

MINUTES OF THE MEETING OF THE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
Legislative Building
401 South Carson Street, Room 4100
May 16, 2006

This is the third 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 9:39 a.m., Tuesday, May 16, 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 Bob Coffin
Senator Dean A. Rhoads

Las Vegas:

Assemblyman Morse Arberry Jr.

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Paul Townsend, Legislative Auditor
Stephen Wood, Chief Deputy Legislative Auditor
Donna Wynott, Office Manager
Jane Bailey, Audit Supervisor
Tim Brown, Audit Supervisor
Rocky Cooper, Audit Supervisor
Tammy Goetze, Deputy Legislative Auditor
Gary Kulikowski, Deputy Legislative Auditor
Rick Neil, Audit Supervisor
Doug Peterson, Information Systems Audit Supervisor
Mike Spell, Audit Supervisor

Assemblywoman Sheila Leslie, Chair, called the meeting to order. The roll was taken. A quorum was present. Ms. Leslie asked that the Las Vegas Committee member be marked present upon arrival.

Item 1—Approval of minutes of the meeting held on February 28, 2006.

ASSEMBLYMAN MARVEL MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF FEBRUARY 28, 2006. THE MOTION WAS SECONDED BY SENATOR COFFIN AND CARRIED UNANIMOUSLY.

Item 2—Presentation of audit reports (NRS 218.823).

A. Department of Health and Human Services, Director's Office.

Paul Townsend, Legislative Auditor, introduced Jane Bailey, Audit Supervisor; and Tammy Goetze, Deputy Legislative Auditor, to present the report.

Ms. Goetze began the presentation with background information on the Department. The Director's Office is responsible for the management and administration of human services programs. The Office also provides administrative support to the Public Defender's Office and the Indian Commission. Included in the Director's Office is the Office of Disability Services, Senior Rx, and the Grants Management Unit (GMU). An exhibit in the report shows the GMU programs, number of grantees, and amounts awarded during fiscal year 2005.

The audit scope and objectives included a review of the Office's financial and administrative activities for the fiscal year ended June 30, 2005. The objectives of the audit were to determine: (1) if the Office's monitoring efforts over grants ensured compliance with Office policies and procedures, and applicable state and federal laws and regulations; and (2) if activities were carried out in accordance with applicable state laws, regulations, policies, and procedures.

Ms. Goetze reported audit findings and recommendations found the Director's Office generally complied with laws and regulations significant to its financial administration. However, some weaknesses were noted in the Office's monitoring efforts over grants and certain administrative functions. Monitoring efforts over grants can be improved. The Office needs to enforce requirements that grantees submit certain reports in a consistent and timely manner. A review of 20 grants totaling over \$5.9 million awarded to 12 grantees for fiscal year 2005 revealed progress reports were submitted untimely for 2 of the 20 grants. Financial status and request for funds reports were submitted untimely for 11 of the 20 grants. Financial statements were submitted untimely for 4 of the 10 grants requiring these statements.

Ms. Goetze noted the Office had established general grant procedures for all grant programs administered by the Grants Management Unit. Each program has its own specific set of grant procedures. The Office's general grant procedures do not specifically address deadlines for submitting required reports. In addition, the procedures do not address the basis for determining whether grantees should submit their financial status and request for funds reports either monthly or quarterly, consistently throughout the year. Each program's specific set of grant procedures varied regarding reporting deadlines and the frequency of reporting. With over \$16 million in grant funds provided annually to non-state agencies, it is important that the Office properly enforce reporting requirements. This will assist grant managers in efficiently monitoring grantees to ensure they abide by their approved budgets, their expenditures are appropriate, and their funding is being used as intended.

Ms. Goetze stated the Director's Office did not consistently conduct periodic site visits of grantees. Of the 12 grantees reviewed, over half did not receive a site visit in the last 2

fiscal years, or since they began receiving grant funds. Site visits are needed to ensure grantees are abiding by their grant awards and using grant funds as intended.

Office management has recognized the importance of site visits and developed a monitoring checklist to use during program reviews beginning in fiscal year 2006. However, no corresponding procedures have been developed to address the frequency of these visits and the selection process of choosing grantees to be reviewed.

Recommendations were made in regard to grant monitoring. The Office should revise grant procedures to ensure specific and consistent reporting requirements and develop and implement procedures for scheduling grantee site visits.

Ms. Goetze noted the Director's Office could also strengthen controls over some administrative functions. Controls over property and equipment need improvement. The Office's inventory list is outdated and includes assets that are no longer located in the Office. Of the 15 assets tested on the Office's inventory list, 6 were not located in the Director's Office. Although the Office identified five of the six items as no longer existing within the Director's Office during its annual inventory, property disposition reports were not properly completed and processed.

Office policies and procedures over property and equipment are also outdated. Procedures refer to inventory reports being received from State Purchasing, although these reports are no longer prepared. In addition, Office policies and procedures do not address reporting the disposition of property to State Purchasing. Nevada law requires property records be maintained at all times to show the officers entrusted with the custody and transfers of property. Without an accurate inventory list, the Office is at risk that a theft or loss of Office assets could go undetected.

Ms. Goetze continued, noting personnel requirements were not always met. Three of the 10 employee files reviewed did not contain a fiscal year 2005 employee evaluation, and 2 of these individuals were on probationary status. Also, two additional employees received their evaluations late. In addition, 1 employee had not received work performance standards, and 2 of the 10 employees had inaccurate work performance standards. NRS 284 sets forth requirements for evaluation of employees and establishing standards of work performance for each class of positions.

The Director's Office did not prepare contracts for certain individuals providing services to the Office of Disability Services (ODS). ODS hires individuals to assist disabled counsel members participating in counsel meetings held throughout Nevada. Ms. Goetze explained Nevada law requires agencies establish contracts with individuals meeting the statutory definition of an independent contractor. Although the activity is limited, contracts are needed to identify services to be provided and the cost of the services.

Ms. Goetze stated the Director's Office needs to improve tracking of receivables for its Senior Rx program. Senior Rx members identified during the program's income verification process as having income greater than the maximum income requirements are required to reimburse the Office for benefits received. Since June 2002, the program had identified approximately \$100,000 in receivables from individuals not

meeting program requirements. As of August 2005, approximately, \$40,700 had been collected; \$45,900 had been written-off; and \$13,400 remained due from 16 individuals. It was noted that collection efforts were not timely. Out of 10 receivables reviewed, 3 should have received collection letters for untimely payments.

The Director's Office did not comply with state laws and regulations for writing off debt and reporting receivables to the State Controller. The Office did not obtain Board of Examiner approval for \$45,900 in Senior Rx receivables written off since June 2002. NRS 353C requires Board of Examiner approval when writing off old debt and requires state agencies to submit quarterly reports to the Controller's Office on debts owed.

Ms. Goetze discussed the audit recommendations. The Office should ensure inventory reports are properly approved and procedures revised to include the disposition of assets. Employees should be provided timely and accurate work performance standards and evaluations. Contracts should be prepared for individuals meeting the statutory definition of an independent contractor. The Office should also improve the monitoring process of Senior Rx receivables to assist management and staff with identifying delinquent receivables and taking appropriate action. And finally, procedures should be developed to ensure compliance with the statutory requirements of reporting and writing off debt.

Ms. Goetze reported the Office's prior audit contained seven recommendations, four of which were related to the Division of Health Resources and Cost Review, which was transferred to the Division of Health Care Financing and Policy. Evaluation of the remaining three recommendations determined they were fully implemented.

Ms. Goetze concluded the Director's Office accepted all seven recommendations.

Chair Leslie called for questions from the Committee.

Assemblyman Marvel asked for information about the missing inventory.

Ms. Goetze responded of the six missing items, the agency identified five of them during their inventory process. However, property disposition reports were not completed and processed. She added they were computer related items.

Chair Leslie called for an agency representative to testify.

Chair Leslie asked questions regarding the progress reports on the grantees. She asked why the progress reports for the grantees were not retained. She asked if a retention policy existed.

Mr. Mike Willden, Director, asked for Laura Hale, Grants Management Unit, to respond to the question.

Ms. Hale responded a policy does exist that requires all progress reports be maintained. She added the referenced reports were for the Las Vegas office and had been located.

Chair Leslie asked about consistent reporting deadlines and enforcement of those requirements. She asked how the agency was going to enforce reporting requirements.

Mr. Willden answered, even though accepted, this recommendation was questioned by the agency. He added there is a question if every grantee should be on the same

reporting requirements, whether monthly, quarterly, etc. He did agree that all grantees need to periodically report to the agency and there should be a standardized format. Mr. Willden explained some grantees are at a higher risk or have more money in them, and should be required to report more often than others. He stated all sub-grants include reporting requirements in the grant.

