

MINUTES OF THE MEETING OF THE  
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION  
Legislative Building  
401 South Carson Street, Room 4100  
September 10, 2002

A meeting of the Audit Subcommittee of the Legislative Commission (NRS 218.6823) was called to order by Assemblyman Joseph E. Dini, Jr., Chairman, at 9:30 a.m., Tuesday, September 10, 2002, in room 4100 of the Legislative Building, Carson City, Nevada.

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Assemblyman Joseph E. Dini, Jr., Chairman  
Assemblyman John W. Marvel  
Assemblyman Morse Arberry, Jr.  
Senator Mark Amodei  
Senator Joseph M. Neal, Jr.

LEGISLATIVE COUNSEL BUREAU MEMBERS PRESENT:

Paul Townsend, Legislative Auditor  
Stephen Wood, Chief Deputy Legislative Auditor  
Marie Cavin, Office Manager  
Donna Calhoun, Audit Secretary  
Ian Allan, Deputy Legislative Auditor  
George Allbritten, Deputy Legislative Auditor  
Jane Bailey, Audit Supervisor  
Tim Brown, Audit Supervisor  
Rocky Cooper, Audit Supervisor  
Shawn Heusser, Deputy Legislative Auditor  
Dennis Klenczar, Deputy Legislative Auditor  
Sandra McGuirk, Deputy Legislative Auditor  
Doug Peterson, Information Systems Audit Supervisor  
Mike Spell, Audit Supervisor

***Item 1—Approval of the minutes of the meeting held on May 8, 2002.***

ASSEMBLYMAN MARVEL MOVED TO APPROVE THE AUDIT SUB-COMMITTEE MINUTES OF MAY 8, 2002. SECONDED BY SENATOR NEAL AND CARRIED UNANIMOUSLY.

***Item 2—Presentation of audit reports.***

A. Judicial Branch of Government, Administrative Oversight of the State Court System

Mr. Townsend introduced Ian Allan, Deputy Legislative Auditor, to present the report.

Mr. Allan explained the audit focused on the Judicial branch and Administrative Oversight of the State Court System. The Supreme Court is the highest court of record in Nevada. In addition to the Supreme Court there were, at the time of the audit, 9 district, 55 justice, and 18 municipal courts.

Mr. Allan explained the objectives of the audit were to assess the accounting and financial management guidance provided to the courts by the Administrative Office of the Courts, evaluate the collection practices used by the courts, and determine the courts' collection rate. A number of courts were visited during the course of the audit. Also a survey was conducted to cover all of the courts.

In summary, Mr. Allan explained the Administrative Office of the Courts has improved its guidance to the courts on accounting, financial management, and internal controls since our 1995 audit. However, internal control weaknesses persist throughout the court system. Strong internal controls help reduce the risk of embezzlement. Since the release of our 1995 audit, embezzlements have been detected at four courts totaling more than \$90,000. However, collection rates for fines and administrative assessments at the courts improved from the amounts reported in the 1995 audit. This improvement was not consistent across the courts reviewed and some courts continue to have difficulty with collections.

Assemblyman Marvel asked what type of follow-up was done on the embezzlements. Mr. Allan answered they amounted to approximately \$93,000. The embezzlements were recent. Some restitution was made and some is in progress. There were three justice courts and one district court involved in the embezzlements.

Assemblyman Marvel further inquired about criminal charges. Mr. Allan replied criminal charges were brought against the embezzlers. Mr. Allan explained that the embezzlers were people in the process of collecting for the courts and essentially diverted money, typically cash, into their own pockets. Mr. Allan added that one case was approximately \$40,000. In the case of these embezzlements, because the controls were so weak at the courts, it is by luck that they were detected. With strong controls, detection of this behavior would be detected in a more timely manner.

Assemblyman Marvel asked if there could be additional cases not detected to date. Mr. Allan replied that the amounts could be higher and agreed that additional cases could exist. Mr. Allan explained the fear with a decentralized system is that if consistent guidance does not exist, a risk is apparent for other possible cases in the system.

