly at one point. The Division is currently paying 61,000 Nevadans a week. The Division has remodeled the integrity unit with the DOL monies received. This provided new tools, doubled staff, and gave administrative support needed to continue to make progress in handling claims, fraud, and overpayment issues. The call centers continue to receive thousands of calls per day. The Nevada unemployment rate has been at historical levels.

Mr. Karch stated the Division has initiated several programs and the recommendations of the Legislative Counsel Bureau. This year tax returns will be garnished for individuals who owe the Division money. This has been a very successful program and Mr. Zuelke and others are working on this program to make sure improper payments or fraud payments are returned to the Division. Many states using this program received tens of millions of dollars as a result of this program. The Division has also implemented the AWARE Program to discover new types of fraud. The Silver Stampede Investigation in conjunction with the Federal Government found a ring of people defrauding the State for \$4.2 million. Three of those individuals are now serving time in a federal penitentiary. An integrity task force and IT staff meet to discuss new ways to discover fraud. The integrity work group meets to discuss national fraud. The Division website has a rogues gallery that has pictures of people who were convicted of felonies with their names and a description of the conviction. Currently, there are 30 cases in the Attorney General's Office regarding fraud. On December 12, 2012, the Division brought together the UIQ System, a social security cross match, to verify the applicant's identity.

Mr. Karch concluded stating the Division is three years into a modernization process because the current system is over 30 years old and anticipates the new system will go live in May or June of this year.

Chair Parks stated the report noted three deceased claimants received payments totaling \$40,000 and the background information referenced one individual continued collecting for 83 weeks in excess of \$33,000. He asked did the Division recover the funds and what is the process to recover funds for overpayments and fraud.

Mr. Karch replied there is a process to recover funds, but many Nevadans do not have funds right now with the economy and the loss of homes. However, there is a BDR that will clean up the garnishment system. The manpower to do a garnishment is unreasonable, so that will be discussed in the next legislative session. The Division hopes with this BDR passing the Division will be able to fast track the garnishment system for individuals who owe money from improper payments and fraud and recover those funds. As far as the case referred to he did not know if it was currently being investigated, but assured that it would be if not.

Chair Parks stated his concern for the individuals incarcerated who were able to game the system and share with other individuals incarcerated. He asked if the requirement of calling in weekly with claimant status and job search had been improved.

Mr. Karch replied the Division is working on getting weekly electronic bumps of state prison inmates data from prison records. A recent federal bulletin indicated incarceration information shared with the Social Security Administration must be shared with unemployment programs. The Division is working to get the database together. The UINV system will stop the claim immediately if the social security number of a

person shows as being an incarcerated individual. The system is moving to more of a regulatory process where the Division can use databases, including vital statistics, and compare information through technology. The increase in technology will help as the Division has limited resources and is doing investigations of fraud by hand. Since July 2008 the Division has investigated 242 cases, 182 of those were after July 2009. The Division is working on deterring fraud and has two criminal convictions of incarcerated individuals who committed fraud.

Chair Parks asked if state detention facilities and county and state facilities are cooperating with the Division.

Mr. Karch replied they are getting cooperation and the prison system is cooperating with the Division. The cities and counties may want payment because of the required work that needs to be done. The Division cannot pay funds out of the Trust Fund or administrative funds as they are used to keep the Division and Unemployment Insurance Program going. The Division is considering adding onto the statutes. Several BDRs are in process to work with UI system and fill in some gaps from over the years that have been exposed with the amount of claims processed.

Chair Parks stated he looks forward to seeing definition of these requirements as we go forward and not paying for services.

Assemblyman Hickey asked Mr. Karch if there were individuals other than the incarcerated or jailed individuals that were collecting benefits fraudulently and gaming the system and what can be done about that.

Mr. Karch replied the Division's processes to deter fraud include: searching databases, posting pictures on the website of those who commit fraud, messaging on telephonic queues, messaging of UI fraud on correspondence, and employers notifying the Division of new hires. A week or two without notification of a new hire adds to the process of collecting. Nevada took on the new hire list when many states were not doing it. The Division took it on and did it 100% at a time when there were a great number of claims. The Division has been working to inform claimants through claimant handbooks recently updated. Two hundred and fifty thousand handbooks are ordered each year and when we tell claimants it is in the handbook no one has one. It is an ongoing education. The employers are also responsible and it is up to them to report the new hire. The Division needs help evaluating who is out there, what they are doing in order to bring them in and see them in person. The system now is telephonic and soon will be more of an internet system. It is very important for the employers to cooperate. The Division sends flyers in their tax bills requesting them to report new hires.