Chair Leslie asked about enforcement of these reporting requirements.

Mr. Willden replied follow-up letters will be sent and the grantee will be contacted.

Chair Leslie asked how many internal auditors were in the office.

Mr. Willden stated there are two auditors in the Director's Office. He added the agency is having problems keeping staff. He noted the positions are vacated after a few months.

Chair Leslie asked for an explanation of the turnover issue.

Mr. Willden did not think it was a pay issue. He noted the auditing position required frequent travel and was one reason for auditor turnover.

Chair Leslie stated she was concerned that the Office's auditors did not issue any audit reports during fiscal year 2005.

Mr. Willden responded that 27 audits were near completion. He noted a problem was that the audits were not at a level or quality that the Office would issue to the sub-grantee. Mr. Willden cited personnel problems for reasons that the audits were in various forms of completion.

Chair Leslie commented work was done in 2005, but the completed product was not released.

Mr. Willden agreed.

Chair Leslie asked for comments in regard to the collections and receivables in the Senior Rx program. She asked for clarification and status on the program.

Mr. Willden commented the Office intended to comply with the collection of receivables. He agreed there had been an oversight in regard to write-offs and the Board of Examiners process. He noted this as a very sensitive area. These are seniors with limited income. Mr. Willden stated auditors keep on top of eligibility reviews. He gave examples of the collection process. He agreed the Office had not complied with the requirements of noticing these accounts.

Chair Leslie stated it was important to treat people fairly.

Mr. Willden agreed, noting there are hardship rules in place to address certain situations.

Chair Leslie indicated she understood the sensitivity of the issue.

Assemblyman Marvel asked is there were sanctions or penalties in place in regard to uncollectibles.

Mr. Willden answered for the seniors, no. He noted if they are ineligible they lose enrollment in the program. He explained attempts are made to collect the amount of prescription drug benefits paid out during an ineligible time period.

Chair Leslie called for questions or comments from the Committee.

Mr. Willden expressed his gratitude for the work done by the Audit staff. He also noted appreciation for work done by the Executive Branch internal auditors.

Chair Leslie stated she appreciated the Office's attitude and implementation of the recommendations from the previous audit.

Senator Rhoads commented on attending a recent opening of a mental health facility in Elko. He asked about the 49% vacancies in the rural areas.

Mr. Willden answered that is a very critical issue which has been brought up at all health care meetings. He stated staffing shortages are seen in rural Nevada, with vacancies as high as 50%. Mr. Willden noted steps have been taken and recommendations are being made to alleviate this staffing shortage. Mr. Willden further commented on the issue.

Assemblyman Marvel commented the problem has always existed in rural Nevada. He asked for comments on staffing requirements for positions. He asked if contracting had been utilized and how costs compared to state positions.

Mr. Willden gave examples of the types of staffing and hiring requirements of the Office. He agreed contracting is used to fill positions. Mr. Willden stated the costs are similar and commented on the costs of hiring contract help.

Chair Leslie offered that the Health Committee had been apprised that Elko is experiencing staffing shortages. She was surprised because Elko is one of the larger rural cities. Chair Leslie commented the price of housing contributing to the problem.

Mr. Willden commented on additional staffing issues in Carson City and Pahrump.

Chair Leslie noted the new mental health office in Elko included the integration of developmental and substance abuse services.

Senator Rhoads commented on the Elko office, noting it is a beautiful building and the staff are excited about providing these services.

Mr. Willden stated a future building in Elko will house Welfare, Aging Services, DCFS, and Health.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, DIRECTOR'S OFFICE. THE MOTION WAS SECONDED BY SENATOR COFFIN AND CARRIED UNANIMOUSLY.

B. Department of Health and Human Services, Division of Mental Health and Developmental Services.

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

Mr. Neil began the presentation with background information on the Division of Mental Health and Developmental Services (MHDS). MHDS is responsible for the development, administration, coordination, and evaluation of state treatment and training programs for persons with mental illness or developmental disabilities. MHDS facilities are located throughout Nevada. The focus of this audit was the Division's developmental services provided by three regional centers. In the Las Vegas area, Desert Regional Center (DRC) offers community-based services in its main office and three branch offices in Henderson, Pahrump, and North Las Vegas. The largest state-run residential treatment program is located on the DRC campus. In the Reno area, Sierra Regional Center (SRC) provides community-based services and is the location of the other state-run residential treatment program. The Rural Regional Center (RRC), located in Carson City with satellite offices in Elko, Fallon, Silver Springs, and Winnemucca, offers community-based services for the rural Nevada counties.

Mr. Neil explained the regional centers provide a full range of services for people with developmental disabilities and related conditions. Services included case management, family support services to assist families to care for relatives with developmental disabilities, jobs and day training, and residential support.

In fiscal year 2005, the Division spent approximately \$88 million to provide developmental services. The three regional centers served almost 4,000 persons in 2005. Funding sources for developmental services are approximately 55% state appropriations and 45% federal funds, mostly Medicaid. The audit includes a description of how Medicaid funding works, and explained that the federal reimbursement for Medicaid expenditures was approximately 55% in fiscal year 2005. He stated the audit focused on procedures used at the Division's developmental services agencies to establish billing rates and eligibility for federal programs, and the new automated billing system developed in-house and piloted at SRC during fiscal year 2005. The objective of the audit was to determine whether the agencies maximized federal reimbursements for the cost of providing developmental services.

Mr. Neil reported the Division can obtain additional federal funds by improving its rate-setting and billing procedures for developmental services. Specifically, the Division could have collected about \$1.2 million in additional federal funds if case management services had been billed at actual cost for the past two fiscal years. At least half of this amount can be collected if the Division re-bills Medicaid promptly. In addition, the new billing system piloted at SRC was effective since it billed Medicaid for almost all billable services. However, system modifications could increase SRC's collection of federal funds by more than \$200,000 annually. Timely implementation is critical since the Division is in the process of implementing the new system at the two other regional centers. Finally, the Division could collect additional funds by billing Medicaid for all eligible clients.

The targeted case management (TCM) fee did not reflect the actual cost of providing services. The regional centers based the fee on estimated costs and case management hours worked per staff. Although the Division revised its TCM fee in

February 2004, it did not recalculate the fee when the actual costs and hours of service for fiscal year 2004 were known. The Division did not revise the TCM fee based on actual cost because in past years actual units of service were not readily available. Previously, staff recorded case management services manually, which made compiling the hours of service very time-consuming and prone to error. However, beginning in fiscal year 2004, all three regional centers recorded case management services in a new automated information system. Recording these services in the automated system enables the Division to generate management reports which include the actual hours of service provided during the year.

Mr. Neil stated the actual cost of providing case management services was a little over \$103 per hour. The Division could have collected additional federal funds of \$1.2 million for fiscal years 2004 and 2005 based on the \$12 per hour variance between the actual cost of \$103 per hour and the fee of \$91 per hour charged by the centers based on estimated costs. Agency personnel agreed with this calculation of the actual cost and estimated additional federal funds. In addition, State Medicaid representatives agreed the Division could re-bill Medicaid for the actual cost of providing case management services in fiscal years 2004 and 2005. However, since there is a 2-year limit on re-billing, the Division should work with State Medicaid representatives to resolve this promptly. By re-billing Medicaid promptly, the Division can collect additional federal funds for services provided in fiscal year 2005 and part of fiscal year 2004.

The Division had not established controls to help ensure Medicaid cost reports are accurate. SRC and DRC billed for services provided at its Intermediate Care Facilities for the Mentally Retarded (ICF/MR) during the year at an estimated daily rate. After year-end, staff prepared the ICF/MR cost reports to determine reimbursed amounts compared to the actual daily rate. The centers then submitted reports to Medicaid for review and final settlement. Examination of the fiscal year 2004 reports showed SRC had overstated ICF/MR reimbursable costs by about \$1.6 million and DRC overstated costs by \$230,000. Both centers submitted amended reports after being notified of the errors. Since the final Medicaid review and settlement had not occurred, there was no financial impact from these errors. However, if the errors had not been detected, it would have impacted the ICF/MR and TCM reimbursements received from Medicaid.

Mr. Neil stated errors in the ICF/MR cost reports can be attributed to control weaknesses with the report preparation process. For instance, the cost reports are not reviewed by anyone at the regional centers before submitting them to Medicaid. Also noted was a lack of written procedures on preparing the cost reports. Recommendations were made related to establishing fees for case management services based on actual costs.

Mr. Neil discussed the effectiveness of the new billing system developed in-house and piloted at SRC in fiscal year 2005. The auditors concluded the new billing system was effective. It was estimated SRC billed for almost 98 percent of the total amount it should have billed to Medicaid. Nevertheless, SRC has opportunities to increase its collection of federal funds from Medicaid by about \$235,000 annually by making further improvements. In addition, the Division needs to prepare better documentation of the new system and separate key duties to help ensure the effective operation of the

system. SRC has already corrected some of the problems and is working on others. However, it is critical for the Division to address these improvements timely since the agency plans to implement the billing system at the other two regional centers, which account for over 75 percent of the total clients served statewide.

