

MINUTES OF THE MEETING OF THE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
Legislative Building
401 South Carson Street, Room 4100
December 14, 2006

This is the fifth meeting of the 2005-2006 Interim.

A meeting of the Audit Subcommittee of the Legislative Commission (NRS 218.6823) was called to order by Assemblywoman Sheila Leslie, Chair, at 9:58 a.m., Thursday, December 14, 2006, 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
Assemblyman John Marvel, Vice-Chair
Senator Dean A. Rhoads

Las Vegas:

Assemblyman Morse Arberry Jr.
Senator Bob Coffin

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Paul Townsend, Legislative Auditor
Stephen Wood, Chief Deputy Legislative Auditor
Donna Wynott, Office Manager
Kim Arnett, Deputy Legislative Auditor
Jane Bailey, Audit Supervisor
Tim Brown, Audit Supervisor
Rocky Cooper, Audit Supervisor
Stephany Gibbs, Deputy Legislative Auditor
Dennis Klenczar, Deputy Legislative Auditor
Gary Kulikowski, Deputy Legislative Auditor
Sandra McGuirk, Deputy Legislative Auditor
Rick Neil, Audit Supervisor
Doug Peterson, Information Systems Audit Supervisor
Lee Pierson, Deputy Legislative Auditor

Assemblywoman Sheila Leslie, Chair, noted the meeting was delayed due to technical difficulties. The roll was taken. A quorum was present.

Item 1—Approval of minutes of the meeting held on September 21, 2006

Chair Leslie called for a motion.

ASSEMBLYMAN MARVEL MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF SEPTEMBER 21, 2006. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

Chair Leslie had received a request to begin the meeting with the audits of the Department of Corrections. She asked if the Committee took exception to this change. Hearing no objections the agenda items were heard in the following order:

- #1 f) Department of Corrections, Inmate Medical Services
- #2 e) Department of Corrections, Administration
- #3 d) Department of Corrections, Offender Trust Accounts
- #4 a) Report on Count of Money in State Treasury
- #5 b) Department of Motor Vehicles Information Technology Security
- #6 c) Department of Wildlife
- #7 g) Board of Homeopathic Medical Examiners

For purposes of continuity, the minutes appear in order of the agenda.

Item 2—Presentation of audit reports (NRS 218.823)

A. Report on Count of Money in State Treasury

Paul Townsend, Legislative Auditor, explained this report was a statutory requirement performed by the Audit Division. He introduced Kim Arnett, Deputy Legislative Auditor; and Tim Brown, Audit Supervisor, to present the report.

Ms. Arnett stated in accordance with the provisions of NRS 353.060, the money and securities in the State Treasury were counted on Friday, June 30, 2006. The count included physical examination, direct confirmation with financial institutions, and other procedures considered necessary to fulfill statutory obligations. In accordance with NRS 353.075, this report was filed with the Secretary of State on November 30, 2006.

On June 30, 2006, there was zero cash on hand, \$82 million on deposit with financial institutions, \$3.4 billion of state-owned securities, and \$979 million of securities held for safekeeping, for a grand total of \$4.5 billion.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE REPORT ON THE
COUNT OF MONEY IN STATE TREASURY. THE MOTION WAS
SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

Chair Leslie directed comments to Mr. Tim Brown, Audit Supervisor. She understood this was his last meeting with the Audit Subcommittee. She stated Mr. Brown had been an auditor for the State of Nevada for 27 years, 20 of those with the Legislative Counsel Bureau. She added Mr. Brown was also a veteran. Chair Leslie expressed appreciation for his service on behalf of the country. She also appreciated that Mr. Brown had worked on a number of audits for the Committee, some very difficult and important ones. For the State Single Audit he was the main person that had been involved in this project every year, and on behalf of the Audit Subcommittee and the Legislature she thanked him for his dedication and commitment to this important process.

Assemblyman Marvel expressed appreciation for the great work Mr. Brown had done and wished him well in his retirement.

Mr. Brown stated it had been a privilege to work for this body for the last 20 plus years and appreciated his time with the Legislative Counsel Bureau.

Chair Leslie stated Mr. Brown would be missed. She emphasized that she hoped Mr. Brown realized the huge contribution he had made to the state in his work, adding the Committee valued that work. She thanked Mr. Brown and wished him the best in his retirement.

B. Department of Motor Vehicles Information Technology Security

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

Mr. Peterson stated part of the Department's mission was to provide progressive and responsive service to the citizens of Nevada. He explained the Department continues to use the Internet for automating services which creates a need for increased security due to sensitive data being transmitted back and forth over the Internet. The report illustrated the number of transactions for vehicle registration and driver license renewals for fiscal years 2002 to 2006. Mr. Peterson stated the web transactions for vehicle registration renewals had increased 213% and the driver license renewals had increased 237% since fiscal year 2002.

The audit included a review of controls over the Department of Motor Vehicles' network, computers, and stored data during fiscal year 2006. He reported the Department had controls in place to protect its systems and data however improvements were needed. Mr. Peterson stated the Department computers needed critical security updates and various computers were missing critical software security updates. These included desktop computers, computers used to run the Department of Motor Vehicles' network, its web server, and computers that functioned as the Department's firewall. It was noted that Department officials indicated it was their intent to install these critical software security updates within one week of their release. Of the 87 computers sampled at field offices statewide, 17 (20%) did not have the expected critical software security updates installed. In addition, the Department's five network servers had not had critical security updates installed for over 16 months.

Mr. Peterson next addressed two key devices, the web server and the firewall. The web server used to host the Department's website allows customers to renew driver licenses and vehicle registrations without having to visit a DMV office. The Department accepted payment for these transactions via the website which allowed sensitive personal information to pass through this server. He explained firewalls filter network traffic that pass through them based on a set of rules that define acceptable traffic on the network. If the traffic was going to, or originating from an unacceptable address, that traffic would be discarded or blocked. Mr. Peterson stated auditors also found that the web server and the computers that act as firewalls were missing critical security updates.

Mr. Peterson continued the report noting antivirus protection was lacking on some computers. Of the 90 desktop and laptop computers sampled statewide at various field offices, it was found that 6 computers (7%) lacked adequate antivirus protection. Two of these computers had virus definitions that had not been updated in over 14 months.

One computer had no antivirus software installed. In addition, four servers lacked antivirus software.

Mr. Peterson noted password controls needed strengthening. Password control weaknesses on the various computers and servers at the Department included network settings which allowed six unsuccessful login attempts instead of the state standard of three; the web server had one account with a weak password and three accounts with non-expiring passwords; and password settings on the two computers that acted as firewalls set no minimum password length setting.

Mr. Peterson noted several areas where security over the Department's servers could be improved. The Department's web server was used to accept payments for vehicle and driver license renewals. It must meet standards established by the major credit card companies for encryption of sensitive data as it passes from the user to the Department using a web browser which were known as PCI standards. PCI standards require encryption keys be a minimum of 128 bits in length. Auditors found that the Department's web server allowed the use of keys with a length of 56 bits. While the Department had licensed an encryption key that met PCI standards, they were unaware of the weaker keys enabled on the system and had not disabled them. The Department promptly disabled the weak keys when notified of their existence. It was also found that the server still had sample applications installed as well as certain other features were enabled that increased the security exposure of the server.

Mr. Peterson reported the web server and firewall administration needed improvement. He explained the web server had 30 accounts and the firewall had 18 accounts with administrative privileges. An excessive number of administrator accounts could increase the security exposure of the devices and potentially lessen accountability. It was also found there were no written policies or procedures with regard to the administration of these devices.

Mr. Peterson reported access controls to the network and data needed strengthening. Additional areas that needed improvement included invalid network access. Auditors found 31 former employees had active user accounts. These employees were either terminated, left state service, transferred, or retired. He noted the Department indicated these employee accounts had been previously disabled but changes to the network caused these accounts to be re-enabled. The Department took immediate action to disable these accounts when notified.

It was found that excessive time was required to disable network access of former employees. Auditors found of 29 accounts of former employees that 13 (45%) were not disabled in a timely manner when employees left the Department. Ten of these accounts averaged 54 days before they were disabled. The Department's policy was to disable employee accounts within eight days of their leaving employment. The cause of this problem was that the Department's supervisors do not always submit the required IT security form to the Department's help desk in a timely manner.

Mr. Peterson stated programming staff had been granted update access to production data such as names, addresses, and social security numbers in order to facilitate making data fixes in a quick manner when a customer was waiting. However, there

were no controls in place to ensure that changes were made only when authorized. During the course of the audit, the Department implemented a solution to track changes made to sensitive production data tables.

The Department maintained a database of sensitive personal information based upon credit card payment transactions completed since February 2000. The information was stored unencrypted and could have been accessed by members of the 44 programmers and supervisors in the Department's IT area. An upgrade to the payment processing system was available that would encrypt the data. However, the Department had chosen not to purchase this upgrade since they were moving future transactions to a new system and payment data would no longer be stored in this database. The Department indicated in their response to the audit the information has now been purged from this database, which would satisfy the audit recommendation.

Mr. Peterson stated photo capture computers contained personal information. He explained each DMV field office used a computer with a special camera and printer to process driver licenses. This setup was through a contract with the Digimarc Corporation. As driver licenses were processed, personal data was encrypted and stored on drives attached to these computers. At the end of each day, the drives were removed from the computer and securely stored. The next day the previous day's files were supposed to be deleted.

Audit testing of the Digimarc system was performed in 10 field office locations around the state to ensure no old files were being stored on the computers or had any drives attached to them. Auditors found 321 files on a combination of removable disks, hard drives, and flash drives that contained personal information. The files dated from 2002 to the present. Of particular concern was the setup used by the Elko and Winnemucca DMV offices. Each office had a traditional computer system and a portable laptop system known as a traveler. The traveler was used when staff would visit remote locations such as Jackpot and Lovelock. The Elko and Winnemucca traveler systems combined, accounted for 242 of the 321 old files that were found. It should be noted that auditors were able to open these files and see names, addresses, and social security numbers for people who had renewed their driver licenses.

Auditors also found other removable disks that were still in the Digimarc computers, and others that were stored in office safes. Once this was brought to management's attention, the disks were removed to be erased or destroyed. The Department took immediate action when notified of this situation. They contacted Digimarc and a series of discussions ensued. Through these discussions responsibility was established for removing old files from the computers. An automated process was put in place to delete stray files at the end of the day.

Mr. Peterson stated testing was also performed to determine if background investigations had been done. Testing was focused on employees with routine access to sensitive data which included the Department's IT staff, outside vendors, contractors, and other offices with access to this data. Of the 52 IT staff, 13 employees did not have evidence of background investigations in their personnel files. Department management attested that these background investigations had been conducted;

however, there was no evidence in the personnel files to support this assertion. Additionally, testing found 23 non-state employees, including county assessor office employees, police departments, and auto dealership employees, did not have documentation of background investigations or signed security awareness documents which were a part of the state's standards.

The Department indicated that management would take action to complete the necessary background investigations and follow up with all outside entities regarding investigations and security awareness documentation.

Mr. Peterson reported the Department accepted the 13 audit recommendations.

Chair Leslie complimented the Audit Division on the technical expertise demonstrated in performing the audit. She asked for further information regarding the Digimarc issue. Chair Leslie asked about alternative solutions to discontinuing the traveler service.

Mr. Peterson stated auditors had discussions with the Department about the traveler service. He pointed out the audit recommended the Department treat the traveler service like their other systems in looking for old files. Mr. Peterson noted there were problems and difficulties in using the travelers as it was not as automated to delete those files because they were not always hooked up like the systems in a traditional field office. Mr. Peterson clarified that auditors recommended the Department review all of the computers including the traveler computers. He added discontinuing the traveler service or not was the Department's decision.

Chair Leslie commented it might be more of a risk for a few days. She wanted to clarify that the auditors were not recommending discontinuing the traveler program.

Mr. Peterson stated that was correct. He pointed out the traveler systems held the majority of the old files throughout the state and needed to be cleaned out.