Mr. Allan continued that basic financial information was not always available from the courts. The report states that 80% of the courts reported they do not produce accounts receivable reports, 40% of those respondents either did not report amounts collected, estimated amounts collected, or did not report how fines and administrative assessments were distributed. He further stated that information at the courts was not available to the audit team and this demonstrates another problem area that needs to be addressed.

Senator Neal asked if the information was available to anyone. Mr. Allan answered that the information was not available and this is a problem area that the courts need to address. Mr. Allan explained that a survey was sent out to all the courts and asked them to provide auditors with basic financial information related to their operations and the auditors had a lot of trouble getting any actual information back. He added that he was not sure this was attributed to poor accounting systems at the courts or something else.

Mr. Allan reported that an improvement in collection rates was not consistent across courts. He continued, collection rates for fines and administrative assessments at district, justice, and municipal courts improved from those reported in 1995, but this does not extend to all courts. The current audit found the overall collection rate for fines and administrative assessments to be 81%, up from the 63% reported in 1995. Some courts, however, continue to have difficulty collecting fines and administrative assessments. For example, 6 of the 23 courts we reviewed had collection rates of less than 75%, with 3 of those courts experiencing

collection rates of less than 55%. He pointed out that this refers to an effectiveness measure. He explained that the 81% refers to the amount that was suppose to be collected at that point, which would be different from an output measure such as the total amount of revenues collected in a particular period.

Senator Neal asked about the difference in the percentage of the administrative assessment at 87% and the administrative assessment to be 81%, up from 63% in 1995, as reported. Mr. Allan replied the 81% was a combined total of the ratio between the total amount collected and the amount imposed. The 87% indicates that administrative assessments are being collected prior to fines being collected. Mr. Allan explained the statute requires that administrative assessments be paid prior to fines being paid. This helps to ensure that revenue flows up to the State and the various recipients at the state level.

Assemblyman Marvel recalled in the 1995 audit there were no guidelines whatsoever in the municipal courts. He added that changes at the AOC developed collection procedures after this time.

Chairman Dini added that administrative assessments developed over time were similar to other state agencies and naturally, in order for the court system to survive, they have to collect those fees.

Mr. Allan addressed collection rates at district courts, which showed that collections at the court system's two largest district courts improved from the 1995 audit, but remain poor. The rate of collection of fines and administrative assessments for criminal cases tested at the two largest district courts was about 23%. In 1995, the district courts collected only 13% of the fines and administrative assessments in our sample. The Nevada Judicial Collections Task Force, in its CASE Report on best collection practices, concluded the district courts have an obligation to ensure orders from the court are carried out and therefore, need to monitor cases after adjudication for that purpose. At present, most district courts rely on the Department of Prisons and the Division of Parole and Probation to carry out and monitor an offender's compliance with court orders.

Senator Neal asked for clarification that the district courts have essentially handed over collection of these administrative fines to the Parole and Probation Division. Mr. Allan replied that was a pervasive practice amongst the courts. Senator Neal further asked if that was substantiated by statute. Mr. Allan was unsure but thought it was sanctioned by statute. Senator Neal said if the collection process was turned over to Parole and Probation then it seems the Courts would receive a report from that particular agency regarding the collection of these fines. Mr. Allan agreed.

Senator Neal noted that the district court was not solely responsible for this if authority was delegated in some way to Parole and Probation. Senator Neal asked if Parole and Probation was considered a part of the judicial system. Paul Townsend, Legislative Auditor, explained that Parole and Probation was a part of the Executive Branch of State Government and we have dealt in the past, during an audit of Parole and Probation Division, with some concerns with their information systems regarding collection of supervision payments. Senator Neal added the courts have essentially given the function over to an executive agency and expressed concern that a problem might exist with the separation of powers.