Assemblyman Hickey stated he appreciated the response and attempted goals.

Assemblywoman Carlton read Recommendation 4, "Update eligibility policies addressing the inmates residing in residential confinement and transitional housing facilities." She stated those individuals are hopefully out looking for work as part of transitional housing and asked how the Division will be executing this recommendation.

Mr. Karch replied that the Division is updating all of the policies and procedures right now. If inmates are in halfway houses and can work and collect unemployment benefits as long as they have the ability to look for a job. For everyone to find work, is in everyone's best interest.

Assemblywoman Carlton stated this is a catch 22 with so much competition for every job out there. When an individual comes out of an institution and to a halfway house, he or she is probably not considered for a job. Barriers to success are important and the support can get the individual back into the community and back on the right path. She is looking forward to seeing the progress.

Assemblywoman Carlton asked if there has been any analysis on the employer modification factors and if the Division has looked at the modification rates by industry and percentage of unemployed that came from various industries.

Mr. Karch replied that the Division has not submitted anything to change the different tax classes at this time. If something like that is done, there is a great deal of analysis in the process to see what type of businesses are affected and the overall economic effect. The construction industry is naturally up and down. Nothing has been done at this time, but it may come up this session.

Assemblywoman Carlton stated she wanted to clarify again that there has been no real analysis or mining of data to show regarding these multiplication factors. Has the Division done an analysis of the impact of those employees in those industries?

Mr. Karch stated the Division has not done a formal analysis. This session there is no legislation proposed on that issue.

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

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION EMPLOYMENT SECURITY DIVISION. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON. THE MOTION CARRIED UNANIMOUSLY.

Item 4— Presentation of Review of Governmental and Private Facilities for Children, December 2012 (NRS 218G.575)

Mr. Townsend stated this review of children facilities is conducted pursuant to statutes for children who have been placed in facilities by court order. He introduced Jane Bailey, Audit Supervisor, Sandra McGuirk, Deputy Legislative Auditor, and Mike Herenick, Deputy Legislative Auditor, to present the report.

Mr. Herenick began his presentation with an introduction of the report. The report includes the results of the auditors' reviews of 6 children's facilities, unannounced site visits to 12 children's facilities, and surveys of 60 children's facilities, as required by NRS 218G.570 through 585. The statutes require reviews of both governmental and private facilities for children. We identified 20 governmental and 40 private facilities in Nevada, for a total of 60 facilities. Ex. 1 shows the number of different types of facilities, their maximum capacity, and average population and staffing levels as of June 30, 2012.

Mr. Herenick stated 149 youths were placed in out-of-state facilities by a county or the State as of June 30, 2012. The youths were placed in 26 different facilities in 13 different states. Ex. 2 shows the number of youths placed in out-of-state facilities by the different placing agencies. Ex. 3 shows the number of youth placed in out-of-state facilities and the placing agencies over the past 3 years.

Mr. Herenick stated statutes require children's facilities to forward to the Legislative Auditor copies of complaints filed by children in their custody or on behalf of such a child. Auditors reported they received 1,039 complaints from 34 facilities in Nevada for the year ended June 30, 2012. The other 26 facilities reported that no complaints were filed during the year. In general, the reason a facility may report no complaints are filed may be because of the type of facility and/or the age of youths being served. For example, younger youths in a residential setting are more inclined to discuss their complaint rather than file a written complaint; therefore, a facility may report no complaints were filed.

Mr. Herenick stated the report contains the scope, purpose, and methodology. The reviews included an examination of policies, procedures, processes, youth files, management information, and complaints. In addition, the report discusses related issues and observed related processes during audit visits.

Mr. Herenick introduced Sandra McGuirk, In-Charge Deputy Legislative Auditor, to continue the presentation of the report, and present the conclusions and observations made during the reviews of the facilities.