Chair Leslie agreed stating the issue might be resolved by cleaning out the old files more often rather than by discontinuing service to the rural areas.

Assemblyman Marvel asked if any identity theft problems had occurred with these undeleted files.

Mr. Peterson stated auditors did not find any instances of data being taken from these systems. The Department had assured the auditors the issue had been addressed. He added auditors had discussions with the Department and conference calls between the auditors, the Department, and Digimarc Corporation to ascertain why this had occurred. Mr. Peterson assured the Committee that the Department took the issue very seriously.

Senator Rhoads asked if checks and balances existed within the state to ensure that social security numbers were not stolen and that they were valid.

Mr. Peterson replied the question would best be addressed by the Department. He added auditors found that controls were in place throughout the Department to protect its data. The audit report recommended improvements and ways to further secure information. Mr. Peterson stated the audit did not address what the entire state was doing in regard to identity theft.

Chair Leslie interjected that the Department would be asked to address the issue. Chair Leslie called for Department representatives to testify.

Mr. Clay Thomas, Deputy Director, Department of Motor Vehicles, acknowledged the professionalism and the technical expertise of the auditors and their ability to come in, look at their systems in great detail, and identify areas in which the Department could make improvements. By so doing the auditors made recommendations to improve systems and to protect the citizens of the state. He explained 10 out of the 13 audit recommendations had already been implemented, adding the Department accepted and would implement all of them. He echoed the Chair's sentiments in regard to the auditor's abilities. Mr. Thomas offered to answer questions from the Committee.

Chair Leslie asked Mr. Thomas to address Senator Rhoads' question in terms of how the state was protecting social security numbers and watching out for identity fraud.

Mr. Thomas agreed identity fraud was a hot ticket item. He explained for someone to receive a driver license the Department checked online with the Social Security Administration for verification that documentation presented was true and correct. Mr. Thomas stated the Department researches identity theft, document recognition, document identification, and document verification. He added the Department's fraud unit worked closely with other law enforcement agencies to identify individuals that might be illegally using documentation or attempting to use it in an improper manner.

Senator Rhoads asked if the DMV could check a social security number instantly when someone goes into the DMV.

Mr. Thomas replied yes, the information was checked online through the Social Security Administration at the time documentation was presented at DMV.

Assemblyman Marvel asked for information about the process used by the Department to locate fraud in regard to social security numbers.

Mr. Thomas replied it was an ongoing problem. He stated the Department's fraud and compliance enforcement investigators were kept busy with the amount of fraud. He explained individuals come to the DMV for identification such as to gain identification to allow them to be drinking age or to allow them to get a job or to have a driver license or actually to commit crimes such as identity theft or to alter who they were to avoid being caught by the criminal justice system.

Chair Leslie asked Mr. Thomas to address concerns about Elko and Winnemucca. She asked if the Department would be discontinuing traveler services to rural Nevada. She asked if the traveler service was not needed in these areas.

Mr. Thomas replied discontinuation of the service was being reviewed by the Department. He stated as the growth of the state continued the Department must find ways to best serve the citizens of the state in the most expedient manner. He explained the Department goes to five locations which consist of two teams, one in Elko and one in Winnemucca. He noted the areas serviced by these two teams. He stated on average for eleven months for calendar year 2006, the Department had produced approximately 1,063 transactions. Broken down by location and by the number of

months they averaged about 19 transactions per office. The Department must review whether that was the best utilization of resources to pull people out of the existing offices and transfer them out to some of the outlying areas or to use other methodologies to expedite the services.

Chair Leslie understood that the Department would review how often people needed the traveler services and whether that was the best use of staff time. She was disturbed that it looked like the Department had not considered other solutions in terms of what the auditors were recommending with Digimarc scanning the files to delete the old files on a more regular basis. She stated the Department's response to the audit recommendations indicated the Department was planning to discontinue the traveler service.

Mr. Thomas stated a major concern for the Department was the travel teams having unencrypted information during the time they are out on the road. He suggested that posed a potential danger of a scenario of staff being involved in an accident or the laptop being stolen. Mr. Thomas stated that could open up the possibility of fraud occurring. He stated the Department had spoken to Digimarc about the issue and found it was prohibited for them to encrypt the Department's current laptops. He stated the travel teams were aware of the sensitive information and were advised to do their best to secure the information at all times. The Department was also considering a central issuance operation at a central location for driver licenses which would eliminate travel teams

Chair Leslie interpreted Mr. Thomas' response that the Department would review the issue and would provide additional information during the follow-up report. She was aware the Department needed to protect rural residents along with the need to have access to DMV services. She understood the Department had to consider risk versus benefit versus need which must be factored into the decision, in addition to staffing issues. She stated she would like to see additional deliberation put into the issue.

Chair Leslie called for additional questions from the Committee. She called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE REPORT ON THE
DEPARTMENT OF MOTOR VEHICLES INFORMATION TECHNOLOGY
SECURITY. THE MOTION WAS SECONDED BY ASSEMBLYMAN
ARBERRY AND CARRIED UNANIMOUSLY.

C. Department of Wildlife

Mr. Townsend introduced Stephany Gibbs, Deputy Legislative Auditor, to present the report.

Ms Gibbs began the report with background information on the Nevada Department of Wildlife (NDOW) which described the purpose of the Department, the Board of Wildlife Commissioners, and its seven bureaus. Ms. Gibbs explained NDOW's total revenue was over \$45 million in fiscal year 2005; but when adjusted for intra-department transfers, bonds, and capital acquisitions; the net operating revenue was \$26.6 million.

Net operating expenditures were \$24.5 million for fiscal year 2005. The report also noted the Department's expenditures by program for fiscal years 2003 through 2005. After 3 years of operating losses, NDOW had a net operating income of \$2.1 million in fiscal year 2005.

Ms. Gibbs explained a report exhibit that outlined a 6-year trend of hunting and fishing licenses sold illustrated while the number of hunting licenses sold increased over 13%, the number of fishing licenses sold decreased dramatically by nearly 31%. Also, the number of tag applications had increased 32% but the number of tags issued decreased by 26% for hunt years 1999 through 2004.

The report outlined a description of NDOW's complex process to track federal grants. Illustrations in the report provided a high level view of the process from the annual federal apportionment through the federal reimbursement of costs incurred by state. The exhibit showed how unused federal authority could accumulate in subsequent years.

Ms. Gibbs stated the audit focused on license fee revenues and expenditures for fiscal years 2000 through 2005, with detailed testing of revenues and expenditures for fiscal years 2004 and 2005, and for grant monitoring issues as of June 30, 2006. The purpose of the audit was to evaluate NDOW's financial administrative practices including the correlation of revenues and expenditures; and the adequacy of controls over restricted revenues and certain expenditures.

Findings and recommendations noted that additional monitoring procedures would help maximize federal funds and control costs. It was estimated NDOW could have collected \$1.6 million in additional federal receipts during fiscal years 2004 and 2005. This loss could be attributed to an inefficient and incomplete grant monitoring system.

During fiscal year 2004, NDOW lost \$1.2 million in federal reimbursements because indirect costs were not charged to federal grants. Had indirect costs been charged for fiscal year 2004, NDOW could have had a net operating income of \$500,000. Further, NDOW reinstated the policy to charge indirect costs for a select group of grants in fiscal year 2005, and collected \$1.3 million in federal reimbursements. However, an additional \$210,000 could have been collected by either amending other grants or utilizing unspent grant funds. Ms. Gibbs noted that indirect cost reimbursement would not reduce direct program expenditures whenever US Fish and Wildlife Service Grants had sufficient unspent or unobligated funding authority. Maximizing federal reimbursements could also have a positive effect on the subsequent year's program expenditures. For every \$100,000 of additional reimbursement received and carried forward, the federal portion of grant expenditures could be increased by as much as \$300,000.

Auditors found the Department's system to monitor grant expenditures was cumbersome and lacked key information. Shortcomings of the three primary information sources were described in the report. It was noted that, although payroll was 61% of operating costs, it was not budgeted on the grant monitoring tools.

Ms. Gibbs stated the report included examples of how the inadequate grant monitoring system resulted in grant costs exceeding budgets and that allowable costs were not submitted for reimbursement. Auditors examined six large grants and found approximately \$152,000 of direct costs could have been reimbursed with better oversight.

Ms. Gibbs reported the audit showed a trend that the balance of unobligated federal funds was increasing. At June 30, 2006, NDOW's unobligated fund balance was over \$10.6 million. In order to have a reasonable balance of unobligated federal funds at the end of the federal fiscal year, NDOW needed to submit nearly \$6 million in grant applications by September 30, 2006. If this trend was to continue, NDOW would be at risk of losing a portion of the federal authority. However, subsequent to the close of the audit NDOW reported obligating an additional \$6.5 million prior to September 30, 2006. Ms. Gibbs emphasized that this subsequent information was not audited.

Ms. Gibbs stated the effectiveness of NDOW's grant monitoring system was also impacted by the extended absence of the chief fiscal officer, lack of monitoring procedures, and insufficient communication. In addition, the chief fiscal officer's position was reclassified to a non-financial position in 2006.

Recommendations were made for NDOW's grant monitoring system to develop procedures to assess indirect costs, implement a comprehensive grant monitoring system, and evaluate fiscal staffing levels.

The Department's procedures did not ensure restricted funds were properly controlled and, consequently, from fiscal years 2000 through 2005, approximately \$800,000 of restricted revenues was spent on expenditures that did not comply with NRS. This included \$536,000 of restricted funds that were inappropriately used to support the Water Development Program.

Ms. Gibbs reported that NRS restricts how certain revenues could be spent. This was illustrated in the report and showed the reported balance of four programs supported with restricted revenues at the end of fiscal year 2005. Ms. Gibbs reported some costs for these programs were paid through the Wildlife account. She added since fiscal year 2000, either too much or too little was transferred from the reserve account to cover actual expenditures. As a result, the Wildlife account owed the reserve account \$278,000 at the end of fiscal year 2005.

Ms. Gibbs continued, the report indicated the Department had not ensured that the game draw bank account administered by the game draw contractor was properly reconciled.

Ms. Gibbs indicated that a prior audit recommendation was made to ensure the account was reconciled on a monthly basis and monthly status reports were received and reviewed. However, NDOW did not have evidence that the reports were reviewed. The report indicated evidence of a large adjustment on the bank reconciliation and through discussion with the contractor, it was determined the adjustment reflected uncanceled, stale-dated checks. However, since not all stale-dated check activity was included, the adjustment was overstated and the ending balance should have been \$(579).

Furthermore, proper oversight would have significantly reduced the amount of outstanding checks. The report indicated the contractor carried 5,190 outstanding checks for \$357,050 on the reconciliation since 1993.

Recommendations were made to improve monitoring restricted revenues and to better manage the game draw bank account.

Ms. Gibbs noted of the 12 audit recommendations made in the 1998 audit, 1 audit recommendation relating to reconciling the game draw bank account was modified and repeated in this report. Appendices in the report provided detailed financial and sales information for exhibits in the report, included a glossary of federal aid terms, and details of unobligated grant funds as of June 30, 2006.

The agency accepted the nine audit recommendations.

The audit report also addressed the two findings regarding indirect costs that NDOW had noted disagreement in its response.

Ms. Gibbs offered to answer questions from the Committee.

Chair Leslie complimented Audit staff, noting the report involved very complicated issues. She called for questions of Audit staff by the Committee.

Chair Leslie commented that the root problem might be that the Department did not have a high level fiscal person. She noted in the report that the chief financial officer was called out on leave, came back, and then retired. And that position was reclassified to a non-financial position. She asked for comment about a replacement for the chief financial officer position.

Ms. Gibbs stated that was correct as stated.

Chair Leslie asked for additional comments on why this was done.

Ms. Gibbs deferred the question to the Department.

Senator Rhoads asked for additional information on the Department's financial status.

