

MINUTES OF THE MEETING OF THE  
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION  
Legislative Building  
401 South Carson Street, Room 4100  
November 5, 2009

This is the first meeting of the 2009-2010 Interim.

A meeting of the Audit Subcommittee of the Legislative Commission (NRS 218.6823) was called to order by Assemblywoman Sheila Leslie, Chair, at 9:31 a.m., Thursday, November 5, 2009, in room 4100 of the Legislative Building, Carson City, Nevada, with a simultaneous video conference to room 4412 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada.

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Carson City:

Assemblywoman Sheila Leslie, Chair  
Senator Dean A. Rhoads, Vice-Chair  
Assemblyman Tom Grady

Las Vegas:

Assemblyman Morse Arberry, Jr  
Senator Bob Coffin

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Paul Townsend, Legislative Auditor  
Donna Wynott, Office Manager  
Eugene Allara, Deputy Legislative Auditor  
Jane Bailey, Audit Supervisor  
Rocky Cooper, Audit Supervisor  
Diana Giovannoni, Deputy Legislative Auditor  
Tammy Goetze, Deputy Legislative Auditor  
Shawn Heusser, Deputy Legislative Auditor  
Dennis Klenczar, Deputy Legislative Auditor  
Rick Neil, Audit Supervisor  
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—Approval of minutes of the meeting held on December 11, 2008***

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF DECEMBER 11, 2008. THE MOTION WAS SECONDED BY ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

***Item 2— Selection of Vice-Chair of Audit Subcommittee of the Legislative Commission***

ASSEMBLYMAN GRADY NOMINATED SENATOR DEAN RHOADS AS VICE-CHAIR OF THE AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION. ASSEMBLYMAN MORSE ARBERRY SECONDED THE NOMINATION. THE VOTE WAS UNANIMOUS.

Chair Leslie recognized Paul Townsend, Legislative Auditor.

Mr. Townsend stated 5 audit reports and 17 six-month reports would be presented to the Committee. He noted all 17 agencies had put forth a strong effort to implement their audit recommendations. As a result many of the agencies had fully implemented or had made enough progress that Audit staff did not have questions at this time. He suggested that the Chair may want to consider a motion to accept the six-month reports listed as Agenda Items 4a through 4l on the agenda. He stated that representatives of these agencies would not be asked to remain at the meeting. However Committee members should advise the Chair if they would like any of these agencies held. Mr. Townsend stated agency officials for Agenda Items 4m through 4q would be asked to remain at the meeting to respond to questions regarding audit recommendations.

Chair Leslie asked for comments from the Committee in regard to making one motion to accept the six-month reports for Items 4a through 4l.

Senator Coffin stated he was familiar with the procedure but was not in favor of doing so in this Committee. He added that prior notification of this request would be more appropriate.

Chair Leslie stated the agencies would be asked to remain at the meeting.

***Item 3— Presentation of audit reports (NRS 218.823) – Paul Townsend, Legislative Auditor***

***A. Programs for Innovation and the Prevention of Remediation***

Mr. Townsend introduced Shawn Heusser, Deputy Legislative Auditor; and Shannon Ryan, Audit Supervisor, to present the report.

Mr. Shawn Heusser, Deputy Legislative Auditor, began the audit presentation by noting that Senate Bill 404 of the 2005 Legislative Session created the Commission on Educational Excellence (Commission). The Commission is responsible for activities related to increasing student achievement. SB 404 also created the Account for Programs for Innovation and the Prevention of Remediation (Account). The Account

provides funding for innovative programs or programs designed to improve student achievement.

Mr. Heusser noted Exhibit 1 illustrates that nearly \$92 million was approved for the Account during fiscal years 2006 and 2007. The report explained how the Commission reviewed and approved grant applications. Exhibit 2 shows that 673 grant applications were reviewed by the Commission, with 539 receiving some funding. Exhibit 3 provides a breakdown of funding that was awarded to each district in the State. During fiscal years 2006 and 2007, a total of \$91.9 million was awarded to schools and school districts.

Mr. Heusser added Exhibit 4 shows that the total expenditures from the Account were \$81.3 million during fiscal years 2006 and 2007.

Mr. Heusser explained that the audit scope covered grants allocated for fiscal years 2006 and 2007.

The objectives of the audit were to determine whether program expenditures at the selected schools and school districts were in compliance with laws, Nevada Department of Education (NDE) and Commission policies and procedures, and the terms of the grant awards; and whether grant allocations were distributed, administered, and reported in accordance with laws, NDE and Commission policies and procedures, and the terms of the grant awards.

Mr. Heusser explained that audit findings and recommendations revealed that schools and school districts did not always spend grant funds received from the Account in accordance with laws, NDE and Commission policies and procedures, and the terms of the grant awards. Approximately \$6 million of expenditures made by schools and school districts were not approved at all, or at the time of purchase. NDE and the Commission can improve activities related to administering and monitoring program funds.

Mr. Heusser stated that policies over expenditures and budget amendments can be strengthened. Auditors found that expenditures were not always in compliance with Commission approved grant budgets. Schools and school districts submitted requests for funding from the Account which detailed the manner in which the school or school district intended to use the funds. The Commission fully funded some allocation requests, partially funded others, and did not provide funding in some cases.

Mr. Heusser explained Exhibit 5 shows that auditors identified 70 expenditures over \$580,000 that were either rejected by the Commission during the original grant award process, or were never presented to the Commission for approval. For instance, Clark County School District purchased a software license for \$200,000 in May 2006 from its district-wide grant. However, the Commission specifically denied funding for the purchase of this software during the grant award process.

Mr. Heusser noted that approximately 20% of the revised budgets included in the audit sample did not remove or reduce funding as detailed by the Commission during the grant award process. In these instances, NDE approved the revised budget.

Mr. Heusser noted an example that a school received approval for a revised budget that included a math software program that was specifically rejected by the Commission. The school purchased the program for approximately \$34,000. This was done because the Commission had not adopted adequate policies, procedures, and controls over the review of revised budgets to ensure changes complied with Commission awards. He explained that expenditures were incurred prior to schools and school districts receiving budget amendment approval.

Mr. Heusser explained Exhibit 6 shows that from the 42 budget amendments for grants included in the audit sample, auditors identified over \$5.1 million in expenditures that were made prior to receiving Commission approval. This included some schools and school districts requesting approval for amendments after the grant period had ended. He stated Exhibit 7 included an example of a grant that exceeded Commission approvals by over \$600,000 prior to receiving amendment approval.

Mr. Heusser noted that in some instances, NDE approved amendments. Of the 89 amendments for the grants included in the audit sample, 28 received Department approval only. He explained that the Commission and NDE had not fully developed policies, procedures, and controls over the amendment process during fiscal years 2006 and 2007.

Documentation used to change original grant budgets was not sufficient to easily determine the changes being requested by the grantee. As a result, auditors identified some instances where items originally rejected by the Commission were amended back into certain grants.

Mr. Heusser stated Exhibit 8 shows an example of information provided and the resulting calculation needed to determine where increases and decreases in funding were occurring. To request a budget amendment, grantees submitted budgets with the amount that the category and subcategory budgets were being changed to. He noted these amounts were shown in the Amended Budget Documentation column in Exhibit 8. However, in most instances the amendment requests did not show the calculations for how much each category was being changed. The Auditor Calculated Change column in Exhibit 8 shows the calculation needed to assist in the analysis of a budget amendment. Only 12% of the amendments included in the audit sample submitted documents required by NDE policy explaining significant changes to original grant budgets.

Mr. Heusser explained that documentation could be improved by ensuring the inclusion of monetary changes to categories, original budget amounts as allocated by the Commission, an explanation of why the amounts were not used or needed as previously requested, and whether requested changes included items previously denied by the Commission.

Mr. Heusser stated some elementary funding was approved for use in secondary schools. Auditors identified over \$1 million of elementary funding that was allocated to districts to be used in secondary schools. Auditors noted that grant periods and reporting deadlines do not allow for schools and school districts to properly account for all expenditures.

Exhibit 9 includes information on reports not being submitted timely. Auditors found that 16% of the annual financial reports submitted did not substantially meet the Commission's July 31<sup>st</sup> deadline. Exhibit 10 shows that 31% of the reports that substantially met the July 31<sup>st</sup> deadlines were not accurate. Auditors noted that districts used various techniques to meet the reporting deadlines. These included submitting multiple reports for the same grant and using estimates for final costs.

Mr. Heusser noted that some annual financial reports were inaccurate because school districts made improper accounting entries and that supporting schedules did not reflect all grant activity. For example, the Elko County School District processed several accounting entries that transferred amounts in excess of approved allocations to other grants and expenditure subcategories.

NDE does not have procedures in place to compare detailed transaction reports with supporting summary schedules. By doing this on a sample basis, the Commission and NDE will have greater assurance that supporting schedules are accurate and expenditures are properly approved.

Mr. Heusser explained that funds were not distributed by August 15<sup>th</sup> as required by statute. Auditors found that funds were distributed throughout the fiscal year as individual districts requested distributions. In order to ensure that auditors understood that funds were to be distributed by August 15<sup>th</sup>, auditors requested that the Legislative Counsel provide clarification regarding NDE's distribution of funding throughout the year. The legal opinion stated that the Superintendent (NDE) must distribute all money allocated by the Commission by August 15<sup>th</sup> of each year and may not delay the distribution of money by distributing it throughout the term of the grant.

Mr. Heusser explained that schools and school districts did not return funds to the Account in a timely manner. In addition, when funds were returned timely, NDE did not deposit funds in accordance with state law. As a result, the state did not realize about \$45,000 in interest earnings. Exhibit 11 shows the number of days it took school districts to return unused funds after the established deadlines. In addition, the exhibit shows the number of days NDE held checks prior to depositing.

Mr. Heusser discussed that the Commission has not developed adequate guidance to districts through policies to ensure equipment purchased with Account funding is being properly safeguarded, tracked, and monitored. Exhibit 12 shows that auditors were unable to locate 128 items with a total value of nearly \$170,000 during onsite testing. These items included laptops, desktops, projectors, and whiteboards. Some of the items auditors were unable to locate were represented to be offsite with teachers or students. However, documentation detailing the responsible party and description of the items were not always available or adequate.

Mr. Heusser explained that equipment listings were not always accurate or submitted, as required by NDE policy. Exhibit 13 shows for grants included in our audit sample only 19% submitted the required reports. In addition, only half of the submitted reports were accurate.

Mr. Heusser noted that NDE and the Commission lack policies, procedures, and controls regarding the safeguarding, monitoring, and maintenance of equipment purchased with Account funds.

Mr. Heusser noted that 16 recommendations were made to improve controls over the Account. The Department accepted all 16 audit recommendations.

Mr. Heusser offered to answer questions from the Committee.

Chair Leslie had one question from page 14 of the report. She stated the example was where Clark County had purchased a software license that had specifically been denied funding. She asked if Clark County was required to pay back the funds.

Mr. Heusser answered that Clark County did not have to pay back the funds. It just continued on in the grant.

Senator Rhoads asked if the funds were granted on enrollment numbers.

Mr. Heusser replied the funds were granted on a competitive basis where each school was able to complete a grant application and submit it to the Commission. The Commission reviewed the requests and determined disbursement of funds.

Assemblyman Grady asked for additional information about the auditor review of 5 of the 17 school districts.

Mr. Heusser replied auditors focused on the top five school districts which represented over 90% of the funds that were distributed through the grant. He stated auditors included some somewhat rural school districts. He could not conclude on the remaining 12 school districts but stated in the 5 districts reviewed auditors noted similar problems in all of the districts.

Assemblyman Grady asked for clarification that the audit covered 90% of the funds.

Mr. Heusser replied the sample of the five district represented 90% of the funds.

Chair Leslie called for agency representatives to testify.

Dr. Keith Rheault, Superintendent of Public Instruction, stated all 16 audit recommendations were accepted by the Department. He noted a number of the recommendations would be dealt with by the Commission. Members included teachers, administrators, and/or principles of school districts. Dr. Rheault stated the Department would be working with the Commission to address the policies.