Chief Justice Maupin stated there was no separation of powers issue raised by any of this. There are practical issues involved in district court that were explained to Audit staff prior to the report being released. He explained, generally in district court criminal cases adjudicated guilty of felonies or gross misdemeanors are either sent to prison or placed on probation. If they are sent to prison the ability to collect restitution is marginalized. Almost all persons convicted of felonies in the State of Nevada are represented by the Public Defender's Office or lawyers appointed by the Court at public expense. People who are put on probation are put on close supervision. They have to pay restitution and drug-counseling fees, so the \$25 administrative assessment is in competition for that. That is something that we have set forth in our written response that we would ask Mr. Chairman that it be placed in the record so that when the Legislature does meet and

assess this in its totality, some of these comments and noted limitations on our abilities to do certain things are set forth in that report (Exhibit A). He added that we do not have a unified court system in Nevada increasing the degree of administrative responsibility. As it happens, all of the lower courts in the State are funded through local government. All of the district courts are funded through local governments, with the exception of the salaries and the benefits paid to the judges. He explained the court's ability to administer and impose certain internal restrictions on local governments is somewhat murky and so we have to be very careful that we do not judicially impose unfounded mandates on local governments. He added that the problem in district courts is unique to the other courts because, as a practical matter, these fees are often collected by Parole and Probation. They have a certain amount of success, but as a result of the audit we are in the process of recommending new procedures to the district courts to improve collection practices. We are committed to comply with the recommendations of this report.

Chief Justice Maupin was surprised to hear there was an implication that the district court judges and the other judges around the State had not cooperated fully. Every judge in the State was contacted in writing regarding the impending audit. He understood that they were willing to cooperate in every way. Feedback in meetings with the auditors was that they received a tremendous amount of cooperation around the state and the feedback from the judges was that the audit itself, the personnel conducting the audit, did so tactfully and the judges response was very positive. He emphasized that the Judicial system is committed 100% to working on the implementation of these recommendations. Input from judges around the State will be solicited and will be incorporated into the statutory plan of implementation that will be submitted within 90 days.

Senator Neal asked if the fines or assessments collected by Parole and Probation were the same assessments imposed upon the courts to collect. Mr. Allan responded that was correct. Senator Neal communicated that somehow this has moved over to the Executive side in terms of the collection because it was assumed that the courts did not have the staff to do this. Justice Maupin replied the judges attempt to collect the fees in the courtroom. For example, in the Eighth Judicial District there are no county personnel available in the courtroom to take the money in the courtroom. He added the deputy county clerks, because of limited resources, do not collect the money because there is no system to receive cash payments. He added that a lot of this has to do with the abilities of the counties to help effect that collection. He added this could be improved and some judges do it better than others and this has been recognized. Chief Justice Maupin commented that once sentenced, jurisdiction over that prisoner goes to the Executive Branch.

Senator Neal asked that absent of any order from the court to Parole and Probation to collect the fines or absence of statutory authority of probation officers to collect the fines, if it becomes the duty of the court to impose an order to allow Parole and Probation to do this.

Chief Justice Maupin replied that generally what happens with the administrative assessment is to have the Parole and Probation officer who interviewed the defendant and prepared the pre-sentence investigation report, collect the money at the time of the pre-sentence interview which is then available at the time of sentencing. He added the ability to collect fees has to do with the ability of the defendant and if the defendant is in the Clark County Detention Center and is without resources, they collect what they can. He added that the people out of custody have the same problem.

Senator Neal stated fines were being paid and could there be a situation where the court is not receiving that information from the Parole and Probation Department. Justice Maupin was unaware of any formalized method of communication and that was something he suggested should be set up. He added that one of the things some did as district court judges was to hold post sentencing status conferences when people were on probation, something that could not be done once they went to prison. He would then find out the status of restitution and other payments, but he again stated that is part of their program of implementation.

Senator Neal added that people on probation he has come in contact with state they pay administrative fines to the Parole and Probation Department. He was concerned that a gap exists between what is being received and what is being reported to the courts. Chief Justice Maupin replied he was not aware problems existed but it would be addressed.

Assemblyman Marvel asked what percentage of defendants sentenced are classified as indigent. Chief Justice Maupin replied he was unsure of the statistic but it was well over 95%. He added the ability for those coming through the district court system to pay is generally poor in terms of the ability to collect. The reason there is a higher level of collection, and those collections have been noted to be improved since 1995, is traffic tickets address someone paying a fine and he/she is in the courtroom and the fine and assessment can be assessed right there. He added, people who get traffic tickets are generally law-abiding citizens who work, have financial resources and can respond to these assessments, but the people coming through the district court system do not have near that ability and one could argue that is why they are there.