Ms. Gibbs replied the Department was presently in the black. At the end of fiscal year 2005, auditors noted income of \$2.1 million. She added auditors did not have an analysis of the Department's fiscal year 2006 financial status. Ms. Gibbs offered to provide the information to the Committee.

Senator Rhoads stated he would like to receive the information.

Chair Leslie asked for clarification about the indirect cost amounts the Department did not assign to grants.

Ms. Gibbs stated the amount was \$1.2 million in fiscal year 2004.

Chair Leslie asked if the issue had been corrected.

Ms. Gibbs stated in fiscal year 2005 the Department also lost \$210,000.

Assemblyman Marvel asked if the Department would be able to recover some of the funds.

Ms. Gibbs replied no, the Department could not recover any of that money.

Chair Leslie commented that was because once a grant was closed there was no additional opportunity to reopen it.

Chair Leslie asked for the Department to testify.

Mr. Rob Buonamici, Acting Director, introduced Doug Hunt, Deputy Director. He expressed appreciation for the audit and for the auditor's professionalism. He stated the audit was timely as the Department was in a transition between directors. Mr. Buonamici stated the Department had internal changes to make in regard to developing a more responsive, reactive, and real time budget process and tracking system. He stated the Department's goal was to address the issues, correct them, and move forward. He offered to answer questions from the Committee.

Chair Leslie stated most departments of this size and complication would have a fiscal person. She asked who would be assuming these duties.

Mr. Buonamici explained the former Director made the decision based on the legislature's decision to declassify the chiefs of the Department and move all of the support functions under one bureau. He stated they had been that way before but due to some transitions and military leave those duties were doled out to various chiefs. He gave an example that he was Chief of Enforcement and he ended up supervising all of the Department's front counter staff at all of the offices state-wide. There was an effort made to bring everything back together with the retirement of the former Chief of Administrative Services. That bureau was now called the Bureau of Operations. Mr. Buonamici stated the Department needed to reinstate the chief financial officer position.

Chair Leslie asked when the Department would replace the position.

Mr. Buonamici stated the Department had a work program at the Budget Office and looked to fill the position in March 2007.

Assemblyman Marvel asked for information in regard to licensing.

Mr. Buonamici stated the Department would lose hunting opportunities in areas where fires had occurred.

Assemblyman Marvel asked for projections in regard to lost revenue.

Mr. Buonamici stated the Department would see an approximate reduction of 4,000 in deer herd numbers as a result of the fires. He explained the loss could amount to 700 to 800 less tags being issued. He added the Department did not know what herds were doing in other areas. He explained there was a known western wide decrease in mule deer populations. Mr. Buonamici stated funding as a result of big game tags for deer in particular would decline.

Assemblyman Marvel stated this could have an impact on the economy because a lot of people in northern Nevada depended on the hunting season.

Mr. Buonamici agreed this would have broad ramifications. It was not just the Department of Wildlife that would be affected by the fires. He stated a lot of

communities depended on wildlife and the hunters and the sportsmen of the state, and what they contribute to the economy.

Assemblyman Marvel asked if fishing license fees had decreased due to the drought.

Mr. Buonamici agreed, commenting that the state was not seeing an increase in sportsmen.

Chair Leslie was concerned about the federal apportionment and whether the Department was drawing down all of the available federal money. She knew there was \$10 million when auditors were out there on June 30, 2006. She understood in September 2006 the Department did something to reduce this number down. She asked why it took until September 2006 to draw down the federal funds.

Mr. Buonamici replied a lot of it was a timing issue. He deferred a further response to Mr. Hunt.

Chair Leslie stated the state did not like to lose out on an opportunity to receive federal funds.

Mr. Hunt agreed. He explained the cycle that the Department obligates federal funds was related to the end of the Department's fiscal year versus the federal fiscal year. He stated between July 1 and September 30 was when the Department obligated their funds. He stated some of the grants were obligated at other times of the year because they fall in a different cycle, but most major grants fall in the July to September cycle.

Chair Leslie referred to an exhibit in the report which identified that over the years the Department, going back to 2001 had left 23% on the table, then 19%, then 22%, then 32%, then 32%, then 74% before the Department quickly got something in. She expressed concern that the Department was not paying close enough attention and asked that they take a closer look at the issue.

Mr. Hunt agreed the Department had not paid close enough attention.

Chair Leslie stated the Department had an antiquated system but pointed out the Department still needed to make changes.

Mr. Hunt agreed.

Assemblyman Marvel stated the new director would have to be apprised of this audit and work to resolve some of these problems.

Mr. Buonamici agreed. He stated it was his intention to work with the new director and ensure that everything was followed through to implement the audit recommendations. He offered to work closely with the new director.

Mr. Hunt interjected the Department totally agreed with the termination of the antiquated system, adding the Department had migrated to the state IFS system. He added reports were being implemented that would cover payroll as well as other expenditures.

Chair Leslie noted in reading the report she agreed with the auditor's response to the Department's comments in regard to the two findings concerning indirect costs that NDOW had noted disagreement with in its response.

Mr. Buonamici stated the Department had been in the process of reconstructing events. He agreed the auditors by far had more expertise. He complimented Audit staff, adding Mr. Townsend had offered to review and make comments in regard to the Department's process to implement the recommendations.

Chair Leslie agreed staff wanted to help the Department.

Assemblyman Marvel was disturbed that some of the audit findings had been brought to the attention of the Department but had never been corrected. He stated it was time that the Department embraced and resolved these issues.

Mr. Buonamici agreed.

Chair Leslie stated the Committee would be watching the Department's plans carefully. She noted care should be taken during the transition to a new Director that the issues were addressed.

Mr. Townsend pointed out the new Director would be contacted to review the audit from the auditors perspective to provide a complete understanding from both the Department as well as the auditors.

Chair Leslie agreed.

Chair Leslie called for additional questions from the Committee.

SENATOR RHOADS MOVED TO ACCEPT THE REPORT ON THE
DEPARTMENT OF WILDLIFE. THE MOTION WAS SECONDED BY
ASSEMBLYMAN MARVEL AND CARRIED UNANIMOUSLY.

D. Department of Corrections, Offender Trust Accounts

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

Mr. Kulikowski began the presentation with background information on the Department of Corrections. The Department is responsible for the custody, treatment, and discipline of all offenders confined in the state prison system. In fiscal year 2006, the Department incurred expenses of about \$225 million. This included an approved budget of over 2,600 employees. During that period, the offender population averaged about 12,100 housed at 20 facilities throughout the State. The report shows the average number of offenders by facility for fiscal year 2006.

Mr. Kulikowski explained when offenders enter the prison system, individual trust accounts were opened in the Department's internal accounting system, called the Inmate Banking System. The offenders' money would also be recorded in the State's accounting system in the Prisoners' Personal Property Trust Fund. At the end of 2006, this fund had a cash balance of about \$3.7 million. During fiscal year 2006, the Trust Fund received about \$16.7 million, almost all of it from gifts and inmate wages. The prisoners' personal property fund had disbursements for fiscal year 2006 of about \$16.1 million. This included \$2 million to help offset Department expenditures for room and board and about \$1 million to reimburse the General Fund for offender medical costs.

Mr. Kulikowski explained audit objectives were to determine whether the Department accurately accounted for and properly safeguarded offender trust accounts, and whether the Department recovered the appropriate amounts from trust accounts for medical expenses and other assessments authorized by state laws, regulations, and policies. The audit focused on offender trust account transactions between July 1, 2004, and December 31, 2005.

Although the Department accurately accounted for offender trust account transactions during the audit period, key reconciliations of the trust accounts were not always performed timely or completely. In addition, auditors determined that the Department recovered the appropriate amounts for medical expenses and other assessments authorized by state laws, regulations and policies. Mr. Kulikowski stated although controls over the outside bank account used to disburse money from the trust accounts were adequate, enhancements were noted to further safeguard the funds.

The Department's trust account reconciliations were not performed accurately or timely. As mentioned earlier, offender monetary transactions were recorded in the Department's Inmate Banking System and in the State's Prisoners' Personal Property Trust Fund. Reconciling offender funds recorded in the Inmate Banking System to the corresponding cash balance in the State's accounting system was a key control that would help reduce the risk of undetected errors or misuse of funds by ensuring transactions were accurately recorded. It was found that monthly reconciliations of offender trust accounts for fiscal year 2005 were not complete, accurate, or fully documented. The Department only had documentation that it performed reconciliations for four months in fiscal year 2005. In addition, those reconciliations had an average monthly unreconciled variance of almost \$100,000, indicating they were not complete. Factors that contributed to the ineffectiveness of these attempts at reconciliation included the lack of complete written procedures on the reconciliation process, turnover in a key position, and insufficient supervision and monitoring of staff efforts.

Mr. Kulikowski reported the Department recognized the reconciliation process needed improvement and devoted additional resources to address the problems. These efforts improved the reconciliation process; however, not all problems had been identified and corrected. An audit review of reconciliations for two consecutive months in fiscal year 2006 included verifying that receipts and disbursements were accurate. Nevertheless, the reconciliations still contained unreconciled variances of about \$5,000.

Recommendations were made to strengthen the Department's oversight over the offender accounts.

Mr. Kulikowski stated minor improvements were needed over the trust bank account. The Department maintained an outside bank account for disbursing offender trust funds. In fiscal year 2006, the Department disbursed over \$3 million through this bank account. The audit found that controls over the outside bank account were adequate; however, three control weaknesses were noted. The Department did not always promptly remove employees as authorized check signers when they were no longer in a position to warrant this authority which increased the risk of unauthorized or fraudulent checks being cashed. Second, checks were not always issued sequentially. Likewise, this

increased the risk of an unauthorized check being issued. Third, voided checks were not permanently defaced. Although the Department wrote "void" across voided checks, this practice still posed some risk. A more permanent defacement would help lessen the risk of a check being altered and cashed.

Recommendations were made for enhancing controls over the trust bank account.

Mr. Kulikowski reported three recommendations from a prior audit which were within the scope of the current audit were not fully implemented. Two of the partially implemented recommendations related to the reconciliation of the Inmate Banking System to the State's accounting system. The other recommendation dealt with the sequencing of checks. The recommendations were modified and repeated in the current audit.

The agency accepted the six recommendations.

Chair Leslie asked about the prior audit recommendations repeated in the current audit. She commented the three recommendations were ones that should have been implemented. She asked if Audit staff was given reasons why the recommendations were not implemented.

Mr. Kulikowski deferred the question to the Department.

Chair Leslie called for a Department representative to testify.

Chair Leslie was concerned about the sequencing of the checks and reconciliation of the statements. She commented these were basic functions that should have been corrected from the prior audit. She asked why the audit was again reporting this as a problem.

Mr. Rexwinkel stated the check sequencing issue was due to checks that were issued to released offenders. He explained that checks were printed in Carson City but for offenders released from southern Nevada hand checks were issued because not enough lead time was given to print checks in Carson City and forward them down south. He stated a new procedure was developed to print the checks on a special printer in southern Nevada. He added some hand checks were still utilized. He explained that inadvertently someone had pulled out a box of checks out of sequence. Those checks were used. Mr. Rexwinkel explained procedures were in place that should have caught the error but reinforcement of those procedures would help determine that it never happened again.

Mr. Rexwinkel explained with respect to the reconciliation issue that the Inmate Banking System was an old system which was meant to handle institutional payroll and not everything that it now handled. He stated a budget item had been submitted for a new information system, a new banking system, which was part of the NOTIS project. The Department was hopeful with the approval from the 2007 Legislature that this would correct the issues with the old inmate banking system.

Mr. Rexwinkel noted the Department's response to the report included details about the process to reconcile transactions between the Inmate Banking System and the Integrated Financial System. He stated the Department had spent many hours attempting to reconcile this system. The problem was that the present system was not

a double entry system. He explained there was still something out there which the Department could not find to complete the reconciliation. He was sure the auditors had also looked at reconciling and the Department continued the review also. Mr. Rexwinkel noted the Department had completed the reconciliation through October 2006 and were almost complete through November 2006. He explained there were management controls in place to make sure the reconciliation was done. But as any reconciliation of a bank account, if it does not reconcile to the penny, it is not reconciled. He noted the Department still carried a \$5,000 difference. He was aware the difference changed in September 2006 by about \$345 and in October 2006 by \$490, noting the difference was not holding constant. They first thought the new procedures would identify the problem, but there was still something that kept changing the difference in the reconciliation. He was unsure what the answer was.

