MINUTES OF THE MEETING OF THE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
Legislative Building
401 South Carson Street, Room 4100
January 6, 2005

A meeting of the Audit Subcommittee of the Legislative Commission (NRS 218.6823) was called to order by Assemblyman John Marvel, Chairman, at 9:30 a.m., Thursday, January 6, 2005, in room 4100 of the Legislative Building, Carson City, Nevada.

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Carson City:
Assemblyman John Marvel, Chairman
Assemblyman Lynn Hettrick
Senator Bernice Mathews

Las Vegas:
Assemblyman Morse Arberry Jr.
Senator Bob Coffin

LEGISLATIVE COUNSEL BUREAU MEMBERS PRESENT:

Paul Townsend, Legislative Auditor
Stephen Wood, Chief Deputy Legislative Auditor
Donna Wynott, Office Manager
Irene Hernandez, Audit Secretary
George Allbritten, Audit Supervisor
Jane Bailey, Audit Supervisor
Tim Brown, Audit Supervisor
Rocky Cooper, Audit Supervisor
Stephany Gibbs, Deputy Legislative Auditor
Tammy Goetze, Deputy Legislative Auditor
Shawn Heusser, Deputy Legislative Auditor
Dennis Klenczar, Deputy Legislative Auditor
Shannon Ryan, Deputy Legislative Auditor
Mike Spell, Audit Supervisor
Brenda Erdoes, Legislative Counsel

Assemblyman John Marvel, Chairman, called the meeting to order, the roll was taken. It was noted a quorum was present.

Item 1—Approval of the minutes of the meeting held on September 22, 2004.

ASSEMBLYMAN ARBERRY MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF SEPTEMBER 22, 2004. THE MOTION WAS SECONDED BY SENATOR COFFIN AND CARRIED UNANIMOUSLY.

Item 2—Presentation of audit reports.

Mr. Paul Townsend, Legislative Auditor, stated the biennial report of the Legislative Auditor was released and copies were sent out to members of the Legislature and the Governor. The report provides a description of the Audit Division and highlights reports released in the last biennium, as well as the audit plan for the upcoming biennium. The report determined that past recommendations resulted in measurable financial benefits of more than $25 million. Mr. Townsend explained that audits are conducted pursuant to professional standards, requiring that every three years an external group conduct a peer review. The most recent review stated our system of quality control is suitably designed to ensure reasonable compliance with these professional audit standards.

Assemblyman Marvel thanked Mr. Townsend and complimented the audit staff, adding the reports are invaluable to him and the money committees when reviewing budgets.

A. Report on Count of Money in State Treasury

Mr. Townsend thanked Assemblyman Marvel for his comments. He introduced Tammy Goetze, Deputy Legislative Auditor, to present the report.

Ms. Goetze stated in accordance with the provisions of NRS 353.060, the money and securities in the State Treasury were counted on Wednesday, June 30, 2004. The count included physical examination, direct confirmation with financial institutions, and other procedures considered necessary to fulfill statutory obligations. In accordance with NRS 353.075, this report was filed with the Secretary of State on November 23, 2004.

On June 30, 2004, there was zero cash on hand, $76 million on deposit with financial institutions, $2.7 billion of state-owned securities, and $690 million of securities held for safekeeping, for a grand total of $3.5 billion.

Assemblyman Marvel asked if there were any questions.

Assemblyman Marvel called for a motion to accept the report.

SENATOR MATHEWS MOVED TO APPROVE THE REPORT ON COUNT OF MONEY IN STATE TREASURY. THE MOTION WAS SECONDED BY ASSEMBLYMAN HETTRICK AND CARRIED UNANIMOUSLY.

B. Commission on Ethics

Mr. Paul Townsend introduced Tammy Goetze, Deputy Legislative Auditor, to present the report.

Ms. Goetze stated the Commission is composed of eight members, four are appointed by the Legislative Commission and four are appointed by the Governor. To carry out its responsibilities, the Commission performs five main functions.

They include interpreting and providing guidance to public officers and employees on ethics in government law. According to Commission records, 15 requests for advisory opinions were received in fiscal year 2004. Second, investigating and adjudicating third-party complaints against public officers and employees for violating ethics in government law. It was noted that 51 requests for third-party opinions were received in fiscal year 2004. Third, the Commission administers State laws which prohibit impeding the success of a campaign. In fiscal year 2004, one request for a campaign practice opinion was reported by the Commission. Fourth, educating public officers and employees regarding ethical provisions and prohibitions under Nevada law. Twenty educational programs were conducted in fiscal year 2004. And fifth, accepting financial disclosure statements of certain public officers. A total of 452 financial disclosure statements were received in fiscal year 2004 from appointed officials.

The Commission maintains an office in Carson City with an executive director and two staff. Since July 1, 2003, operations have been supported by both General Fund appropriations and local government assessments. In fiscal year 2004, local government assessments provided 65% of the Commission's funding. Expenditures in fiscal year 2004 were $346,919.

The audit scope and objective included a review of the Commission's financial and administrative activities for the fiscal year ended June 30, 2004. The objective of the audit was to evaluate the Commission's financial and administrative practices, including whether activities were carried out in accordance with applicable laws, regulations, and policies.

Ms. Goetze stated the Commission on Ethics complied with laws, regulations, and policies significant to the financial administration of the Commission's activities. Consequently, this report contains no findings or recommendations.

Senator Mathews asked how unpaid accounts were addressed in the report.

Ms. Goetze stated it was not within the scope of the objective of the audit. She referred the question to Agency staff.

Ms. Stacy Jennings, Executive Director of the Commission on Ethics, asked Senator Mathews if she was referring to financial disclosure statements.

Senator Mathews asked for clarification that some public officers are not following filing guidelines.

Ms. Jennings answered that is sometimes correct. She added the 2003 Legislature passed a law which transferred enforcement for the filing or non-filing of financial disclosure statements to the Office of the Secretary of State. She explained the process.

Assemblyman Marvel asked Ms. Jennings if she knew what the fines outstanding might be.

Ms. Jennings indicated the maximum fine for non-filing of financial disclosure statements was $2,000. She did not know how much was outstanding.

Senator Mathews stated she was aware that some people do not file the required disclosure statements.

Ms. Jennings responded the Ethics Commission reports all appointed officials who do not file to the Office of the Secretary of State.

Assemblyman Hettrick asked if this included appointed officials or both elected and appointed officials.

Ms. Jennings stated elected officials file with the Office of the Secretary of State and appointed officials file with the Ethics Commission. She mentioned the Office of the Secretary of State goes directly after late fees and non-filers for elected officials as well as appointed officials.

Assemblyman Hettrick congratulated Ms. Jennings and the Ethics Commission on the audit report.

Assemblyman Marvel concurred stating they are a good example for other agencies. He asked how they assess public government for monetary contributions to the Commission.

Ms. Jennings explained the first assessment bill is due August 1, and the second bill is due February 1.

Assemblyman Marvel asked how the assessment is determined.

Ms. Jennings stated it was determined by the Fiscal Division at the 2003 Legislative session.

Senator Coffin congratulated Ms. Jennings on a good audit. He asked about the Commission's financial standings going into this Legislative Session. He asked if the Commission had sufficient funds for the fiscal year.

Ms. Jennings replied the one thing that was not included in the previous request was rent money for the Las Vegas office. She stated the Department of Administration planned to submit a supplemental request for about $4,000.

Assemblyman Marvel asked if the Commission had full-time staff in the Las Vegas Office.

Ms. Jennings stated a full-time position funded for January 1, 2005, will be filled. She added, the Commission's budget proposal includes one more position for Las Vegas.

> ASSEMBLYMAN HETTRICK MOVED TO APPROVE THE REPORT ON THE COMMISSION ON ETHICS. THE MOTION WAS SECONDED BY SENATOR MATHEWS AND CARRIED UNANIMOUSLY.

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

Mr. Townsend introduced Mike Spell, Audit Supervisor, and George Allbritten, Audit Supervisor, to present the report.

Mr. Allbritten began with background information. He explained the cost of buildings and improvements at the University and Community College System is approximately $1.2 billion according to their 2003 financial statements. He added, construction was funded through a variety of sources. Since 1991, the majority of this funding has been provided by the state. The Public Works' Board was responsible for the management of most projects funded with these appropriations. To oversee construction at the various institutions, facilities management sections were established. Expenditures and positions for these operations at the four institutions examined are outlined in the report.

Mr. Allbritten stated the system is exempt from the State Purchasing Act, however, procurement policies have been developed by the Board of Regents, which generally require a competitive process.

The audit determined whether energy retrofits, other capital construction projects, and contracting and bidding procedures were carried out in accordance with laws, policies, and appropriate management standards.

Senator Mathews asked about the Purchasing Department and if the business center in the north included the two community colleges.

Mr. Allbritten replied yes, adding the report includes a listing of all the institutions using Business Center North.

Mr. Allbritten stated in conclusion, internal controls did not always ensure that capital construction and contracting and bidding procedures were carried out properly. Millions of dollars in energy retrofit projects were not conducted in accordance with state laws, Board of Regents policies, or appropriate management standards. Due to misinterpretations of law, violations of policies, and opportunities to use a convenient financing method, many projects were not awarded through a competitive process. The report then discusses legislation applicable to energy retrofit projects. In 1993,
NRS 338.1905 and 1906 were added to the public works laws. This legislation facilitated the installation of energy saving measures on state properties. This legislation established procedures for executing retrofit projects, and authorized third-party debt financing to fund the program.

The general applicability of the public works statute (NRS 338) to the university system was addressed in a legal opinion obtained from the Legislative Counsel. Regarding the energy retrofit provisions of NRS 338 (1905 and 1906), the Legislative Counsel indicated these sections were discretionary. However, if not used, the projects would be subject to other non-discretionary aspects of NRS 338.

Mr. Allbritten continued by discussing the retrofit programs within the system. Overall the programs were concentrated at two campuses—UNR and UNLV. These institutions completed 22 projects totaling over $21 million. Fifteen of the 22 projects did not involve any competitive process.

Mr. Allbritten discussed projects at UNR. UNR executed 14 retrofit contracts totaling $8.2 million with Sierra Pacific Power Company under programs approved by the Public Utilities Commission. These programs, referred to as “peak performance” and “shared savings” were designed to reduce energy consumption and postpone the power company’s acquisition of new generation facilities.

UNR was subject to the general requirements of NRS 338 on these 14 projects. Consequently, they were required to advertise and bid these projects if they met the definition of a public work. A project is a public work if 25% or more of the buildings’ cost, as a whole, is paid from state or federal money. The Board of Regents has also established requirements for the advertising and bidding of these projects.