Legislative Auditor Paul Townsend asked to clarify that if the implication was given that there was lack of cooperation on the part of the Courts that did not occur. The auditors did have full cooperation. There were some limitations in the data they could provide us and that was because the data is just not there.

Chief Justice Maupin commented that the embezzlements were detected by the Court Systems, which led to the charges, adding, the audit did not reveal the embezzlements. He added the number represents 1/10th of 1 percent of the collections throughout the State. He emphasized that internal operating procedures and controls need to be upgraded and continually reassessed and are continually improving.

Mr. Allan concluded that six recommendations were included in the report for improvement of internal controls, financial management, and collection practices within the Judicial Branch. There were 4 recommendations from the 1995 audit. The Supreme Court indicated that one recommendation had been fully implemented and three recommendations have been partially implemented, which were modified and repeated. They related to the development of minimum financial standards and the development of collection procedures. The Supreme Court indicated acceptance of all six recommendations for this audit. Mr. Allan thanked the Chief Justice and the Justices of the Supreme Court and the AOC staff for their cooperation and also the judges and justices of the peace throughout the court system for their cooperation during the audit.

Senator Neal asked for clarification of the financial charges on administrative assessments. Mr. Allan replied the bench warrant financial charges reported by the courts ranged from \$100 to \$600, while administrative assessments corresponding to those amounts ranged from \$60 to \$105. He added that some of the courts have been charging administrative assessments on top of the bench warrant fee, while most of the courts do not follow this practice. Mr. Allan clarified that it is a consistency issue as are many of the issues identified in the audit for the courts to follow consistent practices in regard to establishing internal controls and basic financial management practices. He emphasized the audit and the prior audit in 1995 identified some of these inconsistencies.

Senator Neal asked if the statute permitted the practice of charging assessment fees on top of bench warrant fees. Mr. Allan replied that was a gray area. Chief Justice Maupin commented in regard to administrative assessments, probationers are told to pay them at the court clerk's office. He added the ability of these people to collect administrative assessments along with other charges is marginal. He suggested that an assessment of whether it is feasible to use the probation officer should be done. He concluded it was not a matter of whether the courts were necessarily requiring Parole and Probation to maintain accounting standards for the collection of these fees. Chief Justice Maupin agreed the administrative assessment portion (\$25), could be reviewed to see if it is getting swept up into the other costs, which are higher. He explained that someone in a drug treatment program is going to have higher fees and costs than someone

who is not.

As to the bench warrants, it is correct to say that the ability of municipal judges and justices of the peace to assess administrative assessments against bench warrants is a gray area. Justice Maupin gave the example of an offender who does not show up in court, that is a misdemeanor, a failure to appear, and can be charged as a failure to appear with another administrative assessment charged. He noted that judges around the State have different philosophies about the effectiveness of using failures to appear as a mechanism for creating administrative assessments. He added, whether administrative assessments can be assessed against a bench warrant or whether some other sort of administrative fee can be assessed is a legal question. The Administrative Office of the Courts is not in a position to provide legal advice to these judges. The judges make an independent judgment on how to enforce the statutes of the laws of the State of Nevada. In a case or controversy that may come to us the Nevada Supreme Court would have to address the propriety under our statutory construct of assessing administrative assessments in bench warrant situations. He explained there are three ways to do this to enforce compliance with court appearances. One is to issue a bench warrant, another is to charge them with failure to appear, or to hold them in contempt. He added there are different methods available to try to enforce appearances and these issues will have to be determined within the construct of an actual piece of litigation, criminal or civil.

Senator Neal understood the Supreme Court could direct the lower court only when the Supreme Court has a judicial issue before it. He asked if this was correct. Chief Justice Maupin clarified that this is not necessarily an administrative issue that the AOC can administratively handle without the context of a lawsuit. He suspected that the legality of charging administrative assessments at some point will come to the Courts in terms of a case in controversy. It is a legal issue of interpretation of the statutes and the court system constitutionally is reluctant to offer advisory opinions. He added that without an actual lawsuit or a case in controversy this is something that would have to come to the Courts through a writ application on the propriety of these practices or to a district court judge who would have appellate authority over a judgment rendered in either the justice or municipal courts.

