NEVADA LEGISLATURE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
(Nevada Revised Statutes [NRS] 218E.240)

SUMMARY MINUTES
September 3, 2020

The second meeting of the Audit Subcommittee of the Legislative Commission for the 2020–2021 Interim was held on Thursday, September 3, 2020, at 9:00 a.m. Pursuant to Section 1 of Governor Steve Sisolak's Emergency Directive 006, there was no physical location for this meeting.

The agenda, minutes, meeting materials, and audio or video recording of the meeting are available on the Committee's meeting page. The audio or video recording may also be found at https://www.leg.state.nv.us/Video/. Copies of the audio or video record can be obtained through the Publications Office of the Legislative Counsel Bureau (publications@lcb.state.nv.us or 775/684-6835).

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Senator David Parks, Chair
Assemblywoman Teresa Benitez-Thompson, Vice Chair
Senator Chris Brooks
Senator Pete Goicoechea
Assemblywoman Maggie Carlton

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Daniel L. Crossman, Legislative Auditor, Audit Division
Shannon Riedel, Chief Deputy Legislative Auditor, Audit Division
Tammy Goetze, Audit Supervisor, Audit Division
S. Douglas Peterson, Information Security Audit Supervisor
Todd C. Peterson, Audit Supervisor, Audit Division
Eugene Allara, Deputy Legislative Auditor, Audit Division
Sarah Gasporra, Deputy Legislative Auditor, Information Security, Audit Division
Katrina Humlick, Deputy Legislative Auditor, Audit Division
James Thorne, Deputy Legislative Auditor, Audit Division
Susan M. Young, Office Manager, Audit Division

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ITEM I — OPENING REMARKS

Chair Parks called the meeting to order at 9:02 a.m. Roll was called and a quorum was present.

ITEM II — PUBLIC COMMENT

Chair Parks called for public comment and there was none.

ITEM III — APPROVAL OF MINUTES OF THE MEETING HELD ON FEBRUARY 18, 2020

Chair Parks called for a motion.

> ASSEMBLYWOMAN CARLTON MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF THE FEBRUARY 18, 2020, MEETING. THE MOTION WAS SECONDED BY SENATOR GOICOECHEA AND PASSED UNANIMOUSLY.

ITEM IV — PRESENTATION OF AUDIT REPORTS (NRS 218G.240)

Daniel L. Crossman, Legislative Auditor, stated the State of Nevada, Single Audit Report June 30, 2019 (Single Audit) was conducted pursuant to the United States Office of Management and Budget's (OMB) uniform guidance requirements. The audit incorporated the state's financial statements and is an audit of compliance with requirements related to the state's use of federal funds.

A. STATE OF NEVADA SINGLE AUDIT REPORT

Tamara B. Miramontes, Partner, Eide Bailly, provided an overview of the results and noted the Single Audit Report consisted of three reports: (1) Independent Auditor's Report; (2) Basic Financial Statements; and (3) Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and the Schedule of Expenditures of Federal Awards Required By the Uniform Guidance. In addition to the individual reports, the Single Audit contains the Schedule of Expenditures of Federal Awards (SEFA), the Schedule of Findings and Questioned Costs, and the prior audit findings and corrective action plans prepared by state agencies.

Ms. Miramontes identified in the first report the financial statements were materially correct, which is the highest level of approval. In the second report, seven material weaknesses were found related to errors in recording highway funds payable to inventory, permanent school fund receivables, and state agency fund for bond assets. There were additional errors regarding investment disclosures outside the account reconciliation reporting of infrastructure; however, corrections were made to accounting adjustments to correct the errors. The third report listed 33 findings. Of those, the most significant was a material weakness finding, a deficiency, or a combination of deficiencies, in internal controls. There were 21 material weakness findings. SEFA showed over $5.86 billion in federal awards expended by the State in fiscal year 2019. She concluded her portion of the presentation and stated Eide Bailly confirmed the status of the 2019 fiscal year's Single Audit Report.