Despite the requirements of statute and Board of Regents policy, none of the 14 contracts were awarded based on a competitive bidding process. The failure to bid these projects resulted in allegations of fraudulent acts associated with UNR’s management of the energy retrofit program. However, during the course of our examination, we did not identify any evidence to support these allegations.

Assemblyman Marvel stated it would be noted that no evidence of fraud was uncovered.

Senator Mathews asked if there was a difference in the finding that it was fraudulent or if it was just mishandled and also asked how they differentiate between that.

Mr. Allbritten answered that the definition of fraudulent activity used in this audit was basically the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets. The definition was taken from the Institute of Certified Fraud Examiners, a recognized body on fraud examination.

Assemblyman Marvel asked Mr. Townsend if a BDR would be discussed.

Mr. Townsend responded yes, that part of the problem stemmed from the definition of a public work. If a project is not defined as a public work, it is not required to be put out for bid.

Assemblyman Marvel asked if language existed for the BDR request.

Mr. Townsend answered the university had provided a draft of the language for examination and comment.

Assemblyman Marvel asked if a motion was needed from this Committee.

Mr. Townsend responded a motion from this Committee would be necessary to approve a BDR request.

Assemblyman Marvel called for a motion to approve a BDR request.

> ASSEMBLYMAN HETTRICK MOVED TO APPROVE THE MOTION TO APPROVE A BDR REQUEST TO DEFINE A PUBLIC WORK. THE MOTION WAS SECONDED BY SENATOR MATHEWS AND CARRIED UNANIMOUSLY.

Senator Mathews stated she wanted to make sure this process was done correctly.

Assemblyman Marvel asked if any sole source activity was found.

Mr. Allbritten responded by stating that evidence of sole source activity was found, but offered in most cases the ones reviewed were adequately documented.

Mr. Allbritten stated the power company discontinued its retrofit program in May 2000. This occurred during the initiation of a proposed retrofit at the Howard Medical Building. Despite the discontinuance of the program, UNR instructed a local contractor to install the planned retrofit. However, UNR did not conduct a competitive bid, nor execute a construction contract for this work.

Assemblyman Marvel asked if it was the same subcontractor that had been employed by Sierra Pacific.

Mr. Allbritten responded yes, adding the subcontractor was doing the energy study for the job. Once they determined the funding would not be forthcoming from Sierra Pacific, they instructed the subcontractor to continue.

Assemblyman Marvel commented the subcontractor remained after Sierra Pacific pulled out.

Mr. Allbritten responded that was correct. He discussed the current retrofit program at UNR. In 2001, UNR signed a 3-year commitment with Siemens Building Technologies for energy retrofit services. As a result, two projects totaling approximately $6 million had been conducted. Although this commitment resulted from a competitive proposal process, the selection was not conducted in compliance with the terms outlined in the proposal documents. Rather, documentation indicates the award resulted solely from Siemens' submission of the low interest rate. This process did not fully comply with state bidding requirements. Similar to earlier projects with the power company, Siemens generally used subcontractors to install the project. Unlike the earlier projects however, most of these subcontractor awards resulted from a competitive process.

Mr. Allbritten then discussed the energy retrofit program at UNLV. UNLV has contracted with E-Three Custom Energy Solutions to conduct 5 energy retrofit projects totaling about $6.2 million since 2000. The selection of E-Three was not the result of a competitive bidding process. Rather, the selection was based on a competitive qualification process conducted by the State Public Works Board. At least 2 of the 5 projects conducted by E-Three appear to be public works, and therefore, were subject to NRS 338. Consequently, the competitive bidding requirements of state law were not fully complied with.

Mr. Allbritten continued by discussing prevailing wage requirements. Public works projects are subject to prevailing wage requirements established by NRS 338. An analysis of 21 UNR and UNLV retrofit projects exceeding $100,000, indicates only 3 files had documentation supporting compliance with these requirements.

Senator Mathews asked if this was a Labor Commission issue.

Mr. Allbritten answered yes. There is a legal requirement to notify the Labor Commission whenever a public work is being bid or completed. This occurred in 3 of the 21 projects reviewed.

Mr. Spell stated the prevailing wage will only be in effect if it is a public works project. He emphasized the BDR is critical to clarify the definition of a public work.

Assemblyman Marvel asked if the prevailing wage paid at UNR was the prevailing wage used in Washoe County and at UNLV, Clark County.

Mr. Spell indicated that was correct, adding the prevailing wage is set by the Labor Commission on an annual basis.

Mr. Allbritten continued with prevailing wage laws and the overall compliance with public works statues (NRS 338) and the need for the clarification of the definition of a public work. Some of the retrofits met the definition of a public work. These projects were subject to the requirements of NRS 338. The determination was based on the total cost of the building. If 25% or more of this total cost was provided by state or federal money, the project was considered a public work. However, UCCSN staff had a different interpretation of this statute, indicating only the funding of the current project should be considered in this determination—not the total cost of the building. Because of this difference of interpretation, clarifying legislation is needed to ensure the statute is properly applied.

Assemblyman Hettrick stated he did not see how the projects could not be considered a public work.

Mr. Allbritten responded it was pointed out in the report that most of the projects would be considered public works if the University's definition of a public work had been used.

Assemblyman Marvel asked if they used only utility funds.

Mr. Allbritten stated he thought all were paid with appropriated utility funds.

Mr. Allbritten addressed violations of the state's debt provisions. From 1992 to 1997, UNR incurred $4.1 million in third-party loan obligations related to 9 retrofit projects. Each obligation was a 10-year loan to be repaid with appropriated funds. These loans were not created in accordance with the retrofit statutes and did not contain a non-appropriation clause. A non-appropriation clause enables the state to terminate an agreement if future appropriations are not approved to pay the loan costs. Since these loans did not contain this clause, an obligation on future legislatures was created. Consequently, the debt provisions of state law and the constitution were violated. This issue was resolved in 1998 when all contracts without the clause were amended.

Assemblyman Hettrick stated the contracts were amended in 1998. He asked if provision in the law requires a non-appropriation clause with a new retrofit contract.

Mr. Allbritten replied legislation passed in the 2003 session (AB 398), requires that a non-appropriation clause be included in any third-party loans obtained to conduct a retrofit.

Mr. Allbritten discussed the cost neutrality of the retrofit projects. Overall, the retrofit programs at UNR and UNLV were cost neutral. Annual savings for the 22 projects totaled about $3 million with annual loan payments of about $2.8 million. However, 6 of the 22 individual projects initially generated a negative cash flow.

Assemblyman Hettrick asked that the BDR request include a definition of acceptable payback criteria.

Ms. Brenda Erdoes, Legislative Counsel, noted it would be appropriate to include this in the BDR request.

> ASSEMBLYMAN HETTRICK MOVED TO APPROVE THE MOTION TO APPROVE AN AMENDMENT TO THE BDR REQUEST TO INCLUDE A DEFINITION OF ACCEPTABLE PAYBACK CRITERIA. THE MOTION WAS SECONDED BY SENATOR MATHEWS AND CARRIED UNANIMOUSLY.

Assemblyman Hettrick further stated a definition of what acceptable energy neutral criteria should be included in the BDR request.

Senator Mathews asked for the BDR motion to be deferred until the end of the report because there could be other issues to add.

Assemblyman Marvel asked Ms. Erdoes if one BDR could be used.

Ms. Erdoes stated she believed one inclusive BDR was acceptable.

Mr. Allbritten continued with the measurement and verification portion of his report. Third-party loans incurred to finance the retrofit projects were designed to be repaid with the energy savings generated by the project. Consequently, debt retirement was linked to the performance of the retrofit. Although this performance was initially verified, ongoing efforts to confirm the realization of energy savings were minimal. Further development of existing programs along these lines is warranted.

Mr. Allbritten stated recommendations were made to develop policies and procedures for conducting energy retrofits and request legislation to clarify the definition of a public work as contained in NRS 338.

Mr. Allbritten noted aspects of the construction management process could be strengthened. The examination of 28 construction projects totaling about $58 million indicated the primary contract document used for 14 projects was a purchase order. These purchase orders did not contain all required contractual clauses. In addition, purchase orders exceeding $400,000 were not approved by the Chancellor.

Senator Mathews asked who approved them.

Mr. Allbritten answered the Purchasing Department at Business Center North.

Mr. Allbritten stated using a purchase order as a contract is suitable in some cases, but has drawbacks if used in situations involving complex performance requirements. In contrast, several of the other projects did use an owner-contractor agreement as the primary document. When this agreement was used, required clauses were included and contracts were properly approved.

Senator Mathews asked if the Administration was aware of the process indicated in the report. She asked if the Chancellor would sign off on these purchase orders.

Mr. Allbritten replied the audit reported that purchase orders did not go through the normal channels of approval as did contracts.

Senator Mathews stated that she did not understand how the administrators did not see this.

Mr. Allbritten replied that one of the requirements of the Board of Regents' policies is that all contracts over $400,000 have to be forwarded to the Chancellor for approval. That did not occur on the purchase orders. They were approved locally at the institution without going to the Chancellor's Office.

Assemblyman Marvel asked how far back did this occur.

Mr. Allbritten answered the scope of the audit was primarily the past five years for construction projects. He believed some findings were fairly recent.

Mr. Allbritten continued his presentation with change orders. Change orders can have a significant impact on the cost of construction. For example, change orders increased the cost of two projects reviewed by more than $500,000. These changes were not approved by the proper authority. Without appropriate approval, the validity of change orders may not be ensured.

Mr. Allbritten went on to discuss project inspections. The legislature has declared the Public Works Board to be the authority for construction on state property. In accordance with NRS 341, the Board has delegated certain construction management responsibilities to the system. However, 12 projects examined did not have documentation indicating the Board performed a final inspection or delegated this responsibility. To resolve this problem, the system is currently working with the Board to further define these responsibilities. When finalized, this agreement should help ensure all construction is properly inspected and documented.

Assemblyman Marvel asked if there was an element of autonomy within the university where they could ignore going to the Public Works Board.

Ms. Erdoes replied she did not believe so.

Mr. Allbritten also replied NRS 341 designates the manager of the Public Works Board as the building official for all construction that occurs on state property. They can delegate some of the responsibilities.

Mr. Allbritten noted that facilities management personnel were not sufficiently involved in two campus projects reviewed (the renovation of the Thomas and Mack Center at UNLV and UNR's Fire Science Academy). These projects were managed by entities that acted autonomously of facilities management. Both of these projects had significant cost overruns. Effective construction management requires the active participation of personnel with specialized skills. Without these personnel, there is a greater risk that projects will not be carried out as intended.

Mr. Allbritten then discussed the reliability of project information received. To determine the magnitude of the system's construction program, project information for the past 5 fiscal years was requested. Three of the four institutions examined did not provide reliable information regarding construction expenditures and funding sources. This information related to projects managed by the system, not projects managed by the State Public Works Board. It was found this data was often inaccurate or incomplete.