Senator Neal understood the Chief Justice to say the Courts might have some type of bifurcated authority if it is looked at administratively. He asked if the Courts have administrative responsibilities for directing the lower courts. Chief Justice Maupin clarified yes, to a point, but it is very broadly based and where that line is crossed is different in every situation. He added that in a non-uniform court system under our constitutional construct, the Court cannot administratively order a city government to hire five auditors to audit the process between collection and distribution to the State of Nevada. This discussion was held with the auditors and it was explained that it was not their expectation that the Administrative Office of the Courts, under the supervision of the Supreme Court, had the authority to impose personnel requirements on local government.

Senator Neal asked if the Supreme Court could require the lower courts to be trained in a particular issue. Chief Justice Maupin answered that training would be offered, whether or not they could be required to attend is another matter.

Assemblyman Marvel asked if the Chief Justice would recommend any statutory changes that would be of help to the Supreme Court or the AOC. Chief Justice Maupin answered not at this point. He wanted to go through this implementation process and then make suggestions or recommendations. He added the benefits of this audit is that it is focused on an ongoing process to improve the collections, to improve the operation of the court system as a whole, and we believe the end result of this commitment to improve the system also involves our commitment to improve the ability to enforce assessments, as well as other conditions of judgments imposed by the courts below.

Assemblyman Marvel asked if assessment collections were about \$2 million behind. Chief Justice Maupin answered it was about \$1 million. He added the population of the State is growing in leaps and bounds,

particularly in Clark County and stress on all governmental services is due to this growth. In the last 5 years the Supreme Court has undertaken reducing its backlog, and is now over 1000 cases reduced. The Supreme Court, working with the district courts has improved docket management in courts around the State. The Administrative Office of the Courts is more active in providing technical assistance to courts around the State. He added the audit is simply a logical extension and the implementation of the recommendations is why the judges did cooperate with this audit and look forward to playing a role in the implementation.

Chief Justice Maupin expressed appreciation for the audit team and the tact with which they undertook their responsibilities.

ASSEMBLYMAN MARVEL MOVED TO APPROVE THE AUDIT ON THE JUDICIAL BRANCH OF GOVERNMENT, ADMINISTRATIVE OVERSIGHT OF THE STATE COURT SYSTEM, WHICH INCLUDES THE LETTER FROM THE CHIEF JUSTICE AS A PART OF THE RECORD. SECONDED BY SENATOR NEAL AND CARRIED UNANIMOUSLY.

#### B. Department of Administration, Printing Division

Mr. Townsend introduced Sandra McGuirk, Deputy Legislative Auditor, to present the report.

Ms. McGuirk stated the Division consists of the Print Shop, Quick Print, and Administrative sections. The Print Shop produces items such as stationery, books, forms, reports, circulars in large quantities, along with a variety of ink colors and paper stocks. Quick Print uses high-speed copiers to produce very short-run reports, flyers, and other products. For the 18 months ended December 31, 2001, the Division recorded sales totaling \$5.8 million and expenditures of \$6.2 million. Approximately \$5.2 million of sales were attributable to the Print Shop and \$650,000 to Quick Print. As of December 2001, the Division had 34 full-time employees. The audit included a review of the Printing Division's billing rates and inventory controls for the 18 months ended December 31, 2001. The objective of the audit was to determine if the Division established appropriate billing rates and inventory controls.

Ms. McGuirk continued, the Division, by not billing state agencies at rates sufficient to recover costs, lost approximately \$450,000 from operations during the 18 months ended December 31, 2001. The prior audit recommended the Division develop procedures to establish and monitor billing rates to ensure the rates were sufficient to recover costs. Although some procedures were developed, they are incomplete and not always followed. Furthermore, policies and procedures to control the acquisition and valuation of inventory have not been documented. The lack of inventory controls has also contributed to the Division failing to comply with procedures regarding disposing of excess property. Inappropriate billing rates were caused by not monitoring rates to ensure they were sufficient to recover costs and no policies and procedures for fixed price and quick print jobs.

The Division accepted all six recommendations by the Audit Division.

Chairman Dini commented that the last report from 1993 could have been used and turned back in and saved a lot of time.