Ms. McGuirk stated based on the procedures performed, and except as otherwise noted, the policies, procedures, and processes in place at all six facilities reviewed provide reasonable assurance the facilities adequately protect the health, safety, and welfare of the youths at the facilities, and they respect the civil and other rights of the youths. During the 12 unannounced visits conducted, the auditors did not note anything that caused us to question the health, safety, welfare, or protection of the rights of the children in the facilities.

Ms. McGuirk stated the report concluded a lack of supervision, including employee evaluations and training, may have contributed to numerous incidents regarding inappropriate staff behavior at Oasis On-Campus Treatment Homes, which could impact the safety and welfare of the children residing at the facility. These incidents, including inappropriate use of physical force and lack of supervision of the children by staff, were reported to Oasis' licensing agency, the Clark County Department of Family Services (DFS), in the past 2 years. Some of the reports were unsubstantiated by DFS while others were still being investigated. These reports and the subsequent DFS investigations resulted in an Oasis required action plan in June 2012. Oasis consists of five treatment homes with a maximum capacity of 28 youths. Oasis is operated by the Nevada Department of Health and Human Services, Division of Child and Family Services.

Ms. McGuirk stated a summary of our reviews of all six facilities is included in the report. All six facilities reviewed needed to develop or update policies and procedures. The types of policies and procedures that were missing, unclear, or outdated ranged from staff duties as mandatory reporters of suspected child abuse and neglect to contraband searches, including documentation of searches. Policies and procedures are needed to help ensure management and staff understand the facilities' processes and provide consistent services to the youths.

Ms. McGuirk stated five of the six facilities reviewed need to improve their medication administration processes and procedures. The auditors found youth medical files did not always contain complete or clear documentation of dispensed, prescribed medication at four of the six facilities reviewed. For example, some youths' files were missing evidence of physicians' orders at two of the six facilities. At one facility, a youth's file indicated medication was administered on days that did not exist. In addition, medication files and records did not always contain evidence of independent review at three of the six facilities.

Ms. McGuirk expressed the need for facilities to improve their implementation of medication policies. During the 2011 Legislative Session, the Legislature passed Senate Bill 246 that became effective January 1, 2012. The bill requires children's facilities to adopt policies to document medication administration and errors, and establish processes to minimize and address errors. However, Don Goforth Resource Center had not developed any policies or procedures related to medication administration at the time of the review. She was happy to report that on December 12, 2012, the Audit Division received a copy of Don Goforth's adopted medication policies.

Ms. McGuirk stated five of six facilities had either incomplete medication documentation or made errors during the administration of medications that went undetected until the review. Facilities could reduce the incidence of undetected errors by implementing a

process, such as an independent review, to identify errors and improve the quality of medication administration processes.

Ms. McGuirk explained an independent review is a process to review medication administration records and identify potential errors, fraud, or abuse. The auditors would like to commend Desert Willow Treatment Center for improvements to its medication administration processes since the last review in 2009. For example, Desert Willow Treatment Center has assigned staff who are not routinely involved in the medication administration process to compare medication records with physician and pharmacy orders, and verify medication records are complete. The process has contributed to the facility identifying, documenting, and addressing errors. In addition, the facility has included this process in its policies and procedures.

Ms. McGuirk stated that Ex. 4 in the report includes a map of the six facilities we reviewed. The report provides more detail on issues noted at each facility, as well as each facility's response. For example, on page 10 we discuss Caliente Youth Center beginning with some background information, followed by the purpose of our review, results in brief, observations, and the facility's response to each observation.

Appendices A through F are at the end of the report and contain a copy of Nevada Revised Statutes; glossary of terms; summary of common observations; background, population, and staffing information on 60 Nevada facilities; a list of unannounced Nevada facility visits; and the methodology used for the report

Ms. McGuirk concluded her presentation and offered to answer any questions the subcommittee may have.

Chair Parks thanked Ms. McGuirk and opened for comments.

Assemblyman Grady complemented the Audit Division on the work and expressed his concern that last session's requirements of medication administration policies are taking this long to implement. He asked why the process has taken over two years to implement.