Mr. Neil stated SRC personnel designed the new billing system for the Division's regional centers to ensure management information is more readily available and also to automate the Medicaid billing processes that were very time-consuming. The system is called DS-NOW. Elements of the system have been used at all three regional centers since July 2003. However, the system was first used for billing purposes at SRC in fiscal year 2005, with plans to implement the billing component at the other regional centers in the near future.

Mr. Neil explained improvements to the billing system would help ensure all services are billed. Analysis of SRC's billings for the first 10 months of fiscal year 2005 indicated Medicaid was billed for almost 98 percent of the total amount that should have been billed. However, since SRC billed Medicaid about \$16 million during this period, minor billing errors can have a significant impact on revenue. As a result, it was determined SRC did not bill services totaling about \$430,000. If SRC had billed these services, it would have received about \$235,000 in additional federal funds which represents the federal portion of the unbilled amount.

Mr. Neil stated services were not billed due to data reliability problems and misunderstandings of Medicaid rules. Mr. Neil reported the Division had already addressed some problems and was working on others.

The Division did not have sufficient documentation for the new billing system including an overview of how the system works and the inputs, processes, and outputs. In addition, the design, programming, and system administration was done for the most part by one person. These control weaknesses increase the risk of error or loss of state funds. Addressing these weaknesses is critical since the regional centers receive a considerable amount of federal funds to fund their services. For instance, the centers received almost \$40 million in fiscal year 2005. The centers obtain the federal funds by billing Medicaid and other agencies administering federal grants for client services. Therefore, the lack of documentation and separation of duties could negatively impact agency operations.

SRC personnel indicated that documenting the system and separating duties for the system were delayed in part because of the considerable time spent dealing with Medicaid's new claims administrator on denied claims. Mr. Neil explained in some months Medicaid rejected almost half of the claims submitted by the regional centers. He noted MHDS personnel have been meeting with State Medicaid representatives to address problems with denied claims.

Recommendations were made to help ensure the new billing system for developmental services bills for all eligible services.

Mr. Neil discussed controls that are needed to ensure Medicaid is billed for all eligible clients. The first part explains how DRC can increase the amount of federal funds

received from Medicaid by revising its billing procedures when clients are eligible for more than one federal program. In fiscal year 2005, DRC billed two federal block grant programs approximately \$114,000 for services to clients that were Medicaid eligible. Because the amounts reimbursable under the block grant programs are capped, but Medicaid is not, these programs should only be billed for expenses not reimbursable by Medicaid. Furthermore, services totaling \$50,000 that were provided to some of these Medicaid clients after DRC received its allotment from the block grants, were not billed to Medicaid. In total, billing Medicaid for these services would have resulted in DRC receiving about \$90,000 in additional federal funds in fiscal year 2005.

The second part of this chapter deals with procedures to ensure Medicaid eligibility is pursued for all clients. Although a significant percentage of clients were Medicaid eligible, additional controls will help ensure Medicaid eligibility is pursued for all clients. Control weaknesses included a lack of written procedures and supervisory oversight of service coordinators' efforts in this area. Since over half of the cost of Medicaid eligible services is reimbursed by federal funds and the cost of providing services can be from several hundred to several thousand dollars per month, pursuing eligibility reduces the amount of state funds needed to provide developmental services. Furthermore, clients benefit from having health insurance through Medicaid, since it covers a wide variety of health care services not provided by the regional centers.

Recommendations were made to help ensure the Division bills Medicaid for all eligible clients.

Mr. Neil reported the Division accepted all 11 recommendations.

Chair Leslie commended Audit staff for the work done on this audit.

Assemblyman Marvel asked if staff turnover was found to be a problem in the Division.

Mr. Neil answered yes, explaining there were turnover problems at the regional centers similar to all agencies. He noted turnover in the fiscal staff.

Assemblyman Marvel asked if the fee of \$91 an hour was comparable to other states.

Mr. Neil was unsure what other states charged. He stated the fee was comparable and possibly lower than some other state agencies that provide similar case management services.

Senator Coffin asked if the agency would require additional personnel to implement the recommendations.

Mr. Townsend responded auditors work with the agencies and develop recommendations with a reasonable assurance that the cost of the efforts would not exceed the benefits. He added, in this case auditors worked with the agency on the methodologies utilized in calculating the billing rates. He understood it was a big job to go through and recalculate the billing rates. Mr. Townsend explained auditors worked with the agency to show how the recommendations could be implemented. He stated it is up to the agency to determine needs for an increase in staff.

Senator Coffin asked if the agency had indicated they would be able to implement the recommendations with existing staff.

Mr. Townsend stated auditors are cautious in that area because generally that is the first response given by an agency; that the reason for the problems is due to a lack of staff. He emphasized sometimes that is justified, other times there may be areas where efficiency that can be reviewed.

Chair Leslie stated it is important to note adjusting the case management fees is a going forward type of process. The agency will capture the re-billing and would now be billing at the correct rate.

Chair Leslie called for agency representation to testify. She asked for the status on the Medicaid re-billing and if the agency would be able to recoup the money.

Carlos Brandenburg, Ph.D., Administrator, introduced staff present at the meeting and thanked Audit staff. Dr. Brandenburg addressed the question from Senator Coffin regarding the need for additional staffing. He stated several of the recommendations were procedural and could be implemented with existing resources. Dr. Brandenburg added the central office will improve with the addition of a new auditor which will allow for internal audits to be accomplished. He added the agencies are committed to maximizing federal monies to have less of an impact on the State General Fund.

Chari Leslie asked for information regarding the re-billing.

Dr. Brandenburg understood that has been accomplished.

Mr. Jeff Mohlencamp, ASO IV, MHDS, stated the revised costs for 2004 were submitted to Medicaid on March 31, 2006. He explained Medicaid has begun the process to adjust the rates. He added the agency will begin billing at the adjusted rates and billing will be done to recapture costs within the 2-year limitation. He further explained the fees will be billed through an off-line adjustment process. Mr. Mohlencamp stated for 2005 the agency intended to resubmit rates by the end of May 2006, which will allow the agency to recapture fees for all of 2005.

Chair Leslie asked how the funds will be utilized.

Mr. Mohlencamp answered the funds would be reverted back to the General Fund.

Assemblyman Marvel asked how Medicaid eligibility is determined.

Mr. Mohlencamp stated Medicaid eligibility determinations are made at the Welfare Division. He added the Department checks for Medicaid eligibility through the Welfare Division.

Assemblyman Marvel asked about contracting out for mental health services.

Mr. Mohlencamp deferred the question to Dr. David Luke, the head of Developmental Services.

Dr. Luke answered Developmental Services is largely contracted.

Chair Leslie complimented the agency on its in-house system which functions so well.

Dr. Luke responded on the Agency's efforts. Dr. Luke acknowledged the Audit staff for contributing to this most forward looking audit. He added the agency partnered with Audit staff to help validate and cross-check the system.

Chair Leslie agreed. She added the citizens of Nevada gain when departments and divisions work cooperatively with Audit staff to maximize available resources to ultimately benefit the clients.

Senator Coffin asked about the Department's abilities to provide mental health resources to treat veterans and family members. He asked about the ability to utilize Medicaid resources for these services.

Mr. Mohlencamp was unsure whether Veterans would be included within Medicaid or covered by the Veterans Administration (VA). He added there have been times when the Department had billed the VA for services. He offered to look into the question.

Senator Coffin expressed interest in knowing about billings to the VA and whether or not the Department had been billing for these services. He added there will be more people with these kinds of needs.

Mr. Mohlencamp stated there were few billings made to the VA but agreed this may increase substantially in the future.

Senator Coffin commented on the return of the reservists and guardsmen who live in Nevada.

Assemblyman Marvel asked if there were sufficient institutions to alleviate the pressure placed on area emergency rooms.

Dr. Brandenburg answered a new hospital in Las Vegas will open in July 2006 with 150 beds and in August 2006 a full 190 beds will be available. He noted in the past Legislative Session AB175 was approved to fund emergency beds. He stated Westcare is currently under contract to provide 50 beds but will not be available until after August 2006. This will impact emergency rooms. Dr. Brandenburg stated he had met with other administrators to address short-term and long-term solutions to the emergency beds. Over the last 5 years there has been a loss of 133 private psychiatric beds. He added there are new hospitals coming on line with no psychiatric beds. He stated ways need to be found to encourage the private sector to consider bringing on these beds.

Assemblyman Marvel asked about the current caseload in the state.