Chair Leslie stated that was disturbing to hear. She asked Mr. Townsend if there was any technical assistance the Audit staff could provide to the Department.

Mr. Townsend responded the previous reconciliations by the Department had variances of over \$100,000. He stated the Department had done a lot of work by getting it to a \$5,000 variance. He agreed as Mr. Rexwinkel indicated if the accounts do not reconcile to the penny it was not truly reconciled. Mr. Townsend offered that Audit staff was willing to work with the Department and make additional suggestions. He stated it was important the Department move forward and on a monthly basis do the reconciliations and keep paying attention to that. He offered the Department may never fully reconcile the \$5,000. They may have to make an adjusting entry and start over.

Chair Leslie thanked Mr. Townsend for clarifying the issue. She noted the Department response stated the responsibility was assigned to specific staff, the Chief of Inmate Services, who was responsible for reconciling these accounts within 30 days.

Mr. Rexwinkel stated that was correct. He added the Department took this very seriously. These reconciliations are important. He noted there was no evidence of any issues with the inmate accounts. He explained inmate statements were issued monthly which helped to ensure the system did not have any issues with the inmate accounts. The issue was between the banking system and the State's Integrated Financial System which should be reconciled also but were down to less than \$500 for two months in a row and the other \$5,000, as Mr. Townsend indicated, was probably from years gone by. He noted this area had been audited twice and had never been fully reconciled. He stated that was an inadequacy of the system.

Chair Leslie interjected it was more than just that. She stated the Department needed to place more attention on ensuring the monthly reconciliations were completed as the Department had been deficient in this area.

Chair Leslie called for questions or comments from the Committee.

Chair Leslie expressed appreciation to the Department for accepting all of the audit recommendations. She looked forward to follow-up reports.

SENATOR RHOADS MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF CORRECTIONS, OFFENDER TRUST ACCOUNTS. THE MOTION WAS SECONDED BY ASSEMBLYMAN MARVEL AND CARRIED UNANIMOUSLY.

E. Department of Corrections, Administration

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

Ms. McGuirk began the presentation with background information about the Department of Corrections which included facilities and organization, expenditures, and funding. The report also noted the average number of offenders by facility for fiscal year 2006.

The objective of the audit was to evaluate the Department's financial and administrative activities, including whether activities were carried out in accordance with applicable state laws, regulations, policies, and procedures. Specifically, the audit included a review of non-medical expenditures and accountability over property and equipment for the 18 months ended December 31, 2005.

Ms. McGuirk reported the Department of Corrections generally complied with laws, regulations, policies, and procedures significant to its financial and administrative activities. However, the report noted problems related to payroll, personnel requirements, and accountability over property and equipment.

Senator Coffin interjected members in the Las Vegas meeting room were unable to see the Committee members in the Carson City meeting room and were unable to hear correctly. He suggested a short recess for staff to address this matter.

Chair Leslie recessed the meeting to address the communication difficulties.

After a short recess Chair Leslie called the meeting back to order.

Ms. McGuirk continued, Department controls over its payroll expenditures could be improved to provide greater assurance that employees were paid correctly. Timesheets for Department employees contained errors resulting in both under and overpayments to employees. A review of 134 employees at 5 institutions revealed 10 payment errors during the pay period tested, which was about 7.5%. The report provided details on the types of timesheet errors noted. In addition, 5% of employees did not have evidence of supervisory approval on at least one of the timesheets during the pay period tested. Agency personnel agreed to implement additional controls to detect timesheets errors.

Ms. McGuirk reported overtime was not always approved in advance, as required by statute. Auditors tested timesheets for 36 employees who had worked overtime and found 23 had not received prior written approval. These 23 employees were comprised of both custody and non-custody staff. In general, overtime worked by custody staff at Department institutions was pre-approved through the Department's scheduling system. However, at the time of the audit testing, two institutions were having scheduling system problems. Of the 23 employees whose overtime was not pre-approved, 18 were custody staff working at the two institutions experiencing scheduling system problems.

Ms. McGuirk noted the Department did not perform reconciliations to ensure timesheets were entered correctly into the state payroll system as required by Department procedures. Without reconciliations, data entry errors may not be detected which could result in incorrect payments to employees and errors in leave balances. Department personnel indicated that the timesheet reconciliations were now being performed.

Ms. McGuirk stated recommendations were made related to payroll issues.

The report addressed variable work schedule agreements. The Department needed to obtain written agreements with custody staff working a variable work schedule. Auditors were unable to locate written agreements for about half of the employees working a variable schedule. Written agreements document the employee's request, management's approval, and an understanding of the overtime rules applicable when working a variable work schedule. Without signed agreements, the Department could potentially be liable for significant amounts of overtime. This liability could vary substantially depending on the type of documentation deemed sufficient to document an employee's choice to work a variable schedule. Therefore, the most prudent solution would be to obtain written agreements from all employees choosing to work variable schedules as indicated by the audit recommendation.

The audit found personnel requirements were not always followed in the areas of employee evaluations and compensatory time agreements. The Department did not complete evaluations for many of the employees tested, as required by state law. Auditors reviewed personnel files for 128 employees at five institutions and found that 72 (56%) had not received an evaluation in accordance with state law. Testing found the issue of performing evaluations was a problem at some, but not all institutions. The report provided detailed information on evaluations not completed at each of the five institutions tested.

Ms. McGuirk reported compensatory time agreements were needed. The Department did not have written agreements with employees to allow compensatory time in lieu of cash payment when overtime was worked. About half of the employees tested had accrued compensatory time during the 18-month period tested, however, none had entered into agreements with the Department, as required by state regulation. As of December 31, 2005, the Department's liability for accrued compensation time was approximately \$800,000.

Recommendations were made related to personnel requirements.

Ms. McGuirk stated controls over property and equipment needed improvement. The Department had an incomplete physical count. State laws require agencies to perform a physical count of their equipment annually and to reconcile the results to state inventory records so they can be updated. However, the Department did not perform an annual physical count of equipment at all of its locations in 2005 and 2006. In 2005 inventory reconciliation lists were not returned for 12% of the Department's locations and in 2006 inventory reconciliation lists were not returned for 20% of the Department's locations. These lists document that a physical count was performed and would include changes that needed to be made to inventory records. The Department was not aware of these unreturned lists because it did not track the lists sent out and returned.

State law requires agencies to notify State Purchasing when changes occur. Testing revealed records were not always updated to reflect dispositions, transfers, and additions. For example, auditors were unable to physically locate three laptop computers and some items physically located at facilities were not added to inventory records when initially acquired.

Transfers and dispositions were tracked through property disposition reports. However, Department regulations do not specify who was responsible for completing the reports. Also, equipment at new facilities was not added to state records. State laws require records be maintained at all times. It was noted that equipment at two new Department facilities were not added to state inventory records until auditor inquiries were made. Not recording equipment in state records increases the risk of loss or unauthorized use.

As part of the Department's takeover of the women's prison, the Department acquired all equipment at the facility, including weapons. However, none of the assets were added to state records for approximately 20 months; which included 15 weapons. Following auditor inquiries, the Department added the weapons to state records and began working to record the other items. The audit noted 12 assets costing approximately \$170,000, purchased for the new Casa Grande Transitional Housing facility were not added to state inventory records until after auditor inquiries were made. Department personnel indicated they were waiting to record some of these assets until they could record other assets acquired under the facility's lease-purchase agreement. However, assets acquired by the Department should be added promptly to state inventory records to help safeguard state resources.

Ms. McGuirk stated recommendations were made related to property and equipment. She also noted three partially implemented recommendations from a previous audit were modified and repeated in this audit report.

The Department accepted the nine audit recommendations.

Assemblyman Marvel asked if the Department had accounted for the missing weapons noted in the audit.

Ms. McGuirk replied the weapons had been accounted for.

Chair Leslie complimented Audit staff on the thoroughness of the audit. She stated the audit uncovered specific items which the Department would be asked to address.

Assemblyman Marvel asked if the audit findings might have been due to the Department recently taking over the women's prison.

Ms. McGuirk deferred the question to the Department to address.

Mr. Darrel Rexwinkel, Deputy Director of Support Services, Department of Corrections, stated a few issues occurred in regard to the fixed assets. For 2005 and 2006, the Department did not follow up to ensure all inventory lists sent to the institutions were returned. He stated the issue had been corrected, adding the Department was at 100% for 2006. The issue with the Southern Nevada Women's Correctional Center (SNWCC) was from when the Department purchased the institution. He explained when the institution was constructed all of the property items belonged to the contractor. When

the Department purchased the institution it was bought on a lump sum basis being purchased for the advertised balance on the note. He admitted equipment items which included weapons, were never inventoried. The items had since been inventoried and the Department was working on the rest of the equipment list which was very extensive. He added, by the time the Department took over the institution most of the equipment would have been fully depreciated. However, he agreed that tracking inventory was important.

Mr. Rexwinkel stated in regard to the Casa Grande institution the Department again did not properly inventory all of the equipment. He added as far as the laptop computers the Department had acquired a lot of computer equipment as hand-me-downs from other agencies. He noted when he started with the Department in June 2000 the Department had very few computers. Mr. Rexwinkel added the Department was now very computer functional and would be more so with the new NOTIS system that would be implemented by July 2007. He stated some of the equipment that was obtained from other agencies included some laptops which were very old at the time they were acquired and in the rush of business did not complete the necessary inventory paperwork.

Assemblyman Marvel asked when the Department acquired the laptops had the other agency taken them off their inventory list.

Mr. Rexwinkel stated that was his understanding. He added the Department just did not add them to their inventory list.

Assemblyman Marvel asked for information about the depreciation of a weapon.

Mr. Rexwinkel was unsure of the depreciated life of a weapon. He stated after they were used for a period of time they do wear out and would be replaced. He noted the Department had recently replaced the 9mm guns with 40 caliber handguns. He deferred the question to Mr. Whorton.

Glen Whorton, Director, Department of Corrections, stated the Department replaced all 38 caliber revolvers with 40 caliber semi-automatic pistols. He stated this was the same standard weapon used by the Highway Patrol and the Department of Public Safety. He added there was no set depreciation on weapons. He explained a carried weapon would last longer than a training weapon.

Assemblyman Marvel asked if a depreciation schedule was utilized for the replacement of weapons. He suggested it might be a good policy.

Mr. Whorton answered they could look into the issue.

Chair Leslie interjected to Mr. Rexwinkel that the value of the laptop was not the issue. The issue was the tracking of inventory and especially with such items that could disappear because they were easily usable in the community. She appreciated the comments from Mr. Whorton which included specific responses on how the Department would address payroll and comp-time issues. She expressed concern about the performance evaluations because 56% had not received a performance evaluation. She understood that southern Nevada had the worse record at 100% of the evaluations

not being completed. Chair Leslie noted that Casa Grande was at 76%, Lovelock was at 68%, and Northern Nevada was at 36% for non-compliance with the performance evaluations. She asked if the Department had a plan in place to ensure that the evaluation issue was addressed.

Mr. Whorton stated the Department did not have a specific plan in place. He explained during discussions with the auditors a concern was noted by Department staff that there were no systems in place state-wide that indicated the need for documentation that an evaluation had taken place. He stated that the absence of evaluations was a significant issue and acknowledged acceptance that a Department supervisor did not need some kind of automated system to be made aware of when an evaluation was due. They should know about and complete an evaluation in a timely manner. He appreciated the finding because it emphasized the importance of the performance evaluation of staff. He stated this would be corrected and had been formally communicated to all supervisors.