Mr. Allbritten indicated recommendations were made regarding the findings related to construction management. First, the system should revise policies and procedures to improve the management of the construction process. Second, the system should continue to work with the Public Works Board to finalize an agreement regarding project management and inspection.

Mr. Allbritten reported in general, the system's three purchasing departments complied with Board of Regents

policies relevant to the procurement of goods and services. However, aspects of this process can be improved. The first issue is the need for additional controls to ensure a competitive purchasing process is conducted when required. The auditors examined 105 purchases for fiscal year 2003 and 43 were subject to the competitive procurement requirements in the Board of Regents handbook. Five of the 43 items were not executed in compliance with policies.
Mr. Allbritten stated the next purchasing issue related to personal and consultant services. These services involve technical, professional, or specialized skills and are exempt from the competitive bidding requirements established by the Board of Regents. However, Board policy does require each purchasing department to develop their own internal policies relative to the acquisition of these services. None of the three purchasing departments had developed these policies.

Mr. Allbritten stated recommendations were made to ensure purchases are made in compliance with competitive bidding requirements, and develop written procedures related to the purchase of personal and consultant services.

Assemblyman Marvel asked if the $1 million paid by CCSN, referenced on page 34 of the report, involved one transaction or several.

Mr. Allbritten stated it related to the AG report issued in 2001 and it was one vendor. A similar issue involving the same vendor was noted in our audit. As in the AG's report, UCCSN indicated they were purchasing a commodity under existing governmental contracts, but we also could not relate the pricing obtained in the current purchase to the contract referenced.

Mr. Allbritten concluded his presentation, indicating the system had accepted all of the recommendations.

Mr. Neel, UCCSN Vice Chancellor for Finance and Administration, stated UCCSN agreed with the report and only disagreed with the definition of a public works, which will be corrected. Discussions among the institutions and business officers have been held. They are working with their purchasing units to ensure they have the proper communication and education at all institutions so they abide by the laws and policies. Mr. Neel gave the subcommittee their commitment to implement the recommendations.

Assemblyman Marvel asked if they had addressed the handling of future energy retrofit programs.

Mr. Neel answered they had, and recently approved another one at Western Nevada Community College. He offered all of the requirements had been fulfilled.

Assemblyman Marvel asked if there were any energy savings or if some of the equipment was obsolete.

Mr. Neel replied in this particular instance it was a combination of both. It will include energy savings and replacement of certain equipment.

Assemblyman Marvel asked if they were going to be able to measure the savings.

Mr. Neel answered UNR was going through a process where they can monitor energy uses more adequately at the campuses. He stated they would have a better process in place to determine outcome.

Assemblyman Marvel questioned how metering was done at the various institutions.

Mr. Neel stated it varied among the campuses.

Assemblyman Hettrick commented on the metering section in the report. He requested the BDR include language to determine revenue neutrality. He asked if there was some way to document the usage because there must be ongoing monitoring and it must be proven that there is savings. He added if there is no savings the contractor loses the money. He believed metering would have to become mandatory.

Assemblyman Hettrick had concerns about change orders as well. He found it hard to believe that a $79,000 revenue neutral project in theory could have $500,000 more spent and still be revenue neutral. Assemblyman Hettrick stated change orders that are properly approved need a clearer definition as to what that means including that a change order must meet the original criteria.

Assemblyman Hettrick stated he would like to see the six-month follow up to show that UCCSN addressed all of the recommendations.

Senator Coffin had questions regarding the issue of energy savings when a campus is shut down. He asked how the cost savings were calculated.

Mr. Neel stated he could not speak specifically to that instance but knew from experience at another institution that they had taken into account the one week shutdown when they looked at savings. He assumed UNLV would do the same.

Senator Coffin asked to hear follow up. He noted UNLV had representatives at the Las Vegas meeting site to address the issue.

Assemblyman Marvel asked if there were any other instances.

Mr. Gerry Bomotti, Vice President for Finance, UNLV, addressed the questions in terms of how they can calculate savings in future years. He noted, Mr. Tom Hagge is in charge of facilities at the campus and had indicated most buildings are individually metered. They had historical information on those uses and could make comparisons to thermal heating units in terms of the temperatures on each day and make a very precise estimate on what those savings would be versus a normal operation.

Mr. Tom Hagge, Associate Vice President for Facilities Management and Planning, UNLV, stated to prove the continued savings under measurement verification you have to make adjustments for the changes. In addition to breaks, changes in the weather patterns are addressed through a measurement called heating and cooling degree days. The last holiday break at UNLV, it was determined $15,000 was saved. He stated there are tools engineers use to normalize the uncertainties to make comparisons of savings for energy projects.

Senator Coffin thanked Mr. Hagge and asked if the $15,000 savings was for one week.

Mr. Hagge stated they were shut down for one week. He mentioned that not every building is metered, but the vast majority were and compared to the following week, they determined the savings was approximately $15,000.

Senator Coffin asked if the shut-down was an experiment. He noted it was an inconvenience to employees and students. He also asked if they knew how much notice was given prior to the shut-down.

Mr. Bomotti stated he did not know precisely. He believed the initial planning was in the summer, which was prior to his arrival in early September. He thought there was significant planning. They had looked at and analyzed campuses that had similar shut downs.

Senator Coffin asked for further analysis after the information was reviewed to determine if the shutdown was worth the inconvenience.

Senator Mathews asked for an update on the Fire Science Academy in Carlin.

Mr. Neel referred the question to UNR staff.
Senator Mathews asked if the Academy would require additional funding or if student fees would pay it off.

Mr. Zurek, Vice President for Administration and Finance, UNR, stated the bonds are continuing to be repaid with student fees. He mentioned an ongoing deficit associated with the operation of the Academy existed and they had outstanding construction issues with one of the contractors. The total deficit is $10.7 million as of November 1, 2004. The Fire Science Academy presented an updated business plan to the Board of Regents for approval in January 2004. It is anticipated that in 2007 the Fire Science Academy will break even in terms of its operations. He hoped to produce a surplus and begin to pay back the operating deficit. Mr. Zurek felt the Fire Science Academy continues to be a priority of concern for the University.

Assemblyman Marvel asked if the program was bringing in people worldwide and if the program was fairly unique in the United States.

Mr. Zurek replied absolutely. He believed that they are and have been told by others that we have the state of the art training academy in fire and crisis management.

Senator Mathews commented questions will be presented at the budget hearings in two weeks. She asked for information regarding attracting local and worldwide trainees when it was difficult to transport people to Elko.

Mr. Zurek commented international students are trained on site in the foreign countries by Academy personnel.

Assemblyman Marvel asked if they charged for the international service.

Mr. Zurek replied yes.

Assemblyman Marvel asked about tuition.

Mr. Zurek stated tuition was charged plus reimbursement of actual expenses which are significant when burning fuel and operating infrastructure.

Assemblyman Marvel asked if there were any other questions or public comment.

Mr. Gregory MacRenaris thanked the Legislature for passing the University audit bill and also the LCB Audit Division for their accomplishment on the audit.

Mr. MacRenaris stated that three years ago the University admitted, in an audit, to unfair business practices. Today's audit went one step further by addressing violations of state law. On January 2, 1997, the Attorney General's office received the first of several complaints of government corruption. Despite overwhelming evidence, the Executive Branch refused to open an investigation. He suggested that the Legislature should consider opening an official investigation, independent of the Executive Branch with its perceived conflict of interest.

Mr. MacRenaris further stated that in the 13 years he had been involved with this process, the most significant injustice had been to government employees, public officials, and the public. Their personal and economic welfare had forced them to choose between their sworn duties, or their families' security, because of justified fears of reprisal. He suggested a proclamation be issued to all government employees who dismiss corruption under the guise that it is out of their jurisdiction. A reminder that corruption is not our employer, but public enemy number one. Further, the Legislature should set aside politics and mandate the enforcement of 135 years of legislation to secure the public's best interest and welfare.

Mr. MacRenaris continued by stating many people had advised him on how to speak and what to say. He suggested that those people would stand here today if not for fears of reprisal. Mr. MacRenaris then offered an example of the dismissive attitude of public officials by discussing a program on "Nevada Newsmakers," a political awareness television broadcast. In that program, the President of the University of Nevada Reno was asked to respond to violations of state law related to no bid contracts with Sierra Pacific Power Corporation. Mr. MacRenaris indicated that the President replied it was just one contractor.

Mr. MacRenaris indicated he would answer any questions. He further indicated he could supply eyewitnesses, signed statements, and 4,000 documents in support of his statements. He volunteered his services in any capacity needed.

Assemblyman Marvel informed Mr. MacRenaris that his comments would be in the record and thanked him for appearing at the meeting.

ASSEMBLYMAN HETTRICK MOVED TO APPROVE THE BDR REQUEST. THE MOTION WAS SECONDED BY SENATOR MATHEWS AND CARRIED UNANIMOUSLY.

ASSEMBLYMAN ARBERRY MOVED TO ACCEPT THE REPORT ON THE UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA, CAPITAL CONSTRUCTION PROJECTS AND CONTRACTING AND BIDDING PROCEDURES. THE MOTION WAS SECONDED BY ASSEMBLYMAN HETTRICK AND CARRIED UNANIMOUSLY.

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

Mr. Townsend introduced Mike Spell, Supervisor, and Shannon Ryan, Deputy Legislative Auditor, to present the report.

Ms. Ryan began her presentation with background information about the system. She stated the system expended about $1 billion in fiscal year 2003 according to consolidated financial statements. Appropriations accounted for about 40% of total revenues. Also, the system showed about 8,600 full-time equivalent employees. The scope of the audit covered the five year fiscal period from 1999-2003. Detailed testing included fiscal year 2003 only. The objective of the audit was to analyze the costs of administration, athletic programs, and the utilization of host expenditures. Information regarding faculty workload was also reviewed.

Administrative costs were found to be reasonable when compared to the increase in total expenditures, student enrollment, and the cost per student. Administrative costs were also comparable to peer institutions; however, controls over ensuring salaries are within established limits but can be strengthened.

Ms. Ryan stated the National Association of College and University Business Officers (NACUBO) identify administrative costs by classifying them in a category known as institutional support. Some of these costs include executive level activities concerned with management for the entire institution, fiscal operations, and support services. Administrative costs used for the analysis included those classified as institutional support and other costs identified by UCCSN institutions. These costs included those related to vice presidents, provosts, and deans not included in the classification of institutional support.

Total administrative costs increased at a slightly lower pace than that of enrollment. The total change in students approximated 22% while administrative costs increased about 20% over the same time period.