Assemblyman Marvel was concerned about the sale of the excess inventory. He asked if the Division went through Purchasing. Don Bailey, State Printer, Department of Administrative Services, answered that they erred. The Printing Division got a verbal approval from State Purchasing. Purchasing instructed them to go to outside vendors to resell or recycle this paper. He continued, regular vendors were notified, being J.C. Paper, Unisource, Expedex, and major paper supply companies. None of them wanted to deal with this excess paper because it has no value. At the time of purchase, it was just over \$29,000. Most of the

product, 6 items, was newsprint, which the Printing Division discontinued using for legislative pamphlets and bills 6-7 years ago. Therefore, that stock was setting in the warehouse. Space was needed and most of the products were 6-7 years old and the value at \$4,000 was the best they could do. Mr. Bailey did get bids from several companies. Unfortunately those documents were misplaced, which the audit proved.

Mr. Bailey admitted the Printing Division has broken down on some of the prior recommendations. For instance, in the later part of 1999, the Printing Division lost a management analyst who was in charge of budget hourly rates. Coming out of the 1994 audit, Policies and Procedures for budget hourly rates were established and used every year after that. In 2001 we could not find those procedures. They had disappeared or been thrown away. In 2000 the budget analyst was replaced and nine months later that person left and, therefore, another breakdown in getting these documents done and getting those budget hourly rates adjusted. We did adjust it by 5% on the overhead. The audit proved it could have been more. We are about 32% less costly than outside commercial industry and printing, so we could have raised that 5% probably up to about 7%. I just did not feel we needed to do that at the time because our agencies are already stressed with their budgets. We did raise our rates in 2002. The biggest breakdown in this whole operation has been documented policies and procedures. We did not have them on what we call standards, that is, letterheads, business cards, and envelopes. We are making money on at least two of those items. We are losing on one. We are adjusting that. We did not have policies and procedures in what we call our Quick Print operation. We did have them in budget hourly rates coming out of that 1994 audit. Unfortunately we cannot find half of that so what we are doing, and we are committed to do in a very short period of time, is meet all six of these recommendations and basically the policies and written procedures to be addressed in budget hourly rates, standard product, and our Quick Print operation. The inventory has improved drastically. The Printing Division is under obligation to inventory all products in raw material once a year. We do it every two months now and our inventory has improved. The audit proves that it was pretty much a break even on that, we need to tighten that up, we need to use all four reports that come out of the system, instead of just using one. We have agreed to do that. Our first priority is establishing policies and procedures on the budget hourly rates. The second priority is the standards and the third is quick print. From that point on the inventory policy and procedure will be addressed.

Assemblyman Marvel said the prior audit recalled that one of the recommendations was for policies and procedures. He asked what happened between 1994 and 2002. Assemblyman Marvel declared he was disturbed that Mr. Bailey could not find them, or lost them.

Mr. Bailey agreed, adding that he had complied and had them and did raise budget hourly rates in 1994 using those policies and procedures and again did them in 1999, using the same ones. He added that unfortunately he has had some staff problems. The management analyst left at the later part of 1999. Then the position was filled with an outside person who left in 9 months also. This just left voids all over the place, therefore those records did disappear. We cannot find them. We follow the rules of records management; unfortunately these documents disappeared. Assemblyman Marvel replied that Mr. Bailey had been around long enough that he should know them by heart. Mr. Bailey agreed.

Assemblyman Marvel asked how far ahead does the Printing Division purchase inventory. This was brought up at a Ways and Means Committee meeting that State Printing is eating up reserves by over inventorying and that way had created a cash stress situation. He recalled Assemblyman Hettrick stating he had a store he could order from in one days time and get delivery. He asked Mr. Bailey how long it took to get delivery. Mr. Bailey answered it depends on what the item is. For instance, a lot of our raw material can be brought over the mountain in 3-4 days. If it is a product that has to be mill run and has to be ordered ahead of time it could take 5-6 weeks to get those deliveries. For example, custom envelopes in the Tax Department use a special envelope with a mirrored front and that opening is in a certain spec to meet their forms and takes 5-6 weeks to get. A lot of the product can be brought over the hill readily and that is done. If you go back and look at the listing that the audit has provided, we have drastically cut inventory and are continuing to do so where we keep fewer items on hand. Some of the items have to go through Purchasing and once we