Kurt Schlicker, Senior Manager, Eide Bailly, provided context to the findings as those related to the prior fiscal year. He noted the OMB, through advisement of the President of the U.S., sent out a directive changing the audit requirements from the previous audit. For fiscal year 2019, Eide Bailly reported nine instances of material noncompliances with four from the prior year. In the prior year, there were 22 material noncompliances of those 14 were not corrected and 8 were corrected.

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Mr. Schlicker pointed out findings historically demonstrate the state's struggles with compliance relating to procurement, suspension, and debarment and subrecipient monitoring. Of the current year's 33 findings, 7 were related to subrecipient monitoring and 4 related to procurement, suspension, and debarment. Referring to 14 findings from the prior year, 7 related to procurement, suspension, and debarment, and 5 of those related to subrecipient monitoring.

Chair Parks called for questions.

There was a discussion between Assemblywoman Carlton and Mr. Schlicker regarding changes to the auditing requirements from the previous year. Mr. Schlicker explained that in 2018, the auditors were required to do a materiality determination on what compliance requirements would be audited by examining the federal guidelines. In 2019 by federal agency mandate, Eide Bally audited a maximum of six requirements. He noted the duty lies on the State to monitor compliances beyond the maximum six requirements of the new mandate.

There being no further questions, Chair Parks called for a motion.

> ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE STATE OF NEVADA SINGLE AUDIT REPORT. THE MOTION WAS SECONDED BY SENATOR GOICOECHEA AND PASSED UNANAMOUSLY.

B. PUBLIC EMPLOYEES' BENEFITS PROGRAM, CONTRACT MANAGEMENT

James Thorne, Deputy Legislative Auditor, presented the audit report on the Public Employees' Benefits Program (PEBP), Contract Management. Mr. Thorne provided an overview of the following topics addressed in the report: (1) scope and objective of the audit; (2) using better controls and oversight to ensure proper contracting practices and use of agency resources; (3) contracting activities that focused on extensions instead of competition; (4) PEBP Board (Board) needing to enhance its oversight of the agency; (5) and the report appendices, which included the audit methodology, the agency response to the audit recommendations, and the auditors' comments on the agency response.

Chair Parks called for questions.

There was a discussion between Assemblywoman Carlton and Mr. Thorne regarding the extension of contracts beyond contract terms without the state committees' knowledge. Mr. Thorne pointed out there were leadership changes, which lead to a culture change and policy changes approved by the Board.

Assemblywoman Carlton expressed her concern over the extensions of contracts and the effect of extensions on state employees.

Mr. Thorne suggested the following would help PEBP: using the services of State Purchasing and following relevant statutes for example NRS 333, securing competitive bidding, developing better policies and procedures regarding contracting of vendors and trips, and better training regarding policy and procedures.

Todd Peterson, Audit Supervisor, replied the Board has the ability to question and examine the actions of the agency when contracts or amendments are presented.

Vice Chair Benitez-Thompson inquired if the training for Board members and employees regarding contracts and request for proposals (RFPs) processes could be performed by the Audit Division and she requested specific examples of who would be best to provide training.

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Mr. Peterson replied that the Audit Division would be willing to assist the Audit Subcommittee; however, there are other resources available, including the State Purchasing Division's training classes on contracts and requirements; the Governor's Finance Office (GFO), Internal Audit Department; and the PEBP contract manager.

A discussion ensued between Vice Chair Benitez-Thompson and Mr. Peterson regarding the laws and resources. Mr. Peterson opined the Board's meeting minutes provided questions and answers from management. However, the necessary supportive documentation was not provided corresponding to the information presented at the meetings.

Senator Goicoechea and Mr. Peterson had a brief discussion regarding the Board, its liability for a decision, and the potential for the Commission to impose any violations and penalties.

Mr. Parks inquired if there was a procedure or policy in place requiring all extension of contracts to go through the State Purchasing Division. Mr. Thorne replied there is a process to be followed by the Board and State Purchasing.

Chair Parks called for agency officials.

Laura Rich, Executive Officer, PEBP, provided an updated response to the audit report and the audit recommendations. Since her appointment to PEBP in March 2020, there has been a new chair and other appointments to the Board.