The ratio of administrative costs to total expenditures decreased over the five year period for each institution. Overall, 1999 showed administrative costs amounted to about 15% of total expenditures and in fiscal year 2003 they amounted to about 13% of total expenditures. A portion of total administrative costs, those costs related to institutional support, were compared to peer institutions. We found these costs to be comparable.

The number of administrative employees exceeding $100,000 in salary as of June 30, 2003, was 119, with the average salary approximating $135,000. Auditors also reviewed executive salaries which include the chancellor, presidents, vice presidents, and deans against peer salary information.

Assemblyman Marvel asked if the peers the auditors used were acceptable to the University.

Ms. Ryan replied yes and stated they contacted each of the institutions and requested they provide the peers.

Assemblyman Marvel commented that it should be good, reliable information.

Ms. Ryan replied yes. She continued her presentation stating 11 of the 15 executive salaries at the community colleges were found to be above the 75th percentile of their peers in fiscal year 2003. It was also found that salaries were not always within established limits. It was discovered that 3 employees exceeded the maximum amounts stated in Board of Regents salary schedules for various reasons. These three employees exceeded the maximum allowed under Board of Regents salary schedules by $81,000 with $74,000 of the excess paid from state supported accounts. It was also found that 13 employees did not have appropriate classifications assigned to them to properly determine if they were within established salary limits.

Ms. Ryan continued with UCCSN’s travel expenditures, excluding NSC, were approximately $1.7 million dollars during fiscal year 2003, an increase of 33% from fiscal year 1999. She noted DRI is responsible for the majority of the increase. Of the travel claims tested, about 45% were not in compliance with applicable policies and procedures. Many of these errors were due to improper approval and untimely submittal, but some did result in inappropriate payments. Improved controls can reduce many of the errors noted.

UCCSN has three institutions that currently participate in intercollegiate athletics. The majority of revenues and expenditures are attributable to UNLV and UNR who accounted for combined expenditures of $32.9 million in fiscal year 2003. Expenditures for athletic programs amounted to 6% of total university expenditures at UNLV and 4% of total expenditures at UNR. Based on the analysis of the athletic department expenditures, additional controls are needed to help ensure certain travel and recruiting expenditures are appropriate and in compliance with established policies. In addition, controls are needed to ensure financial information is reliable.

State appropriations accounted for about 16% of UNLV’s revenues and about 25% of UNR’s athletic department revenues in fiscal year 2003. Comparisons were made using Equity in Athletics Disclosure Act reports. Because there are no guidelines for the preparation of these reports, differences in how each conference member records financial data may be applicable.

UNLV expenditures were slightly higher than average when compared to other conference members and UNR’s expenditures were somewhat less than average compared to other conference members.

Salary comparisons regarding the athletic departments showed UNLV had 6 of 101 employees exceeding

$100,000 in salary in fiscal year 2003. The total compensation for these 6 employees amounted to $1.7 million with the highest paid salary exceeding $500,000. UNR athletics paid 3 of 68 employees amounts greater than $100,000 with the total of these three individuals amounting to $620,000. The highest salary was $224,000.

Travel policies and procedures at UNR and UNLV do not address certain team travel transactions. Policies do not address the use of chartered air service and team meals. It was found that UNLV's men's basketball team chartered air service to several events. For one road game, the team chartered a flight at a cost of about $13,100; however, the women's basketball team traveled to the same location three days later for $10,700 less than the men's team. In one instance the athletic department chartered air service for a one day recruiting trip at a cost of $5,200.

Senator Mathews asked for clarification that the women's team went for $10,700 less, that the cost was $3,000.

Ms. Ryan stated this was correct although funding for these expenditures was from gifts and other self-supporting revenue, policies should address when it is appropriate to use chartered service. Furthermore, policies do not address team meals. Instances were found where student athletes were provided meals and snacks that amounted to $50 per student when per diem amounts authorized in policy equaled $14. The difference between the amount paid for this meal and the per diem amount equaled about $3,800. Because team travel costs comprise a significant amount of financial resources, policies over such activities are necessary to ensure expenditures are appropriate and cost effective.

Ms. Ryan stated that travel expenditures were not in accordance with policies and procedures. Specifically, of the 60 athletic staff travel claims tested, 27 had at least one error. These errors included the failure to obtain pre-approval, untimely submittal, insufficient documentation, and inappropriate payments. Errors were also noted on team travel claims. These errors included inappropriate payments for meal per diems and sales tax.

Procedures are needed at UNR athletics to ensure financial data is reliable. Discrepancies occurred between the Equity in Athletics Disclosure Act Report and the statement of revenues and expenditures. These reports differed by about $1 million. The variances were the result of incomplete data, estimates, and different methods used to calculate data. Recommendations were made to strengthen policies and controls at university athletic departments.

Assemblyman Marvel asked why UNR did not contest the $700 sales tax they paid.

Ms. Ryan stated they were not aware the sales tax was paid until it was brought to their attention. She stated clearly defined policies and procedures will help ensure host expenditures are appropriate. Host expenditures must provide a benefit to the system or institution through the establishment of goodwill, promotion of programs, or creation of opportunities for meetings in which the mission of the system or institution may be advanced. Allowable expenditures include meals, beverages, and small gifts when conducting necessary business activities. However, expenditures were not always in accordance with these requirements. Host expenditures exceeded $3 million in fiscal year 2003. It was found that 25% of the 200 host expenditures tested did not meet requirements set forth by Board policy and Chancellor's memorandum. The total of expenditures not meeting requirements amounted to about $7,800 and included such items as holiday party supplies for employees including flowers, decorations, and alcohol – excessive gifts such as two $500 leather jackets – and operating expenses such as advertising, office furniture, and refrigerators. Although some of these items may be appropriate operating expenditures, controls should ensure host expenses are in accordance with UCCSN policies. In addition, many of the inappropriate expenditures may have been avoided if system policies and procedures were clarified. It was further noted about $2,500 in hosting expenditures were paid from state-supported accounts in fiscal year 2003 even though Board of Regents' policy does not allow host expenditures to be paid from state-supported funds.

It is essential to maintain control over accounts in order to ensure taxpayer funds are not used to pay for host transactions and only acceptable and appropriate host activities occur.

Although each institution had faculty workload policies, there was no system-wide policy. In addition, institutional reports on faculty workload were self reported thus causing concerns about their reliability. To address these concerns, UCCSN established an Ad Hoc Faculty Workload Task Force. As a result, Board guidelines regarding expected teaching workloads have been established. Furthermore, the Board authorized the UCCSN Internal Audit Department to audit each institution's faculty workload. As of August 2004, the audits were still in progress.

Senator Mathews asked if 30 instructional units per year or 15 units per semester were an average rather than a hard fact.

Mr. Spell stated they were guidelines. He added they can go under these guidelines with certain exceptions.

Senator Mathews asked if they go over the guidelines.

Mr. Spell responded the guidelines were new and at this time they are implementing procedures to track the actual outcomes of the guidelines.

Senator Mathews stated the nursing and health science areas have never done less than 15 units. They have always done more. She emphasized the numbers noted today do not reflect the units taken on by the nursing and health science faculty at the community colleges. She added her expertise was limited to community colleges.

Assemblyman Hettrick stated that it would be helpful to see a comparison for salaries compared to workload instructional units per academic year. It is hard to say salaries are fair when workloads are not compared.

Assemblyman Marvel asked Mr. Townsend if the Committee could ask for a 60-day report.

Mr. Townsend responded that a specific recommendation for addressing this issue was not made because UCCSN was developing this process through their Ad Hoc committee. He believed a request could be made for UCCSN to address this in their six-month report.

Assemblyman Marvel asked Mr. Neel if he had selected peer institutions yet.

Mr. Neel stated a legislative subcommittee had looked at many aspects of higher education this year. He noted there was a peer group for each category and institution that was established.

Assemblyman Marvel stated that sometimes the university did not agree with the peer group that was selected by the outside contractor.

Mr. Neel agreed.

Assemblyman Marvel asked if UCCSN could provide the requested information to Assemblyman Hettrick.

Mr. Neel stated yes.

Senator Mathews indicated that has been an ongoing problem that people put in the time without an increase in pay.

Ms. Ryan concluded the presentation and stated all recommendations were accepted.

Senator Coffin commented he was uneasy about accepting the audit without additional study. He noted compliance of the 1996 audit recommendations was not included in this audit. He was uncertain how UCCSN would follow-up on the current recommendations.

Assemblyman Marvel stated that the Committee could accept the report and then look at the six-month follow up. He assured Senator Coffin that answers would come at this time.

Senator Coffin stated he would like to see more complete responses from UCCSN. He was uneasy about what was discovered and whether a simple agreement to change would be enough to effect change.

Assemblyman Marvel stated these audit reports can be utilized in the budgetary hearings.

Senator Coffin stated the system budget was coming up in the second week of pre-session hearings, and UCCSN management could address questions in presentations the first week of February.

Assemblyman Marvel indicated that the Vice Chancellor of Finance was at the meeting and a request could be made for presentation at budget hearings.

Senator Coffin stated Mr. Neel could inform the committee in the first week of February 2005 of the status of recommendations from the 1996 audit.

Mr. Neel replied he would provide the requested information. He mentioned that implementation of current audit recommendations was begun and some are on deadline for completion in March 2005.

Assemblyman Hettrick commented that generally the institutions do comply with salary maximums and UCCSN is developing a policy for instances where maximums are exceeded. He further stated that he did not want to see UCCSN develop a policy that justifies a salary so they could pay that salary to a specific individual. He wants to see a policy developed that would be directly related to the hours worked.

Assemblyman Marvel asked Mr. Neel if they took into consideration the research that has been done by professors.

Mr. Neel stated individuals in this category was very limited. UCCSN will identify special cases as directed in the audit.

Assemblyman Marvel asked if they were competing with other institutions in order to attract a certain level of instructors.

Mr. Neel replied that was correct.

Senator Mathews disclosed that she used to be Director of Health Science and Nursing.

Assemblyman Hettrick indicated that the people who need to be rewarded are those who spend contact time in classrooms teaching people and especially if they are doing more than the minimum required and not getting paid for it.

Assemblyman Marvel asked for further comments.

Mr. Neel wanted the Audit Subcommittee to be aware of the excellent job the auditors had done.

Assemblyman Marvel agreed and stated he learns something with each audit. He complimented the auditors on an excellent job. The audits are a means to help state agencies by making sure they are in compliance. He noted audits have generated tremendous savings over the years.

> ASSEMBLYMAN HETTRICK MOVED TO ACCEPT THE AUDIT ON THE UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA, COSTS OF ADMINISTRATION, ATHLETICS, AND HOST ACCOUNTS. THE MOTION WAS SECONDED BY SENATOR MATHEWS AND CARRIED UNANIMOUSLY.

E. Clark County School District Performance Audit

Mr. Townsend introduced Tim Brown, Audit Supervisor; Shawn Heusser, Deputy Legislative Auditor; and Stephany Gibbs, Deputy Legislative Auditor; to present the report.