process them, it takes that vendor 5-6 weeks to get us that product. As for rotating inventory, the Printing Division established rotating inventory four times a year. He stated they were averaging 3.6 and they were going to lower their standard. He added the inventory standard of 4 was obtained twice in the last 6 reports. He reported the turnaround time is at the call of the Printing Division. The idea is to rotate stock as much as possible. He added rotating stock depends on the number of orders received and with finances the way they are and with the budget cuts at the request of the Governor, our orders have fallen off in the last 4 years. We are trying to get other municipalities for printing. We are trying to be very competitive and the last two audits have proved that we are competitive and we need to stay in the market. We did make some mistakes here. Mr. Bailey committed to the Audit Subcommittee that the Printing Division will have improved by the 6-month report.

Assemblyman Marvel wondered why the paperwork takes so long (six weeks) to go through Purchasing. Mr. Bailey explained the purchase order is sent to Purchasing because many of the products are on contract. Purchasing sends the order out and it may take 5-6 weeks to produce the product. He stated that a product may only run every two months at the mill, so it may take 4 to 6 weeks to fill orders.

Chairman Dini commented that State Printing needed a business plan. Mr. Bailey stated that the Printing Division had one. Chairman Dini interjected that they could not be using it because the billing rates had only been adjusted in 1994 and again in 1999. That should be done every 3-6 months. The way the price of paper and wages have gone up, it seems you have to stay on that continuously. Mr. Bailey agreed. He added that budget hour rates were being done yearly and, as advised, the Printing Division needs to do adjustments on a regular basis.

Chairman Dini remarked that some divisions in the State need to have a cost accountant to do the costing out of products. He added that Printing was no different than a manufacturer putting together a finished product. If you wait 5 years to make a change you would be busted by then. Mr. Bailey agreed. He added that the printing products go up, and we try to adjust for that. Mr. Bailey stated he did have a business plan and is going to have another business plan for the next session and tighten that down. Mr. Bailey reported the Printing Division product line is run like private industry and it is trying to get lean and mean like everybody else. Trying to be competitive with the outside market will make the Printing Division be more on top of it. He agreed that the Division needs to be very frugal in what we are doing, buying, and selling.

Chairman Dini referred to the audit report from 6-7 years ago in which the Printing Division planned to have a quick print operation in Las Vegas, which was never done. Chairman Dini added that with the increase of State employees and offices in Las Vegas, it would be a savings for the State to be able to produce a printing product down south. Chairman Dini asked if there was a plan for that being implemented. Mr. Bailey stated the plan had existed for the last two sessions. He explained the first session the Division was granted the approval the vendor could not comply with what was needed, which was to electronically link the Las Vegas operation with the northern operation. Another vendor was located, got it in place and we got approval again to do this operation and then we got into a space problem. The Administration wanted us to be in the Sawyer Building but no space was available. We are looking at other spaces as we definitely would like to open up in Las Vegas. He added there are agencies paying premium prices for printing in the Las Vegas sector and the Division is hoping to ask for approval in the next biennium.

Assemblyman Marvel asked what the cost would be. Mr. Bailey replied the operation in Las Vegas would require approximately \$300,000, which would include equipment, labor, and electronics.

Assemblyman Marvel asked if it would pay for itself and recover costs. Mr. Bailey replied he thought it would. We did the studies the last two times and had proven that it would cover itself, including the labor

Senator Neal asked what type of information related to costs of the products and labor was received to keep

the office abreast of what is happening in those areas. Mr. Bailey answered very little from the outside sector. He added when we start putting our budgets together, we go to supply vendors and request projections, which are then plugged into our budget. He stated problems exist because outside vendors do not offer a lot of information.

Senator Neal asked if there was a location where agencies would file their policies and procedures for reference purposes, like an information agency or archives. Mr. Townsend stated the actual operating policies and procedures are not centralized as they are normally quite voluminous and are maintained at the agencies. Mr. Townsend added when an audit begins, the agency is requested to provide a number of documents and make the policies and procedures available at their office.