Ms. McGuirk replied that yes there were significant issues regarding medication administration and therefore the law was passed by the Legislature. Another thing to remember, is the legislation that was passed last session did not become effective until January 2012. In this review, the auditors focused on whether the facilities reviewed had adopted those policies to comply with the statutes. The last facility that had not adopted those policies, that we are aware of, was Don Goforth Resource Center. They have now adopted the policies. The facilities are making progress, but there are still needed improvements.

Chair Parks stated it appears that some of the observations were done announced and some were unannounced and asked if there are more deficiencies found in an unannounced visit than an announced visit.

Ms. McGuirk replied the announced visits observations can be found in the Summary of Observations at Six Facilities Reviewed in Appendix C of the Report. The difference between announced and unannounced site visits is for the unannounced site visits, we call them an hour in advance to tell them that we are coming to look at their facility. We are only there for a couple of hours. At that time, auditors use their eyes and ears to determine issues that need to be rectified. In terms of full reviews (announced visits) of the six facilities included in the report, we did spend at least 4 days at each of the facilities and therefore being able to find issues that need to be fixed.

Ms. McGuirk also stated another difference between the reviews and unannounced site visits is in the reviews, auditors pull a judgmental sample of personnel files as well as youth files. This is where a majority of issues are found. In the unannounced visits, we do not look at files.

Chair Parks opened for further questions. None being made he thanked the audit staff and asked if Kelly Wooldridge of DCFS would like to come forward and comment on the review.

Kelly Wooldridge, Deputy Administrator, Children's Mental Health, Child and Family Services, thanked the audit staff for doing this vital service of reviewing Nevada children's facilities and stated the children's facilities that she manages are Family Learning Homes, Adolescent Treatment Center, Oasis On-Campus Treatment Homes, and Desert Willow Treatment Center. In response to the audit, action has been taken for every recommendation made. In terms of medication administration policy, in March 2012, the draft policy was given to Mental Health Commission, suggestions were made, and it was finalized in June 2012. Changes to our medication administration and management policies, additional changes found, and all of the changes to policies that LCB has recommend will be forwarded to the Legislative Commission.

Ms. Wooldridge stated Oasis-on-Campus Treatment Homes has implemented a rigorous action plan to improve services and treatment for the youth placed there. There have also been some management changes.

Chair Parks asked if Ms. Wooldridge was aware of any bill draft request that have been submitted relevant to the review of these facilities for next session.

Ms. Wooldridge replied she was not aware of any bill draft request that would affect the review.

Chair Parks asked if there was anyone else that wanted to come forward and comment.

Steve McBride, Deputy Administrator, Juvenile Justice Services, Division of Child and Family Services, thanked the auditors for the review of the Caliente Youth Center and their findings, resulting in benefits of improved policies, practices, and procedures. Recommendations have been implemented in a number of areas. Specifically, in the revisions of individualized programs policy files, reviews have been conducted to ensure timely treatment plan development. Plans are dated and signed as required. The dated copies are placed in the youth's master file and that is done by the mental health counselor and tracked by the administrative assistant. All treatment plans were verified current and complete as of December 7, 2012.

Mr. McBride stated regarding the recommendation for periodic review of policies and procedures, 9 policies have been reviewed and revised as of November 30, 2012. The total 113 policies should be reviewed and revised on an annual basis. The medication administration process is a priority with ongoing review of policy protocol and practice as indicated in the written response. Cheeking prevention protocol was reviewed, read, and signed by all nursing staff with random observations done by the superintendent. Additionally, there has been ongoing supervision on following medication refusal documentation and the practice of ensuring the youth is present before removing medication from sealed containers for administration.

Chair Parks asked for further questions none being made he opened for further comments. None being made he moved for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE REVIEW OF GOVERNMENTAL AND PRIVATE FACILITIES FOR CHILDREN. THE MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY. THE MOTION CARRIED UNANIMOUSLY.

Item 5— Presentation of SIX-MONTH REPORTS (NRS 218G.270)

A. Office of Governor, Office of Energy

Mr. Townsend stated there are four six-month reports and these are the reports prepared by the Department of Administration. The Department reviews the audit recommendations 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 stated in February 2012, the Audit Division issued an audit report on the Office of Energy. The six-month report on the status of the 14 recommendations showed the Office has made a lot of improvements. Twelve recommendations were fully implemented and two were partially implemented.