Chair Leslie appreciated the response. She added consultants from the Department of Personnel could be brought in to teach people to track evaluation due dates.

Mr. Whorton stated the process was not hard.

Chair Leslie also agreed the Department of Corrections was not the only agency that had problems with the issue, although many agencies had improved dramatically in this area. She added the Committee would expect the same from the Department as well.

Mr. Whorton agreed.

Chair Leslie stated the Committee looked forward to the Department's follow-up report of corrective action.

Chair Leslie called for additional questions from the Committee. She commended Audit staff for the clear and precise information included in the report.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE REPORT ON THE
DEPARTMENT OF CORRECTIONS, ADMINISTRATION. THE MOTION
WAS SECONDED BY SENATOR RHOADS AND CARRIED
UNANIMOUSLY.

F. Department of Corrections, Inmate Medical Services

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

Mr. Pierson explained the Department of Corrections provided required medical, mental health, dental, and pharmacy services to inmates mainly through in-house staff. In fiscal year 2006, the Department spent about \$35.9 million on these services, including about \$22.7 million on personnel costs for 276 positions. The Department maintains a pharmacy to supply the institutions with medications for inmates. Prior to December 2005, the Department had two pharmacies; one located in Carson City in northern Nevada and one located in Indian Springs in southern Nevada. In December 2005, the two pharmacies were combined to create one Central Pharmacy in the south.

The Central Pharmacy had five pharmacist and three pharmacy technician positions. Pharmacy costs in fiscal year 2006 totaled about \$5.1 million, noting most of these costs were for prescription drugs. Mr. Pierson explained the Pharmacy was responsible for filling prescriptions ordered by physicians and psychiatrists and for providing certain drugs maintained as stock at the institutions. The Pharmacy's process for dispensing drugs was outlined in the audit report.

Mr. Pierson stated the audit focused on pharmacy operations from July 2005 through March 2006, and through October 2006 for certain issues. The objective was to evaluate pharmacy operations and review activities for compliance with laws, regulations, and policies.

Mr. Pierson presented the findings and recommendations. The Department had significant weaknesses in its pharmacy operations including controlling drug inventories, distributing drugs to institution medication rooms, and monitoring operations. The Pharmacy did not maintain inventory records for all drugs classified as a controlled substance, did not maintain an inventory of drugs at the Pharmacy, and did not track the amount of drugs distributed to the institutions. The Pharmacy did not maintain adequate records to account for all controlled substances distributed to the institutions. The Pharmacy could not locate 54 of 165 controlled substance records (CSR) forms used to track the usage of controlled substances.

The Pharmacy could not locate 14 of 100 requested CSR forms from the initial sample of CSR's. Because the missing forms included all 5 forms in the sample for Phenobarbital issued to the Southern Nevada Women's Correctional Center (SNWCC), auditors expanded their testing. On September 15, 2006, auditors requested an additional 65 CSR forms for Phenobarbital issued to SNWCC. On October 6, 2006, the Department indicated it could not locate 40 of the 65 requested CSR's. Mr. Pierson indicated on October 18, 2006, Auditors reported improper practices of financial administration and inadequacy of fiscal records to the Governor, the Legislature, and the Director of the Department of Corrections. The Attorney General was also notified.

After the audit was completed, the Department found most of the missing CSR forms. On November 9, 2006, the Department provided 50 of the 54 missing CSR forms. The Department indicated missing forms had been misfiled at the Pharmacy and the institutions.

Mr. Pierson noted documentation from the Department was not available showing the use or disposal of drugs for nine CSR's issued to Ely State Prison in August and September 2004. The CSR's indicated the drugs were not used, but staff could not locate the drugs. Staff indicated the drugs were administered to inmates but different records were completed and returned to the Pharmacy. However, the Pharmacy could not locate these records.

Federal laws and State regulations require the Pharmacy maintain records to account for all controlled substances. Additionally, these records should be readily available for inspection by authorized agencies. The Pharmacy did not maintain inventory records for prescription drugs including documenting additions, distributions, and inventory

balances. Without complete inventory records drugs could be lost without being detected.

Mr. Pierson noted neither the Pharmacy nor the institutions had adequate controls over drug stock. The Pharmacy did not track the amount of drug stock distributed to the institutions during most of fiscal year 2006. In addition, the institutions did not adequately track drug stock on hand. Inventory counts at the eight institutions identified that drugs were overstocked. Mr. Pierson stated a count for ten different drugs at Southern Desert Correctional Center (SDCC) identified drugs exceeding the quantity allowed. He added overstocking drugs at the institution's medication rooms contributed to waste from expired drugs.

Recommendations were made to improve controls over drug inventories.

Mr. Pierson stated the report addressed dispensing practices. Auditors found the Central Pharmacy was slow in dispensing drugs, at times taking four weeks or longer. Auditors analyzed the turnaround time for 180 prescriptions from July 2005 to March 2006, which included the time it took from when the Pharmacy received the prescription until the drugs were received at the institutions. The turnaround time ranged from 8 to 19 days. However, 6 of 40 prescriptions tested during January and February 2006, took 4 weeks or more to complete. Auditors reviewed the turnaround time again in July 2006 and found it averaged about seven days. Mr. Pierson stated the increase in turnaround time resulted from consolidating pharmacy operations.

The Department could improve dispensing practices by not filling individual prescription bottles for medications kept in stock at the institutions and administered to inmates during pill call. He noted dispensing could be improved by adjusting the amount of temporary medication provided to inmates while waiting for a prescription to arrive from the Pharmacy.

Recommendations were made to improve dispensing practices.

Mr. Pierson stated the report addressed monitoring and management information. It was found that only 5 of 96 required monthly inspections of medication rooms at the institutions were performed during fiscal year 2006. The Pharmacy also lacked adequate policies and procedures to ensure monthly inspections were performed. As a result, medication rooms may not meet minimum standards for pharmacy operation. The five completed inspections identified several deficiencies including expired and discontinued medications, improper refrigeration, and improperly labeled drugs.

The Department did not review and verify the accuracy of controlled substance inventory counts at each institution monthly as required by Department regulation. Conducting monthly reviews would have identified the nine CSR's not used at Ely State Prison, which was discussed previously.

The Department lacked adequate management information. Information on operations was not consistent, complete, accurate, or readily available. As a result, information provided to management, the Legislative Counsel Bureau, and the Department of Administration was often unreliable. For example, different methods were used to calculate the number of inmates on medication. The report showed several methods

used among the institutions. Consequently, information showing the number of inmates on medication was not reliable.

Recommendations were made to improve monitoring and management information.

Mr. Pierson stated the report's last section addressed pharmacy centralization. The Department consolidated pharmacy operations in December 2005, without adequately planning for the Pharmacy's space needs, staff vacancies, meeting inspection requirements, and other items. As a result, the Pharmacy was not prepared to effectively handle its workload during and after centralization. This resulted in the increased turnaround time previously discussed.

The Department also missed an opportunity to adjust its staffing ratio. The Department used higher paying pharmacists to perform duties that could have been performed by pharmacy technicians. State Board of Pharmacy regulations allow technicians to perform certain duties under the direct supervision of a pharmacist. Regulations also allow a pharmacist to supervise two technicians at one time.

The report indicated the current Pharmacy staffing of five pharmacists and three technicians compared with the staffing ratio allowed by Pharmacy Board regulations indicated by adjusting staffing the State could save about \$130,000 annually. The Department anticipated making several technology changes to operations that would provide for the Pharmacy to re-evaluate the ratio of pharmacists to technicians.

Recommendations were made to address issues resulting from centralizing pharmacy operations.

Mr. Pierson stated audit methodology along with a copy of the letter forwarded to the Legislature reporting inadequate records for controlled substances was included in the report. The Department accepted the 16 recommendations.

Chair Leslie called for questions from the Committee.

Chair Leslie asked about the status of the investigation that was turned over to the Office of the Attorney General.

Mr. Townsend explained when auditors encounter a situation of inadequacy of records or evidence of a possible illegal act, the Legislative Auditor is required by statute to notify each member of the Legislature, the Governor, and in some cases the Attorney General, which was done in this case. The Attorney General then referred the case to the Department of Public Safety. He noted the Department of Corrections had also requested the Department of Public Safety investigate the issue. He added the investigation was ongoing at this time.

Chair Leslie asked if the investigation remained open even though the Investigations Division was aware that the missing forms had been located a few months later.

Mr. Townsend stated that was true. He added the Investigations Division was provided copies of the missing forms for their investigation.

Assemblyman Marvel asked if some of the findings were a result of the audit being done during the time when the Department was centralizing the Pharmacy. He offered this

might be a reason for the lag time in which the Pharmacy was unable to fill prescriptions in a timely manner.

Mr. Pierson answered that could be part of it but forms were missing prior to the centralization during which time there were two pharmacies.

Assemblyman Marvel asked if auditors determined what medications were missing and the value of the missing medications.

Mr. Pierson replied the missing forms were for the drug Phenobarbital, which was inexpensive.

Chair Leslie asked if the problem at Ely State Prison (ESP) was included in the investigation.

Mr. Townsend stated the issue with the missing medications from Ely was also communicated to investigators and was included in the investigation request.

Chair Leslie asked to be notified when the investigation was completed. She asked Mr. Whorton if there was a known timeframe for the investigation.

Glen Whorton, Director, Department of Corrections, responded by clarifying the request for an investigation by the Department of Public Safety was initiated by the Department of Corrections, not the Office of the Attorney General. He added the Department was taking the issue seriously. He stated it appeared in terms of the missing forms that a filing problem, and not necessarily missing drugs had occurred, although that was being reviewed as well. The Department was looking for the documents. Mr. Whorton stated the actual cost of the drugs involved on the four remaining missing sheets amounted to less than \$4. He understood the issue was the accountability and concurred with the audit recommendations to improve operations. He believed some of the problems experienced were the result of the dividing and the subsequent consolidation of the Pharmacy to Casa Grande. The move also afforded the Department an opportunity to compete in the community for pharmacy staff. He noted the Department would be reviewing the Pharmacy staffing ratio.

Chair Leslie called for questions.

Senator Coffin asked how the Department was progressing to implement a standard policy for the testing of employees who handle drugs. He added that could prohibit the misuse of drugs whether intentional or accidental. He asked about the State employee drug testing policy and if it included employees who handled drugs. He also asked about the dispensing of drugs at pill call and whether or not staff prevented the pouching of medications. He asked if the Department had looked into the possibility of a prepackaged medicine delivery system used typically at care facilities.

Chair Leslie called on Mr. Whorton to answer the questions.

Mr. Whorton stated in terms of the drug testing of employees the Department does not conduct random sampling of staff, either custody or medical staff, as no state policy existed for this type of testing. He explained the Department conducted drug testing checks only for probable cause. He related the Department had instances of removing staff, medical and custody, which would result in an investigation and appropriate

corrective action or termination. He stated in terms of inmates secreting drugs it was standard practice to ensure inmates do not cheek medications. In terms of the packaging of medications, the Department had reviewed different methods for distribution. A proposal was presented to the Interim Finance Committee (IFC) years ago but was not approved. He stated the Department would continue to look at automated systems for the future.

Senator Coffin asked about drug testing of staff on a regular basis.

Mr. Whorton stated no policy existed for the random drug testing of employees of the Department or of other public agencies. He clarified staff possessing commercial driver licenses would be drug tested. He stated drug testing was done for new hires. A process existed for the random testing of inmates but no policy existed for medical or custody staff. He added testing was done only for probable cause.

Senator Coffin asked Mr. Whorton if a statute or regulation existed that prohibited the Department from requesting drug testing in mental health or other institutional surroundings where medications were dispensed.

Mr. Whorton responded he was not sure and had not considered it. He related there would be resistance from employee organizations as they believed that testing for cause was appropriate and all that the Department needed. He stated the abuse of drugs was an issue in the medical profession. He offered if Corrections was singled out there could be a problem.

Senator Coffin commented the Legislature should investigate the possibility of allowing the Department to have the ability to conduct random testing. He noted representatives from the state employees association would have an opportunity to comment and might have some valid concerns.