Dr. Rheault stated this program involved a lot of money and they wanted it to be distributed quickly so that the schools had access to it. He noted there was no additional staff to work with it and noted they had a variety of different opinions as to how the money should be used. He added that a number of problems needed to be corrected. Staff from individual schools were inexperienced as most had never written a competitive grant. He attributed some of that to not knowing how to follow the procedures of the State grants. He stated if asked, the schools would state that this was probably the best money they had ever received from the State and he attributed a lot of the programs, services, and activities that were funded by this during the beginning of 2006, 2007, 2008, and 2009, with their continued increase in student

achievement over the same 3 year period. Dr. Rheault noted a recent national assessment of education progress report revealed that Nevada was one of only four states that showed significant improvement in 4<sup>th</sup> grade reading, writing, and mathematics. He noted the State budget was not able to fund the program going forward.

Dr. Rheault stated they would like to work with the Legislature if the program was funded in the future.

Dr. Rheault commented on recommendations 11 and 12, regarding the August 15<sup>th</sup> distribution of funds date. He explained Department staff review the applications, approve the budgets, and generate a sub-grant award to the approved district or the school which then had the authority to request the funding.

Dr. Rheault commented on SB 185 funding prior to August 15<sup>th</sup>. He explained based on the ruling of the LCB Legal staff, the cash had to be sent out with the sub-grant award. He noted the Department would lose money on the interest that would have been generated. He stated for future funding he would work with the Legislature to clarify if that meant that the actual cash or the sub-grant award be sent out and the funds held until needed.

Dr. Rheault stated if the Department sends the cash out there is nothing in statute that addresses how the interest earned by the districts would be used. He stated this needed to be addressed.

Dr. Rheault stated another concern was the separation of funding for elementary schools versus secondary schools (middle and high schools in Nevada). There was a disproportionate amount of funding provided to elementary schools. It was \$70 million to \$13 million. He stated the Commission believed they followed the intent of the law to mean that after all of the elementary school allocations were made that the remaining elementary money could be used for secondary programs.

Dr. Rheault explained that funding offered on a competitive basis could alleviate procedural problems. He gave an example that some 6<sup>th</sup> grades were included in middle schools, so was it elementary money or secondary money. He stated these items would be included in their plan of corrective action.

Dr. Rheault offered to answer questions from the Committee.

Chair Leslie called for questions from the Committee.

Chair Leslie appreciated Dr. Rheault's comments. She noted that a lot of legislators believed in the program and would like to see it re-funded.

Chair Leslie was concerned about the interest issue. She stated the concerns Dr. Rheault had brought to the Committee would be good to explore with the Legislature if the program was re-funded in the future.

Chair Leslie asked for an explanation in regard to the check the Department received from Washoe County in August 2007 in the amount of \$735,000 which was not deposited until December 2007.

Dr. Rheault stated it was the Department's fault. He explained staff kept the check to ensure that Washoe County's final budget matched the amount they had sent back to the Department. He added the Department had training with staff that worked with the budget closures to ensure they were aware of current state procedures. He assured the Committee that this would not happen again.

Chair Leslie asked for comments on the instances where districts applied for funds, like the Clark County software for \$200,000 were denied by the Commission, but they made the purchase anyway.

Dr. Rheault replied that one item would not always show up in the minutes or discussions on how some changes occurred. He stated in many cases they reviewed 500 items, denied some and added other items in. In some cases items that were denied, like the software in Clark County, were critical to carrying out some other functions. He suggested that the entity may have either appealed or requested a review of the denial, even though it may not have been documented. He believed they came back and clarified why the item was requested. He explained the Department had a cabinet of 30,000 pages of items that were requested from these 500 grants and items like that the Department attempted to follow up during the first year.

Dr. Rheault stated that procedures had been strengthened. He added that some of the errors at the individual school level were due to inexperience. Dr. Rheault explained they requested funding from the grant but did not review what was actually approved. He surmised the principle might have spent the funds and then the question was whether to make them pay it back or accept it through an amendment that was submitted late, adding there were a large number of amendments submitted to the Commission the first year.

Chair Leslie understood the explanation. She stated Dr. Rheault had requested additional staff which was denied. She was satisfied with the answer as long as Dr. Rheault believed that if the program was re-funded that the recommendations would be implemented and the program would go more smoothly.

Dr. Rheault commented the new Commission and Department staff normally had 17 grants on a federal program. Staff knows what could be funded and a request could be processed immediately. He explained in the case of this grant when staff received amendments they had to make copies for the Commissioners, wait to schedule a Commission meeting, and then re-explain it. That caused some of the delays. He stated the audit recommendations would improve the process.

Assemblyman Grady asked for information about the Commission.

Dr. Rheault stated the Commission consisted of nine members. The current Chairperson was Superintendent Caroline Macintosh from Lyon County. She was the only remaining member from 2006 to 2007. The Commission experienced a near 100% turn-over which added to some of the problems with the grants. He offered to provide additional information about the other Commission members. Dr. Rheault added he was also a voting member of the Commission. He explained the Commission wanted



the school principles to be able to use the funds as needed even though that resulted in amendments.

Senator Coffin asked if Dr. Rheault was aware of any problems in the areas of contract negotiations and arbitration decisions.

Dr. Rheault replied he was not aware of any problems. There were a number of staff positions that were funded or teacher aides that were paid from these funds. He explained they were separately identified within the individual competitive grants.

Senator Coffin asked if personnel hired specifically under this grant were given adequate notice that it might not continue.

Dr. Rheault replied this audit specifically covered the years 2006 and 2007. The Department did give notice about the program ending. Dr. Rheault explained that a number of staff positions, either after school programs, Saturday programs, additional teacher aides, limited English proficient specialists, and reading specialists were all requested in the grants. Because they could not find individuals to fill the approved positions it was necessary to submit a number of amendments. He noted the problem occurred with a lot of the grants.

Senator Coffin stated he endorsed what the audit said that changes needed to be made. Senator Coffin stated Dr. Rheault was responsible to ensure that the smaller counties were allotted a fair share of funding.

Dr. Rheault stated the Commission funded competitive grants to every school district. He explained Department staff provided training to assist rural districts with grant writing. He stated the percentage of funds in relation to the number of pupils in the rural districts were competitive with the larger districts, noting the rural districts had a slightly higher percentage of competitive approved funds. Dr. Rheault added that most of the rural districts were very conservative in their requested funding.

Senator Rhoads stated that over \$5.1 million of grant funds had never received Commission approval. He asked if that came out of the State General Fund.

Dr. Rheault replied all of the funding was State General Fund appropriations that were put into the trust fund. He thought the \$5.1 million included requested amendments. He gave examples of where the funding might have come from. He related that the funds were spent appropriately at the school level but because procedures and policies were not in place, technically they would have been listed correctly as not being approved.

Dr. Rheault stated they would develop and make corrections through policies and procedures and provide them for review in their six-month report.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE REPORT ON PROGRAMS FOR INNOVATION AND THE PREVENTION OF REMEDIATION. THE MOTION WAS SECONDED BY ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

## **B. Office of State Public Defender**

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

Eugene Allara, Deputy Legislative Auditor, began the report presentation stating the mission of the Office of State Public Defender is to provide quality criminal and juvenile legal defense services to rural indigent clients through a cost effective, independent, responsible, and efficient public defender system.

He explained that Nevada counties with a population of less than 100,000 have the option to use the services of the Office. During fiscal year 2008 Carson City, Storey, White Pine, Eureka, and Lincoln Counties opted to use the services. In fiscal year 2008, the Office had 16 total authorized professional and administrative support positions. The Office is funded through a combination of fees collected from participating counties and a General Fund appropriation.

Mr. Allara explained fees are charged to participating counties based on a legislatively mandated formula using a 5-year average of staff hours. Exhibit 1 shows the funding by source and expenditures of the Office for fiscal year 2008. Funding for the Office was about \$2.3 million for fiscal year 2008.

Mr. Allara stated the audit objective was to determine if the Office of State Public Defender's financial, administrative, and reporting activities were carried out in accordance with applicable state laws, regulations, policies, and procedures.

Mr. Allara reported although the Office generally complied with applicable state laws, regulations, policies and procedures, significant to its reporting, administrative, and financial practices, some improvements are needed. These areas included controls to ensure reports are accurate, complete, reliable, and error free, ensuring certain trial expenditures are processed directly by the Office, protecting sensitive data and data systems, and complying with laws and regulations over personnel and state property.

Mr. Allara explained controls are needed over the reporting process. The Office did not prepare and submit all reports required by statute and legislative regulation. Furthermore, the reports submitted did not contain all required information. Exhibit 2 summarizes the requirements for the preparation and submission of three separate reports by the office.

Mr. Allara noted that for 2008, the Office did not prepare the report required by NRS 180.080(1)(b) which discloses the proposed budget including the projected number of cases and projected costs of services for each participating county for the upcoming biennium. Also, required calendar year reports for the Legislative Commission were not properly prepared or submitted. The Office provided the Commission with the same reports provided to the Governor under NRS 180.080(1)(a). These reports are prepared on a fiscal year basis rather than the legislatively required calendar year and do not contain all of the required information.

Mr. Allara stated that underlying data used in the reports was not reliable or complete. He added that an analysis of staff hours found all hours were not accounted for and

some hours were charged to the wrong entity. The audit revealed several instances regarding errors with data relating to staff hours used to create required reports. For instance, Office staff failed to record time on office activities. He explained staff accounted for 1,652 of 1,824 hours during February 2008, about 9% less than expected. He explained that staff hours are not only disclosed in required reports but also affect the formula for determining the participating counties share of costs each biennium as defined in a 2005 Legislative Letter of Intent. Because of errors in the compilation of staff hours, the actual costs of services to each participating county may be more or less than what they were charged.

Mr. Allara stated the Office does not have a process for tracking, monitoring, and recording some trial expenditures. Exhibit 3 illustrates the current method for paying trial expenditures. Currently, expenditures incurred as part of defending clients such as investigative costs, expert witness fees, and independent lab costs are not processed through the Office's budget. These expenditures are paid via court order directly by the participating counties or from the State's Reserve for Statutory Contingency Account.

Mr. Allara reported that auditors identified about \$86,000 in trial expenditures during fiscal year 2008 which were not processed through the Office's budget. He stated including trial expenditures in the Office's budget ensures all costs needed to adequately defend indigent citizens are recorded and reported.

Mr. Allara noted several problems in controls designed to provide security over sensitive data and data systems. Specifically, several computers tested did not contain up-to-date antivirus software, current operating system updates, or encryption of sensitive data. Additionally, adequate plans were not developed for the recovery of information and support of critical business functions after a system failure. These issues decrease the Office's ability to protect the confidentiality, integrity, and availability of sensitive information.

Mr. Allara stated personnel requirements were not always followed. Auditors found the Office did not perform annual evaluations or have work performance standards for any of the classified staff. Also, the Office should segregate duties over the cash receipts and property and equipment functions and needs to improve controls over the disposal of assets.

Mr. Allara stated the audit included 8 recommendations to improve controls over the office's financial, administrative, and reporting activities. The Office accepted all eight of our audit recommendations.

Mr. Allara offered to answer questions from the Committee.

Chair Leslie expressed concern that the time sharing data was not reliable for determining state and county formulas for payment. She noted examples were on page 11 of the report. She asked if Mr. Allara had a sense of whether that would have changed the state/county formula. Chair Leslie also acknowledged that the agency could address the issue when they testified. She stated that this area was very disturbing because funding support is allocated based on that information. She asked for comments on the issue.

Mr. Allara replied the information noted on page 11 indicated there was at least one change with the administrative hours in the amount of \$60,000 which would have changed the balance between the state and the participating counties' portion of the funding.

Chair Leslie stated the agency could provide a fix for the issue.