Dr. Brandenburg stated last fiscal year the Department served over 27,000 individuals.

Chair Leslie commented the Health Committee had also been working on the issue. She reported this interim may see a short-term request for additional funding because the lack of psychiatric beds remains a crisis in Clark County. She commented that various parties are working well together to address the problem.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, DIVISION OF MENTAL HEALTH AND DEVELOPMENTAL SERVICES. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

C. Colorado River Commission of Nevada.

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

Mr. Cooper began the presentation with background information on the Colorado River Commission (CRC). Mr. Cooper reported the primary areas of responsibility included water, power, environment, and land.

Assemblyman Marvel asked about land inventory and the disposal of land.

Mr. Cooper asked to defer the question to the Executive Director. Mr. Cooper noted this area was not addressed in the audit.

Mr. Cooper continued the report presentation stating the CRC has a close working relationship with the Southern Nevada Water Authority (SNWA). This working relationship had been formalized by the Legislature, and was intended to provide greater oversight of water issues facing Nevada. The CRC's working relationship with SNWA was enhanced in June 2004, with the establishment of a new Electric Power Supply Agreement. Pursuant to this agreement, CRC will act as an agent in meeting the energy supply needs of the SNWA. In addition, the two entities have formed an Energy Services Group which includes eight CRC employees and seven SNWA employees.

Mr. Cooper noted background information on risks associated with electric power trading. Electric power markets are more complex than most commodity markets and involve a variety of risks. One unique characteristic of electric power markets is that electricity cannot be produced and easily stored for later use. Therefore, providers of electricity must constantly balance supply with demand while managing the risks involved with trading activities.

Mr. Cooper reported the audit provided background information on the Western Energy Crisis that occurred in 2000 and 2001, and the Western Systems Power Pool which CRC became a member of in April 2001.

The Colorado River Commission has been heavily involved in litigation since the western energy crisis in 2000 and 2001. This legal activity included the CRC's buyout of certain long-term power contracts from a customer that filed Chapter 11 bankruptcy, a settlement with the Federal Energy Regulatory Commission (or FERC) regarding alleged involvements with Enron, and various regulatory and legal disputes that occurred between CRC and Nevada Power Company.

In February 2005, the CRC, SNWA, Nevada Power Company and its parent company Sierra Pacific Resources, reached an accord to settle all outstanding claims between the parties. In addition, these entities established a new working relationship.

Mr. Cooper reported the audit focused on electric energy trades made by CRC's Energy Services Group from September 2004 through January 2005. The objective of the audit was to determine whether CRC had implemented Risk Management Procedures for its electric energy trading activities.

Findings and recommendations include an overall conclusion that the CRC has implemented Risk Management Procedures designed to reduce the risks associated

with electric energy trading activities. These procedures were jointly developed by CRC and its major customer, the SNWA, in response to difficulties encountered during the western energy crisis. Although procedures are now in place to help minimize risks, the audit identified areas where improvement could be made.

Mr. Cooper stated the report provided a chronology of the establishment of Risk Management Procedures. During the western energy crisis, the CRC did not have formal policies and procedures in place to guide its trading activities. In August 2004, Risk Management Procedures were established governing CRC's trading activities for supplying power to the SNWA. At that time, SNWA was the only customer that required the purchase of a long-term supply of non-hydroelectric power.

Although procedures have been established for supplying power to the SNWA, procedures are needed for trades involving other entities. During the audit, written policies and procedures were not in place for conducting trades related to contracts assumed by CRC. Ten of 40 trades tested, totaling approximately \$12 million in purchase and sales, related to contracts that CRC assumed as part of a settlement agreement. According to management, CRC did not have written policies and procedures for managing these trades; however, staff did follow the SNWA's Risk Management Procedures when executing and recording these transactions.

The CRC will need to establish policies and procedures for future electric energy trades for the member agencies of SNWA. Although CRC was not selling power to these entities during the audit; Commission staff indicated they planned to provide power to at least one member agency in 2006.

A review of the Risk Management Procedures found the Commission provided key controls over the purchase and sale of electric energy. Key controls established by the procedures included: (1) a Risk Control Committee to provide management oversight, (2) a Front-Middle-Back Office organization structure to provide separation of duties for trade execution, trade review, and risk analysis, and (3) reporting requirements to provide management information. In summary, these procedures, and the organization of trading activities into separate functional areas helps to ensure trades are conducted under adequate supervision and review, and are in compliance with established trade and credit limits.

Mr. Cooper reported the CRC had complied with Risk Management Procedures. A review of 40 trades, totaling approximately \$88 million in purchases and sales, found the CRC to be in substantial compliance with the requirements of these procedures. The audit identified areas where improvements can be made. One area for improvement is the trade review process.

The Back Office did not document its review of trade confirmations received from sellers of electric energy. For 18 purchase confirmations reviewed, staff did not maintain a record of who reviewed the confirmation and when it was reviewed.

Confirmation for small trades was not always documented. Five small trades, ranging from \$16,600 to \$54,400, did not have a written or electronically recorded confirmation of the terms of the transaction as required by procedures.

For each of these trade review areas, management indicated they would modify the trade review process to ensure adequate documentation of review activities and clarify procedures where needed.

Mr. Cooper reported that credit review procedures need modification. CRC staff has established a practice of limiting trades to short-term transactions of 60 days or less when a credit review has not been completed for a counterparty. Although this practice is a reasonable way to limit risk while providing the flexibility to make trades, it is not in compliance with Risk Management Procedures and should be modified in this area.

The CRC needs to improve its reporting of amounts payable to customers and amounts receivable from customers. This finding relates to the presentation of amounts on CRC's audited financial statements. Because of the way CRC tracked certain amounts and adjusted its books at year-end, some payables and receivables were netted. Therefore, the financial statements did not provide a clear picture of customer payables and receivables.

Recommendations were made to improve electric energy trading activities and the reporting of amounts payable and receivable from electric power customers.

Mr. Cooper reported the Commission accepted all six recommendations.

Chair Leslie asked for clarification that procedures were in place but had not been documented or followed accurately.

Mr. Cooper stated procedures were tested that are in place and are specific to the SNWA trades. Those procedures were followed during the audit because there were no errors or discrepancies noted in the transactions. Everything was accurately recorded in the computer system. Auditors could not find documentation that the activities were reviewed and when the review was performed. Audit staff was comfortable that the procedures were performed.

Chair Leslie called for questions from the Committee.

Senator Coffin complimented Audit staff for effectively summarizing the history of what happened to power in the Western United States.

Chair Leslie called for Commission representation to testify.

Mr. George Caan, Executive Director, thanked Audit staff for conducting a very thorough and professional audit. The Commission accepted all of the recommendations and commented most of the recommendations have been implemented. Mr. Caan responded to Assemblyman Marvel's question on land inventory and the disposal of land. He stated the Commission owns and manages 9,000 acres in Laughlin, the amount remaining of the original 15,000 acres.

Chair Leslie called for additional questions from the Committee.

SENATOR RHOADS MOVED TO ACCEPT THE REPORT ON THE COLORADO RIVER COMMISSION OF NEVADA. THE MOTION WAS SECONDED BY SENATOR COFFIN AND CARRIED UNANIMOUSLY.

D. Commission on Mineral Resources, Division of Minerals.

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

Mr. Kulikowski reviewed background information stating the Division of Minerals is a part of the Commission on Mineral Resources, which is responsible for advising the Governor on mineral-related issues. The Division focuses its efforts on three main areas: industry relations and public affairs; the regulation of oil, gas, and geothermal drilling activities and well operations; and abandoned mine lands. The Division administers several programs including the Abandoned Mine Lands Program, Reclamation Bond Pool, Education, Mining, and Oil, Gas, and Geothermal.

The Division is self-funded primarily from fees and grants. In fiscal year 2005, the Division had expenditures of approximately \$1 million. The Reclamation Bond Pool, which provides reclamation bonds for certain mining operators who cannot obtain bonds by commercial means, had a cash balance of approximately \$1.6 million as of June 30, 2005. The Division holds performance bonds for oil, gas, and geothermal well operators. These bonds can be certificates of deposit, sureties, or cash deposits. As of June 30, 2005, cash deposits and accumulated interest from these cash bonds totaled approximately \$338,000.

Mr. Kulikowski indicated the Division substantially complied with laws, regulations, and policies significant to its financial administration. Weaknesses were noted in the Division's oversight of wells and performance bonds, in their reporting of performance indicators, and in their accounts receivable.

Mr. Kulikowski stated the report addressed the Division's oversight of wells and performance bonds. Although required by regulation, the Division did not witness all tests of blowout prevention devices during the drilling of geothermal wells. Of seven wells drilled in fiscal year 2005, the Division witnessed three and relied on engineering reports for the remaining four. Regulations require all necessary precautions be taken to keep wells under control and operating safely at all times.