Two of the partially implemented recommendations relate to statutory requirements for developing a plan to reduce grid based energy consumption in state owned buildings. State law requires the 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 in state buildings.

The Office's six-month report indicates data has been collected regarding information on energy consumption. The Office reported current information indicating the State has now achieved an 8.3% reduction since 2005. Senate Bill 358 of the 2009 Legislative Session required the Office to file biannual reports with the Legislative Commission indicating the general progress towards energy reduction in state buildings. Biannual reports have not been filed with the Legislative Commission. The Office's six-month report indicates various strategies are under consideration by the Office and the Public Works Division to achieve additional reductions in energy consumption. When more specifics have been developed, these strategies together with a general discussion of the progress to date will form a basis for those biannual reports.

The auditors have two questions for the agency.

When does the Office anticipate it will be able to develop a plan to reduce grid based energy consumption in state-owned buildings?

When does the Office anticipate it will be able to file biannual reports with the Legislative Commission?

Brita Tryggvi, Deputy Director, Office of Energy, replied regarding the first question. As mentioned in the Office's response of October 25, 2012, 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 in various stages of finalization and the Office is attempting to quantify the cost of each strategy and the amount of energy saved. As soon as the strategies have been completely thought out, the Office will present them to the Department of Administration and to the Governor's Office with the goal of having a package ready to present to the Legislature in February 2013. The Office intends the strategies together with necessary backup documentation will become the plan as referenced in NRS 701.215. The plan will likely require financial and staff resources from multiple agencies, thus needing appropriate approvals.

Regarding the second question, the Office anticipates the biannual report could be filed in July of every odd number year. This timing will correspond with the timing of the status report that is submitted to the Governor and the Director of the Legislative Counsel Bureau on July 1 of every year. This year, for the first time, the 2011 status report included information on the general progress being made towards reducing energy consumption in state-owned buildings. The Office intends to continue including this information in the status report. Therefore, preparation of the biannual report could

logically follow preparation of the status report. As a side note, the information in the status report is always for the preceding year. For example the status report that was submitted on July 1, 2012, presented data for calendar year 2011.

Chair Parks asked why reporting is made to the Legislature on odd years after the Legislature adjourns. Reporting could be sooner so issues could be addressed during session years also. He thanked Ms. Tryggvi for her comments.

Mr. Townsend noted on this report and others where all the recommendations are not fully implemented we will be monitoring the progress of that and report back to the Subcommittee the progress made.

Chair Parks asked for further comments. None being made he called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH
REPORT ON THE OFFICE OF GOVERNOR, OFFICE OF ENERGY.
THE MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND
CARRIED UNANIMOUSLY.

B. Department of Administration, Buildings and Grounds Section

Shannon Ryan, Audit Supervisor, stated in February 2012, the Audit Division issued an audit report on the Department of Administration, Buildings and Grounds Section. That report had 10 recommendations. A corrective action plan was filed in April 2012 and the six-month report was received on October 29, 2012. Based on that report, the Section has implemented five recommendations. The five remaining partially implemented recommendations relate to ensuring performance measures and information submitted to the Legislature are accurate and agency lease payments are proper. The Audit Division noted the partially implemented recommendations and the anticipated date for full implementation in a letter contained in the Subcommittee's packet. The auditors would like to discuss with agency personnel whether the time frames estimated for full completion of the recommendations continue to remain accurate.

The auditors have two questions for the Section.

Has the Section made progress on the three recommendations noting December 31, 2012, as the implementation date?

Is the Section still on target to meet its planned implementation dates of June 30, 2013 and September 30, 2013, for the recommendations related to developing IT solutions and reviewing marketing data?

Chair Parks thanked Ms. Ryan for her presentation and asked the Section to come forward to comment.

Gus Nunez, Administrator, Public Works Division, stated Buildings and Grounds (B&G) is a Section in the Public Works Division after the merger in last biennium. Julie Kidd,

oversees the leasing services of B&G, and Peter Etchart, P.E., Chief Engineer, oversees the maintenance function of B&G accompanied by Mr. Nunez. Since the questions deal with leasing services, he had Julie Kidd address the questions asked.