Ms. Diane Crow, State Public Defender, stated changes had been made to track attorney hours so they are now credited to the correct entity, either state or to a county. She thought the biggest problem was tracking administrative hours. She gave an example that her time was primarily administrative and had been charged to Carson City. She stated Carson City was paying for all of her time where most of her administrative time should have been charged to the State. She reported that had been corrected and the agency would provide an accurate percentage to the next Legislative Session. She added since it was a 5 year average, it was probably not going to show up for 5 years.

Chair Leslie agreed. She said the agency response to the audit noted the agency was considering requesting a re-evaluation of that issue. She stated she was unsure if that would be included in the corrective plan of action. She suggested if the agency had a proposal for a different plan that she would like to review it prior to the 2011 Legislative Session.

Ms. Crow stated agency statistics would reflect a difference in the next fiscal year and even over the next six-months.

Chair Leslie asked if the agency was proposing a different type of split in a funding bill.

Ms. Crow stated if the agency did not use a 5-year average, it would be a different split. However, if the agency waited for a 5-year average, then it would be longer. She suggested reviewing the process prior to a 5-year average.

Chair Leslie asked for comments from the Audit staff.

Mr. Paul Townsend, Legislative Auditor, stated once the hours were correctly recorded, the agency could address the issue through their 60-day plan of corrective action and audit follow-up, and they would need to communicate with budget staff. Mr. Townsend suggested the process would eventually correct itself but probably this first time around using a 5-year average would not be accurate.

Chair Leslie agreed the process needed to be adjusted to be fair to the counties. She would be looking for that in the agency report for corrective action. She asked if Ms. Crow had addressed the problems outlined on page 11 of the audit report in regard to the timesheets and the tracking of time.

Ms. Crow replied yes, procedures were now in place to correct all of the issues.

Senator Rhoads asked what happened when a small rural county goes over their quota. He asked if there was an amount of money used for the public defender and if the audit report addressed the issue.

Ms. Crow responded yes. She explained an example on pages 13 and 14 of the report cited \$86,000 of trial expenditures was used for expert witness fees that were not in their budget. She reported the agency was now tracking funds requested for expert or outside investigation fees. Ms. Crow stated the agency would be requesting a line item in their budget for the 2011 Legislative Session to more accurately track the information better.

Chair Leslie asked for clarification on the agency response in regard to required reports the agency must submit. Chair Leslie asked if the agency was preparing a request for the 2011 Legislature to consider streamlining the process.

Ms. Crow stated the agency would be requesting to change to a fiscal year report. She noted the agency was preparing the calendar year report at this time.

Chair Leslie stated they would be in compliance with the existing law.

Ms. Crow agreed.

Chair Leslie asked when the work performance standards and evaluations would be updated.

Ms. Crow stated the project would be completed in the next week.

Chair Leslie noted that was a pretty poor performance.

Senator Coffin asked Ms. Crow to clarify that she had been the incumbent for approximately 13 months now.

Ms. Crow stated that was correct. She was appointed by Governor Gibbons in September 2008.

Senator Coffin asked for information about vacant accounting or financial analyst positions.

Ms. Crow stated the agency had one vacant position. She added the 2009 Legislature approved three new positions. She explained one was an administrative assistant position which was in the process of being filled. The position will provide support with the accounting portion to ensure that two staff were on the fiscal end and property disposition. Ms. Crow explained that one investigator position in White Pine County approved by the 2009 Legislature was also in the process of being filled.

Senator Coffin commented that an administrative assistant was not qualified to submit financial reports.

Ms. Crow replied the director's office at DHHS also provided the agency with fiscal support. She explained the administrative assistant would not be in charge of providing fiscal reports. She explained that her position and the office manager position provided fiscal reports along with assistance from the director's office staff.

Senator Coffin expressed concern that they were not hiring a person that was specifically accounting trained.

Chair Leslie called for a motion.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE REPORT ON THE OFFICE OF PUBLIC DEFENDER. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

**C. Department of Health and Human Services, Health Division –  
Inspection Programs**

Mr. Townsend introduced Lee Pierson, Deputy Legislative Auditor; and Rick Neil, Audit Supervisor, to present the report.

Mr. Lee Pierson, Deputy Legislative Auditor, stated the Health Division promotes and protects the health of all Nevadans and visitors to the State through its leadership in public health and enforcement of laws and regulations pertaining to public health. To fulfill its mission, the Division is guided by the State Board of Health consisting of seven members appointed by the Governor. The Division includes an office of administration and five bureaus.

Mr. Pierson reported the Division has three inspection programs which consist of the Licensure and Certification Program (LCP); Radiological Health Program (RHP); and Environmental Health Services (EHS). The LCP licenses and inspects health care facilities including hospitals, nursing homes, drug and alcohol treatment facilities, and medical laboratories. Depending upon the type of facility, inspection frequency requirements range from 1 to 6 years.

The RHP licenses and inspects facilities using radioactive materials, certifies mammography machines, registers x-ray machines, and inspects these machines. Depending upon the type of radioactive material or machine, inspection frequency requirements range from 1 to 5 years.

The EHS permits and inspects food establishments and school kitchen facilities. Food establishments should be inspected annually and school kitchens should be inspected twice each year. EHS performs inspections in 14 Nevada counties (excluding Clark and Washoe counties, and Carson City) and all state facilities (universities, prisons, etc.). The report outlines the number and type of inspections performed by the three inspection programs during fiscal year 2008. For example, the Licensure and Certification Program reported inspecting 1,230 health care facilities. Exhibit 1 shows staffing and expenditures by program during fiscal year 2008.

Mr. Pierson stated objectives were to determine if food establishments, school kitchens, health care, and other facilities were inspected, violations were corrected timely; and to evaluate performance measures including the reliability of reported results.

Mr. Pierson continued with the findings and recommendations section. Auditors found weaknesses in the Division's inspection processes. Specifically, inspections were not performed timely, and violations found during inspections were not corrected timely. These problems were caused by a lack of controls, including systems to track inspections and violations, information to assist managers in supervising inspection activities, and written policies and procedures.

Mr. Pierson stated EHS did not inspect all food establishments annually as required by statute. Auditors reviewed 100 permit files and found that 40% of required inspections were not performed timely during fiscal years 2006 through 2008. Exhibit 2 shows the 100 files reviewed by fiscal year; the number of inspections required, the number not timely, and the percent not timely.

Some food establishments were not inspected for several years. From the audit sample of 100 files, auditors found 63 establishments were not inspected for at least of 1 of the 3 fiscal years reviewed. Exhibit 3 shows the length of time between inspections for these 63 food establishments. Mr. Pierson reported that 24 of 63 food establishments had not been inspected for at least 3 years.

Mr. Pierson stated school kitchens were not inspected twice each year as required. Auditors selected a sample of 75 school kitchens and found 32% of required inspections were not done timely during fiscal years 2006 through 2008. Exhibit 4 shows by fiscal year the number of inspections required, number not done timely, and percent not done timely.

Mr. Pierson also found the Licensure and Certification Program did not inspect health care facilities timely. Auditors reviewed 100 health care facility files and found that 56% of required inspections were not done timely. Exhibit 5 shows for the 100 files reviewed, the number and percentage of inspections not done timely for the most recent and immediate prior inspection. The audit sample of 100 health care facility files included facilities subject to annual inspections. Exhibit 6 shows 53 of 100 inspections reviewed for these facilities were not done timely. On average these 53 inspections were done 85 days or nearly 3 months late.

Mr. Pierson reported Exhibit 7 shows inspections of facilities subject to a 3-year inspection frequency were not done timely. Auditors found that 37 of 59 inspections of facilities were on average done about 3 years late.

Auditors also reviewed the timeliness for health care facility complaints, and found complaints were not always investigated and resolved timely. The audit found 13 of 35 complaints reviewed from fiscal year 2008 were not investigated timely. Exhibit 8 shows the 35 complaints reviewed by the seriousness of the complaint with immediate jeopardy being the most serious. The exhibit shows all immediate jeopardy complaints were investigated timely. However, non-immediate jeopardy complaints reviewed were not always investigated timely.

Mr. Pierson stated it was found that after completing a complaint investigation, LCP did not always provide facilities timely with a letter with the results of the investigation. LCP refers to this letter as a statement of deficiencies or SOD. Division policy requires that LCP send a SOD to the facility within 10 working days after completing the investigation. Exhibit 9 shows for the 35 complaints reviewed the SOD was not sent timely in 26 of 35 complaints reviewed. On average it took 28 days to send the SOD after the investigation was completed.

Mr. Pierson next discussed x-ray machine inspections. Although testing revealed that RHP inspected radioactive material users and mammography equipment timely, x-ray

machines were not always inspected timely. Auditors selected 50 x-ray machines for review and found 32 were not done timely. These included 18 machines where the initial inspections were done not timely and 14 where required periodic inspections were not done timely. Exhibit 10 shows the number and percent of inspections not done timely, and the range in the number of months or years that inspections were done late.

Mr. Pierson stated violations were not corrected timely. Auditors found the Division did not always follow up timely to ensure violations found during food establishment and health care facility inspections were corrected. In some cases files lacked documentation indicating violations were corrected before the next inspection. In other cases staff could not provide documentation showing violations were corrected. In addition, in some cases the same violations were found on subsequent inspections.

Mr. Pierson stated from the sample of 100 food establishment files reviewed for inspection timeliness, 31 inspections were identified with critical violations. Twenty-five of 31 lacked documentation showing EHS staff followed up to ensure violations were corrected. Exhibit 11 shows the average number of days and range in days between inspections. The exhibit shows that 13 inspection files lacked documentation indicating that violations had been corrected and 12 files indicated that violations had not been corrected timely.

Mr. Pierson reported violations found during Health Care Facility Inspections were not always corrected timely. From the audit sample of 100 health care facilities discussed previously, auditors found 25 with violations. Twenty of 25 facilities lacked documentation indicating violations found during inspections were corrected timely. Exhibit 12 shows the number of days it took to correct violations; including the average number of days it took LCP to provide the facility with a SOD and for the facility to provide a plan of correction (POC) to resolve the violations. The exhibit shows for 10 inspections, files lacked documentation indicating that action had been taken to correct the violations. In 10 other cases the action taken to correct violations was not timely.

Auditors found three primary factors that contributed to inspection weaknesses. First, inspection programs lacked adequate policies and procedures to guide staff and help ensure inspections were done timely and violations corrected. Additionally, policies and procedures do not always include a written priority to ensure violations with the greatest risk to public health were corrected first.

Mr. Pierson stated a second factor was the lack of management information. Inspection programs in most cases do not generate periodic reports including information on the number of inspections completed, number completed timely, or if violations were corrected. As a result, managers lack sufficient information to effectively monitor inspection activities.

Mr. Pierson continued, a third factor contributing to untimely inspections are staffing issues. EHS was not able to fill all food inspector positions due to budget cuts. RHP management reported they had difficulty attracting qualified applicants and some positions remained vacant until early 2009. Additionally, the 2009 Legislature approved 12 new positions to increase the number of health care facility inspections that are done.



Recommendations were made to improve the inspection processes.

Mr. Pierson stated that performance measures can be improved. Specifically, the actual results for several measures in the latest Executive Budget were not reliable because the Division could not provide documentation supporting reported numbers. Additionally, the numbers in the Budget were different than those later provided to Audit staff.

Exhibit 13 shows RHP performance measure results for fiscal year 2008 reported in the Executive Budget compared with numbers auditors were provided by staff. The exhibit shows numbers provided to auditors were different than those reported in the Executive Budget. After discussion with Division staff, auditors found these discrepancies occurred because partial year numbers were included in the Executive Budget.

Mr. Pierson reported auditors also found discrepancies in Environmental Health performance measure results shown in Exhibit 14. Although discrepancies for the first measure shown in the exhibit (identifying the number of food establishments inspected) could result from reporting partial year numbers, the four remaining measures show results with higher numbers in the Executive Budget than those provided to us. Some discrepancies are significant. EHS staff could not explain these discrepancies. Auditors could not verify the accuracy of reported numbers because EHS did not retain supporting documentation or calculations used to determine performance measure results as required by section 2512 of the State Administrative Manual.