Four out of nine oil and gas well operators who were operating wells under federal bonds did not meet the state bonding requirements. Each operator had a \$25,000 federal bond. However, the minimum bond required by the Division's regulations ranged from \$30,000 to \$50,000. Overall, the federal bonds were \$80,000 less than the minimum amount required by state regulations. Bonds help ensure that an oil or gas well is properly operated, repaired, and plugged.

The Division did not always terminate participation in the state's Reclamation Bond Pool as required. Regulations require the Division terminate participation if an operator fails to pay their premium within 70 calendar days after the due date. However, two operators were allowed to participate even though they had not paid a premium within the 70 day limit. Timely premium payments help ensure the bond pool has sufficient funds to reclaim land disturbances if an operator fails to do so.

Recommendations were made to strengthen the oversight of wells and performance bonds.

The next section addressed the need for additional controls over performance indicators and accounts receivable. Analysis of the Division's five performance indicators presented in the 2005 to 2007 Executive Budget showed that one was reliable, one was unreliable, and three could not be verified because the underlying data was not readily available. In addition, the description of one indicator did not properly describe the reported information. Unreliable indicators can misrepresent the actual results of an agency's operational activities.

The Division generally followed proper billing and collection practices. However, the Division's procedures should be revised to ensure all accounts receivable are properly recorded and reported. Specifically, the procedures lacked clear definition on how to define, age, and report accounts receivable. As a result, not all bond pool premiums were billed timely. Also, the Division's June 30, 2005, accounts receivable balance reported to the State Controller was understated.

Recommendations were made for enhancing controls over performance indicators and accounts receivable.

The agency accepted all six of the audit recommendations.

Chair Leslie asked if the Division was not complying with their own regulations. She asked how the Division responded to this finding in regard to the geothermal well inspections. She added the BLM issue is separate from the Division's own regulations.

Mr. Kulikowski stated in regard to the geothermal well inspections, the regulations were established by the Commission. The Commission requires that the test of the blowout prevention equipment be witnessed by the Division. The Division, in all cases did not do so and any documentation of BLM inspections was not included in their files. He added BLM is not authorized under Commission regulations to perform them. The Commission can review and modify those regulations. As they exist today, the agency was out of compliance and acknowledged the Commission did not comply with the regulations. He added part of the reason is the turnover of personnel, including the loss of their geothermal oversight person. Mr. Kulikowski stated these inspections take place at various times and although there may be seven wells, there is a series of tests that take place at different periods of times in the drilling process. He gave examples of the multiple inspections and reasons for the testing.

Chair Leslie clarified the inspections occurred several times and at very remote locations.

Mr. Kulikowski agreed. He added the Division had difficulty sending personnel to locations to observe the drilling. However regulations provide that the operator is to establish a time for these tests to take place. So that is one mitigating factor that could help them comply with the regulations.

Chair Leslie stated her point was either change the regulation if it is outdated or follow the regulation.

Mr. Kulikowski agreed stating the audit allows latitude for the Division to make choices in regard to the compliance or changing of the regulation.

Assemblyman Marvel asked if the Division had ever experienced a blowout.

Mr. Kulikowski stated Division management had reported a death resulting from a blowout many years ago, but no recent blowouts had occurred.

Assemblyman Marvel asked what role the BLM played in oversight.

Mr. Kulikowski answered in this particular instance the BLM does not participate. He added a memorandum of understanding exists between the Division and BLM as it relates to oil and gas wells. It does not cover the geothermal wells. He stated regulations do not require that tests be observed for the drilling of oil and gas wells.

Assemblyman Marvel asked if the state engineer was involved in the geothermal wells.

Mr. Kulikowski replied not in these tests.

Chair Leslie called for additional questions from the Committee. She called for Division representation to testify.

Mr. Doug Driesner, Deputy Administrator, explained Mr. Coyner, Director, was unable to attend the meeting. He expressed appreciation to the Audit staff for the audit work. The Division accepted all of the recommendations.

Chair Leslie asked for information regarding the witnessing of geothermal wells. She asked for a specific plan of action.

Mr. Driesner stated the regulations will be revisited, adding solutions included the possibility of hiring a geothermal field inspector or to hire a contractor on an on-call basis. He agreed the wells need to be inspected. He added another possibility might be to consider that since these original regulations were adopted there has been new technology regarding the recording of blowout preventor tests automatically so that the documentation of the BOP tests can be witnessed by a recording. He added the regulations do not currently reflect this newer technology.

Chair Leslie stated that is what the audit points out, that it is time to revisit the regulations. She added, "we are also concerned about safety."

Mr. Driesner stated the Commission will be reviewing many options.

Assemblyman Marvel asked how many active oil wells there were and asked about production.

Mr. Driesner answered he guessed about 70. He added production was approximately 460,000 barrels a year.

Assemblyman Marvel discussed well production with Mr. Driesner.

Chair Leslie commented about geothermal possibilities.

Senator Coffin commented about the promotion and protection in regard to mining. He asked for information about mercury emissions.

Mr. Driesner was not able to provide exact numbers. He stated the Commission is tracking the mercury that the mines are capturing, noting in 2005 there were approximately 250,000 pounds of mercury captures. He knew the mines have made

significant strides in capturing more in recent years. Mr. Driesner added the mercury is sold at approximately \$10 a pound.

Senator Coffin asked about enforcement issues.

Mr. Driesner stated the Nevada Division of Environmental Protection (NDEP) would be involved in enforcement. The Division actually collects data. NDEP would be the environmental enforcement type agency.

Chair Leslie called for additional questions from the Committee.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE REPORT ON THE COMMISSION ON MINERAL RESOURCES, DIVISION OF MINERALS. THE MOTION WAS SECONDED BY SENATOR COFFIN AND CARRIED UNANIMOUSLY.

E. State of Nevada, Single Audit Report.

Mr. Townsend stated the audit is performed under contract with Kafoury, Armstrong and Company. He noted at the February 28, 2006, meeting the Committee awarded the next contract to Kafoury, Armstrong and Company with another four year contract beginning this year. Mr. Townsend introduced Tim Brown, Audit Supervisor, to present the report.

Mr. Brown stated the Single Audit of the State of Nevada for the year ended June 30, 2005, was completed by the CPA firm of Kafoury, Armstrong and Company. The auditor issued an unqualified opinion on the state's financial statements dated December 16, 2005.

The auditor's report on compliance and internal control over financial reporting disclosed no material weaknesses or noncompliance with financial reporting and applicable laws, regulations, contracts, and grants. The auditor's report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 disclosed no material weaknesses or noncompliance with applicable laws, regulations, contracts, and grants.

The auditor reports that the Schedule of Federal Financial Assistance for the year ended June 30, 2005, is fairly stated. The schedule shows total federal financial assistance expenditures of \$2 billion. This year's Single Audit Report includes 11 findings, with questioned costs of approximately \$8,600.

Chair Leslie commented on the usefulness of the report.

Assemblyman Marvel asked if staff felt confident that there is no jeopardy of Federal sanctions.

Mr. Brown stated he does not believe so.

The findings included general control compliance issues. There were no material weaknesses and no material compliance issues. There was one issue with a questioned cost of \$8,600, but that was not a significant issue. He reported it was due

to an error that the agency, in cooperation with the CPA's, had uncovered and had taken corrective action. He stated he does not think the feds will question the issue.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE STATE OF NEVADA, SINGLE AUDIT REPORT. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

Item 3—Presentation of six-month reports (NRS 218.8245).

Mr. Townsend introduced Steve Wood, Chief Deputy Legislative Auditor, to coordinate the presentation of the six-month reports.

Mr. Wood explained the process for six-month reports provides a review of the status of audit recommendations made in recent audits.

A. Department of Cultural Affairs, Office of Historic Preservation.

Mr. Wood made the presentation.

Mr. Wood explained the audit was issued on May 2, 2005. The Office filed its 60-day plan of corrective action shortly after the report was issued. In January 2006, the Department of Administration prepared the six-month report on the status of the one recommendation contained in the audit. The Department indicated the one audit recommendation had been fully implemented. Therefore, there were no questions for the Office. Mr. Wood expressed appreciation to the Department for their prompt attention to the findings.

Chair Leslie called for Department representation to testify.

Mr. Ronald James, State Historic Preservation Officer, stated the audit process helped the Office focus on a number of strategies which simplified the work process. He gave an example of timesaving procedures. He appreciated the Audit staff for working with the Office.

Assemblyman Marvel asked for information regarding restoration.

Mr. James stated new projects in the last two grant cycles included the Richardson House, in Winnemucca; and restoration of the Las Vegas Post Office.

Senator Coffin agreed the Las Vegas Post Office Project would be valued in downtown Las Vegas. He asked about progress on the Huntridge Theater.