Ms. Rich referred to the first finding, noting PEBP had six major contracts expiring that were out for bid or will be and have been involved in the development of the RFPs as part of an evaluation team. She also added that these contract extensions and contracts would be sent to State Purchasing, the GFO, and the State Board of Examiners for approval.

Referring to the second finding, Ms. Rich expressed her concern regarding the two incidences where it was noted in the report a vendor paid for PEBP's staff transportation and lodging to the Toronto headquarters location in January 2017. She noted PEBP received information from the Ethics Commission (Commission) that a formal complaint cannot be issued without a formal investigation. Both the auditors and PEBP presented similar information to the Commission. There is a precedence for agencies to have vendors purchase travel or pay for the travel in certain circumstances. Ms. Rich expressed that the Board canceled the contract extension in March 2020.

Ms. Rich concluded her presentation and noted the audit recommendations would be presented to the Board with a suggestion to create a subcommittee to establish more in depth policies and procedures for the Board and PEBP staff at its next meeting in September 2020.

Chair Parks called for questions.

Assemblywoman Carlton expressed concern over the lack of an investigation being filed and she was of the opinion a complaint should have been filed.

Responding to Senator Goicoechea's question regarding if the extensions and waivers were approved by State Purchasing, the GFO, and the State Board of Examiners, Ms. Rich affirmed the extension and waiver approvals and that those were also approved by the PEBP Board. She added that she would be making a suggestion to the Board to have contracts added to a compliance review that PEBP undergoes every 2 years, which looks at its processes and practices to make sure all federal and state requirements are being followed.

Laura Freed, Director, Department of Administration, and Chair, PEBP Board, explained previously where the contract amendments that went beyond a 4-year term, the agency would fill

out a request for extension rather than going back out to bid. Then, the contract amendments would be sent to the GFO or to the Board of Examiners. In some cases, concerns were raised by the GFO about the substance and scope changes in some contract amendments. Contracts will no longer be extended past 4 years without a new bid, keeping in mind the potential for substantial changes to the purpose of original contracts. She confirmed there were currently six RFPs in process, the Board would be adding contracts to compliance training, employees involved in contracts will attend classes provided by State Purchasing, and there will be changes to the Board's policies and procedures to limit the flexibility of the executive officer to amend contracts. Ms. Rich further stated the agency's Utilization Review Accreditation Commission accreditation expires in 2021 and the Stevie Awards will discontinue.

There being no further questions, Chair Parks called for a motion.

> SENATOR GOICOECHEA MOVED TO ACCEPT THE PERFORMANCE AUDIT REPORT ON THE PUBLIC EMPLOYEES' BENEFITS PROGRAM, CONTRACT MANGEMENT. THE MOTION WAS SECONDED BY VICE CHAIR BENITEZ-THOMPSON.

During the motion, there were comments made by Assemblywoman Carlton reiterating her concerns over the contract extension practices.

> THERE BEING NO FURTHER DISCUSSION, THE MOTION PASSED UNANIMOUSLY.

C. DEPARTMENT OF BUSINESS AND INDUSTRY, REAL ESTATE DIVISION

Katrina Humlick, Deputy Legislative Auditor, presented the audit report on the Department of Business and Industry, Real Estate Division (Division). Ms. Humlick provided an overview of the following topics addressed in the report: (1) scope and objectives of the audit; (2) controls over revenues may not prevent or detect fraud due to inadequate system controls over revenues, refunds not processed accurately or timely, and ineffective reconciliations of revenues; (3) ineffective monitoring of broker trust accounts, unequitable enforcement of trust account reporting, and inadequate review of reported trust account information; (4) limited efforts to collect on accounts receivable, including the Division not actively pursuing past due amounts and the inaccurate reporting of past due amounts to State Controller; (5) and the report appendices, which included the audit methodology, the Division's response to the audit recommendations, and the auditors' comments on the agency's response.

Chair Parks disclosed he is licensed through the Division for real estate sales only and it would not have any impact on the audit. He then called for questions.

Vice Chair Benitez-Thompson and Ms. Humlick engaged in a discussion regarding the Department of Business and Industry (Department) and the Division's development of clear policies and procedures for the debt collection and documenting respective debt collection duties in coordination with the State Controller's Office. Ms. Humlick stated that both the Department and the Division were working on a joint policy and procedure of submitting debts to the State Controller's Office and determining which agency would be responsible for the 30-, 60-, and 90-day past-due notices.