Mr. Pierson stated the Division could take additional steps to improve performance measures. Currently, most performance measures track the number of inspections done rather than the percentage of required inspections completed. Additionally, Division inspection programs do not track whether violations found during inspections were corrected timely.

Mr. Pierson stated four recommendations were made to improve performance measures.

The Division accepted all 20 audit recommendations.

Mr. Pierson offered to answer questions from the Committee.

Chair Leslie stated this report reminded her of when she was chair of the Health Committee during the Hepatitis C tragedy. At the time legislators wondered what else was not being inspected properly. She stated, "Now we know."

Senator Coffin stated it would be helpful to know when problems occurred, when the agency was understaffed, and if staff was added at the particular time of noted improvement. And it might be better today because of the timeframe of this audit. He stated audits look backwards and stated it is necessary to look ahead to see if the agreement from the agency could actually be fulfilled with the current staffing.

Chair Leslie stated the agency would be asked for this information also. He might be in a better position to address staffing issues and changes within the agency.

Chair Leslie asked the agency if the problems outlined in the audit report were related to a staffing issue. She commented that particularly in the food establishments the issue

might involve not having the correct protocols or policies and procedures in place. She asked for comments from the agency.

Mr. Richard Whitley, Administrator, State Health Division, commented the audit clearly reflected deficiencies in their system. He noted in the area of health care quality that the period reviewed was prior to the Hepatitis C outbreak. He stated many of the deficiencies in the system had been and were being addressed through legislation, regulation, and policy and procedure change. He was open to providing a corrective action response as it related to health care facility inspections.

Mr. Whitley stated as related to food inspections in the rural areas that Chair Leslie had identified that it was not a single issue but multiple factors that contributed to the agency being deficient. Mr. Whitley stated the issue was to have a system in place that would lead and guide the inspection process for food safety in rural Nevada.

Mr. Whitley accepted the responsibility for addressing all of the issues. He believed the Hepatitis C crisis had prompted change. He stated that addressing the problem with food safety inspections in rural Nevada gives the agency an opportunity to proactively prevent an outbreak of disease or a tragedy that could occur as related to food safety. He acknowledged the agency had a lot of work to do in the area of food safety in rural Nevada. Mr. Whitley stated the agency included new staff in terms of management in that program. He noted the agency hired a supervisor for the rural program from Winnemucca to be more centrally located to staff in rural areas. He offered to answer questions from the Committee.

Assemblyman Arberry asked for comments on proposed timeframes in regard to some inspections that had not been done in over 3 years.

Mr. Whitley stated healthcare facilities have legislation as well as their budget that requires the agency to go into all health facilities at a minimum of 18 months and some annually. He noted that had been addressed legislatively. As it related to the food establishments the requirement for annual inspections of the schools was already in place and was identified in the audit as well. Mr. Whitley stated the food inspection program did not have an electronic system for monitoring the inspection rate and outcomes. However, as of June 2009 the agency had implemented an electronic data system to generate a monthly status report that enables monitoring of food safety inspections. This program would mirror what was being done in healthcare facilities.

Assemblyman Arberry wanted to be assured that the issue would be addressed timely.

Chair Leslie added that the agency corrective action plan which they will get in 60 days should provide more details on the issue.

Senator Rhoads stated 51% of the agency budget in 2008 was federal funds. He asked for comments in regard to funding.

Mr. Whitley stated both the healthcare inspection and radiological health were a combination of fee and federal funding. He stated the environmental health was General Fund and fee funded in combination. He explained the funding was stable, was not from stimulus funding, but was received through an agreement with the federal

government. Basically, they are doing the work of the federal government both in radiological health and in healthcare facility inspections. That is, the agency was doing the work for the Centers for Medicaid and Medicare in terms of inspecting facilities.

Chair Leslie asked for comments about the kinds of risks being taken by not adequately inspecting the food and radiological areas.

Mr. Whitley stated during the 2009 Legislative Session all health related inspections were combined under Marla McDade Williams. He noted a team approach was now taken in regard to inspections of radiological health and the environmental health for food safety which included nursing homes and assisted living facilities.

Chair Leslie asked what some of the specific issues were.

Mr. Whitley stated there can be food-borne outbreaks through improper heating or refrigerating. He noted the process for inspection of these facilities was standardized by the Food and Drug Administration (FDA). Also identified was the setting of priorities for following up on inspections.

Chair Leslie stated the agency response indicated the intent was to submit a bill to revise NRS 446 in terms of the frequency protocol of low, medium, and high risk facility inspections. She asked for Mr. Whitley to comment.

Mr. Whitley stated programs such as the school lunch program had requirements already in place to receive funding. The agency accepts assurances that other government agencies had already performed an inspection in regard to school lunch programs and environmental health issues. The agency would not need to duplicate inspection activities that were already being done. The same process would occur with x-rays where machines that were calibrated as a part of the practice of the provider. He stated that was the intent for a bill draft.

Chair Leslie noted the agency was looking at systemic issues of how to improve and ensure that inspections were actually being done and that the agency did follow up inspections. Chair Leslie asked if this was a higher priority item for the Health Division.

Mr. Whitley answered yes. He was committed to make improvements.

Chair Leslie stated this was a high priority and also an opportunity to avert a tragedy. She was grateful for this audit because it outlined the extent of the problem and highlighted what needed to be done. Chair Leslie expressed confidence in the agency to get the work done. She noted through the Hepatitis C crisis they now had experience in fixing this sort of problem. She asked that the agency contact her in regard to proposed statutory changes so she can track them. Chair Leslie stated this needed to be a very high priority as the public was at risk.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, HEALTH DIVISION – INSPECTION PROGRAMS. THE MOTION WAS SECONDED BY ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

**D. Department of Business and Industry, Division of Financial Institutions**

Mr. Townsend introduced Tammy Goetze, Deputy Legislative Auditor; and Rocky Cooper, Audit Supervisor to present the report.

Ms. Goetze began the presentation with background information. The Division of Financial Institutions was created in 1983. The purpose of the Division is to maintain a safe and sound financial institutions system that promotes a conducive business environment, protects consumers, and defends the public interest. This is accomplished through equitable licensing, examination, and enforcement of depository, lending, debt collection, and money transmission activities. As of December 2008, the Division had 2,212 licensees. Exhibit 1 shows the number of licensees by type.

The Division's administrative office is located in Carson City, with another office in Las Vegas where the Commissioner is located. In fiscal year 2008, the Division had a total of 31 authorized positions. In November 2008, the Interim Finance Committee approved an additional 10 examiner positions.

Ms. Goetze stated this audit focused on the Division's regulatory, financial, and administrative activities for calendar year 2008, and includes activities through May 2009 for certain issues. The objectives of the audit were to determine whether the Division performed timely examinations of non-depository institutions, and if the Division's financial and administrative practices were carried out in accordance with applicable state laws, regulations, policies, and procedures.

Ms. Goetze continued with the findings and recommendations portion of the report. The Division did not always perform timely examinations of non-depository licensees. Non-depository licensees include collection agencies and companies that provide services such as check cashing, high-interest, and title loans. Of 50 non-depository licensees tested, 24 (48%) did not receive a timely examination during 2008. Various statutes, which are included in Appendix B, require an annual examination of licensed non-depository institutions. When examinations are not performed timely, consumers are not adequately protected against unethical business practices, and compliance violations may not be detected and corrected in a timely manner.

Auditors found that the Division did not consistently use a risk-based approach for scheduling examinations. The purpose of a risk-based approach is to ensure available resources are allocated to the areas that matter most, such as high-risk licensees. Auditor testing revealed higher-risk licensees were not consistently examined prior to lower-risk licensees. Exhibit 3 shows a summary of the examination test results.

Auditors stated management indicated that due to a lack of staffing, examinations had not been performed timely. The current Commissioner analyzed the Division's staffing needs, requested and was approved for 10 additional examiner positions during the 2007-2008 Legislative Interim. As of May 2009, all of the Division's 31 authorized examiner positions were filled.

Ms. Goetze stated the Division did not follow its records retention schedule for maintaining licensee files for 6 years. Instead, examination working papers, including correspondence with the licensee, were retained for about 1 to 2 years, until the

licensee's next examination was completed. NRS 239.080 establishes that official state records may be disposed of only in accordance with an approved schedule of retention and disposition.

Ms. Goetze stated two recommendations were made for improving controls over non-depository licensee examinations.

Ms. Goetze continued the report by describing how the Division can improve controls over its financial and administrative activities. Better controls are needed over revenues. Controls are important because the Division collected and deposited about \$3.9 million during 2008. The Division did not adequately secure and restrict access to payments received. Payments were stored in an unlocked safe which remained open throughout the day and accessible by all staff. State Accounting Policies and Procedures recommend entry to safekeeping devices be limited to as few people as possible.

Auditors indicated that the Division has also been unable to comply with state law that requires timely bank deposits. Of 40 payments received in Las Vegas during 2008, 13 were not deposited timely. Twelve of the untimely deposits were at least \$10,000 and ranged from 1 to 11 days late. Although NRS 353.250 requires agencies to make a deposit by the next business day when \$10,000 or more has been accumulated, payments received in the Las Vegas office are mailed to the Carson City office for deposit. Therefore, by the time the Carson City office receives the payments, it is often too late to meet state deposit requirements. During 2008 the Las Vegas office received nearly \$750,000 in payments.

Ms. Goetze reported other control weaknesses auditors identified included collections not compared to deposits, payments returned to licensees without adequate approval, and accounts receivable not reported when required.

Controls over employee travel and reimbursement are weak. Staff did not use the least expensive method of travel when conducting state business. Auditor review of employee travel claims revealed examiners traveling over 50 miles one-way use their personal vehicles instead of using a state motor pool vehicle and car pooling. For instance, three examiners traveled to Elko for one bank examination and drove separately costing a total of \$1,113 for 1 week. If a motor pool vehicle was used, we estimate the Division would have saved \$876. Exhibit 4 shows the details of this example.

Ms. Goetze explained how some examiners used estimates instead of actual mileage to claim travel to and from a licensee's place of business. Additionally, the Division does not have adequate policies for claiming mileage from home to a licensee. Currently, the Division allows employees to claim all mileage when traveling from home to a licensee's business, even when the mileage driven is less than the employee's normal commute. For example, one monthly travel claim tested included the reimbursement of \$280 for mileage less than the normal commute. This amount could be disallowed in the future depending on policies adopted by the Division.

Ms. Goetze continued, the Division did not maintain accurate property and equipment records, and state personnel requirements were not always followed. The Division does not always communicate work performance standards to its employees. Of 10 classified employees tested, 3 employees had no work performance standards, and 1 employee did not have standards reflecting their current position. Additionally, the Division did not always complete performance evaluations when required. Of 10 classified employees tested, 4 employees had not received a performance evaluation during 2008.

Ms. Goetze explained that the Division lacks adequate policies and procedures to guide its financial and administrative activities. The lack of procedures contributed to numerous control weaknesses identified in this report. Without complete policies and procedures, problems could reoccur if there is personnel turnover in key positions.

Recommendations were made to improve controls over revenues, travel expenditures, equipment inventory records, and personnel requirements. The Division accepted all 12 audit recommendations.

Ms. Goetze offered to answer questions from the Committee.

Senator Rhoads stated one bank in rural Nevada had failed. He explained the bank started loaning money for houses out-of-state, particularly in the south. A hurricane came by and wiped the houses out and they were heavily invested in that type of market. He asked if the agency monitored things like that.

Mr. Townsend suggested the question might be better addressed by the agency.

Chair Leslie called for agency representatives to testify.

Mr. George Burns, Commissioner, Financial Institutions Division, asked for the question to be restated.

Senator Rhoads wondered if the agency could have averted the bank from closing by monitoring their loaning pattern.