Mr. James stated this was an example of how successes can be limited. He stated the Office had invested roughly \$1.5 million into the building. He explained the Office had subsidized a lot of performances at the Huntridge Theater. He added this did not end well as a public institution and was now privately owned. Mr. James added covenants are still in place. He explained the value of the covenants adding the owner is in compliance with these covenants. Mr. James commented about historic structures in general.

Chair Leslie called for additional Committee questions or comments.

SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF CULTURAL AFFAIRS, OFFICE OF HISTORIC PRESERVATION. THE MOTION WAS SECONDED BY ASSEMBLYMAN MARVEL AND CARRIED UNANIMOUSLY.

B. Western Interstate Commission for Higher Education (WICHE).

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

Ms. Bailey explained in May 2005, an audit report was issued on the Western Interstate Commission for Higher Education (WICHE). WICHE filed its 60-day plan for corrective action in August 2005. The six-month report was prepared by the Department of Administration on the status of the 11 recommendations contained in the audit report. The Department of Administration indicated that three recommendations were fully implemented, three were partially implemented, and five had had no action. Based on additional information provided by WICHE, auditors concluded that one additional recommendation had been fully implemented. WICHE indicated that four recommendations will be implemented by September 30, 2006. In addition, one recommendation will be implemented at the Commission meeting following Budget closings and one will be implemented at the Board of Examiners meeting following WICHE's receipt of participant information. Ms. Bailey suggested the Audit Subcommittee obtain additional information on the status of two of the recommendations that were not fully implemented when the Department of Administration submitted its six-month report.

Ms. Bailey stated the first area is the finding that WICHE is lacking an effective process to identify, track, and resolve delinquent loans timely. WICHE had developed a report to track and resolve old debt cases, however the report had many weaknesses and was not an effective means of tracking all delinquent accounts. The audit report recommended that WICHE implement an aged accounts receivable tracking system. The Department of Administration reported that WICHE had developed a report to help track receivables by program participant name only. The report did not reflect beginning loan balance, payments made, balance due, or columns showing the age of unpaid amounts. According to the information WICHE provided they now have a report which includes some of the items that the Department of Administration found they were lacking. However the receivables report provided by WICHE showed only \$2,785 past due on eight loans and the eight loans totaled approximately \$81,000 as of March 2006. She stated the audit reported on a total of 35 delinquent loans and those loans were all over 120 days delinquent as of June 30, 2004. She added the loans totaled approximately \$600,000. Ms. Bailey stated questions for WICHE were regarding the differences between the two reports. Ms. Bailey reported WICHE had provided an updated handout to the Committee this day.

Chair Leslie called for an agency representative to testify. She commented it was awkward for the Committee to receive additional information during the Committee meeting. She added the Committee did not have time to review the document.

Ms. Bailey had questions regarding the handout, adding it appears to be more than one report. She could not distinguish from the reports WICHE's receivables total or an aging of accounts as the information was not contained in the WICHE handout.

Chair Leslie asked to concentrate on the first issue of the receivables. She asked that WICHE staff work with the auditors and return to the next Committee meeting with a resolution.

Mr. Ron Sparks, Executive Director, stated the handout included two separate reports. He explained WICHE has a 30, 60, and a 90 day process. He explained the procedure for late payments. He stated the first report handout was WICHE's 30-60-90 day report. He agreed the report does not include any of the 27 accounts mentioned as part of the question from Audit staff. He explained WICHE has an improved aging report that WICHE has been providing to the Department of Administration and does list the 27 accounts. Mr. Sparks explained the top portion of the report tracks certain students to ensure they are in compliance. The middle of the report lists all collection accounts. As recommended by the audit WICHE referred these accounts to collections. The handout then lists all closed accounts. Mr. Sparks stated WICHE does have a process, a procedure, and a report in place. There is a monthly delinquent chart report which includes information but it does not include any collection or aging information. Once the accounts reach the 90 day point they are included in an aging report. At this time the accounts are tracked and monitored even after referral to the Attorney General's (AG) Office.

Chair Leslie stated it sounds like a lot of work remains. She stated the Committee was concerned about the \$600,000 in delinquent loans, which now, according to WICHE's records, are down to \$81,000. She asked for additional information regarding the difference in delinquent loan amounts reported.

Mr. Sparks stated the \$81,000 was related to ongoing monthly reports. The aging report is the actual report used to track collections and track AG referral accounts that list the \$600,000. He added all of the accounts had been worked on.

Chair Leslie asked for an explanation of accounts that had been worked on.

Mr. Sparks responded it means WICHE moved them to collections or payments are being received on the accounts.

Chair Leslie expressed concern that just moving the accounts to collection or requesting the AG send a demand letter may not be enough.

Mr. Sparks agreed, stating: "What we have done is refer them to the collection agency. The collection agency needs time to work on the accounts". He stressed these are older accounts. He stated WICHE has done what they were supposed to do which was

refer the accounts for collection which then go through the Controller's Office who is in charge of forwarding the accounts to the collection agency. He added the accounts still remain WICHE's responsibility.

Chair Leslie agreed the Office is still responsible for the accounts.

Chair Leslie asked Ms. Bailey to restate exactly what is needed from WICHE.

Ms. Bailey stated auditors are looking for a report that shows the total amount of the receivables. She explained a receivable is any payment that was due yesterday and was not paid. She added there should be a report that shows all of the accounts receivable even if the account has been sent to collections or to the Attorney General's Office. Auditors are looking for a report that shows each account. She explained current would be up to 30 days, then over 60 days, and over 90 days. Auditors are looking for a combination of this information and to make sure that it is accurate. She stated multiple charts are hard to follow. Ms. Bailey explained with multiple charts accounts are put on one list and taken off another which makes it hard to follow to ensure the accounts are not duplicated.

Chair Leslie agreed it was confusing.

Chair Leslie addressed Mr. Sparks. She asked that the report be prepared in a timely manner. She asked if the report could be provided to the Auditors at least 30 days prior to the next Audit Subcommittee meeting.

Mr. Sparks agreed the report will be provided 30 days prior to the next meeting. He added the reports will be combined.

Assemblyman Marvel asked for information about uncollectible accounts.

Mr. Sparks answered he believed all of the accounts were collectible. He added approximately \$150,000 had been written off.

Assemblyman Marvel asked if the Office had gone to the Board of Examiners with these accounts.

Mr. Sparks answered on those accounts they received approval from the Commissioners to write the accounts off, but as part of the audit finding WICHE was to use the Board of Examiners. WICHE did not want to take the accounts to the Board of Examiners without additional information and are still in the process of getting that information. He wanted to be able to get those accounts written off through the Board of Examiners by September 30, 2006. He added all of the accounts have special circumstances. They are all medical. He explained some of the issues dealing with these accounts.

Chair Leslie indicated the Committee was ready to discuss the second finding.

Ms. Bailey responded the second finding was that WICHE did not comply with the laws that require Board of Examiners' approval when writing off debt. She stated Mr. Sparks had answered most of the questions from his presentation. Ms. Bailey had an additional question. She did not understand the relationship between the five accounts

Mr. Sparks listed in the response and the five accounts Mr. Sparks listed in the report listing accounts to be written off.

Mr. Sparks stated the aging report does not tie back to the response of the BOE. The BOE write offs are coming forward. He has the three medical write offs and two minor write offs to be included. Mr. Sparks explained there are other accounts that have already been written off. However because WICHE did not use the Board of Examiners' process in the past, it was recommended that WICHE go forward from this point on with the Board of Examiners approval.

Assemblyman Marvel asked when the Office published delinquent account names.

Mr. Sparks stated the Office no longer followed this procedure due to rules and regulations and situations WICHE must deal with.

Assemblyman Marvel asked if that was by rule that the Office could not publish account names.

Mr. Sparks stated it was by open meeting law. Mr. Sparks stated the accounts must be notified in writing so many days in advance.

Assemblyman Marvel stated there was a responsibility to the taxpayers of the state of Nevada otherwise we are actually subsidizing these people.

Mr. Sparks offered to publish the names.

Chair Leslie stated it sounds like the Office just needs to follow the open meeting law and notice properly. She stated there was not a problem in that regard. Chair Leslie stated the problem seems to be the Office does not plan ahead sufficiently.

Chair Leslie asked Mr. Sparks to work with Audit staff well in advance of the September 2006 meeting to answer questions. She also advised him not to show up with a handout the day of the meeting and expect the Committee to review it during the meeting.

Senator Rhoads commented on the handout, noting it does include names.

Mr. Sparks clarified the handout included the monthly delinquent report. He added names listed are not currently 90 days past due. He explained the accounts involved names of people with missed payments.

Chair Leslie asked Ms. Bailey for further comments.