Ms. Gibbs started the report with background information. The Clark County School District was the sixth largest district in the nation in 2003. The District was restructured into five regions as of July 2001 to improve access, accountability, and student achievement. Student enrollment increased 25%, from over 203,000 in 1999 to over 255,000 in 2003. Expenditures for fiscal year 2003 show that program instruction is nearly 52% and general and school administration is 8%. For fiscal year 2004 the District budgeted for 24,700 full time equivalent positions. Instructional staff was 64% of the full time equivalents, an increase of 22% from 1999 to 2003.

Two major revenue sources are the State Distributive School Account and local sources. She explained how the Nevada Plan works. Revenues recorded in fiscal year 2003, show local revenues accounted for almost 65% and state sources accounted for a little over 28%.

Ms. Gibbs explained the audit covers areas of financial management, facilities management, personnel management, transportation, district organization, and employee health plans.

The District's financial and administrative operations compare favorably to other states' best practices and peer districts. For example, the District collected more federal Medicaid monies than peer districts. Further, a computerized bus routing system and an energy conservation plan continue to save the District significant money. Nevertheless, opportunities exist for cost savings and increased revenues. Specifically, food service operations could be less reliant on General Fund support and fleet management controls could save over $1.1 million in future capital expenditures.

The District can also improve its professional development by establishing a district-wide training plan to better coordinate training. Further, accountability and governance enhancements could occur by the Board assessing its practices and establishing a formal bus replacement policy. Improving its oversight of employee health benefit programs would also strengthen the District's accountability.

Financial management practices were generally sound. However, there were opportunities for improvement.

Senator Mathews thought the districts were required by the No Child Left Behind Act to have a professional development plan established.

Ms. Gibbs replied they had several plans. She further commented that these are discussed later in the report with a recommendation for a comprehensive plan that would include all staff.

The District's unreserved fund balance was at 2% of total General Fund revenues for fiscal year 2004. The Board established the 2% level to help ensure fiscal stability. She then discussed the District's effective Medicaid reimbursement process. The District received over $11 million during fiscal year 2003 at $43.14 per student, which was the highest when compared to peer districts. The District also has an opportunity to collect additional federal reimbursement for transportation costs after the State Medicaid Plan is amended. The anticipated effective date is January 2005.

Ms. Gibbs stated that opportunities exist in the food service program that could reduce the burden on the General Fund. District accounting records indicated that food operations had shown a profit for the last several years. However, some food service costs were not charged to this account. Although it was the Board's intent to have the fund operate so all eligible costs associated with the program would be paid exclusively by user fees, federal funding, and reimbursements, it was identified that several direct costs, such as utilities and insurance, were paid by the General Fund. In addition, the District could charge the programs indirect costs for services provided by central services functions.

Ms. Gibbs reported that better controls over some legislative funding should be implemented. The auditors found controls to ensure textbooks, instructional supplies, and instructional hardware funds were adequate to ensure the money was used for its stipulated purpose. However, some control weaknesses were found for unbudgeted energy costs, at-risk programs, and unexpected healthcare costs.

Recommendations were made on Financial Management, relating to the Food Service Fund and improving controls over special appropriations.

Assemblyman Marvel asked if they analyzed how much they would have to increase food costs in order to cover their costs.

Ms. Gibbs responded that food costs were not analyzed. She reported that aspects of the Plant Facilities Division operate effectively. For example, the Construction Management Department has been effective at meeting the District's needs for additional schools. However, other areas such as the energy conservation program, information system, and comprehensive policies and procedures could be improved.

During fiscal year 2004 the Facilities Division was responsible for 294 schools, 25 million square feet of building space, and opened 14 schools in fiscal year 2005. The number of schools increased by 19%, or 49, over the past 5 years.

Assemblyman Marvel asked about projections for increased enrollment.

Ms. Gibbs referred the question to Shawn Heusser.

Mr. Heusser stated the building program called for the construction of 90 new schools. Many of those schools have been built and were part of the number but the numbers will continue to rise for the next few years. He indicated there were also people from the District in the meeting that could answer more specifically.

Ms. Gibbs then addressed the District's Energy Conservation Plan. It was reported the District has made significant efforts to conserve electricity; however, natural gas and water conservation efforts have not received as much attention. In 2003, the District spent over $2 million for natural gas, $33 million for electricity, and $12 million for water, sewage, and refuse. The District reported savings of over $3 and $4 million in fiscal years 2003 and 2004, respectively, through its electricity conservation program. She stated that the facilities information system could be improved. The Maintenance Department was unable to track maintenance employee productivity and the tracking of deferred maintenance is limited. Finally, it was reported that the Maintenance Department had not developed complete policies and procedures.

Senator Mathews asked how the older schools of the district compared to the newer ones.

Ms. Gibbs referred the question to Mr. Heusser.

Mr. Heusser answered that they did not look specifically at individual schools to make that consideration.

Senator Mathews expressed concern regarding the maintenance department needing improvement. She had heard reports of schools lacking the basics, such as toilet paper. She stated older high schools are not clean. She commented that it may be an area to review when looking at the budget and how that is utilized for maintenance of the older buildings in Clark County and Washoe County.

Mr. Townsend mentioned as far as the audit went, the auditors look at the overall processes in place. He noted the report included a very comprehensive survey to employees of the Clark County School District and believed one of the questions asked was about the cleanliness of facilities and related issues, so that information was captured and available.

Mr. Brown referred the group to page 63 of the report. He referenced questions 34 and 35 of the survey. Question 34 related to building cleanliness and question 35 related to building maintenance. The majority of the people that responded had a positive response.

Ms. Gibbs stated recommendations were made relating to Facilities Management. These recommendations addressed improving the energy conservation plan, procuring and implementing an information system, and developing and finalizing policies and procedures. During 2004, the District hired nearly 5,800 new employees. It was found the District has excellent processes for recruiting, hiring, and inducting employees. Personnel program accomplishments include the New Teacher Project, a non-profit group helping districts recruit teachers. Opportunities to improve professional development were pointed out. These opportunities include clearly aligning professional development with Board policies, and clearly defining support staff training responsibilities. One recommendation was made for Personnel Management to consolidate a district-wide professional development plan.

Mr. Heusser presented the remainder of the report.

Mr. Heusser began his presentation with the Transportation section of the report. The District reported savings of approximately $3 million in fiscal year 1997 through the implementation of computerized routing software. As a result of this software, the District reported needing 10% fewer buses, saving approximately $8 million in capital costs. However, controls over vehicle usage and inventory could be improved. For example, it was reported that about half of the District's passenger type vehicles were underutilized per District regulation. We estimate that the District could eliminate over 70 vehicles and save $1.1 million in future capital expenditures. The District has several general regulations regarding vehicles, but lacks procedures to control vehicle usage.

Mr. Heusser discussed the lack of procedures over vehicle inventory and administrative staff vehicles. The District's bus fleet and the need for a bus replacement policy was also discussed. The District has made efforts to replace buses even though the Board of Trustees has not adopted a bus replacement cycle into District policy.

Assemblyman Marvel asked if they had any Carpenter buses that they had to get rid of.

Mr. Heusser replied they had very few and believed they were already eliminated before problems were noted. Seventeen percent of the District's bus fleet is over 12 years old, and 14% have been driven more than 200,000 miles. He explained the importance of a bus replacement policy being adopted by the school board. In addition, a study completed by the University of Nevada, Las Vegas recommended that the District adopt a bus replacement cycle based on vehicle maintenance and operating records.

Mr. Heusser noted recommendations were made designed to improve the transportation operations of the District. The District's Pupils Per Teacher ratio is higher than most of its peers. The District's pupils per school administrator compares favorably with its peers. In addition, the District's Administrative Cost Per Pupil are lower than many of its peers. He also reported that the District's dollars to the classroom are also favorable when compared to its peer districts. He noted that 61.7 cents of each current expenditure dollar goes to the classroom.

Mr. Heusser stated views of the District's reorganization into 5 regional subdivisions have improved among District managers. District officials reported the purpose of the reorganization was to facilitate Achievement, Access, and Accountability. Also reported was the need for the District to ensure Board Self Evaluations are completed and documented. Recommendations were made designed to help improve the governance of the district.

Mr. Heusser continued with the Employee Health Plans section of the report. It was reported that from September 2001 through September 2004, the District paid medical insurance premiums on behalf of all support staff employees, even though some may not have wanted medical coverage. It was estimated this practice cost the District between $300,000 and $1.7 million a year for these employees.

Assemblyman Marvel asked if it was a voluntary program.

Ms. Gibbs answered it was voluntary at that time. It was part of the program that they could elect not to participate in the program. Even though selected, an internal audit report in 2001 noted the practice still occurred.

Assemblyman Marvel asked if they covered them anyway.

Ms. Gibbs stated that was correct.

Mr. Brown further added that prior to 2001, the plan was with the support staff's union and they had the option of opting out. In 2001 the plan was going bankrupt, so the District took over and trying to get that taken care of, they opted to cover everybody, even those who may mot have wanted coverage.

Senator Mathews mentioned that normally in a district the pool is fairly young resulting in substantial savings if the numbers are there.

Mr. Brown referred the Committee to the District's response on page 44, which stated in order to get the better rate with the health care provider they covered the entire group versus a portion of the group.

Mr. Heusser discussed the need for the District to set aside excess contributions from the premiums negotiated with the Support Staff Trust. Subsequent to discussions, the District entered into a Memorandum of Understanding in May 2004 that resulted in the District setting aside $1.8 million in reserve for support staff health benefits. Although not specific to the District's health benefits contract, the 2003 Legislature passed SB 28 to mandate that excess contributions cannot be used for purposes other than health benefits.

Mr. Heusser discussed the need for the District to improve its oversight of the Teachers Health Trust. During fiscal year 2003, the District contributed over $58 million to the Trust. However, the collective bargaining agreement between the District and the Trust does not provide for any oversight mechanism by the District. A legal opinion from the Legislative Counsel states that the District is authorized to negotiate with the Clark County Classroom Teachers Association for the submission of audits of the Trust to the District. In addition, the opinion states that the District has the authority to request that the Commissioner of Insurance undertake a review of the Trust. It is in the District's best interests to monitor the financial stability of the Teachers Health Trust. In the event that the Trust becomes insolvent, the District may be required to pay delinquent health claims.

In 2001, an arbitrator awarded the District control of the Support Staff's Trust because of its inability to meet financial obligations. Like the Teachers Health Trust, the District did not have financial oversight of the Support Staff's Trust. This resulted in the District paying about $3.2 million for delinquent health claims on behalf of District employees.