Mr. Burns stated depository institution portfolios are monitored. He explained at the time these particular loans took place, the conditions in both the financial world and the economy were not as they are now and did not create the same level of risk that was precipitated in the coming months. He added it was a normal type of transaction at the time. Mr. Burns stated it was risky, had a high return, a high risk of loss, and was what that particular institution experienced.

Chair Leslie asked if Mr. Burns wanted to make a statement about the audit.

Mr. Burns thanked Audit staff for their professionalism and the in-depth analysis of the agency. Results of the audit were invaluable. The agency accepted all of the recommendations.

Chair Leslie assumed that would include not allowing staff to take their own cars. She cited the example of three staff driving their own cars separately from Reno to Elko.

Mr. Burns answered it was evident that this type of practice was isolated amongst examination staff in the north who have a large geographic region to cover. He noted

that a culture had developed for the convenience of the examination staff as opposed to having a priority of doing it at least cost. That also resulted in higher than normal reimbursements to staff for travel. He assured the Committee that the examination team now reports to the unclassified position of Certified Public Accountant who pre-approves and pre-reviews all travel arrangements to ensure they are at the least cost.

Chair Leslie asked if staff were using the Motor Pool.

Mr. Burns stated that was correct. He explained a trip beyond 50 miles was the break-even point.

Chair Leslie appreciated hearing the explanation.

Senator Coffin stated that Steven Kondrup, Deputy Commissioner, was in attendance to answer questions from the Committee.

Mr. Steven Kondrup stated he had no comments to add to the testimony.

Chair Leslie concluded from the response letter that the agency expressed it was understaffed in the area of staff examiners. She asked for clarification.

Mr. Burns answered that was the case at the time of the audit, however since that time the agency was allocated 10 additional examiners. The agency was catching up on and becoming current on the examination until implementation of the furlough program. He stated the impact from the furlough program would amount to a loss of almost 4,000 productive hours per year which would cause an inability to accomplish 25% of the non-depository institution examinations.

Chair Leslie asked about the status of the agency reserves.

Mr. Burns replied they were quite healthy at about \$3 million.

Chair Leslie asked if there was a possibility of using any of that money. She asked if that amount was more than the agency needed to have in reserve.

Mr. Burns indicated there is a possibility they may need to use some of the money. He also explained that the reserve is not too high given the current financial crisis, and the potential that the Division may need to take over institutions.

Chair Leslie expected to see current data on whether the agency was meeting statutory requirements to ensure that an initial exam was done in the plan for corrective action. Chair Leslie stated during the audit period, auditors reported 60% of the inspections were done in an untimely manner. She hoped their plan for corrective action would be able to determine if a need existed for using the reserve. She request information on how the agency was going to become current. Chair Leslie emphasized that these inspections were important.

Mr. Burns concurred. He stated the agency had made substantial progress as indicated in the response letter. At the time of the audit untimely non-depository examinations were at 48%, now were at a little over 9%. He reiterated the agency was losing some of that pace due to the impact of the furlough program. Mr. Burns added he had submitted a furlough exception which was approved by the Director of Business and Industry and was currently in review with the Department of Personnel. He explained the impact of

the furlough program would result in approximately \$96,000 a year in salary savings. However, the agency would lose \$108,000 in exam fee revenue. He noted the agency had submitted a good premise for submission of the exception.

Assemblyman Grady asked if the 10 new positions had been filled.

Mr. Burns replied all 10 positions were fully trained and were performing very well for the agency. He reported 70% of non-depository examinations were completed by September 2009, and they were on track to be 100% in compliance.

Chair Leslie called for a motion.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, DIVISION OF FINANCIAL INSTITUTIONS. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

#### **E. Department of Business and Industry, Real Estate Division**

Mr. Townsend introduced Diana Giovannoni, Deputy Legislative Auditor; and Rocky Cooper, Audit Supervisor, to present the report.

Ms. Giovannoni began the presentation with background information. The Real Estate Division's mission is to safeguard and promote public interest in real estate transactions by developing an informed public and a professional real estate industry. The Division works closely with three commissions: the Commission of Appraisers of Real Estate; the Real Estate Commission; and the Commission for Common-Interest Communities and Condominium Hotels. The Division administers four budget accounts funded primarily by fees and a general fund appropriation. Exhibit 1 shows expenditures were about \$4.7 million in fiscal year 2009.

Ms. Giovannoni stated the audit focused on the Division's financial and administrative activities for calendar year 2008. The audit objective was to determine whether the Real Estate Division carried out its financial and administrative practices in accordance with applicable state laws, regulations, policies, and procedures.

Ms. Giovannoni continued the report with audit findings and recommendations. Auditors found the Real Estate Division continues to have difficulty controlling certain financial and administrative activities. Beginning with accounts receivable, the collection of disciplinary fines was not actively pursued by the commissions and Division staff. Of 19 large fines totaling more than \$800,000, the Division only collected about \$41,000, or 5%, on 2 of the 19 fines.

Ms. Giovannoni explained the commissions gave violators long periods of time before their fines were due. In addition, staff did not send past due collection letters for more than 9 months after violators failed to pay. She noted the total elapsed time from the commissions' hearing to the date collection letters were sent averaged more than 1.5 years for the fines tested. Further, staff did not submit delinquent fines to the State Controller for outside collections. Although collecting large fines is difficult, the Division needs to work with the commissions to establish timely due dates, and follow internal control procedures for collecting receivables.



Ms. Giovannoni noted accounts receivable records were not adequate. Because of this, management and the commissions did not have the information necessary to properly oversee the collection of fines. She explained the Division did not properly report accounts receivable to the State Controller or consider delinquent accounts for bad debt write-off. For example, the Division did not report about \$2.6 million in accounts receivable to the State Controller for the quarter ended December 31, 2008. Further, amounts identified as uncollectible during the prior audit in 2000 were still included in accounts receivable.

Ms. Giovannoni stated five recommendations were made to improve accounts receivable oversight.

Ms. Giovannoni explained the Division has not established adequate controls over payments received. A cumbersome process for recording payments by mail resulted in untimely deposits. Of 306 payments tested, 41% were not deposited timely. This included 23 payments held for more than 30 days. Auditors also found the Division did not have a process to verify that all payments received by mail were deposited.

Ms. Giovannoni stated two recommendations were made to improve controls over payments received.

Ms. Giovannoni reported oversight is needed for complaint investigation activities. First, the Division did not investigate appraiser complaints timely. Of 24 appraiser complaints tested, 10 cases remained open an average of 552 days as of May 2009. Further, the Division took an average of 580 days to resolve 14 cases. Untimely appraiser investigations have been a lingering problem for the Division. Three examples of complaints involving serious allegations of inflated appraisals are noted in the report.

Ms. Giovannoni noted complaints involving real estate transactions were not always processed timely. One recommendation was made to help ensure timely processing of complaint investigations.

Ms. Giovannoni stated relating to information technology controls, the Division needs to protect sensitive information and ensure network security features are maintained. For example, the Division stores about 135,000 licensee social security numbers unencrypted in the database. All Division employees have access to this confidential information. Other control weaknesses included computers not updated for current virus definitions, missing critical software security patches, and allowing weak computer passwords. In addition, the Division was not conducting criminal background checks on employees with access to sensitive information.

Ms. Giovannoni stated two recommendations were made to comply with state IT security standards.

Ms. Giovannoni stated auditors found the Division's property and equipment records were not accurate. Auditors tested 48 assets and noted 17 had discrepancies. For example, computer equipment, missing since 2002, was not removed from the inventory records until the audit was started.

Finally, the Division did not complete timely employee performance evaluations for 6 of 10 employees tested. Two recommendations were made to help improve accountability over property and equipment and to ensure employees are evaluated as required by state law.

Ms. Giovannoni stated the Real Estate Division accepted all 12 recommendations.

Ms. Giovannoni offered to answer questions from the Committee.

Chair Leslie was disturbed that prior audits in 1994 and 2000 included the same finding. She asked for information on what had happened. She stated this was one of the worst audit results she had seen in terms of the same findings being repeated.

Mr. Townsend stated there were a number of reported problems. The agency did go through the corrective action plan before and in some cases implemented procedures but then quit following those procedures. He assured the Committee that Audit staff had strengthened their follow up process as seen from the reports to the Committee and also that agencies were requested to attend subsequent Committee meetings. Mr. Townsend stated auditors were scrutinizing agencies closer than in past years. He stated sustained implementation is at times a problem when turn-over in agency management occurred. Auditors attempt to keep track of these changes and communicate with the new agency staff. Mr. Townsend stated it was unfortunate when auditors find that the agencies have slipped back into prior noted problems.

Chair Leslie stated the recommendation was as basic as collections. She added the Committee continues to see this problem with agencies not depositing checks timely. She offered it might be helpful to ask the Executive Branch to provide training on state law regarding collections.

Chair Leslie asked if the agency ever collected on the fines noted in the report. Auditors found that of over \$808,000, only \$40,000 was collected. She also referred to a large fine of \$250,000 that was due eight months after the hearing. She asked for comments about collection procedures.

Ms. Giovannoni stated during audit fieldwork there was no further collections noted on those accounts.

Chair Leslie asked for information in regard to collection of the accounts.

Ms. Giovannoni requested the question would be more appropriate for the agency to address.

Chair Leslie called for agency representatives to testify.

Senator Coffin stated Gail Anderson, Administrator, was present at the Las Vegas meeting and could answer questions from the Committee.

Ms. Gail Anderson, Administrator, Real Estate Division, since 2002, with an 18 month period of absence, stated the Division thanked the Audit Staff for the careful research, for listening to the agency responses, and for the recommendations. The Division agreed with and accepted all of the audit recommendations. She stated seven recommendations had been fully implemented and five were partially implemented.

Ms. Anderson addressed the collection of fines audit recommendation. She explained that disciplinary fines were issued by order by one of the commissions. Often there was no way to locate the individuals. The agency issues cease and desist notices. Some of the licensees cut and run once they receive a notice of discipline. All revocations, suspensions, unlicensed activity, and findings are reported nationally to the Association of Real Estate Licensee Law officials through their data system, which would prevent someone from going to another state or jurisdiction and continuing unacceptable practices. Also, their license is administratively suspended and notifications are made to the broker and the license is required to be returned to the Division. The Division acknowledges the necessity to follow procedures for debt collection, notification, and write off. She stated this recommendation was fully implemented.

Ms Anderson stated the Division had realigned job duties two years ago. She explained the agency has four budget accounts, three commissions, and two self-funded programs. At that time the agency had 1.5 full time employees working directly in the fiscal section, and now, two years later, the agency had 3 full-time employees in the fiscal section.

Ms. Anderson stated in the area of monitoring the status of complaints, the recommendation was to implement a tracking system to provide management with the ability or at least an easier ability to monitor cases. They were working to utilize that through the enforcement component of an integrated licensing and data system. The agency works to process complaints filed with the Division timely. She noted the agency currently had one vacant compliance audit investigator position in the real estate compliance section of the Real Estate Division.

Ms. Anderson stated the Division accepted all of the recommendations.

Chair Leslie thanked Ms. Anderson for her comments. In regard to the disciplinary fine issue, she stated collecting only 5% on the \$808,000 was a pretty poor performance. She asked if the percent of disciplinary fines that were actually collected was one of the performance measures that legislators see when the agency submits their budget.

Ms. Anderson stated that had not been done but offered to look at that as a performance indicator. She added, the agency needed to follow the procedure for debt collection and write off. They were looking forward to the implementation of AB 87 which stated that the Controller's Office would be dealing with the collections also.

Chair Leslie agreed that should help. She expressed concern that past due collection letters were sent 444 days after the missed payment. She asked for agency comment on the issue.

Ms. Anderson started with the agency in July 2002 and was aware of an audit report and of some of the issues that were identified. She stated that staffing and the alignment of duties was significant to debt collection and that technology had been an asset to coordinate their reports. Ms. Anderson stated from 2000 the agency had experienced a turnover of staff. She explained her position, deputies, and a management analyst started on the same day she had. That was all she could offer to address the issue from 2002.