Chair Parks called for agency officials.

Sharath Chandra, Administrator, Real Estate Division, expressed the Division's concerns with the audit findings and agreed that the database needed to be updated. The Division struggled with accurate data entry and with the use of proper internal controls. To address this issue, staff were mapped to the controls, and worked towards limiting certain transaction to only the licensing

section, the supervisor, and the manager. By enhancing constraints, employees will not void and move transactions without verifications. Mr. Chandra noted a policy has been created regarding the refund process and the Division was working on the reconciliations for the trust accounts. The Division will continue to address the audit recommendations to improve its processes.

Responding to Assemblywoman Benitez-Thompson's question regarding working with the Department, Mr. Chandra stated that Budd Milazzo, Deputy Director, Department of Business and Industry, has been there for support and to assist the Division and the Department with enhancing its communication. The Division will also be working with the State Controller's Office.

A discussion ensued between Chair Parks and Mr. Chandra regarding Chair Parks' concern over the feasibility of the 14 recommendations being implemented during the current pandemic. Mr. Chandra pointed out the Division would be addressing the audit recommendations utilizing the available resources and staff without creating unnecessary hurdles for the real estate industry and to continue to protect the public. While the focus has been on trust accounts, the Division has increased its property management force and the property managers' continuing education. Despite staffing challenges and vacancies, budget cuts, lack of available resources, and a 14-year old database, the Division will work to implement the audit recommendations.

Responding to Chair Parks' question regarding providing support to the Division, Mr. Chandra responded in the affirmative.

Mr. Milazzo responded to the previous question regarding support, the Division's accounting system, and he pointed out it does not tie into the state system. The state fiscal staff handles the state's accounting system and the transaction application. Sometimes there is a missed correlation between the Division's accounting system and recordkeeping. It is the Department's intention to work with the Division administrator and his staff to accomplish the Division's goals.

There being no further questions, Chair Parks called for a motion.

> SENATOR BROOKS MOVED TO ACCEPT THE PERFORMANCE AUDIT REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, REAL ESTATE DIVISION. THE MOTION WAS SECONDED BY VICE CHAIR BENITEZ-THOMPSON AND PASSED UNANIMOUSLY.

D. OFFICE OF THE STATE TREASURER, UNCLAIMED PROPERTY PROGRAM

Eugene Allara, Deputy Legislative Auditor, presented the audit report on the Office of the State Treasurer, Unclaimed Property Program (Program). Mr. Allara provided an overview of the following topics addressed in the report: (1) scope and objective of the audit; (2) property reporting and claim processes can be strengthened, including the strengthening of reporting processes and the automated claims system not being monitored effectively; (3) the property system and inventory needs improvement, including the oversight of Program's computer systems that were not always performed, and controls over property inventory have weaknesses; and (4) the report appendices, which included the audit methodology and the agency's response to the audit recommendations.

Chair Parks and Mr. Allara had a discussion regarding the fast track review process. Chair Parks referred to the incident where the system incorrectly released a claim to the incorrect person and if the claim could easily be recovered. Mr. Allara responded the agency was able to catch the error before the payment was released to the incorrect person. Mr. Allara was also of the opinion that the process currently in place as a result of the audit was working. The process in place prior to the start of the audit had some issues; however, under the new process, the agency was able to discover some flaws in the system and correct those issues. Chair Parks expressed concern

over the extended amount of time between processing and recording the contents of the safe deposit boxes.

Chair Parks called for agency representatives.

Linda Tobin, Deputy Treasurer-Unclaimed Property, Office of the State Treasurer, opined there was always potential for improvement of the Program. She provided an overview of the agency's team and the scope and scale of what the team does. For fiscal year 2020, the Program processed over 8,300 holder reports that had receipts, which exceeded $71 million, for total receipts over $87 million, and the Program processed over 38,000 claims that were approved last year, and returned $46 million to Nevadans and former Nevadans. Of those 38,000 claims, 26,000 were processed through the fast track process, and an additional 10,000 claims were manually reviewed and approved by staff. The Program would continue to improve its processes and serve the State.