Julie Kidd, Leasing Services Section, Public Works Division, replied regarding the first recommendation to develop written policies and procedures for performance measures to ensure reported results are reliable including, data gathering processing, computations, supervisory review of calculations and methodology, and retention of supporting documentation. The Section will complete this recommendation by December 31, 2012. The Section is in the process of developing written policies and procedures for performance measures to ensure reliable reporting. Policies will require retention of supporting documentation to evidence results of data gathering and processing, computations, supervisory review of computations, and methodology.

Regarding recommendation six to develop procedures to ensure management reviews and approves information published and submitted to the Legislature, there is a draft policy to ensure management reviews and approval has been generated, which is currently under review. The Section anticipates it to be fully implemented by December 31, 2012.

Recommendation seven to develop a procedure to assist state agencies, ensuring lease payments on renegotiated leases are made in conformance with the proper lease agreement; the Section is on track for implementation by December 31, 2012. A draft policy to assist agencies in ensuring lease payments on renegotiated leases are made in conformity with the proper lease agreements is under review.

Regarding recommendation three to use information technology solutions to create efficiencies and assist staff in calculating performance measures, the Section anticipates this will be implemented by June 30, 2013. The Section has begun work on a database and engaged temporary staff members to perform data input necessary for creating the system and are currently testing and augmenting the system's reporting capabilities.

Recommendation four is to periodically review the appropriate market data analysis to assess and obtain the lease rates in terms that are most beneficial to the State and document the analysis of market rates and trends to negotiated lease rates and terms. The Section has partially implemented this recommendation and foresees full implementation by September 30, 2013. The procedures have been updated to periodically review appropriate market data analysis to be at rates and terms that are beneficial to the State. The Section requested funds in its 2014-2015 budget for a third party market data subscription. The information provided through the subscribing service will help in the analysis of market rates and trends. Once the market data technology is implemented, procedures will be translated to section policy for review and approval by administration.

Chair Parks thanked Ms. Kidd for her comments and opened for questions, none being made he called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF ADMINISTRATION, BUILDINGS AND GROUNDS SECTION. THE MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND CARRIED UNANIMOUSLY.

C. Department of Administration, Division of Enterprise Information Technology Services

Doug Peterson, Information Systems Audit Supervisor, stated in February 2012 the Audit Division issued an audit report on the Department of Administration, Division of Enterprise Information Technology Services. That report had 15 recommendations. As of October 2012, the Department of Administration indicated 11 recommendations were fully implemented and four were partially implemented. The first recommendation was to update the state's primary computing facilities contingency plan and the Division has reported working on an update to the continuity of operations and its disaster recovery plan. This update includes conducting testing and exercises to identify and prioritize hardware or software requirements to recover information in a contingency. The auditor's first question is:

When does the Division anticipate having an updated contingency plan?

David Gustafson, Administrator, Division of Enterprise Information Technology Services, State Chief Information Officer, replied within six months the Division will have an updated contingency plan. The Division team will be putting the core infrastructure for what the Division is responsible for within the updated plan within six months.

Mr. Peterson stated the second recommendation was to develop a plan to periodically test the state's primary computing facilities IT emergency plans. 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 auditor's second question is:

When does the Division anticipate developing this plan to periodically test facilities' IT emergency plans?

Mr. Gustafson replied the Division also recognizes the need to establish this periodic testing and has adjusted the budget request to do so, and is looking forward to legislation for help. The positions the Division had in the past dedicated to disaster recovery were eliminated years ago. This is why plans are outdated and testing not done.

Mr. Peterson asked if Mr. Gustafson could clarify when the plans will be finished?

Mr. Gustafson replied a package is going to the Legislature that includes hardware, software, and employee resources; to fund specifically for disaster recovery, testing continuity, planning, and testing going forward. If that package is approved, then the Division will be initiating the recommendation as soon as the Legislative Session is over.

Assemblywoman Carlton asked what it is and why it's not in the budget?

Mr. Gustafson replied he could not share what is in the budget.