Teacher Health Trust audited financial statements from fiscal years 2001 and 2002 indicated there was an uncertainty regarding its ability to continue. The financial position of Trust operations have since improved. However, in the event the Trust could not pay medical claims, the impact to the District and the State will be greater than was encountered with the Support Staff's Trust. Mr. Heusser stated recommendations were made to improve District oversight of employee health plans.

Mr. Heusser concluded his portion of the report presentation.

Senator Coffin stated that in general things look pretty good. He had a better feeling about this audit than he would have had a few years ago, particularly on the issue of reorganization of 2001.

Assemblyman Marvel stated that it appeared that it was working and asked for response from the District.

Ms. Joyce Haldeman, Executive Director of Community and Government Relations in Clark County, offered that Dr. Walt Rulffes, Chief Financial Officer, could answer questions as well. Now that 5 regional superintendents over the regions are established and in place, she believed that the oversight and the accessibility to more localized decision makers has improved operations for students, teachers, principals of those buildings and the parents of those students. The five regional superintendents meet on a weekly basis. They work very closely with Superintendent Carlos Garcia and also the superintendent over instruction, Augie Orci. As they continue to grow the desire to add an additional region or two may continue because it was found that those individualized regions do improve student achievement.

Mr. Walt Rulffes, Deputy Superintendent, CFO for CCSD, stated this was the first Legislative audit of this type CCSD had during his tenure. First of all, there was much more depth in the analysis. The research was very stringent and went down to the individual departments. CCSD appreciated this audit because it was fairly balanced. He believed as a result of this audit the District will be a more efficient school district and be able to serve taxpayers with more efficiency.

Mr. Rulffes indicated there was only one question left unanswered regarding their projections and the additional building program. CCSD is growing at the rate of 12,000 to 15,000 students a year. This year CCSD grew by approximately 13,000 students. Next year growth is projected to be about 15,000. The difference being that the live birth rate is increasing so dramatically. In fact, the live birth rate is probably 7,000 or 8,000 more this year than it was last year. So even without the influx of people, the growth of the internal population is such that CCSD will have dramatic growth. It is projected that they will continue to grow at the rate of 4% or 5% per year. The bond raters biggest issues of concern is the cost of housing which is related to the cost of land and the second is some kind of economic unanticipated event such as terrorism.

Those are the two things that concern the bond raters and they watch closely in terms of what our future growth projections will be. The building programs continue from 1998 and they know that at the conclusion of that while they will have approximately 100 new schools, of which 10 are replacement, that they could have a very serious deficiency if not addressed. To give overall numbers, CCSD's program currently is costing $3.7 billion for the 10-year project which includes the 100 schools and approximately $8 or $9 million in remodeling. The anticipated revenue was based on the projections of conditions that have to exist for this to occur, but the revenue projections are probably between $4.1 and $4.3 billion. They are doing an analysis of how to address the un-housed student need between 2007 and 2010 with those dollars. Again, they are working with the oversight committees established by the legislature.

Assemblyman Marvel asked if they had any year-round schools.

Mr. Rulffes replied approximately 100 elementary schools are year-round. There are no year-round middle schools or high schools.

Assemblyman Marvel stated he was interested in their Medicaid program. He noted CCSD was receiving funds from Medicaid. He asked if they had any problems with the Federal Government as far as audits.

Mr. Rulffes replied they were aggressive in terms of claiming those funds and lobby on a regular basis to assure that those funds continue. He encouraged support from the state legislature, as well as any other groups, to the Federal Government for those funds not to be cut.

Mr. Rulffes stated he would like the record to show that virtually all those dollars go back to the schools. Some of the dollars are spent centrally for textbooks and new adoptions and instructional materials like the science kits used to gear up for the new provision in the proficiency test for the high schools. They are trying to get their curriculum adjusted now so that those students will be able to pass that new component.

Assemblyman Marvel asked if their bonding capacity was in place for the construction of new schools.

Mr. Rulffes stated it was. He noted as the assessed value increases, their ability to incur debt increases.

Assemblyman Marvel then asked if CCSD rolled some of their bonds.

Mr. Rulffes indicated in the last three to four years they had 7 or 8 refundings and they have taken advantage of those very low interest costs.

Assemblyman Marvel asked if they still had pay as you go.

Mr. Rulffes stated they still have some pay as you go.

Senator Coffin indicated the press was carrying the news that the Governor wants to rebate $300 million out of the General Fund for auto registration fees. He asked if
Mr. Rulffes was aware of this and if their budgeted amount submitted to the state board and the budget office had been approved and will it have what they need.

Mr. Rulffes indicated he was not aware of the specific details of the Governor's bill. CCSD was aware that that is a very unpopular tax, and in each of the last several sessions there has been some attempt to modify it. In the case of Clark County it is an important source of revenue. He briefly explained how much money goes into the General Fund from the motor vehicle tax, which are programs for boys and girls. Approximately $18 million goes into capital that is not authorized under the bond program like relocating portables. He believed their position would be that while the rebate may be a desired movement on the part of the state they would seek replacement funds from some source for those dollars that they lose.

Assemblyman Marvel asked what kind of impact it was going to have on local government and the school districts.

Senator Coffin stated the Governor was talking about refunding this from the General Fund. He was not talking about replacing or changing the government services tax. He asked Mr. Rulffes if they knew if all the money they had requested had been approved to be included in the Executive Budget

Mr. Rulffes stated they were not privy to the Governor's budget but hoped to see it soon.

Assemblyman Hettrick stated the Governor's Office had indicated they were going to propose a rebate on auto registration fees and the proposal was to pay that with surplus money. It would have no impact on the General Fund revenues for funding ongoing budgets. It would be out of the surplus generated by this cycle.

ASSEMBLYMAN HETTRICK MOVED TO ACCEPT THE AUDIT ON THE CLARK COUNTY SCHOOL DISTRICT PERFORMANCE AUDIT. THE MOTION WAS SECONDED BY SENATOR COFFIN AND CARRIED UNANIMOUSLY.

F. Department of Business and Industry, Transportation Services Authority

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

Mr. Klenczar began with background information about the Transportation Services Authority, commonly referred to as the TSA. The TSA administers and enforces state laws pertaining to passenger transportation, household goods movers, and tow cars. Passenger transportation regulated by the TSA primarily includes limousines, taxicabs outside Clark County, charter buses, and airport shuttle services. The TSA does not regulate taxicabs in Clark County. The TSA was created by the 1997 Legislature and commenced operation on October 1, 1997. Prior to this date, the Public Service Commission was responsible for regulation of these carriers.

Certified carriers under the TSA's authority are classified as fully regulated or non-fully regulated. Fully regulated carriers must adhere to more stringent financial requirements, and a more thorough application process. Further, the TSA has authority over the rates, routes, and services of a fully regulated carrier. For non-fully regulated carriers, the TSA's oversight is limited to motor carrier safety and insurance requirements. In total, there were 290 carriers with close to 2,300 vehicles at the end of 2003.

This audit focused on the TSA's oversight of certified carriers in operation during calendar year 2003. The objective of the audit was to evaluate the Transportation Services Authority's monitoring of certified carriers, including whether activities were carried out in accordance with applicable state laws, regulations, and policies.

Mr. Klenczar stated the TSA had not established sound processes for monitoring carriers under its authority. Policies, procedures, and other controls were not in place to guide the activities of enforcement staff. As a result, vehicle safety inspections were not performed as required, oversight of carrier operations was not adequate, and methods to help protect consumers were not fully implemented. In addition, performance measures reported by the TSA were unreliable. Because of these weaknesses, the TSA does not have reasonable assurance that carriers comply with public safety requirements. During the audit, the TSA was working to address several of the weaknesses identified in this report.

Limousine and taxicab carriers did not perform annual vehicle safety inspections as required during 2003. These carriers did not meet annual inspection requirements for most of the vehicles tested. For example, auditor testing found 58 of 68 vehicles were not inspected as required. This 58 consisted of 35 limousines and 23 taxicabs. Although the TSA does not perform these inspections, they are responsible for ensuring carriers comply with the inspection requirements. In addition to the annual inspection, limousines and taxis are required to be inspected by the TSA prior to being placed in service. It was noted that the TSA could not provide inspection records for 23 of 30 vehicles identified as placed in service during 2003. He explained that the placed in service inspection includes reviewing the vehicle safety inspection report, proof of insurance, registration, and other required features that would need to be added after purchase of the vehicle.

The TSA does not have a process to identify buses requiring an inspection. For 20 bus companies selected, the TSA could not provide any information regarding buses and inspections.

Mr. Klenczar continued his presentation noting that Management stated procedures were being developed for tracking buses and the inspection of buses operating within Nevada. Recommendations for vehicle safety inspections included developing policies and procedures to monitor carriers for compliance with annual vehicle safety inspection requirements and developing policies and procedures to ensure all vehicles requiring an inspection are identified and inspected prior to being placed in service.

It was found that better oversight of carrier operations is needed to ensure carriers comply with requirements intended to protect the public. For example, the TSA's on-site inspection process needs improvement. TSA could not provide evidence of an on-site inspection for 22 of 40 companies selected. The TSA has established a performance goal of conducting on-site inspections for 45% of approximately 290 certified carriers each fiscal year. On-site inspections are important for identifying and correcting violations. An on-site inspection would include items such as reviewing driver files, vehicle maintenance files, and verifying a random drug testing program is in effect.

Mr. Klenczar indicated carriers did not always meet minimum financial requirements. The TSA did not monitor fully regulated carriers to ensure their operations are financially stable. From the review of annual financial reports, 9 of 20 carriers tested did not meet the 20% owner's equity requirement for reports submitted in 2003. Furthermore, 5 of these carriers had not met this financial requirement for 2 years or more. When carriers are financially unstable, they are more likely to cut costs related to vehicle maintenance and insurance. It was noted that taxicabs in Washoe County were not taken out of service when required. The auditors found one company did not take 15 taxicabs out of service when the vehicles reached the time limit for months in use. The TSA did not have an ongoing process to monitor out of service dates for all taxicabs in Washoe County.

Mr. Klenczar noted that six of the eight carriers that leased their taxicabs to drivers used out-of-date lease agreements. The six out-of-date agreements were in effect prior to the inception of the TSA in 1997, and refer to the Public Service Commission. According to TSA, a majority of the taxicab drivers in the Reno-Sparks area are lease drivers and work as independent contractors. Because lease agreements do not state the current requirements that lease drivers must follow, there is an increased likelihood that drivers will violate safety standards and other TSA requirements.

To address problems related to oversight of carrier operations, recommendations were made to develop policies, procedures, and checklists to facilitate and document on-site inspections, develop policies and procedures to ensure all fully regulated carriers meet minimum financial requirements, develop policies and procedures to ensure taxicabs in Washoe County are taken out of service when required, and develop a standardized lease agreement that meets the requirements set forth in regulation.