Ms. Bailey recommended that the Audit Subcommittee request WICHE return to the next Audit Subcommittee meeting to discuss the implementation of the remaining seven recommendations.

Chair Leslie called for a motion to include the return of WICHE to the next Audit Subcommittee meeting.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE WESTERN INTERSTATE COMMISSION FOR HIGHER EDUCATION (WICHE) AND THAT THE OFFICE WILL RETURN TO THE NEXT AUDIT SUBCOMMITTEE MEETING. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

Item 4—Follow-up on six-month reports from prior meeting (NRS218.8245)

A. University and Community College System of Nevada, Capital Construction Projects and Contracting and Bidding Procedures.

Mr. Wood introduced Mike Spell, Audit Supervisor, to make the presentation.

Mr. Spell explained the six-month report on the implementation status of the six recommendations contained in the audit report of the Capital Construction Projects and Contracting and Bidding Procedures presented at the February 28, 2006, Audit Subcommittee meeting. Based on analysis of that report and correspondence with System officials, one recommendation was fully implemented. In accepting the six-month report the Audit Subcommittee voted to have a follow-up report on the status of the partially implemented recommendations. On April 10, 2006, the System provided auditors with an update of the status of the five partially implemented recommendations. Based on a review of the information provided, three of these recommendations are now fully implemented. In addition the System expects the recommendations to finalize an agreement with the State Public Works Board regarding construction management and inspection responsibilities to be completed before the end of calendar year 2006. Based on discussions with the State Public Works Board Manager, a draft agreement has been prepared and should be submitted to the System in the near future. Audit staff will continue to monitor the progress of this recommendation. He suggested the Audit Subcommittee obtain additional information on the status of the remaining recommendation.

Mr. Spell stated the next finding was that the construction management processes needed strengthening to help ensure projects are administered effectively. For instance the lack of clearly defined procedures resulted in the use of purchase orders as the primary contract document for certain projects. As a result these contracts did not include required construction clauses or were not properly approved if they exceeded \$400,000. In addition, change orders were not always properly approved because of conflicting guidance. Finally, some projects were administered without sufficient involvement from the institutions facilities management section and reliable project information was not always maintained. The audit recommendation was to revise System policies and procedures to ensure construction documents exceeding \$400,000 are properly approved and key clauses are included in construction contracts; change orders are properly approved; facility management sections are sufficiently involved in project management; and institutions collect and report reliable project information. The status is policies and procedures have been revised to help ensure facility management sections are involved in project management and reliable project information is collected

and reported. He added procedures have not been revised to ensure construction documents and change orders are properly approved, and key clauses are included in construction contracts. The System reported Chancellor's Memorandum 02-04, which provided guidance on how contracts are prepared and approved, has been incorporated into the NSHE Procedures and Guidelines Manual. Audit review of the procedures for the preparation and approval of contracts in the Manual indicates the sections addressing purchase orders; required clauses; and contract and change order approvals have not been revised since the audit. Therefore auditors asked if the System is going to revise the Procedures and Guidelines Manual regarding the preparation and approval of contracts to help ensure construction documents, including purchase orders and change orders are properly approved; and construction documents contain key clauses, and if so, when.

Chair Leslie stated the underlying issue was the use of purchase orders when the System should be using contracts. She asked for comment from the System.

Mr. Dan Klaich, Executive Vice-Chancellor, stated the Committee was correct. He explained the System incorporated all of one handbook into one manual. The process required visiting the Regents for all changes. He added the System took a lot of policies and procedures and put them into a manual. He stated the prior practice was for the Chancellor to issue directives in the form of a memorandum which was referred to in the audit report, the Chancellor's Memorandum 02-04 on contracting procedures. Mr. Klaich explained the Facilities Officers had begun a full rewrite of Chancellor's Memorandum 02-04. This process was stopped to focus on implementing the audit recommendations.

Chair Leslie asked if Mr. Klaich agreed that the issue of using purchase orders instead of contracts and the change order problems needed to be revised. She noted the original audit detailed projects exceeding \$400,000 that were conducted with purchase orders. Chair Leslie stated the chemistry building at UNR of almost \$1 million was on a purchase order. She questioned the process.

Mr. Klaich agreed with Chair Leslie's concern.

Mr. Klaich reported at a meeting with the facilities managers and the business officers, direction to them was the Chancellor's Memorandum was clear and must be complied with.

Chair Leslie stated there was the conflict.

Mr. Klaich stated facilities officers had prepared an initial draft that complies with the audit recommendation. He added Legal needed to review the draft. He stated the System proposed a target date of August 30, 2006, and will report back at the next Committee meeting.

Chair Leslie stated the August date would be workable.

Chair Leslie asked for a point of clarification as she understood UNLV utilizes a different practice. She asked if UNR had been a part of the practice of using purchase orders instead of contracts.

Mr. Klaich answered Mr. Harris and Mr. Judy were here as representatives of UNR. He believed UNLV indicated they are currently complying, adding it still does not deal with the overarching policy.

Chair Leslie interjected that the policies should be the same for both institutions.

Mr. Klaich stated if the institutions are in compliance with their procedures, that is fine, but if the System's policy does not address the procedures they are to follow then a problem still exists. He stated the System will adopt uniform policies and procedures.

Chair Leslie stated the System will continue to be asked back to subsequent meetings.

Chair Leslie asked if Audit concerns had been addressed.

Mr. Spell stated since we still have the outstanding recommendation on the Public Works Board, we have to continue to monitor them. He suggested the Subcommittee ask that the System return to the next Audit Subcommittee meeting to report on their implementation status.

Chair Leslie recognized the System had made progress in the implementation process.

Mr. Klaich commented the System was currently having very positive discussions with the Public Works Board.

Chair Leslie asked for auditor recommendations.

Mr. Spell commented the recommendation would be to have the System return to the September 2006 Audit Subcommittee meeting.

Senator Coffin stated overarching issues reminds him that conflict still remains between the System and the Public Works Board. He noted the Committee is aware of the fact that this is part of the problem where the University wants to build and do it its own way and in its own time. The Chancellor has expressed the desire to try to break free essentially from all bounds and restrictions. He stated somewhere in the middle is going to be where we end up. Right now the System is actually going the opposite way of the statute. He expressed concern that this could be a potential problem and suggested that needs to be worked on beforehand.

Mr. Klaich agreed and commented on the system's interaction with the Public Works Board – that in some cases results in duplication of effort.

Senator Coffin advised that Mr. Klaich and the Chancellor meet before the next Legislative session begins to discuss these issues.

Mr. Klaich stated he would relay the comments to the Chancellor.

Chair Leslie called for a motion.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE FOLLOW-UP ON SIX-MONTH REPORT FROM PRIOR MEETING ON THE UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA, CAPITAL CONSTRUCTION PROJECTS AND CONTRACTING AND BIDDING PROCEDURES AND THAT THE SYSTEM WILL RETURN TO THE NEXT AUDIT SUBCOMMITTEE MEETING. THE MOTION WAS SECONDED BY SENATOR COFFIN AND CARRIED UNANIMOUSLY.

B. University and Community College System of Nevada, Costs of Administration, Athletics, and Host Accounts.

Mr. Wood introduced Mike Spell, Audit Supervisor, to make the presentation.

Mr. Spell explained the six-month report on the implementation status of the recommendations contained in the audit report of the Costs of Administration, Athletics, and Host Accounts, was presented at the February 28, 2006, Audit Subcommittee meeting. Based on auditor analysis of the report and testimony submitted at the Subcommittee meeting, seven of the ten recommendations were fully implemented. In accepting the six-month report the Audit Subcommittee voted to have a follow-up report on the status of the partially implemented recommendations. On April 6, 2006, the System provided auditors with an update on the status of the three partially implemented recommendations. Based on a review of the information provided the three recommendations are now fully implemented. Therefore the Auditors have no questions for the System.

Chair Leslie called for questions from the Committee.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE FOLLOW-UP ON THE SIX-MONTH REPORT FROM PRIOR MEETING ON THE UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA, COSTS OF ADMINISTRATION, ATHLETICS, AND HOST ACCOUNTS. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

C. Utilization and Security Over State Internet Sites.

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

Mr. Peterson provided a brief recap. He explained in October 2005, the six-month report was presented to the Committee. At that time there were four recommendations that were partially implemented. Based on the discussion the Committee asked the agency to return to a subsequent Audit Subcommittee meeting. At the last meeting of the Audit Subcommittee on February 28, 2006, there was some discussion regarding disaster recovery plans. Once again the agency was asked to return to the Committee based on that discussion about the number of agencies that had submitted disaster recovery plans. Mr. Peterson stated the agency was contacted and auditors received

information which was included in the Committee packet. Mr. Peterson suggested questions for the Audit Subcommittee to ask the agency.