Assemblywoman Carlton said she understands. Remembering the saying do not kill the messenger she appreciated the honesty.

Chair Parks stated it is a compilation of multiple agencies.

Mr. Peterson stated recommendation three was to conduct an initial high-level statewide risk assessment to identify and prioritize security risks, including a base line that can be built upon in subsequent years. The Division is indicating that it is re-enabling a program that was previously maintained by the prior disbanded Planning Division.

The auditor's third question is:

When does the Division anticipate completing this high-level risk assessment?

Mr. Gustafson replied within six months. The Critical Business Technology Assessment Program has already been restored. The Division has begun compiling questionnaires for agencies, and boards and commissions. The Division team is not convinced they can do this in 20 questions, but does have some idea of what is out there. That will be out to the agencies, boards, and commissions by mid January. By the time we get the results back, compile, assimilate, and work with staff to get it out will be six months.

Mr. Peterson stated recommendation seven was to require the Division to conduct quarterly reviews of user lists, as indicated in the state information security standards, and the Division is working to conduct those quarterly reviews of lists. The Division is in the process of automating the review process. They do indicate that they expect to establish the ability to conduct the recommended reviews by January 2013. The last question is:

Does the Division still anticipate full implementation by January 2013?

Mr. Gustafson replied yes, the Division will have full implementation of the seventh recommendation by January 2013 and the reviews will be conducted quarterly going forward.

Chair Parks opened for further comments, being none he turned the discussion to Mr. Townsend.

Mr. Townsend stated the efforts of the Division are appreciated and it has done a good job working on the recommendations. Some of the recommendations are fairly significant. He requested the Division return for a future meeting after the legislative session to discuss the progress being made.

Chair Parks concurred and stated IT security is a major issue in every area and opened for motion on further review of the recommendations and accept the report.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH
REPORT ON THE DEPARTMENT OF ADMINISTRATION, DIVISION OF

ENTERPRISE INFORMATION TECHNOLOGY SERVICES. THE MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND CARRIED UNANIMOUSLY.

D. Department of Motor Vehicles

Doug Peterson, Information Systems Audit Supervisor, stated in February 2012 the Audit Division issued an Audit Report on the Department of Motor Vehicles. The Report had 16 recommendations. In October 2012, the Department of Administration indicated that 14 recommendations were fully implemented and two were partially implemented. Recommendation 4 was to improve the process and procedures over reconciliation of the Department and state accounting systems. The Department of Motor Vehicles has revised existing policies and procedures over the reconciliation process. The first reconciliation will be completed within 45 days from the end of September. The first question is:

Has the Department completed this first reconciliation?

Troy Dillard, Interim Director, Department of Motor Vehicles, replied he wished this meeting was in two weeks as there would be nothing to talk about. Unfortunately, the Department was unable to meet the 45 days due to uncontrollable circumstances. He introduced Deborah Cook, Chief of Administration, to explain further.

Deborah Cook, Chief of Administration, Department of Motor Vehicles, replied the Department was unable to meet the deadline due to turnover of key staff during this time. The position has been filled and that person is doing the reconciliations. However, the Department has not been able to meet the deadline established.

Mr. Peterson asked the Department when it anticipates completion of the reconciliation.

Ms. Cook replied the Department should be able to complete the reconciliation within 2 weeks.

Mr. Peterson stated Recommendation 14 was to develop a single strategic planning document. The Department is in the process of developing this document and indicated an anticipated full implementation date of December 31, 2012. The question is:

Does the Department still anticipate this full implementation date?

Mr. Dillard replied yes.

Mr. Peterson expressed the Audit Division's appreciation to the DMV for its efforts and completing the majority of the recommendations before this point and getting the last two closely finished.

Chair Parks stated the Audit Division will continue to monitor the completion of these recommendations and opened for questions and comments, none being made he called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF MOTOR VEHICLES. THE

MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND
CARRIED UNANIMOUSLY.

Item 6—Public Comment

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

Chair Parks adjourned the meeting.

The meeting adjourned at 12:22 p.m.

Respectfully submitted,

Deborah Anderson, Audit Secretary

Assemblywoman Maggie Carlton, Chair
of the Audit Subcommittee
of the Legislative Commission

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