Mr. Klenczar stated it was found the TSA can improve consumer protection in areas related to taximeter rates, complaints, and carrier advertising. He indicated the TSA did not inspect and seal any taximeters between September 2002 and December 2003. During this time, TSA taxicab carriers had approximately 350 taxicabs in service, primarily in northern Nevada. When a taximeter is not inspected and sealed, there is an increased risk that the meter has been altered and is not charging the approved rate.

The complaint process can be improved for taxicab and limousine passengers. Taxicab and limousine carriers are not required to provide information to passengers on where and how to file a complaint. During 2003, the TSA recorded only 3 complaints on approximately 350 taxicabs and 13 complaints on approximately 1,225 limousines under its authority. Mr. Klenczar stated they provided some examples of methods that could be used to improve the complaint filing process for limousine and taxicab passengers. It was also found that website advertising was not adequately monitored. Recommendations for consumer protection included developing policies and procedures to ensure taximeters are inspected and sealed prior to being placed in service, revising TSA regulations to ensure taxicab and limousine passengers are informed on how and where to file complaints, and consider electronic filing for complaints, and informing carriers that website advertising must include their CPCN number and monitor compliance with advertising requirements.

Mr. Klenczar stated a review of performance measures found the numbers reported in the Executive Budget and to TSA management are not reliable. Unreliable measures occurred because of calculation errors, inappropriate measurement methods, and a lack of sufficient documentation. Mr. Klenczar noted a recommendation was made to establish controls over performance measures to ensure accurate reporting.

Mr. Klenczar then discussed opportunities to improve efficiency and effectiveness of enforcement activities. According to the TSA, concerns were expressed during 2003 that enforcement officers were not spending sufficient time on patrol. The review of work activity records found that patrol time was low, resulting in few citations being issued. Some data was provided for analysis of patrol time and citations. For example, it was noted that patrol time was low, particularly in the Sparks office where it was 6.2%. The TSA has taken steps to better utilize sworn enforcement staff and improve their presence on the streets. Two non-sworn compliance auditors were hired in early 2004, and changes were made to the inspection process for annual vehicle safety inspections.

Mr. Klenczar stated although the TSA has developed a policies and procedures manual for its administrative functions, policies and procedures are lacking for carrier oversight and enforcement activities. The lack of written procedures contributed to numerous problems noted in this report. He discussed enforcement staff turnover. Written policies and procedures can help reduce the negative impacts of high turnover. He noted turnover of enforcement staff was 55% during calendar year 2003.

Mr. Klenczar discussed the benefits of using a risk-based approach for inspections of carrier operations and vehicle safety inspections. He explained the need to improve management information. Databases used to track management information were often incomplete or inaccurate. Management information weaknesses were also noted during the audit. Recommendations were made to address opportunities to improve efficiency and effectiveness of enforcement activities. First, develop comprehensive written policies and procedures for carrier oversight and enforcement activities. Second, implement a risk-based approach for scheduling on-site inspections. Next, monitor annual vehicle safety inspections while on-site, and consider testing a sample of vehicles. Finally, develop accurate and reliable databases that provide easily retrievable management information.

Mr. Klenczar also noted the TSA needs to strengthen controls over revenues at offices in Sparks and Las Vegas. It was identified that there was a lack of separation of duties at both offices. Controls in this area are important because the TSA collected approximately $350,000 in fees and fines during fiscal year 2004.

Assemblyman Marvel asked about open positions, vacancies, and a high turnover rate.

Mr. Klenczar replied it was high in the enforcement section.

Senator Mathews asked what the pay was.

Mr. Klenczar stated that position was a grade 36. In money terms it was somewhere between $40,000 and $50,000 a year.

Assemblyman Marvel asked how many enforcement officers were on staff.

Mr. Byram Tichenor, Chief of Enforcement, TSA, stated they are currently staffed for 3 enforcement officers in the Sparks office and 6 in the Las Vegas office. He added there are 2 vacancies in the Sparks office.

Assemblyman Marvel asked if they had enough staff to do the physical inspections. He asked if they contract that out or do it themselves.

Mr. Tichenor answered about a year ago, through the increased funding the Authority received from AB 518, 2 enforcement auditors were hired who are facilitating some of the work in the area of background investigations, inspections, etc. Total enforcement staff including the 2 auditors, would be 11. He added a senior financial analyst does work in terms of reviewing tariffs and applications as well.

Assemblyman Marvel asked who actually gets out and inspects the brakes.

Mr. Tichenor stated they require the carrier to do those inspections.

Assemblyman Marvel then asked how they know if the inspections are done.

Mr. Tichenor answered they review inspection records to ensure they are done. At the time the audit occurred, was the first initiative taken to go out to the carriers and to review their records. It was found some of the recordation to their sampling was inadequate and did not meet the requirements of the CFRs. In response to that, improvements have been made in terms of creating a form that the carriers are expected to use so that all of the safety components of the vehicle are addressed. And for those situations that occurred where the carriers were submitting inadequate recordation of inspection, they went back during the fiscal year and by the end of the fiscal year they had completed 100% of the verification that safety inspections were adequately done.

Assemblyman Marvel asked Mr. Tichenor if he could verify that they are carrying adequate insurance.

Mr. Tichenor indicated it was an ongoing process that is monitored daily.

Assemblyman Marvel asked if any of the carriers had been sued.

Mr. Tichenor was not aware of any lawsuits. He did know that they issue a cease and desist letter the very day their insurances lapses ordering them to stop operations. An investigator hand carries that letter to the carrier.

Senator Mathews asked how they are notified.

Mr. Tichenor stated they require the carriers to submit insurance recordation to them. When the insurance is expiring, they contact them in advance. If that is not done at the time the insurance expires, a cease and desist order is issued.

Senator Mathews asked who does the safety inspections.

Mr. Tichenor replied that carriers have the option of having their own mechanics and staff do the inspections, or they can contract it out. The inspections are required to be done by certified mechanics.

Assemblyman Marvel asked how they follow up and make sure they are using certified people.

Mr. Tichenor indicated the new forms include that as a required field.

Assemblyman Marvel asked what their various sources of revenue were.

Mr. Bruce Breslow, TSA Commissioner, stated about 98% of funds come from the highway fund. The rest are made up of user fees. He did not recall any General Fund dollars going to the Agency.

Assemblyman Marvel asked if carrier assessments had been reviewed.

Mr. Breslow stated AB 518 allowed for a fee per limousine. The monies were used to hire audit investigators. He noted that the LCB audit was fair and that almost all of the employees involved in 2003 are no longer with the Agency and that 90% of what is in this audit was done in 2004. He noted records of the inspections were not kept. He explained vehicles would pull up in front, they would do an inspection, they would say thank you and they would go on and they did not keep records, and therefore, the auditors were not able to verify that the inspections were done. The inspections were being done, but the Agency Enforcement Division did not document it.

Assemblyman Marvel asked about sanctions for noncompliance.

Mr. Breslow stated the enforcement division, through the Office of the Attorney General's Office files a citation and prosecutes. He stated Chairman Sandra Avants worked to revamp and restructure the entire organization in 2004 to address not only these concerns but many more that they needed to do. He indicated they try to do what they can with a very small staff, adding they have never asked for more money, funding or anything out of the General Fund.

Assemblyman Marvel asked how they were funded under the PSC.

Mr. Breslow indicated the Agency has always been highway funded. The Taxicab Authority in Clark County gets a lot of its funding from the taxicabs. They do not have this option at this point because they have very few taxicabs in northern Nevada and the money that would come from the 300 or 400 would not be significant to fund an agency.

Assemblyman Hettrick commented that procedures were being developed, and information concerning aged vehicles would be included in a database for easy review by management. He was hopeful that they were going to develop a database that automatically flags information in regard to aged vehicles and generate a report at the end of the month.

Mr. Tichenor stated since his arrival, they have developed an enforcement database using the resources within the Agency. They have begun investigating commercial databases that do more and allow leverage to automatically inform them of problems. He explained there were always policies but they were never formalized. They have drafted very specific policies in all of these items that will be implemented.

Mr. Tichenor further commented regarding the over age vehicles. He stated there are no over age vehicles operating. He recently sent letters to carriers who had over age vehicles instructing them to take those vehicles out of service.

Assemblyman Hettrick stated the program needs a system that will generate a report which states which cabs are out of date according to the record.

Mr. Tichenor was in full agreement, emphasizing the need for a commercial database that will track a myriad of things.

Assemblyman Hettrick asked if the standardized lease agreement that went before the Board in December 2004 had been reviewed.

Mr. Breslow replied that the Board looked at it; but decided to have a public workshop with the taxicab drivers to get their feedback on it before it was instituted. Chairman Avants is going to hold a workshop in northern Nevada with the drivers and then it will be formalized.

Assemblyman Hettrick's only concern was that they are on schedule. He noted that taxi meters have all been inspected and certified and asked if they had been sealed.

Mr. Tichenor stated that the process included sealing the taxi meters as an annual event. This also included when taxis are put into service.

Assemblyman Hettrick indicated the new inspection form said that having certified mechanics do the inspections is being highly recommended but apparently, not mandatory. He noted the risk based approach for scheduling on-site inspections and thought that anybody not using the new form ought to be on the high risk based inspections sheet. He was hopeful they were doing that.

Mr. Tichenor agreed. There are a number of other things they looked at in regard to related factors for conducting inspections of carriers. He added that those not using the prescribed form would be targeted.

Assemblyman Hettrick was concerned about performance indicators. He complimented TSA for identifying items by percentages as opposed to numbers. He said percentages mean something if the data is good. He asked the TSA to establish those numbers and provide them to the Committee. Some of the concerns were high risk inspections and percentage of cabs out of service. They would be helpful during the budget cycle. He encouraged the TSA to do their best to make sure the performance indicators are meaningful.

Ms. Kimberly Rushton, TSA Commissioner, thanked the audit team for their time and professionalism. She indicated the Agency is relatively young being established in 1997. TSA found the audit to be a road map in terms of where they need to go and also consistent with the policy of the Agency to ensure that they better serve the traveling public, transportation industry, and the citizens of the State of Nevada.

Mr. Tichenor added that the TSA audit was a great benefit to him and the timing was perfect in terms of making him aware of things that were of concern. He also thanked the audit staff.

> SENATOR COFFIN MOVED TO ACCEPT THE AUDIT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, TRANSPORTATION SERVICES AUTHORITY. THE MOTION WAS SECONDED BY ASSEMBLYMAN HETTRICK AND CARRIED UNANIMOUSLY.

Item 3—Presentation of six-month reports.

Mr. Townsend introduced Chief Deputy Legislative Auditor Steve Wood to present the six-month and audit follow-up reports.