Mr. Peterson asked that the agency explain the disaster recovery plan, the definition of priority one, and explain why some agencies were not listed.

Chair Leslie asked the agency to answer question by question.

Ms. Donna Krutcher, Deputy Chief Information Security Officer, answered the disaster recovery plans are based on critical applications that an agency needs to have implemented and be back into service within a specific period of time. The priority one applications were for 48 hours. Within that period of time the application needed to be backed up for that agency to be able to use the system and provide services to the public.

Chair Leslie asked if she was referring to the chart submitted by the agency. She asked if all the agencies were priority one.

Ms. Krutcher stated no. She explained the agencies had identified critical applications and had completed disaster recovery plans for those critical applications. She added it would depend on circumstances and timing of the event, should there be a disaster, for any given entity as to what would be considered a priority one.

Chair Leslie asked for an explanation of 0% agencies listed in the report.

Ms. Krutcher explained the 0% meant the agency had not submitted a disaster recovery plan to DoIT.

Chair Leslie expressed concern over this information.

Terry Savage, Director, explained this is related to a critical business application analysis. He stated DoIT determines priority one, priority two, etc., which involves three processes going on in parallel. The first step is to determine what the critical business applications are. The second step is to determine what the disaster recovery plan is for the critical application. He added this is the phase DoIT is in now. He stated it was an ongoing process and offered to report to the Committee at all meetings in the foreseeable future. Mr. Savage offered to come up with a methodology to show overall progress rather than each individual agency's progress. DoIT could then project a completion date and track actual progress to completion.

Chair Leslie stated she liked seeing progress of the individual agencies also.

Mr. Savage offered the information would be made available to the Committee.

Chair Leslie asked why Gaming and Public Works were not responding.

Ms. Krutcher stated DoIT was working with all of the agencies that appeared on the report at less than 100%. She stated each agency was being contacted to offer assistance in developing the plans. She did not have an answer why the agencies had not submitted a plan.

Chair Leslie asked that DoIT relay to the agencies concerns from the Committee.

Mr. Savage offered to provide the Committee a list of agency reasons for being at 0%. He suspected that agencies would not want to be included on the list.

Chair Leslie stated this was an excellent idea.

Mr. Savage offered to provide this list at the next Subcommittee meeting.

Assemblyman Marvel asked if Gaming had its own disaster recovery plan.

Mr. Savage was unsure and offered to provide additional details at the next Subcommittee meeting.

Senator Coffin asked if a disaster recovery plan could be almost as simple as the key employees having access to a portable hard drive. He asked if this could be the beginnings of a disaster recovery program or plan.

Mr. Savage agreed that some applications were sufficiently small and that would constitute a fully acceptable plan. He added the whole approach was to do something initially so an agency would have a recovery process. Enhancements could be addressed in a second phase. The third phase involves testing the plans. He explained the test would include bringing the system down and seeing if they can bring it back up. He added realistically this phase would not begin until 2007 as it is still in the planning stages.

Chair Leslie requested a report of reasons why agencies are not 100% completed.

Mr. Savage suggested beginning with a list of explanation for the 0% accounts.

Chair Leslie commented any agency under 50% needed to provide an explanation.

Mr. Savage stated DoIT will respond to the request.

Chair Leslie asked for auditor comment.

Mr. Peterson stated the second part to the question requested why some agencies were not listed on the DRP.

Chair Leslie cited Transportation and Wildlife as examples.

Ms. Krutcher stated DoIT was in the process of reformatting the report and two agencies were omitted from the report. She stated Transportation had provided their disaster recovery plan to DoIT. She offered to provide the Committee with updated reports. She added DoIT staff was working with the Department of Wildlife in developing their plan. Ms. Krutcher stated the Chair had indicated that some agencies might be afraid of what was involved in the planning and in the content of the plan and how to do that. They have found this to be true with a lot of agencies they have talked to. She explained DoIT goes to agencies and provides information regarding the implementation of a plan. DoIT had had a lot of success in talking with the agencies.

Mr. Savage added once the plans are set up and implemented, updating the information would be less work.

Mr. Peterson stated the second question was to ask why the information security plan and the disaster recovery plans do not match up with the number of agencies.

Mr. Savage stated it was a formatting difference which will be rectified. He clarified the report will be a single database and it will all look the same.

Chair Leslie asked if this would be done by the next Subcommittee meeting.

Mr. Savage stated it would be completed by the September 2006 meeting.

Mr. Peterson stated the third question was to ask when the Department anticipated these plans would be completed.

Mr. Savage stated he was shooting for January 1, 2007, to have all of the disaster recovery plans completed.

Chair Leslie agreed. She stated the Committee would insist on this deadline.

Mr. Savage stated his objective was to make that happen.

Chair Leslie asked for further questions from the auditors.

Mr. Peterson wanted to clarify that it would be the Subcommittee's preference that the Department would return to the September 2006 meeting.

Chair Leslie stated that was correct. She added that was the recommendation. She called for a motion.

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

D. Department of Transportation, Highway Planning and Real Property Management.

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

Mr. Neil stated in December 2002, an audit report was issued on the Department of Transportation. In February 2004, the six-month report was presented to the Subcommittee. Since some of the recommendations were not yet fully implemented the Department returned to the June 2004, meeting to provide an update to the Committee. At that time all recommendations were fully implemented except for one which was related to the development of an automated real property inventory system. The Department indicated the system was on track to be completed by 2006. This recommendation was made because the Department did not have an inventory system to manage the \$350 million of real property it owns. Consequently, the Department did not have an efficient way to identify the property and whether the property is no longer needed by the Department. At the June 2004, meeting the Audit Subcommittee requested the Department return to a future meeting to discuss the progress of this recommendation. On March 10, 2006, auditors requested an update from the

Department on its progress in implementing the recommendation to continue developing the real property system, including procedures to list properties and identify each property's status. In a letter dated April 5, 2006, the Department indicated its new inventory system is now expected to be completed in late 2007 or early 2008. Therefore it is suggested the Committee obtain additional information and specifically whether the Department has been able to develop interim procedures to manage its real property more efficiently.

Chair Leslie called for Department representation to testify.

Ms. Susan Martinovich, Deputy Director, thanked the Audit Division for the comments and for helping the Department with implementation of the recommendation. She stated the answer to the question regarding interim procedures is yes. She added they are not the most efficient procedures at this time. She stated procedures had been developed to better track leases and licenses on the property the Department has. Ms. Martinovich stated one challenge was that some of the agreements would expire and the Department was not aware of that. She explained the Department had challenges with tracking down the types of ownerships the Department held on the properties. Ms. Martinovich explained the Department had created some data spreadsheets and data bases. She added they are not linked together so a lot of the work is still done by query in their manual system. She stated the IRWIN system, as called by the Department, will help with that. The Department is also making efforts in the area of surplus properties. Lists have been compiled and research begun to determine how the Department owns the roadways. She stated 3 of the 6 phases of developing the IRWIN system were complete. She explained delays in the needs assessment phase.

Chair Leslie asked when the Department anticipated the project would be completed. She stated this had been ongoing since December 2002.

Ms. Martinovich answered the Department is on track and pushing for implementation in 2007. She added the Department had started the scanning of almost 1 million documents into a management type system. She added current procedure is to add a barcode to the document so that it can be defined and queried.

Chair Leslie stated the Department was making progress on this large project.

Ms. Martinovich agreed.

Chair Leslie asked if this answered the auditor's questions.

Mr. Neil answered yes. He commended the Department for developing the interim procedures. He indicated to the Committee that the auditors will continue to monitor the progress and report back to the Committee as appropriate.

Chair Leslie agreed.

Assemblyman Marvel asked if the Department was aware of how much land it owned.

Ms. Martinovich stated she was not able to provide an answer. She offered to provide the information to the Committee.

Senator Rhoads indicated the auditor's letter to the Subcommittee stated the value of the land was about \$350 million.

Ms. Martinovich agreed, stating with property values today she thought the figure would likely be much higher.

Chair Leslie called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE FOLLOW-UP ON THE SIX-MONTH REPORT FROM PRIOR MEETING ON THE DEPARTMENT OF TRANSPORTATION, HIGHWAY PLANNING AND REAL PROPERTY MANAGEMENT AND CONTINUE TO MONITOR AND REPORT BACK TO THE COMMITTEE. THE MOTION WAS SECONDED BY ASSEMBLYMAN MARVEL AND CARRIED UNANIMOUSLY.

Item 5—Public Comment.

Chair Leslie asked for public comment. There was none.

Chair Leslie complimented Audit staff for a job well done.

Assemblyman Marvel agreed with the comment.

There being no further comments the meeting was adjourned at 12:33 P.M. The next meeting of the Audit Subcommittee was scheduled for September 21, 2006.

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