Chair Leslie thanked Senator Coffin for his comments. She stated her impression of the audit was that Department problems involved systems issues that needed to be addressed. The problem being investigated was that of missing forms which the Department stated were misfiled but were later found. She asked for clarification from the Department. Chair Leslie also understood from reading the report that the forms were suddenly found two months later in a file drawer somewhere. She emphasized the issue was not about employees using drugs; it was about filing and systems. She asked how the forms could have disappeared, and why no one noticed they were gone. Chair Leslie asked if not for the auditors would the Department have known that the forms were misfiled.

Mr. Whorton agreed the Department problem would not have been found. He stated audits point out Department needs for improvement. He agreed the report pointed out the issue of accounting for and documenting these forms.

Assemblyman Marvel asked how long it would take the Department to implement the recommendations.

Mr. Whorton deferred the question to Chuck Schardin, Administrative Services Officer, Medical Division.

Mr. Schardin responded a plan had already been assembled; most of the procedures had been drafted; and according to the plan would be completed within six months.

Assemblyman Marvel commented the implementation would be completed by the six month report due date.

Mr. Schardin agreed.

Senator Coffin asked if any person or persons had been disciplined, reprimanded, or terminated because of the issue and if so, was it because of misusing or misappropriating drugs, or for filing papers in the wrong file cabinet.

Chair Leslie asked Mr. Whorton to address the question.

Mr. Whorton stated the investigation was incomplete. The investigation was looking into the problem with the intent of identifying the individual or individuals responsible for this failure. He added upon completion of the investigation the Department would evaluate the information for corrective action. Mr. Whorton clarified when he spoke about corrective action and termination in previous testimony, he was stating that in the context of individuals that had been specifically identified for either taking or using drugs on duty. In regard to the context of the audit there had been no determination and no personnel action taken at this point.

Senator Coffin was confident Mr. Whorton would address the issues.

Chair Leslie expressed appreciation to Mr. Whorton for returning to the Department of Corrections. She was aware that he was not in charge when some of these decisions had been made. She stated the audit pointed out a very serious problem.

Mr. Whorton agreed. He added that was why he had requested the investigation be conducted by the Department of Public Safety. He confirmed his retirement would be soon. However, his goal was to see the Department moving forward. He stated the Department accepted and agreed with all of the audit recommendations. He assured the Committee that the Department took the audit seriously. Mr. Whorton stated improvements had been made in the area of turn around time for filling prescription drug requests. He stated this had been resolved in part due to the availability of closer ground and air transportation resources by the Pharmacy moving into Las Vegas from Indian Springs. Mr. Whorton noted there was an obvious emphasis for the new medical director to deal with these issues. They were not his issues; he did not create these issues; but he would address them. Mr. Whorton noted the Medical Director took the issues very seriously as a professional member of the medical profession.

Chair Leslie stated the previous medical director was also a professional member of the medical profession. She stated one lesson to be learned was that the Department needed better planning.

Mr. Whorton stated planning in Corrections was difficult due to a lack of resources. When problems occurred the Department would make due with the resources they had. He characterized the Department as a small community which spread out over a geographic area larger than Great Britain. He noted the pharmacy issues had been

corrected with the re-location of the Central Pharmacy. He stated the new location had more space, better electronic communication, and better supervision.

Chair Leslie mentioned the Pharmacy staffing issue and asked if the Department would address that through attrition or as the Department was preparing its budget.

Mr. Whorton stated given the support of the audit the Department would be reviewing staffing ratios. He added staffing was a major component of the Department budget which he was very interested in managing.

Assemblyman Marvel asked if the Department had a difficult time hiring personnel.

Mr. Whorton deferred the question to Dr. R. B. Bannister, Medical Director, Department of Corrections.

Dr. Bannister stated there was some difficulty in hiring certain types of personnel such as nursing, physicians, and dentists. Working with the Department of Corrections carried apprehension on the part of professionals in applying for positions within the prison setting. He stated the best way to recruit people was through word of mouth. And that, combined with nursing and primary care shortages, made it difficult. He added a learning curve existed in practicing within the prison system.

Assemblyman Marvel asked since Dr. Bannister was at one time involved with the School of Medicine was he able to recruit people from the school.

Dr. Bannister replied the medical school was a good resource. He also utilized the medical school as a resource for evidence based approaches to patient care, systems and appropriate inmate care, and the categorization of the care provided.

Assemblyman Marvel asked if the Medical Division had a difficult time recruiting pharmacists and pharmacy technicians.

Dr. Bannister replied no, especially since the pharmacy had relocated to Las Vegas. He stated Nevada reported a shortage of pharmacists, however the easiest place to find pharmacists was in Las Vegas.

Assemblyman Marvel commented that a private school of pharmacy was in Las Vegas.

Dr. Bannister was unsure and offered to provide the information to the Committee.

Assemblyman Marvel asked if the School of Medicine graduated pharmacists.

Dr. Bannister replied no.

Chair Leslie recognized Senator Coffin.

Senator Coffin stated a college of pharmacy existed in Las Vegas. He stated pharmacies in the Las Vegas area utilized students as techs all over Southern Nevada. He added classes were expanding in size and suggested the Department contact the college for recruiting purposes.

Chair Leslie called for further questions from the Committee.

Chair Leslie asked for information regarding when and how the Department would be reporting their 60 day plan in light of the upcoming Legislative Session. She stressed

the issues were ones the Committee would want to keep close tabs on. She also asked that the Committee be informed of the results of the investigation.

Mr. Townsend explained he would be in contact with the Investigations Division of the Department of Public Safety and would explain the Chair's interest and would communicate the status of the investigation to the Committee during the upcoming Legislative Session. He added the Department's 60-day plan would be due in March 2007. That, as well as the 6-month report would be available in the fall of 2007 around the time of the next Audit Subcommittee meeting. He stated the Department of Corrections would be invited to return to provide an update to the Committee.

Chair Leslie stated she hoped the investigation would reveal just sloppy filing, but might not be the case. She stressed the importance of the Department of Corrections' cooperation with the investigation and that the Committee should be apprised of the results. She appreciated Mr. Whorton's cooperation.

Chair Leslie called for further discussion from the Committee. She then called for a motion.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE REPORT ON THE
DEPARTMENT OF CORRECTIONS, INMATE MEDICAL SERVICES.
THE MOTION WAS SECONDED BY SENATOR RHOADS AND
CARRIED UNANIMOUSLY.

G. Board of Homeopathic Medical Examiners

Mr. Townsend explained the audit report was a special request from Senator Schneider. It was approved by the Legislative Commission on February 22, 2006. He introduced Dennis Klenczar, Deputy Legislative Auditor; and Tim Brown, Audit Supervisor, to present the report.

Mr. Klenczar began the report with background information about the Board of Homeopathic Medical Examiners. The Board was established in 1983 with seven members. The Board's mission was to protect the public's health, safety, and welfare through its regulation of physicians practicing homeopathy and integrative alternative medicine. In fiscal year 2005, the Board reported revenues of approximately \$26,000 and expenditures of \$54,000 which included \$41,000 in billings from the Attorney General. The report outlined revenues and expenditures for fiscal years 2003 through 2005. He noted revenues had decreased by a moderate amount while expenditures had increased significantly.

Mr. Klenczar discussed the passage of AB 208 during the 2005 Legislative Session, which created the Nevada Institutional Review Board (NIRB). The NIRB was required to review proposals for research studies related to alternative and complementary integrative medicine. Once the NIRB approved a study, it was required to oversee, review, and control the research. Pursuant to NRS 630A.155, the Homeopathic Board was required to supervise the NIRB. Mr. Klenczar stated this statutory relationship would be addressed in detail later in the presentation.

The audit scope was to review the Board's financial management and procedural conduct from July 2004 through February 2006, and activities through June 2006 for certain audit issues. The audit objective was to evaluate the Board's financial management and procedural conduct.

Mr. Klenczar stated the auditor's overall conclusion was the Board could improve its financial and procedural practices. The Board had not implemented adequate controls over financial management and procedural conduct to ensure compliance with applicable state laws, regulations and sound financial practices. As a result, the Board's financial position was negatively impacted and certain actions of the Board were not in compliance with the Open Meeting Law. Further, the legislative mandate requiring the Board to supervise the newly created Nevada Institutional Review Board resulted in dissension among Board members. This ultimately reduced the Board's ability to function efficiently and effectively.

Mr. Klenczar explained the first section of the report addressed the need for the Board to improve their financial management. Auditors found numerous instances when expenditures did not comply with applicable state laws and regulations, and sound financial practices. Audit testing of 35 payments revealed instances when expenditures were not Board related, were not properly approved, were not accurately paid, and were not adequately supported. Also, travel claims were not properly processed. There was one instance when the Board paid \$5,500, about 20% of the Board's annual revenues, for travel expenses that were not pre-approved, did not comply with state per diem rates, and were not adequately supported. The Board did not have not adequate segregation of duties for disbursements. Auditors acknowledged that due to the small size of the Board, certain duties could be difficult to separate. However, compensating controls could be established to reduce the risk of loss.

Mr. Klenczar reported the Board did not adequately monitor fees from the Office of the Attorney General and beginning in fiscal year 2004, there was a sharp increase in these fees. The Board did not take timely action to reduce monthly fees or address the balance due. As of June 30, 2006, the balance due was about \$83,500. Because controls were inadequate, the Board's financial position was negatively impacted. Auditors found the Board's legal fees were disproportionate to annual revenues. For fiscal years 2005 and 2006 Attorney General fees exceeded total revenue. Auditors reviewed Attorney General invoices and repeatedly found five investigations. An exhibit within the report illustrated the cost of these five investigations. Although a majority of the Board's fees were for necessary investigations, the Board did not act timely to address the balance due or find ways to minimize non-investigation fees. Board members thought the Board had an agreement to pay a flat monthly fee, and any balance above that amount was not a concern. Most members stated the high balance due did not come to their attention until late 2005 or early 2006. The report listed options the Board could utilize to eliminate or reduce the balance due to the Attorney General.

Mr. Klenczar reported the Board's control environment was deficient. He explained the Board was created in 1983 and no written policies or procedures existed until April 2006. He emphasized that strong controls over financial management were important

because the Board had limited resources and was not monitored through the state's budget and accounting systems.

Recommendations were made to improve the Board's financial management.

Mr. Klenczar stated the Board did not have an effective process for writing and approving minutes. Written minutes were compared to audiotapes of Board meetings. Auditors found the minutes contained errors, omissions, and other inaccuracies. Further, the minutes did not always comply with statutory requirements.

Mr. Klenczar stated the agenda process had improved, however, the Board had no written procedures for the agenda process prior to April 2006. As a result, there was an incident when two different agendas were posted for the same meeting. Audit review of the audiotape for the two-agenda meeting found numerous agenda items were not addressed. The audit identified about \$4,700 in Attorney General fees that were wasted or avoidable. Additional legal fees were incurred by the Board because another meeting had to be held a week later to address items not discussed at the two agenda meeting. By adopting procedures for the agenda process, the Board had taken action to minimize the risk of another two agenda incident. Audit review of the agenda procedures found them to be comprehensive.

Recommendations were made to improve the Board's procedural conduct.

The legislative mandate requiring the Board to supervise the newly created Nevada Institutional Review Board (NIRB) resulted in dissension among Board members. The Board did not collectively discuss supervising the NIRB prior to its meeting on June 3, 2005. Mr. Klenczar noted AB 208 was passed on June 6, 2005. Because the Board had little time to discuss the NIRB and its impact on the Board, confusion over Board responsibilities occurred. As a result, there was an increase in the number of board meetings and more demand was placed on members' time and Board resources. Further, members had different and conflicting interpretations of what the Board's role should be in supervising the NIRB.