Mr. Steve Wood, Chief Deputy Legislative Auditor, explained there were three, six-month reports to present. He explained the presentation of six-month reports is a follow-up on the status of recommendations of reports issued in February 2004. This process determines the status of the recommendations and holds agencies accountable for implementation.

A. Integrated Financial System Controls

Mr. Wood introduced George Allbritten, Audit Supervisor, to present the report.

Mr. Allbritten explained an audit report was issued in February 2004 on the Integrated Financial System Controls. He noted they had received and reviewed the Department of Administration's six month report outlining the implementation status of the audit recommendations. The Department indicates all 10 recommendations have been implemented. The Integrated Financial System is critical to the management of the state's business processes. He thanked the Department for their efforts in timely implementing the recommendations. He indicated they had have no questions regarding this audit report.

ASSEMBLYMAN HETTRICK MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE INTEGRATED FINANCIAL SYSTEM CONTROLS. THE MOTION WAS SECONDED BY SENATOR COFFIN AND CARRIED UNANIMOUSLY.

B. Commission on Economic Development

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

Ms. Bailey explained in February 2004, an audit report was issued on the Commission on Economic Development. She indicated they reviewed the Department of Administration's six-month report outlining the implementation status of audit recommendations. The Department indicated that 12 of the recommendations have been fully implemented and 2 have been partially implemented. Implementation of one of those two recommendations is pending legislative approval of a bill draft. She suggested the Audit Subcommittee obtain additional information on the status of the other partially implemented recommendation. The finding in the report was that the Commission did not always monitor expenditures' supporting documents to ensure that state laws, policies, internal procedures, and good business practices were followed. Problems were found related to not obtaining required approvals, services purchased without contracts, insufficient supporting documentation, and inappropriate postings to the integrated financial system. The recommendation in the report was to implement and monitor written procedures and policies addressing transactions posted to the integrated financial system, ensure that transactions have adequate supporting documents including proper approval from other state agencies when required, and perform a pre-audit review of transactions prior to final approval. The Department of Administration's six-month report indicated that they found errors when reviewing transactions at the Commission. They reported the Commission had revised its internal control procedures in regard to ordering and receiving goods and processing documents for payments. This included documenting, posting, and approving expenditure transactions for compliance with laws and policies. The question for the Commission was what changes had the Commission made to its processes since Administration's review to ensure that all transactions are properly reviewed and approved.

Mr. Bob Shriver, Executive Director, Commission on Economic Development, believed that the errors found in the audit portion had been corrected since they were first discovered. Most of the errors identified were checking a correct box, initialing a document, for example an email documented as an original documentation rather than a copy. He stated small technical errors were immediately corrected. They have implemented an ongoing staff meeting and review internal controls on a regular basis. He felt they have done a good job of complying with the second part and mentioned the BDR is being submitted in the next session.

Ms. Bailey stated the auditors were happy with the progress the Commission had made in implementing the recommendations.

Assemblyman Marvel appreciated Mr. Shriver's attitude.

> ASSEMBLYMAN HETTRICK MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE COMMISSION ON ECONOMIC DEVELOPMENT. THE MOTION WAS SECONDED BY SENATOR COFFIN AND CARRIED UNANIMOUSLY.

C. Office of Veterans' Services

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

Ms. Bailey reported in February 2004, an audit report was issued on the Office of Veterans' Services. A six-month report prepared by the Department of Administration indicated that 12 of the 13 recommendations were fully implemented and one has been partially implemented. She added that several of the recommendations were very serious and required considerable effort to implement. She commended the management and staff of the Office for their efforts. She noted there was one recommendation remaining as partially implemented. The finding was that the Office had not developed procedures for controlling fixed assets of the 74 items tested during the audit. Eleven were either not at the proper location or not included on the Office's fixed asset listing. In addition, 7 of the items did not have a State identification tag attached. It was recommended the Office ensure all fixed assets have State identification tags, and that the State Purchasing Division's fixed asset listing is accurate and complete. The Department of Administration found that the Office anticipated completing its fixed asset inventory process by December 31, 2004. The question was did the Office complete the fixed asset inventory and was the recommendation now fully implemented.

Mr. Chuck Fulkerson, Director, Office of Veterans' Services, stated that Ace Tan had conducted an inventory of the entire agency and that the last recommendation had been fully implemented.

Assemblyman Marvel was glad to hear that and asked Mr. Tan if he would like to make a statement.

Mr. Ace Tan, Administrative Services Officer, Office of Veterans' Services, indicated he had finished taking the physical inventory at all of their locations including Boulder City and Fernley to ensure all fixed assets carry the state identification tags.

Assemblyman Marvel thanked Mr. Tan and asked how the Veterans' home was coming along.

Mr. Fulkerson stated it was coming along very well. He noted the facility had about 145 residents.

Assemblyman Hettrick complimented the Agency.

> SENATOR MATHEWS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE OFFICE OF VETERANS' SERVICES. THE MOTION WAS SECONDED BY ASSEMBLYMAN HETTRICK AND CARRIED UNANIMOUSLY.

Item 4—Follow-up on six-month reports from prior meeting.

Mr. Wood stated there were three follow-up reports on previously issued six-month reports.

A. Department of Business and Industry, Taxicab Authority

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

Ms. Bailey stated this audit report was issued in December 2003. At the prior meeting of the Audit Subcommittee they had presented the six-month report on the implementation of the 12 recommendations in that audit report. The report showed that two of the recommendations had been fully implemented and 10 had been partially implemented. Based on discussion and review of the Authority's policies and procedures, it was determined that all 12 of the audit report's recommendations had now been fully implemented. She thanked the Authority's management and staff for their efforts toward implementing these recommendations.

Ken Magnum, Administrative Services Officer, thanked the auditors for their professionalism. He added that he came on after the audit was already done and the audit group helped lead him through a hard time.

ASSEMBLYMAN HETTRICK MOVED TO ACCEPT THE FOLLOW-UP REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, TAXICAB AUTHORITY. THE MOTION WAS SECONDED BY SENATOR COFFIN AND CARRIED UNANIMOUSLY.

B. Department of Conservation and Natural Resources, Division of State Lands

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

Mr. Cooper stated the audit report on the Division of State Lands was issued in December 2003 which contained 8 recommendations. In September 2004, the Department of Administration's six-month report was presented. At that time 4 recommendations had been fully implemented and 4 recommendations were partially implemented. In November 2004, the Division of State Lands provided an update on the status of the partially implemented recommendations. Based on the review of the information provided, the 4 partially implemented recommendations were now fully implemented. Therefore, there were no questions for the Division at this time.

SENATOR MATHEWS MOVED TO ACCEPT THE FOLLOW-UP REPORT ON THE DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES, DIVISION OF STATE LANDS. THE MOTION WAS SECONDED BY ASSEMBLYMAN HETTRICK AND CARRIED UNANIMOUSLY.

C. Department of Information Technology

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

Mr. Cooper stated that in December 2002, an audit report was issued on the Department of Information Technology which contained 7 recommendations. The six-month report was presented at the February 2004 Audit Subcommittee meeting. At that time four recommendations had been fully implemented and three recommendations were partially implemented. In August and December 2004, the Department of Information Technology provided updates on the status of the partially implemented recommendations. Based on review of the information provided, two recommendations are still partially implemented. Therefore, it was suggested that the Audit Subcommittee obtain additional information on the status of the two partially implemented recommendations. The first finding related to performance measures. Complete information is not available regarding the Department's performance for the service it provides. In several areas, performance measures are incomplete, out of date, or do not exist. Performance measures had been a long standing problem for the Department. In 1998, the Department did not have adequate information systems to track its performance related to the development of information systems. In addition, all four of the Department's measures selected for testing were found unreliable during a 2001 audit of the state's performance measures. The recommendation was to evaluate the Department's performance measures and ensure management information is available to monitor operations. The Department completed a review of its performance measures and submitted the measures to the Department of Administration on September 1, 2004. However, the Department had not yet documented the procedures for tracking and reporting each measure. The Department's estimated date for completion of draft procedures was March 2005. The question to the Department was what prevented the Department from establishing procedures for ensuring accurate tracking and reporting when the performance measures were reviewed and revised for the proposed budget in September 2004.

Terry Savage, Director of the Department of Information Technology, reaffirmed their commitment to fully implement the recommendations. They have made substantial progress and the root cause of a delay was the untimely departure of their two most senior fiscal people. This occurred as they were working on the budget process.

Mr. Savage commented on the second question stating the Agency had put together a high level overview of the entire rate development process. This process had been briefed to their LCB fiscal analyst. He offered to provide the Committee with copies of that document.

Assemblyman Marvel asked if it would also be used for budget hearings.

Mr. Savage stated it would and in fact by then they should have the formal policy developed and the procedures moving forward as well.

Assemblyman Marvel asked what they had done for disaster recovery.

Mr. Savage answered the Agency was identifying specifically what was appropriate for each area. One specific example was for a data backup system for the mainframe data. They were putting in a request during this budget session for a one shot appropriation to get a fully robust system to back up all of the data in the computer facilities.

Assemblyman Marvel asked how long it was going to take and what the cost would be.

Mr. Savage estimated about 6 to 12 months if they were given the appropriation and would cost $2.5 million to implement.

Mr. Cooper mentioned the billing rates were very important. He stated
Mr. Savage addressed problems developing procedures for those areas. He pointed out that both of these areas relate to information being provided to the money committees and did not believe it beneficial to keep having the Department to come back because these procedures would apply to the budget that's going to be taking place in 2007. He suggested providing this information to the money committees and make them aware that the billing rates were developed without a formal process in place and the same with performance measures.

Assemblyman Marvel asked what the Department of Administration was doing and if they were putting mandates on them.

Mr. Savage stated no, they were working closely with the Department of Administration to get their budget together. He noted that the processes exist, but were not well documented and they recognized the necessity to document and are working on it. He added there was a clear, distinct process used to develop the rates and offered to provide it to the Committee. He noted that LCB Fiscal already had it.

Assemblyman Hettrick suggested the Agency should come up with upgraded performance indicators. He encouraged them to stay after the performance indicators because it was the best way to sell their budget to legislators.

> ASSEMBLYMAN HETTRICK MOVED TO ACCEPT THE FOLLOW-UP REPORT ON THE DEPARTMENT OF INFORMATION TECHNOLOGY WITH REFERRAL TO THE MONEY COMMITTEES. THE MOTION WAS SECONDED BY SENATOR MATHEWS AND CARRIED UNANIMOUSLY.

Item 5—Public Comment.

Assemblyman Marvel asked for public comment.

There was none. There being no further comments the meeting was adjourned at 1:30 P.M.

Respectfully submitted,

Irene Hernandez, Audit Secretary

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Assemblyman John Marvel
Chairman of the Audit Subcommittee
of the Legislative Commission

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