Chair Leslie stated it was disheartening that all the work done to produce the audit, all the work the agency had done to correct the problems, and less than 10 years later the process needed to be repeated. She commented that Ms. Anderson seemed to understand the importance of the audit as noted in the agency response to the report.

Assemblyman Grady had heard complaints that some financial institutions were given appraisals in amounts that would not be considered an independent appraisal. He asked if Ms. Anderson was aware of such complaints. He also asked if the problem was centered in just one area.

Ms. Anderson stated that was against the law and against the standards of practice for appraisers. She stated the Division had received similar complaints. She explained the agency had submitted legislation during the 2009 Session that addressed the issue. She had attended an appraiser regulatory conference in Washington DC recently which addressed this as a nationwide issue.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, REAL ESTATE DIVISION. THE MOTION WAS SECONDED BY ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

At 11:47 am Chair Leslie called for a short intermission in the meeting.

At 11: 56 am Chair Leslie called the meeting back to order.

***Item 4—Presentation of six-month reports (NRS 218.8245)***

Mr. Townsend stated 17 six-month reports would be presented. He noted that the Chief Deputy would normally present these reports, however Mr. Steve Wood had recently retired after 31 years of service. Mr. Townsend stated he would be presenting the reports.

**A. Office of Lieutenant Governor**

Mr. Townsend introduced Shannon Ryan, Audit Supervisor, to present the report.

Ms. Ryan explained in May 2008, auditors issued an audit report on the Office of Lieutenant Governor. NRS 218.8245 provides that the Office will issue a report on the status of the recommendations. The Office reported in February 2009, regarding the four audit recommendations contained in the audit report. Based on auditor review all four recommendations had been fully implemented. Auditors had no questions for the Office.

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE OFFICE OF LIEUTENANT GOVERNOR. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

## **B. Office of Attorney General**

Mr. Townsend introduced Shannon Ryan, Audit Supervisor, to present the report.

Ms. Ryan explained in December 2008, auditors issued an audit report on the Office of Attorney General. NRS 218.8245 provided the Office would issue a report on the status of the recommendations. The Office reported in September 2009, regarding the nine recommendations contained in the audit report. Based on auditor review all nine recommendations had been fully implemented. Auditors had no questions for the Office.

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT  
ON THE OFFICE OF ATTORNEY GENERAL. THE MOTION WAS  
SECONDED BY ASSEMBLYMAN GRADY AND CARRIED  
UNANIMOUSLY.

## **C. State Board of Finance**

Mr. Townsend introduced Rocky Cooper, Audit Supervisor, to present the report.

Mr. Cooper explained in May 2008, auditors issued an audit report on the State Board of Finance. The six-month report prepared by the State Board of Finance explained the status of the one recommendation. Based on auditor review of the report, the audit recommendation concerning adoption of regulations was partially implemented. In July 2009, the Board submitted proposed regulations to the Legislative Counsel Bureau for review. As an update to this letter those regulations have been approved and adopted effective October 27, 2009. Therefore, auditors had no questions for the Board.

Chair Leslie asked if this concluded the audit as the Board had accepted the recommendation, submitted the regulations, and the regulations were approved.

Mr. Cooper agreed.

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT  
ON THE STATE BOARD OF FINANCE. THE MOTION WAS  
SECONDED BY ASSEMBLYMAN GRADY AND CARRIED  
UNANIMOUSLY.

## **D. Department Employment, Training and Rehabilitation, Rehabilitation Division, Bureau of Disability Adjudication**

Mr. Townsend introduced Jane Bailey, Audit Supervisor, to present the report.

Ms. Bailey explained in May 2008, auditors issued an audit report on the Bureau of Disability Adjudication in the Rehabilitation Division. The Bureau filed its plan for corrective action in August 2008. The six-month report was prepared in February 2009

by the Department of Administration on the status of the eight recommendations contained in the audit report. The Department of Administration indicated that seven of the eight recommendations were fully implemented and one was partially implemented. Based on further discussion with the Bureau and review of documents provided by the Bureau, auditors had determined the partially implemented recommendation was now fully implemented. Auditors had no questions for the Bureau.

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION, REHABILITATION DIVISION, BUREAU OF DISABILITY ADJUDICATION. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

#### **E. Department of Health and Human Services, Information Technology Security**

Mr. Townsend introduced Doug Peterson, Information Systems Audit Supervisor, to present the report.

Mr. Peterson explained in May 2008, auditors issued an audit report on the Department of Health and Human Services, Information Technology Security. The six-month report prepared in February 2009, by the Department of Administration indicated that 11 of the 13 audit recommendations were fully implemented, and 2 were partially implemented. In September 2009, auditors received an update on the status of the two partially implemented recommendations. Based on review and correspondence with the Department, all recommendations have now been fully implemented. Auditors had no questions for the Department.

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, INFORMATION TECHNOLOGY SECURITY. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

#### **F. Department of Business and Industry, Nevada Attorney for Injured Workers**

Mr. Townsend presented the report.

Mr. Townsend stated that Mike Spell had been the Audit Supervisor on this report but had retired this past year with 29 years of State service. Mr. Townsend stated he would be presenting the report.

Mr. Townsend stated the six-month report prepared by the Department of Administration indicated that two recommendations were fully implemented and one was partially implemented. Auditors followed up in September 2009, with the Nevada

Attorney for Injured Workers. The agency provided an update and auditors verified that the final recommendation was fully implemented. Auditors had no questions for the agency.

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, NEVADA ATTORNEY FOR INJURED WORKERS. THE MOTION WAS SECONDED BY ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

### **G. Department of Public Safety, Records and Technology Division, Records Bureau**

Mr. Townsend introduced Rick Neil, Audit Supervisor, to present the report.

Mr. Neil explained in September 2008, auditors issued an audit report on the Records Bureau within the Department of Public Safety's Records and Technology Division. The report contained nine recommendations to improve the Bureau's sex offender registry, civil applicant background check process, and backlogs of court dispositions in juvenile criminal fingerprint cards. The six-month report received from the Department of Administration in June 2009, indicated six recommendations were fully implemented and three recommendations were partially implemented. In September 2009, auditors requested an update on the partially implemented recommendations. Mr. Neil noted that the partially implemented recommendations were still partially implemented. Based on auditor review of the information provided, full implementation of the recommendations would involve making improvements to the agency's information technology systems which would require more time to implement. Mr. Neil believed the agency was making progress toward implementing the recommendations. Therefore, auditors had no questions for the agency.

Chair Leslie asked when the Committee would receive an updated report on the status of the partially implemented recommendations.

Mr. Paul Townsend stated several agencies had some remaining partially implemented recommendations. Auditors would continue to monitor the status on the recommendations and would report back to the Committee. He added, if necessary the agency would be asked to return to a future meeting of the Audit Subcommittee.

Chair Leslie asked if the agencies would be included on the next agenda.

Mr. Townsend replied not necessarily, however auditors would monitor the agencies for progress. He explained some of these cases required working with the Administrative Office of the Courts on updating court dispositions. He stated that auditors would be in communication with the agencies to track their progress.

Chair Leslie stated this was very important. She understood if the agencies were attempting to, but could not fully implement the recommendations due to circumstances

out of their control. Chair Leslie requested that these agencies be asked to return to a future meeting for Committee review.

Mr. Townsend agreed. He added Audit staff would track agency progress and prior to the next legislative session he would communicate with the money committees on audit recommendations that remained partially implemented open over the past biennium.

Chair Leslie called for questions from the Committee.

Senator Coffin asked why it was taking the agencies so long to fully implement recommendation number 3 which was to develop the capability for law enforcement to search the sex offender registry using the data fields required by state law. The report indicated the agency would fully implement the recommendation by June 2010. He stated the audit was terminated in September 2008. He asked if auditors had confidence that the agency would fully implement this recommendation. He asked why the recommendation was not already fully implemented.

Mr. Neil stated he thought the delay was due to the amount of time required to implement improvements to their information technology system. He explained the agency states work on enhancements would be funded by a recently awarded federal grant. Mr. Neil stated the agency would now have to contract with a vendor to implement those enhancements. He thought that was contributing to the time to complete the project and fully implement the recommendation.

Senator Coffin thought he heard that it was taking a long time to implement the software. He asked if the agency was short of staff.

Mr. Neil requested that agency officials be asked to address the question.

Chair Leslie called for agency representatives to testify.

Ms. Julie Butler, Acting Division Chief and Records Bureau Chief, Records and Technology Division, stated to answer Senator Coffin's questions on what was taking so long she stated the Division was short of staff, particularly in the technology division. This past legislative session the agency had cut three programming positions, which had contributed to delays in implementing IT projects. She explained this project was being funded by a federal grant which included a lengthy public procurement process to select a vendor. The vendor started the project in July 2009. This included making extensive programming changes to their State's sex offender registry. She anticipated that recommendation 3 would be fully implemented by June 2010.

Senator Coffin asked whether there was a program already available that could have been used.

Ms. Butler replied they had purchased a commercial off-the-shelf program which was a computer application being utilized in many states. This program was used at the Las Vegas Metro Police Department and the Nye County Sheriff's Office. Since they use the same program they will have a truly state-wide solution to the sex offender registry.

Senator Coffin expressed concern that this recommendation would require another year to be fully implemented.



Chair Leslie shared Senator Coffin's concern. She stated Audit staff would continue to monitor the agency progress.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF PUBLIC SAFETY, RECORDS AND TECHNOLOGY DIVISION, RECORDS BUREAU. THE MOTION WAS SECONDED BY ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

#### **H. Department of Employment, Training and Rehabilitation, Nevada Equal Rights Commission**

Mr. Townsend introduced Rocky Cooper, Audit Supervisor, to present the report.

Mr. Cooper explained in December 2008, auditors issued an audit report on the Nevada Equal Rights Commission. The six-month report prepared by the Department of Administration indicated that as of September 2009, four recommendations were fully implemented and three recommendations were partially implemented. In October 2009, auditors determined that one of the three partially implemented recommendations was now fully implemented and implementation of the remaining two recommendations was delayed by the availability of funds. Because full implementation of these recommendations is contingent upon the availability of funding, auditors had no questions for the agency. Auditors would continue to monitor the status of the two remaining partially implemented recommendations.

Chair Leslie called for questions from the Committee.

Senator Coffin asked which two recommendations were partially implemented. He asked if the shortage of funds was from federal or state funds.

Mr. Cooper replied recommendation number 3 involved position upgrades. The agency employed two compliance investigators that were being paid less than what the Legislature had approved. The agency reported they had contacted the Department of Personnel regarding the upgrades but had not moved forward to request the funding. Recommendation number 4 involved federal funding. At the time auditors had made a recommendation to perform progress billings so they could accelerate funds into the state and potentially revert more to the General Fund. However, the federal funding had been cut by approximately 50% for this agency from a budgeted amount of \$637,000 to the contracted amount of \$336,000. With that decrease it was not prudent for the agency to seek these additional funds.

Senator Coffin wanted to be sure that NERC had not opened itself to some sort of liability for not upgrading the positions. He asked if this was a result of a personnel study that they were upgrading the positions.

Mr. Cooper replied in a previous legislative session the agency had requested an upgrade through the Legislature. The Legislature approved the upgrade. The agency did not implement the upgrading the positions.

Chair Leslie called for a motion.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION, NEVADA EQUAL RIGHTS COMMISSION. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

#### **I. Department of Business and Industry, Division of Mortgage Lending**

Mr. Townsend introduced Rocky Cooper, Audit Supervisor, to present the report.

Mr. Cooper stated in December 2008, auditors issued an audit report on the Division of Mortgage Lending. The six-month report prepared by the Department of Administration updated the status of the 13 audit recommendations contained in the report. Based on auditor review, all recommendations have now been fully implemented. Mr. Cooper appreciated the Division's efforts in implementing the audit recommendations. He stated the Department of Administration's six-month report would be used in the next audit of the Division.