Conflict among members began to occur after the responsibility of supervising the NIRB was placed with it. Auditors reviewed minutes and audiotapes and put together a chronology of events. The first indication of problems occurred at a meeting on December 20, 2005. In February 2006 the President was deposed and replaced. Then in April 2006, the Board removed its appointees to the NIRB and replaced them. Mr. Klenczar noted the new President had taken steps to resolve problems, however, allegations and in-fighting had continued. Further, subsequent to the writing of this report, the new President had resigned.

The final section of the report discussed the Board's need to fulfill its mission, which was to protect the public. The Board should develop strategies to supervise the NIRB in an efficient and effective manner or consider requesting legislation to place the NIRB elsewhere.

Recommendations were made regarding the Board's need to resolve the NIRB conflict and to fulfill its mission.

The Secretary/Treasurer indicated the nine recommendations were accepted subject to Board approval.

Mr. Klenczar offered to answer questions from the Committee.

Chair Leslie was drawn to the travel claim issue where the Board was clearly not following state law regarding travel claims. She asked for comments on whether the Board was not aware that an agency could not just spend money. She asked how the Board could not be aware of state law.

Mr. Klenczar replied it was the auditors' impression that the Board was not aware of the state law. He added a lot of the occupational licensing boards were just not aware of the requirements in SAM that were applicable to the Board.

Chair Leslie was astonished that boards could not be aware of state requirements.

Assemblyman Marvel asked who sponsored AB 208.

Chair Leslie stated it was Assemblyman Horne's bill but the NIRB portion came from the Senate as an amendment.

Assemblyman Marvel asked how many members were in the NIRB and how many were practitioners.

Mr. Klenczar replied there were seven members. He explained four members were appointed by the Homeopathic Board to represent a diverse range of the various disciplines of medicine. One member was appointed by the Governor. One member was appointed by the Speaker of the Assembly. And the last member was appointed by the Senate Majority Leader.

Assemblyman Marvel commented the Board was fairly new and could be less aware of statute requirements.

Chair Leslie was disturbed that the Board was unaware about the travel system requirements. She asked if the boards needed additional training. She asked if the boards needed State Personnel to send out a notice. She asked if this issue had been addressed previously although she did not recall a board with this kind of problem.

Mr. Townsend stated this was unusual. Generally there were about 34 occupational licensing boards and the Audit Division did not normally audit them. They were required by NRS 218.825 to be audited annually by a CPA firm. The boards have a financial audit done and LCB auditors monitor that to help ensure receipt of the reports by the due date of December 1st. Generally, LCB auditors were not in direct contact with the boards. They have outside audits done and are outside the state budget process. He explained there was guidance to the boards from the Office of the Attorney General. He offered to write a letter to all of the boards to ask them to review and be aware of the state requirements. He suggested that might alert them that they were state agencies and subject to state requirements to prevent a recurrence of the issue at hand.

Chair Leslie commented that the Board's outside auditors should notice such a discrepancy. She also asked if the Committee would not usually be apprised of such an occurrence as with this board.

Mr. Townsend explained the outside auditors focused on a financial audit of the financial statements and only in some cases would they look at compliance with state laws. The outside auditors generally had a different focus than the Audit staff would have. He explained the Audit Division staff was more ingrained in looking at compliance issues. Again he offered to communicate with the boards in regard to the issue.

Chair Leslie agreed it was important as it was outrageous to see the findings in this report. Chair Leslie called for additional questions for the auditors.

Chair Leslie called for the Board to testify.

F. Fuller Royal, MD., H.M.D., Secretary/Treasurer, Board of Homeopathic Medical Examiners, and a member of the NIRB, explained his background included being in practice for 46 years, 26 were in Nevada. He stated his practice included both allopathic and homeopathic medicine. He assumed the duties of following through with the audit process, and worked with the Legislative Counsel Bureau Audit Division when the President stepped down. He expressed appreciation to the Audit staff for the work done. He commented the Board had gotten an education. He stated the Board had not been aware of all the different manuals the Board was responsible for. He noted the Board had not realized the error when the Board gave a \$5,500 check to a Board member for spending time in the north on Board business when in reality he was working on things the Board was not even aware of. The Board was later told that it was going to be very beneficial to the Board. As you can see it did not turn out that way.

Dr. Royal noted the Board, which was established in 1983, had kept itself in the black up until 2004. He explained at that time an applicant applied for a license and was turned down. The applicant sued the Board which initiated the first big rise in the legal fees from the Office of the Attorney General. The Board thought that the liability insurance premium would cover that cost. The Board was later apprised that the insurance covered only if the issue went to court. The issue was settled out of court.

Following that event came the introduction of the NIRB to the Board in two different meetings in June 2005, with the Board attempting to comprehend what that meant to the Board, which was very difficult. He noted a lot of faith was placed in the President. Unfortunately the Board allowed him to appoint himself to the NIRB and three other individuals. He admitted to a lack of knowledge as to who would be and who would not be good for the Board to appoint. The President also appointed members without Board approval. This began to cause concern on the part of the Board. In October 2005, Dr. Royal discovered he had been placed on and listed as the secretary-treasurer on the NIRB Medical Foundation, a private corporation under the Secretary of State. The address underneath his name was not his address. He had never received any information. He had not been involved in any kind of discussions with the bank or anyone else. That had been set up in July.

Dr. Royal raised questions about this and then noted the conflicts with the President and the Board developed. The President attempted to prevent Board meetings and to prevent members from discovering what the source of the problem was. He explained the two agenda meeting in January 2006 occurred because the President of the Board

did not like the agenda which had been approved by the Deputy Attorney General who represented the Board. The reason the meeting could not progress was because the President refused to accept any rules of order. It was a truly sad state of affairs and a costly one.

Dr. Royal noted the Board had strived to become educated. The Board had developed a policy and bylaws manual which puts into effect most, if not all of the audit recommendations. He added a copy had been provided to the auditors and the Committee. He offered to answer questions from the Committee.

Chair Leslie thanked Dr. Royal for the explanation. She asked if the Audit staff had had a chance to review the manual.

Mr. Klenczar stated auditors had not reviewed the most recent version. He added the prior draft had just needed a little more fine-tuning.

Chair Leslie asked that the Board continue to work with the Audit staff to implement the procedures. She stated the obvious was that the Board had had a tumultuous year. She stated Dr. Royal had related a good explanation from his point of view. She stated the Committee was very interested in how the Board was doing now and was it moving forward. She asked if the Board would be requesting legislation regarding the NIRB, and for information regarding the Board's future plans.

Dr. Royal replied the Board had implemented regulations which were part of the responsibility and the mandate from the Legislature for the Board to approve and implement regulations that would assist the NIRB. He stated due to opposition that too had been a struggle. Dr. Royal noted NIRB and the Board did not view or define "supervise" in the same way. NIRB felt that theirs was an independent board. As voiced by Senator Schneider, the Board was to help NIRB grow. That was not quite the way the Board felt it was supposed to be and had attempted to supervise without having the ability to understand what was really going on. The NIRB had its first meeting since March 28, 2006, yesterday (December 13, 2006) when the other members were replaced. The Board had received a letter from the NIRB Executive Director which stated, "I will retain and store all records and properties of the NIRB presently under my control until directed by a court of competent jurisdiction as to the appropriate disposition of the records and properties." Dr. Royal stated the Board had not had access to any NIRB materials other than some receipts that were totally unacceptable. He noted it had been a struggle. He stated the Board would submit a recommendation to the 2007 Legislature to either set the NIRB up by itself or place it under a multi-million dollar board to handle all of their needs.

Chair Leslie stated it was obvious this was not working. She assured Dr. Royal that the Legislature would be reviewing the Board and the NIRB. She called for questions from the Committee. Chair Leslie expressed appreciation to Dr. Royal for rectifying the audit issues. She noted the Audit staff would work with the Board to ensure the recommendations were implemented.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE REPORT ON THE BOARD OF HOMEOPATHIC MEDICAL EXAMINERS. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

Item 3— Follow-up on six-month reports from prior meeting (NRS218.8245).

Chair Leslie asked Steve Wood, Chief Deputy Legislative Auditor, to coordinate the presentation of the six-month reports.

Mr. Wood explained these reports were follow-ups on six-month reports from prior meetings. This was where agencies that had not fully implemented all of their recommendations were asked to return to provide an update to the Committee. He stated there were five reports to review at this meeting. Three were returning from the last Committee meeting in September 2006; one was from a six-month report issued in February 2006, and one was from October 2005.

A. Washoe County School District Performance Audit

Mr. Wood introduced Tim Brown, Audit Supervisor, to make the presentation.

Mr. Brown explained at the October 2005 Audit Subcommittee meeting auditors presented the six-month report on the implementation of the 29 recommendations contained in the audit report on the Washoe County School District. At that time it was determined that 20 of the recommendations were fully implemented and 9 were partially implemented. Since the October 2005 Audit Subcommittee meeting it was determined that 6 of the partially implemented recommendations had been fully implemented and 3 remain partially implemented. Mr. Brown suggested the Audit Subcommittee obtain additional information on the status of the three remaining recommendations.

Mr. Brown noted appreciation to the District for the efforts they have taken in implementing the recommendations. He stated a representative of the District was present to answer questions from the Committee.

Chair Leslie called Mr. Paul Dugan, Superintendent, to come forward to testify.

Mr. Brown stated auditors found the District was in the process of combining the long-range facility plan and the various components of its capital projects plan into a formal Capital Improvement Plan (CIP). Auditors recommended the District continue developing the CIP and develop procedures to periodically review and update the Plan as needed. The District indicated the CIP was in the final phase of development with completion anticipated by February 2007. Mr. Brown asked if the District still anticipated completing the CIP by February 2007.

Mr. Dugan replied yes.

Mr. Brown stated auditors found the District's human resources information system could not provide accurate position counts, could not calculate turnover rates without significant personnel efforts, and could not produce vacancy reports. Auditors recommended the District modify the human resources information system to provide operational data on employee turnover and retention. The District indicated it had

undertaken a major revamping of its human resources and business information systems. The District anticipated the operational data on employee turnover and retention would be available by the fall of 2007. Mr. Brown asked if the District anticipated having the operational data of employees available by the fall of 2007.

Mr. Dugan replied yes.

Mr. Brown stated the District purchased the computerized bus routing system called SMARTR over 4 years ago but was still scheduling bus routes manually. A 1997 KPMG audit report estimated the District would save between 10% to 15% over a baseline cost, or about \$600,000 each year using the computerized routing system. Using this same methodology auditors estimated the District could have saved over \$1.1 million in fiscal year 2003. Auditors recommended the District use bus routing software to design the most efficient bus routes. The District indicated that implementation of the starter software was continuing. The goal was to have all runs optimized through the SMARTR system by July 2007. Mr. Brown asked if the District anticipated having the SMARTR system operational by July 2007.

Mr. Dugan replied yes.

Mr. Brown stated that concluded his presentation.

Assemblyman Marvel asked if the District had realized any savings since implementing the program.

Mr. Dugan stated the District had realized savings almost immediately from the audit recommendation made in regard to the bus start times. That was a difficult implementation but the District had realized savings and the District believed they would realize the savings from the SMARTR System that will be in effect in 2007. He stated the District would be making a presentation to the School Board in regard to those savings.

Chair Leslie expressed appreciation to Mr. Dugan for how difficult it was to deal with the public on the changing the bus route times.

Assemblyman Marvel asked if this bus scheduling system was similar to the system utilized by Clark County.

Mr. Dugan replied he was not aware of the system utilized by Clark County. He explained the District had implemented standard start times for high schools and for middle schools and staggered start times for elementary schools which had made the District more efficient and fiscally responsible.

Chair Leslie called for a motion.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE FOLLOW-UP REPORT ON THE SIX-MONTH REPORT ON THE WASHOE COUNTY SCHOOL DISTRICT PERFORMANCE AUDIT. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

B. Clark County School District Performance Audit

Mr. Wood introduced Tim Brown, Audit Supervisor, to make the presentation.