Responding to Senator Parks' question about the fast track process, Ms. Tobin replied the Program developed a weekly audit of processed approvals and a thorough review of automated roles and business roles. She referred to the incident where there was potential for an incorrect payment being made, and noted the payment was found prior to being disbursed to the incorrect person.

Providing further information regarding the safekeeping and processing for intakes of claims, Ms. Tobin stated the Program made several changes with noted improvement. She expressed it was a challenging task to process the bank boxes, inventory, and process intake and the cash deposits due to a small claims team who have competing job duties. To assist in the timeliness of the inventory reporting, the Division has made modifications to its inventory reports. The Program has developed draft policies and procedures to provide job duty, allocation, and timing of resources, and to try to keep the claims process efficient, while still facilitating the timely intake safekeeping and processing of those items.

Concluding her testimony, Ms. Tobin stated that the Program accepted the 10 recommendations made in the audit report.

Chair Parks inquired to the processing of unclaimed gift cards.

Ms. Tobin responded the gift cards are handled in terms of transfers within the state accounting. Gift cards are allocated to the Department of Education's Educational Trust Account as opposed to the General Trust Account, as is for the remainder of the unclaimed property.

Chair Parks called for further questions. There were none.

Chair Parks then called for a motion.

> SENATOR GOICOECHEA MOVED TO ACCEPT THE PERFORMANCE AUDIT REPORT ON THE OFFICE OF THE STATE TREASURER, UNCLAIMED PROPERTY PROGRAM. THE MOTION WAS SECONDED BY VICE CHAIR BENITEZ-THOMPSON AND PASSED.

E. DEPARTMENT OF PUBLIC SAFETY, RECORDS, COMMUNICATIONS AND COMPLIANCE DIVISION, INFORMATION SECURITY, SERVERS, OPERATING SYSTEM AND DATABASE APPLICATION SOFTWARE

Sarah Gasporra, Deputy Legislative Auditor, Information Security, presented the report addendum on the Department of Public Safety, Records, Communications and Compliance Division (Division), Information Security – Servers. Ms. Gasporra provided an overview of server

software that lacked critical security updates, actions taken by the agency to resolve the security vulnerabilities, methodology used for the report addendum, and the statutorily required corrective action and follow-up.

Chair Parks called for questions and there were none. He then called for agency representatives.

Mindy McKay, Administrator, and CJIS Systems Officer, Records, Communication and Compliance Division, Department of Public Safety, commented the information technology efforts are never-ending, costly, and lengthy. The Division will continue to address issues, and work on enhancements, upgrades, and efficiencies. The Division has a service level agreement, policies and procedures, constant monitoring, and various other duties that have been implemented, along with a collaborative partnership with IT service providers to ensure compliancy.

Chair Parks called for further questions. There was none.

Chair Parks then called for a motion.

> VICE CHAIR BENITEZ-THOMPSON MOVED TO ACCEPT THE PERFORMANCE AUDIT ADDENDUM ON THE DEPARTMENT OF PUBLIC SAFETY, RECORDS, COMMUNICATIONS, AND COMPLIANCE DIVISION, INFORMATION SECURITY – SERVERS. THE MOTION WAS SECONDED BY SENATOR BROOKS AND PASSED UNANIMOUSLY.

ITEM V — PUBLIC COMMENT

Chair Parks called for public comment and there was none.

Mr. Crossman noted that the next meeting of the Audit Subcommittee would be held in December 2020 or January 2021 before the start of the 2021 Legislative Session.

There was no further public comment.

ITEM VI — ADJOURNMENT

There being no further business to come before the Audit Subcommittee, the meeting was adjourned at 11:13 a.m.

Respectfully submitted,

Deborah A. Anderson, Secretary for Minutes

Assemblywoman Benitez-Thompson
Acting Chair of the Audit Subcommittee of the
Legislative Commission

Daniel L. Crossman, Legislative Auditor
and Secretary to the Audit Subcommittee of the
Legislative Commission

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