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, DIVISION OF MORTGAGE LENDING. THE MOTION WAS SECONDED BY ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

#### **J. Department of Public Safety, Division of Parole and Probation**

Mr. Townsend introduced Dennis Klenczar, Deputy Legislative Auditor, to present the report.

Mr. Klenczar stated in February 2008, auditors issued an audit report on the Division of Parole and Probation that contained 21 audit recommendations. The six-month report prepared by the Department of Administration in November 2008, indicated that 17 recommendations were fully implemented and 4 recommendations were partially implemented. In September 2009, auditors determined that three of the four partially implemented recommendations were now fully implemented. Mr. Klenczar noted the Division has now implemented 20 of the 21 recommendations and that all recommendations applicable to offender supervision had been fully implemented. He expressed appreciation for the Division's efforts. However, the one partially implemented recommendation addressed the process for submitting past due accounts receivable to outside collection agencies. The Division indicated that a web based program was being developed to provide the bad debt information to the Controller's Office in a format required by the Controller's Office. The Division anticipated this recommendation would be fully implemented by June 30, 2010. He stated because full implementation of this recommendation is contingent on completion of a customized computer program, auditors had no questions for the Division at this time.

Chair Leslie stated it was good to hear that the supervision issues had been addressed. She appreciated the report.

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF PUBLIC SAFETY, DIVISION OF PAROLE AND PROBATION. THE MOTION WAS SECONDED BY ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

#### **K. Department of Public Safety, Training Division**

Mr. Townsend presented the report.

Mr. Townsend stated the agency filed a plan for corrective action in December 2008. The six-month report from the Department of Administration indicated that all 12 audit recommendations had been fully implemented. He expressed appreciation for the Division's efforts. Auditors had no questions for the Division.

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF PUBLIC SAFETY, TRAINING DIVISION. THE MOTION WAS SECONDED BY ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

#### **L. State Public Works Board**

Mr. Townsend presented the report.

Mr. Townsend stated the audit was issued in December 2008. The six-month report from the Department of Administration indicated that nine of the ten recommendations had been fully implemented and one recommendation was partially implemented. Mr. Townsend stated this involved the development of procedures to help ensure overtime and leave records were properly recorded on employee timesheets. He stated the Board had been working on developing formal procedures and obtaining additional training and the agency expected to have full implementation of this recommendation by June 2010. Mr. Townsend stated auditors would monitor the status of this recommendation and report back to the Committee.

Chair Leslie was surprised that the Board needed nine more months to implement this recommendation. She stated it did not seem like it would be that tough to accomplish.

Mr. Evan Dale, Deputy Manager of Administrative, Fiscal and Constructional Services, State Public Works Board, reported that the recommendation was now fully implemented. He noted that payroll staff had attended a training class. He added the Board considered this recommendation fully implemented.

Chair Leslie stated auditors would contact the Board to ensure they concurred that the recommendation was now fully implemented

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE STATE PUBLIC WORKS BOARD. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

**M. Department of Health and Human Services, Division of Health Care Financing and Policy**

Chair Leslie noted that the Committee members had a hand out at their desks about this item.

Mr. Townsend stated the information had been provided just the day before so it was forwarded to the Committee at the meeting. He believed there was an agency representative present and requested that this person come forward to testify.

Mr. Townsend introduced Shannon Ryan, Audit Supervisor, to present the report.

Ms. Ryan stated in February 2008, auditors issued an audit report on the Division of Health Care Financing and Policy. The Department of Administration reported that 16 of the 18 recommendations had been fully implemented in its six-month report. Auditors requested an update and found that only one recommendation remained partially implemented. Recommendation number 9 stated that the Division should develop procedures to identify Medicaid recipients having retro-active enrollment in Medicare and recover appropriate claims. The finding in the report stated that auditor review of claims found that dual eligible recipients enrolled in Medicare retroactively were not always identified as dual eligible by the Division. The Department of Administration reported the Division had requested its contractor make computer system changes that would identify Medicaid recipients that have retro-active enrollment in Medicare and had drafted audit procedures to help ensure the appropriate claims are recovered. The Division reported to auditors that system changes had not yet been completed.

Ms. Ryan stated auditors would ask the Division when programmers would be available and how long the Division anticipated the change would take.

Ms. Lynn Carrigan, Administrative Services Officer, Division of Health Care Financing and Policy, indicated that engineers had developed the capacity to identify the retro-active Medicare enrollees. The Division did not yet have a monthly report in place although information could be requested on an ad-hoc basis. She stated the Division could not have a truly functional system until monthly reports were produced so that the reports could be utilized by staff. She was hopeful that that would occur within three months. Ms. Carrigan explained that other priorities sometimes superseded the project. She gave examples such as ARRA and the development of prompt pay reports had been higher priorities to the Division.

Chair Leslie asked if Ms. Carrigan thought the reports would be available within three months to fully implement the recommendation.

Ms. Carrigan stated that was the current plan.

Mr. Townsend stated auditors would monitor the agency and if necessary request that the Division return to a future Committee meeting.

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, DIVISION OF HEALTH CARE FINANCING AND POLICY. THE MOTION WAS SECONDED BY ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

#### **N. Department of Corrections, Inmate Programs, Grievances, and Access to Health Care**

Mr. Townsend introduced Rocky Cooper, Audit Supervisor, to present the report.

Mr. Cooper stated in September 2008, auditors issued an audit report on the Department of Corrections, Inmate Programs, Grievances, and Access to Health Care. The six-month report prepared by the Department of Administration on the status of the 31 recommendations contained in the audit report. As of June 2009, 17 recommendations were fully implemented and 14 were partially implemented. In October 2009, the Department of Corrections provided an update on the status of the 14 partially implemented recommendations. Based on auditor review of the information provided by the Department, three more recommendations had been fully implemented. In addition, documentation was provided showing substantial progress on several of the partially implemented recommendations. A list of partially implemented recommendations was included with the report to the Committee on the status of the partially implemented recommendations. The list shows the anticipated dates for full implementation of the remaining 11 audit recommendations. Because the anticipated date for full implementation of most recommendations is in 2010, auditors plan to monitor the Department's progress and update the Committee at a future meeting. However, auditors have concerns regarding the anticipated date for full implementation of audit recommendation number 2. Recommendation number 2 was made to address assessments of correctional programs not performed. NRS 209.389 requires the Board of Prison Commissioners to establish by regulation correctional programs. In addition the regulations must provide an assessment of these programs at least every three years. However, assessments of correctional programs, substance abuse, and re-entry programs had not been performed. Auditors recommended the Department develop policies and procedures for conducting required assessments of correctional programs every three years. According to the Department it does not anticipate full implementation of this audit recommendation until September 2013. The Department also indicated that funding for additional staff may be necessary to create, conduct, and

follow-up on assessments. In addition, programming changes would be necessary in the Department's NOTIS system. Auditors had two questions for the Department.

Chair Leslie called for agency representatives to testify.

Mr. Cooper stated the first question was to ask the Department if it had identified and started to collect the data necessary to perform the assessments. The second question was to ask the Department if it had considered prioritizing assessments or performing assessments on a certain number of programs each year so it could begin to comply with state law.

Mr. Don Helling, Deputy Director, Department of Corrections, stated currently the best data available on programs was the merit credit entry. He explained when an inmate successfully completed a program or class; credits were posted to reflect their completion. He stated the Department utilized these entries to determine recidivism, grievance data, and disciplinary data for offenders who received credits. The Department could also determine the history of programs the offender completed based on the same credit entries. Mr. Helling noted the Department could not determine when an offender started the program, attendance in the program, program failures, etc., because the data was not entered at this time.

Chair Leslie stated that Mr. Helling might be missing the point of the recommendation. As she understood it, the recommendation required an assessment of the program.

Mr. Cooper replied auditors were looking for an assessment of the program to determine whether the program was effective in accomplishing its goals and whether evaluation instruments were in place. Mr. Cooper reiterated auditor concern with question number 1 was if the Department did not have data collection methods in place by 2013, then the Department would not have the data to measure performance.

Mr. Helling stated the Department could have policies and procedures in place for the assessments in the data collection. The problem with doing the assessments was related to staffing and time issues. He added in Oasis and Arch (substance abuse programs) there was already an assessment done on an annual basis because of the requirement in the federal grants they were using.

Chair Leslie stated that was a certification process.

Mr. Helling agreed. He added the Department collected recidivism data on those programs manually. At the end of the year staff goes through the records for all those offenders that had graduated and checks for recidivism. He stated the data was available but assessing the data was challenging. He explained the report was developed to include an education priority system based on factors. Mr. Helling stated they were having a problem retrieving the data which required program changes.

Chair Leslie asked about September 2013 as the date for full implementation.

Mr. Helling stated it might require additional funding that would be requested during the 2011 Legislative Session.

Chair Leslie asked for information in regard to the implementation date of September 2013. There was concern that would enable the Department to put off working to

develop a plan to implement the recommendation for years. She asked if they had a prioritization and requested that Mr. Helling meet with the auditors to discuss a plan to implement the recommendation.

Mr. Howard Skolnik, Director, Department of Corrections, stated September 2013, was picked because the Department anticipated requesting funding from the 2011 Legislature to pay for the programming changes and would require additional time for the Department to implement the program changes.

Chair Leslie asked that the Department provide a written plan to assure the Committee that implementation of the recommendation would be started before September 2013.

Mr. Skolnik stated that would be done.

Mr. Helling stated they had made progress. He explained the Department had hired a new re-entry coordinator and a new substance abuse coordinator. He added the Department still had 20 vacancies in the Program Division out of 91 positions which impacted their ability to deliver programs.

Chair Leslie stated the Committee did not want to lose track of this recommendation.

Mr. Helling agreed.

Chair Leslie asked for additional comments from Audit staff.

Mr. Cooper stated the Department had made substantial progress on the partially implemented recommendations. He stated given the information the Department had provided demonstrated they were taking the implementation of the audit recommendations seriously and had provided good documentation. Auditor concern was the 2013 implementation date. He added the Department had done a good job with available resources. He recommended that the Committee have the Department return to a future meeting to follow up on the other remaining partially implemented audit recommendations. Mr. Cooper added that the Department had fully implemented 20 of the 31 recommendations.

Chair Leslie appreciated that the Department was making an effort to implement the recommendations.

Chair Leslie called for questions from the Committee.

Senator Coffin stated this was one of those Pogo moments where we have met the enemy and it is us. The Department has a problem with money. The Legislature did not authorize enough money for them to do some of these things. We did not raise enough taxes to get the money. He supposed the Legislature would have the fingers pointed at them for what taxes they did raise, but they will also have fingers pointed at us for the agency not being able to comply with the statutes and legislative directives because we did not give them enough money. So it is real circular here. And actually the date of 2013 is actually a very practical answer. It is an honest answer which we don't always get because everyone wants to make us happy. He added the Department was also dealing with the furlough problem and they are going to need millions more essentially more than was reserved to be able to handle that problem and he reflected they would be addressing the issue on November 19, 2009, at the IFC

meeting. He added another thing that is frustrating is that some of these programs are the kinds of things that generate credits for inmates, which would then allow them to be discharged earlier if they were successful. But if they cannot complete the programs and we cannot account for them completing programs, or partially completing them then we cannot discharge them and therefore it costs us money to keep them. He added the Legislature is at fault for not giving the Department enough money to do this thing and it is a monster to put a lot of money into prisons versus education but he did not see any other alternative. He added this was his observation.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF CORRECTIONS, INMATE PROGRAMS, GRIEVANCES, AND ACCESS TO HEALTH CARE. THE MOTION WAS SECONDED BY ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

#### **O. Office of the Military**

Mr. Townsend introduced Jane Bailey, Audit Supervisor, to present the report. He offered that a representative of the Office of the Military was present at the meeting.