Mr. Brown stated at the February 2006 Audit Subcommittee meeting auditors presented the six-month report on the implementation of the 21 recommendations contained in the audit report of the Clark County School District. At that time auditors determined that 18 of the recommendations were fully implemented and three were partially implemented. Since the February 2006 Audit Subcommittee meeting auditors had determined that one of the partially implemented recommendations had been fully implemented and two remain partially implemented. In addition, auditors had a question regarding a recommendation previously reported as fully implemented. Mr. Brown suggested the Audit Subcommittee obtain additional information on the status of these three recommendations. Again he noted appreciation to the District for efforts it had taken in implementing the recommendations. He stated a representative of the District should be present in Las Vegas to answer questions from the Committee.

Chair Leslie asked for a representative of the Clark County School District to testify. It was noted that no one was present in Las Vegas to testify.

Mr. Townsend stated auditors would correspond with the District and forward the information to the Committee and determine if the District should be asked to return to the Committee.

Chair Leslie agreed but was surprised that the District was not in attendance. She thanked Mr. Brown for the presentation.

Mr. Brown stated that concluded his presentation.

Chair Leslie was unsure if a vote should be taken.

Mr. Townsend offered the items were well defined. He suggested the Committee accept the report and that auditors would follow up with the District.

Chair Leslie asked Mr. Townsend to communicate that the Committee was disappointed not to have the opportunity to discuss the remaining partially implemented recommendations with them. She called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE FOLLOW-UP REPORT
ON THE SIX-MONTH REPORT ON THE CLARK COUNTY SCHOOL
DISTRICT PERFORMANCE AUDIT. THE MOTION WAS SECONDED
BY ASSEMBLYMAN MARVEL, SUBJECT TO FOLLOW-UP BY AUDIT
STAFF. THE MOTION CARRIED UNANIMOUSLY.

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

Mr. Wood introduced Jane Bailey, Audit Supervisor, to make the presentation.

Ms. Bailey explained in October 2005, an audit report was issued on the Department of Business and Industry, Division of Industrial Relations. She stated at the September 2006 Audit Subcommittee meeting auditors presented the six-month report on the status of the 15 recommendations contained in the report. At that time auditors

indicated that nine recommendations had been fully implemented, and six had been partially implemented. Ms. Bailey stated since the September 2006 Audit Subcommittee meeting auditors had received information and documentation from the Division that the six partially implemented recommendations would be fully implemented by December 2006. Ms. Bailey indicated that Roger Bremner, Administrator, Division of Industrial Relations, was in attendance to answer questions from the Committee.

Chair Leslie called for Mr. Bremner to testify before the Committee.

Ms. Bailey stated four of the recommendations in the report addressed improving processes in the worker's compensation section. The other two recommendations involved collection of accounts receivable. Ms. Bailey stated in November 2006 Mr. Bremner provided auditors with copies of the policies, procedures, and reports that the Division had developed to address these six recommendations. Based on conversation with Mr. Bremner earlier this week, the Division was now using these new processes outlined in the procedures for both worker's compensation and accounts receivable. Therefore auditors concluded that these recommendations are now fully implemented.

Chair Leslie called on Mr. Bremner to testify.

Mr. Bremner expressed appreciation to the Division staff for the work done in implementing the audit recommendations.

Chair Leslie recognized this was a huge task. She expressed appreciation for the work done by the Division to implement the recommendations. She was pleased to see this report today.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE FOLLOW-UP REPORT ON THE SIX-MONTH REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, DIVISION OF INDUSTRIAL RELATIONS. THE MOTION WAS SECONDED BY ASSEMBLYMAN MARVEL AND CARRIED UNANIMOUSLY.

D. Western Interstate Commission for Higher Education (WICHE)

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

Ms. Bailey stated the audit report on WICHE was issued in May 2005, and contained eleven recommendations. At the September 2006 Audit Subcommittee meeting it was reported that six recommendations were fully implemented, one recommendation was partially implemented, and no action had been taken on four recommendations. Ms. Bailey reported since the last Audit Subcommittee meeting Mr. Ron Sparks, Executive Director, had provided information that seven recommendations were now fully implemented and four were partially implemented. Ms. Bailey stated Mr. Sparks was in attendance to answer questions from the Committee.

Chair Leslie called for Mr. Sparks to testify before the Committee.

Ms. Bailey stated the audit found that WICHE did not comply with requirements to request the Board of Examiners (BOE) approval to write off delinquent debt. Ms. Bailey

stated the agenda for this week's Board meeting included an item for the write-off of WICHE's uncollectible debts. However this meeting was postponed. She assumed that this item would be included when the Board meeting was rescheduled. She asked if that was correct.

Mr. Sparks stated yes.

Chair Leslie reiterated that the item would be presented at the next Board meeting.

Ms. Bailey reported the next two recommendations involved the revision of WICHE's regulations. Mr. Sparks had provided auditors documentation supporting the proposed revisions and had reported that a workshop and hearing on the regulations was scheduled for December 19, 2006. Ms. Bailey asked if the workshop was still on schedule to take place on December 19, 2006.

Mr. Sparks replied yes.

Ms. Bailey reported the remaining recommendation was to develop and accurately calculate performance indicators and report the results to the Commission at least annually. WICHE had provided auditors with a calculation of the performance indicators along with supporting documentation and had reported that it planned to present the performance indicators to the Commission at its January 2007 meeting. Ms. Bailey asked if WICHE had prepared the agenda for the January 2007 Commission meeting and had the performance indicators been included on that agenda.

Mr. Sparks replied yes the item would be on the next agenda and was also a part of WICHE's budget process.

Chair Leslie clarified there was an agenda and asked for the actual date of the meeting.

Mr. Sparks replied the meeting would take place at the end of January 2007. There was no meeting date scheduled. He assured the Committee that a meeting would be held in January 2007.

Assemblyman Marvel asked for information about the Commission members.

Mr. Sparks explained the Executive Commissioner was Carl Shaff; Senator Warren Hardy was the legislative representative; and Jane Nichols was the education representative.

Chair Leslie called for a motion.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE FOLLOW-UP REPORT ON THE SIX-MONTH REPORT ON THE WESTERN INTERSTATE COMMISSION FOR HIGHER EDUCATION (WICHE) SUBJECT TO THE COMMISSION FOLLOWING THROUGH AND PROVIDING REQUESTED INFORMATION TO AUDIT STAFF. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

E. Utilization and Security Over State Internet Sites (DoIT).

Mr. Wood introduced Doug Peterson, Information Systems Audit Supervisor, to make the presentation.

Mr. Peterson explained in October 2005, the six-month report was presented to the Committee. The Department had been back to the Committee a number of times to discuss the progress toward agencies implementing disaster recovery plans and information security plans. In November 2006 auditors requested that the Department provide an update on the number of agencies that had completed their disaster recovery plans. At the last meeting the Audit Subcommittee had discussed the possibility of removing agencies that did not need to be on that list if they did not have critical applications. In its response the Department did provide auditors with a report showing the agency's progress on implementing these plans. The Department had indicated that some agencies were not required to have a disaster recovery plan which was shown in their exhibit and with the remaining agencies that were 100% complete. However, auditors noted the absence of four elected officials that could have critical applications that require disaster recovery plans. He stated they were the Office of the Secretary of State, the Office of State Controller, the Office of the Attorney General, and the Office of the State Treasurer. Mr. Peterson recommended the Committee request additional information from the Department. Mr. Peterson indicated that representatives from the Department were present at the Committee meeting.

Chair Leslie called for a representative of the Department to testify. She asked Mr. Peterson to continue the presentation with questions for the Department.

Mr. Peterson asked if the Department knew the status of the disaster recovery plans for these elected officials.

Mr. James Elste, Chief Information Security Officer, Department of Information Technology, stated the Department was asked in the March timeframe to remove the four elected officials from the list of disaster recovery plans that the Department was pursuing. He stated that was a decision made between the Chief of Staff Governor's Office, and the Director of the Department of Information Technology. He was more than happy to assist those offices to complete their disaster recovery plans. He stated presently the Department had no information on the status of those plans.

Chair Leslie stated this information was quite interesting. She stated the Committee might be asking the Department to place the offices back on the list. She asked if there were known reasons why these offices would not be on the list.

Mr. Elste believed the disaster recovery plans and the information security plans were actually part of an Executive Order and suspected the reasoning was because they were elected officials that were responsible for their offices and perhaps not subject to DoIT pursuing their disaster recovery plans.

Mr. Peterson stated auditors had to do quite a bit of research over the years on who exactly was subject to the rules and regulations and policies put out by DoIT. And it came down to the fact that there were only two agencies that were exempt from these

policies and they were the Nevada System of Higher Education and the Nevada Criminal Justice Information Computer System. All other agencies, by statute, were under the umbrella of using those policies. He stated the statutes had been reviewed by auditors and it was clear that even though they were elected officials they were still an Executive Branch agency.

Chair Leslie stated that made sense to her because this would not interfere with their elected capacity. She stressed the state was not looking at their election, the state was looking at whether the state was prepared for a disaster. She asked for Committee input. She thought the Committee should direct the Audit staff and the Department to check with these elected officials to see if their disaster recovery plan was adequate, similar to any other state agency. She asked if there was any objection to that from the Committee members. There being no comment Chair Leslie directed the Audit staff and the Department to follow through with contacting the elected officials.

Mr. Elste stated he would pursue the four offices and find out the status of their disaster recovery plans.

Chair Leslie appreciated the comments from Mr. Elste.

Chair Leslie deferred to Mr. Peterson for additional questions for the Department.

Mr. Peterson stated the Department had provided auditors with a list showing which agencies had completed information security plans which showed some with 0% completion. Mr. Peterson suggested the Committee ask if the Department could provide a target date for when these agencies would complete their information security plans.

Mr. Elste replied yes. When the Audit Subcommittee met in September 2006, he recalled it was his fourth day on the job and he had left motivated to complete the disaster recovery plans. He stated the Department focus was turned solely on the disaster recovery plans and have now completed the disaster recovery plans and were now focusing on the information security plans (ISP). He noted the Department had received two additional information security plans since the information was submitted to Audit staff. He stated there were now 13 agencies that had less than 50% completion of their ISPs and the Department would pursue them with a target date of Fall 2007 for 100% compliance with the ISP. He asked if this would be acceptable to the Committee.

Chair Leslie called for comments from the Audit staff.

Mr. Wood stated that was acceptable and the Department could return to the next Audit Subcommittee meeting after the 2007 Legislative Session.

Chair Leslie agreed. She commented to the Department that the Committee was serious about the implementation of the audit recommendations.

Mr. Elste agreed.

Chair Leslie expressed appreciation for the information reported by the Department to the Committee.

Mr. Elste stated the Department was committed to delivering the plans to the Committee.

Senator Coffin asked for information about communication system towers he noticed on the highway between Las Vegas and Reno.

Mr. Elste offered to provide the information to the Committee.

Chair Leslie stated Senator Coffin would appreciate receiving the information. She called for a motion.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE FOLLOW-UP REPORT ON THE SIX-MONTH REPORT FROM THE PRIOR MEETING ON THE UTILIZATION AND SECURITY OVER STATE INTERNET SITES AND REPORT BACK TO THE SUBCOMMITTEE AT THE NEXT MEETING. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

Item 4—Public Comment.

Chair Leslie asked for public comment. There was none.

Mr. Townsend commented he did not anticipate the Committee holding another meeting until after the 2007 Legislative Session. He stated during the Legislative Session he would notify the Chair and the Committee as reports were available. He stated Chair Leslie would have the option to call a meeting at that point in time

Assemblyman Marvel asked for information about the Committee as a standing committee during the Legislative Session.

Mr. Townsend replied the Committee would remain a standing committee until a new committee was named by the Legislative Commission at the conclusion of the Legislative Session.

Chair Leslie stated there were no planned meetings but a meeting could be called during the Legislative Session.

Chair Leslie, noted there were no further comments. The meeting was adjourned at 1:31 P.M.

Respectfully submitted,

Donna Wynott, Audit Secretary

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

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