Ms Bailey stated in February 2008, auditors issued an audit report on the Office of the Military. The six-month report from the Department of Administration from November 2008 on the status of the eight recommendations in the audit report indicated that five recommendations had been fully implemented. Based on further discussion with officials at the Office, auditors had determined that two additional recommendations were now fully implemented. The one remaining partially implemented recommendation was for the Office to monitor reports regarding delinquent performance evaluations, supervisor training, and hold supervisors accountable. The Office had reported that it would hold supervisors accountable through their appropriate chain of supervision, however the Office reports that not all performance evaluations were current and that not all supervisors had received the required training. The Office reported that it expected this recommendation to be fully implemented by December 31, 2009. Ms. Bailey asked if the Office still anticipated that this recommendation would be fully implemented by the end of 2009.

Mr. Miles Celio, Administrative Services Officer, Office of the Military, stated the Office believed that the recommendation would be fully implemented by the end of 2009.

Chair Leslie stated that the information would be checked by Audit staff to ensure the full implementation of this recommendation.

Ms. Bailey stated auditors would monitor the implementation of the recommendation and ask the Office to return to a future Committee meeting if necessary.

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.



SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE OFFICE OF THE MILITARY. THE MOTION WAS SECONDED BY ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

**P. Department of Public Safety, Nevada Highway Patrol**

Mr. Townsend introduced Rick Neil, Audit Supervisor, to present the report. He noted a representative from the agency was in attendance at the meeting.

Mr. Neil stated in February 2008, auditors issued an audit report on the Department of Public Safety, Nevada Highway Patrol (NHP). The report contained eight recommendations to improve the NHP's administrative practices related to personnel management, inventory control over equipment, and accountability over fuel and other credit cards. The Department of Administration's six-month report in November 2008, indicated that five recommendations were fully implemented and three recommendations were partially implemented. In September 2009, auditors requested an update on the status of the three partially implemented recommendations. Based on auditor review of the information provided by the Department, only one recommendation remained partially implemented. He stated recommendation number 5 required the Office to conduct a complete count of property and equipment annually, reconcile counts to state property records, and notify State Purchasing when property was disposed of. This recommendation was the result of various problems including some record keeping issues with weapons. NHP had indicated they had reconciled all assets over \$5,000 and assets valued between \$1,000 and \$5,000 for its northern and central commands. However, the Department has continued to work with the southern command on reconciling assets valued between \$1,000 and \$5,000. Mr. Neil asked when NHP anticipated completing a reconciliation of inventory counts of assets in its southern command to state property records.

Mr. Brian Sanchez, Deputy Chief, Nevada Highway Patrol Division, Department of Public Safety, Northern Command, stated inventory of the southern command would begin in November 2009. He projected the inventory of the southern command would be completed at the end of the third quarter of this fiscal year.

Chair Leslie stated that would be April 2010. She questioned that it would take that long to fully implement the recommendation.

Mr. Sanchez replied yes.

Chair Leslie asked auditors if the implementation date sounded reasonable.

Mr. Townsend recognized the southern command was the largest in the State. The audit had been out for a while now and he appreciated that the Department was moving to implement the recommendation at this time. He stated auditors would continue to monitor the Department.

Chair Leslie stated the Department should be able to comply by this date.

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF PUBLIC SAFETY, NEVADA HIGHWAY PATROL. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

**Q. Department of Public Safety, Division of Emergency Management**

Mr. Townsend introduced Jane Bailey, Audit Supervisor, to present the report. He stated a representative from the Department was in attendance at the meeting.

Ms. Bailey stated in September 2008, auditors issued an audit report on the Division of Emergency Management (DEM). The six-month report prepared in June 2009, by the Department of Administration indicated seven recommendations were fully implemented and three recommendations were partially implemented. She noted the three partially implemented recommendations were listed in the information provided to the Committee. She explained recommendation number 3 was for the Division to continue with the implementation of the new system that would allow for tracking emergency equipment and resources, develop procedures for using and maintaining the system, and ensure that more than one employee knows how to use and maintain the system. The audit found that the Division of Emergency Management did not have a comprehensive process to track equipment purchased by state and local agencies with federal Department of Homeland Security funding. She explained the equipment might be needed during an emergency incident and a system that quickly identifies and provides the location of equipment and supplies could help minimize the impact of disasters. She stated that the Division had used a computer database to track emergency equipment. According to management the employee who maintained and updated the information retired and the vendor of the system went out of business. Since DEM did not have written procedures explaining how to update and maintain the database, they stopped using it. DEM contracted with a vendor to include an inventory management module in a new database and the completion date on the contract amendment was September 2008. However, in September 2009, DEM management indicated they had not developed detailed procedures and policies because the state-wide resource management program was still in the project status and was not due to be completed until mid to late 2010. Ms. Bailey would ask DEM why the completion date for the inventory management system had been delayed for nearly two years.

Mr. Frank Siracusa, Chief, Division of Emergency Management, stated he wanted to explain two parts of this particular finding. The one part was to maintain the database of all equipment purchased with Homeland Security grant dollars. He explained the Division had a process in place through an Excel spreadsheet that was online, operational, and fully functional. The Division had several staff trained to maintain a complete inventory of all equipment purchased from grant dollars.

Mr. Siracusa stated the second part addressed a state-wide resource database in all counties for all disciplines which was a much larger and involved process than the other database and was online as a web based program. He added that all fire resources in the State were within that system. The agency projected September 2010 to ensure the Division had enough time to adequately implement all of the policies and procedures.

He explained that policies and procedures were in place for fire resources but the Division was building it to cover all other disciplines. He stated the Division had received input into the system from several counties.

Chair Leslie interrupted to state that the recommendation was about emergency equipment. The Division had an Excel spreadsheet. She asked if the information would be transferred to the new database.

Mr. Siracusa stated no. He explained the database was a requirement for the Homeland Security grants that the Division maintain a record of all equipment purchased with grant dollars. The resource database included resources such as fire trucks, police cars, and such emergency equipment throughout the State. The information was being compiled into one major database to enable local governments to review equipment available throughout the State. He explained the first part was complete and operational. He noted it was taking additional time to build the state-wide database as it involved all counties and local governments.

Chair Leslie understood that. She asked Ms. Bailey to comment on the testimony from Mr. Siracusa.

Ms. Bailey stated there were two different types of requirements to be met. One was the National Incident Management System (NIMS) and the other was to track equipment purchased with federal Homeland Security funds. She offered that made sense. She stated prior to the audit report being released or fieldwork being completed, the Division had contracted for a Web EOC program and then amended the contract to include inventory management.

Ms. Bailey stated the Division 60 day plan for corrective action indicated an additional contract for another system for inventory management that would require an additional 2 years to implement, whereas the Web EOC program was supposed to be completed now. She asked whether the additional program was in addition to the Web EOC or if the Web EOC inventory management was never used.

Mr. Siracusa stated the Web EOC program was contracted and purchased to manage the state emergency operations center and missions and deploy resources was one program. He added the Web EOC resource manager was a specific module to the Web EOC program that specifically dealt with resources, a database of resources, and the deploying of resources. He stated they were two different programs and was just a matter of populating that program with the necessary resources from the county. Time consuming events included training the local governments to ensure the information was updated. He reiterated this was a big project. He assured the Committee the Division was working diligently to fully implement the recommendation.

Chair Leslie asked Ms. Bailey if the explanation answered auditor questions.

Ms. Bailey stated she was still not clear about the second program in the amount of \$500,000.

Mr. Siracusa stated there could have been some miscommunication as these were the two programs in the Department.

Chair Leslie stated the Department needed to work on the issue. She asked Ms. Bailey to follow up with the agency.

Ms. Bailey continued. Recommendation number 7 was in regard to the pre-approval of overtime worked. The audit reported that overtime work was not always pre-approved or documented per agency policy. DEM management maintained that its policy requires that overtime and comp time be approved prior to being earned. The Department of Administration reported in its six-month report that a sample of payroll documents disclosed instances where prior approval was not evident. Ms. Bailey requested why all approvals of overtime were not documented.

Mr. Siracusa assured the Committee that the deficiencies had been corrected; the Division was tracking overtime; and the recommendation was fully implemented.

Chair Leslie asked the auditors to follow up on the issue to ensure the recommendation was fully implemented.

Ms. Bailey continued. Recommendation number 10 concerned employee evaluations and supervisor training. The audit reported that personnel files for four of six supervisors did not contain documentation that they had received required training for performance evaluations, disciplinary procedures, and handling grievances. The Department of Administration reported that supervisors had completed most of the training and the remaining courses were being scheduled. In September 2009, DEM management indicated that most of the training had been completed. Ms. Bailey would ask when did DEM anticipate that all supervisors would complete the mandatory training.

Mr. Siracusa stated that all supervisors with the exception of one had completed the training and that was himself. He stated the training had been scheduled and cancelled several times. He anticipated the training would be completed.

Chair Leslie asked when he was scheduled for the training.

Mr. Siracusa stated it would take five to six-months for him to complete the training.

Chair Leslie stated he was the most important supervisor in the Department. She emphasized he needed to complete the training.

Mr. Siracusa agreed.

Ms. Bailey stated auditors would continue to monitor the implementation of the three partially implemented recommendations. The Department would be asked to return to a future Committee meeting.

Chair Leslie agreed. She called for questions from the Committee.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT  
ON THE DEPARTMENT OF PUBLIC SAFETY, DIVISION OF  
EMERGENCY MANAGEMENT. THE MOTION WAS SECONDED BY  
ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

***Item 5—National State Auditors Association Report on Nevada Legislative Auditor's System of Quality Control***

Mr. Townsend explained that the Audit Division is required to have an external review every three years. He stated results of the most recent external quality control review was provided to the Committee. He stated the Audit Division conducts audits in accordance with government auditing standards issued by the Comptroller General of the United States. These standards provide a framework for performing high quality audit work with competence, integrity, objectivity, and independence. The standards require that an external quality control, also referred to as a peer review, be conducted every three years. He stated the most recent review was conducted in August 2009, by very experienced auditors from the states of Maryland, Tennessee, New York, and Hawaii. The results of the review were discussed in the letter included in the Committee meeting packet. The team concluded that the Audit Division's system of quality control provided reasonable assurance of conforming to government auditing standards. He stated the report was very positive. Mr. Townsend added he was very proud of the staff and the work they did in meeting these very rigorous standards. The standards also require that results of the review be provided to an oversight body. Mr. Townsend stated the Legislative Commission met in August 2009, and accepted the report. He wanted to provide the results to the Committee as well, noting it was not necessary for the Committee to take any action on it.

Chair Leslie stated the Committee would like to take action on the report. She commended Mr. Townsend and all of the Audit staff. She also recognized the new Audit staff. She acknowledged that Mr. Townsend had recognized two auditors, Mr. Spell and Mr. Wood, who had given the State great service and had recently retired.

Chair Leslie had related to Assemblyman Grady, the newest member of the Committee, how impeccable the Audit staff was, adding the audits were objective and true. She appreciated this work.

Assemblyman Grady thanked Mr. Townsend. Since he was notified that he was to be a member of the Committee, he had spoken to Mr. Townsend several times and it was always followed with an offer to provide additional information. He thanked Mr. Townsend for all the attention given to him to help him transition as the new member of the Committee.

Chair Leslie called for additional comments from the Committee.

Chair Leslie called for a motion to accept the report and also a commendation from the Committee to all of the Audit Staff for a job very well done.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE NATIONAL STATE AUDITORS ASSOCIATION REPORT ON NEVADA LEGISLATIVE AUDITOR'S SYSTEM OF QUALITY CONTROL AND TO COMMEND AUDIT STAFF FOR A JOB VERY WELL DONE. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

**Item 6—Public Comment**

Chair Leslie asked for public comment. There was none.

Chair Leslie asked Mr. Townsend when he anticipated the next Committee meeting would be held.

Mr. Townsend stated the next meeting would be in February 2010.

Chair Leslie noted there were no further comments.

The meeting was adjourned at 1:00 p.m.

Respectfully submitted,

Donna Wynott, Audit Secretary

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Assemblywoman Sheila Leslie  
Chair of the Audit Subcommittee  
of the Legislative Commission

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