Senator Neal clarified if a disgruntled employee just picked up the policies and procedures, the Audit Division would not have any documents to refer to. Mr. Townsend replied that a lot of audit reports contain recommendations to develop policies and procedures. He added, in some cases it sounds like it is just a document you prepare one time, however in this case, it is something that would be accessed every month to monitor costs and adjust rates if needed. Mr. Townsend emphasized that policies and procedures are utilized everyday through actual operations, not just a document to put on a shelf.

Assemblyman Marvel stated he looked forward to the 6-month report for the Printing Division. Mr. Bailey concurred.

ASSEMBLYMAN MARVEL MOVED TO APPROVE THE AUDIT ON THE DEPARTMENT OF ADMINISTRATION, PRINTING DIVISION. SECONDED BY SENATOR NEAL AND CARRIED UNANIMOUSLY.

Mr. Bailey thanked the auditors for their cooperation and a job well done.

#### C. Department of Personnel

Mr. Townsend introduced George Allbritten, Deputy Legislative Auditor, to present the report.

Mr. Allbritten reported the Department of Personnel was created to administer the State Personnel System for classified employees in the Executive Branch. The Department consists of a five-member commission appointed by the Governor, and three service units. In fiscal year 2002, the Department had 79 ½ full-time equivalent positions in Las Vegas and Carson City and expenditures of about \$7 million. Excluding the University System, the state's classified service had about 14,000 employees in 11 occupational classes. One of these, the fiscal management class includes the state's financial, clerical, and administrative support positions. Of these, 442 were considered to have key financial management responsibility for the State. Those positions were the focus of our audit and included the accountants, accountant technicians, administrative services officers, budget analysts, and management analysts. Grade and salary information for each position was provided along with comparative salary information on similar positions in private industry. The objective of the audit was to determine if the State's personnel practices ensure a highly qualified financial management workforce.

Mr. Allbritten reported that overall the Department has made improvements to the processes used to recruit, hire, and promote financial managers. Despite these improvements, some improper promotional transfers occurred and some appointments were made with minimal or no competition. In addition, programs established to attract business graduates into state service have not been effective. Furthermore, the Department lacks complete documentation for the establishment of qualification requirements for the financial management positions. As a result, the State may not always hire the most qualified financial manager available. In the 1996 audit of the Department the auditors identified practices that reduced the

effectiveness of the competitive examination process. In response to those concerns, the Department has made changes to strengthen this process. It was noted that the Department no longer waives formal examinations when recruiting for these positions. In addition, the Department has discontinued the Training and Experience examination for these financial managers. These changes have contributed to an increase in the qualifications of the state's financial management work force.

Mr. Allbritten concluded by indicating the audit made four recommendations for ensuring that Nevada recruits, hires, and promotes highly qualified financial management employees. The status of the recommendations from the prior audit were also addressed. In that audit seven recommendations were made. Three of the recommendations have been implemented, and four partially implemented. The partially implemented recommendations have been modified and repeated in this report. Various appendices have been included to provide additional detail on the positions examined, excerpts from personnel laws and regulations, and the full text of Senate Concurrent Resolution No. 39. The Department accepted all four recommendations.

Chairman Dini asked what information was received regarding the fact that recruitment efforts at the university had not been successful. Mr. Allbritten replied they did establish a program. A problem pointed out by the Department was that many of the internships in private industry are paid internships. Consequently, it is difficult to attract people to Carson City for no pay. Chairman Dini asked if paid internships were needed. Mr. Allbritten replied that was one suggestion made by the Department.

Senator Neal asked what the value of these positions would be in terms of the present financial condition of the State. He indicated these people might work for a short period of time and then move on somewhere else for better pay. He asked if this was considered. Mr. Allbritten referred to the report stating an investigation regarding comparative salaries with private industry determined that salaries at the state level are competitive. Mr. Allbritten added there was a reasonable comparability to the positions available within Nevada for the five positions reviewed.

Senator Neal asked for clarification of the pay grade and salary range exhibit in the report. Mr. Allbritten explained salaries exhibited for the five positions within state government included the salary range for each of the positions. Senator Neal asked for further explanation of the national and local information exhibit related to public accounting firms. Mr. Allbritten responded this was based on a survey conducted on these types of positions.

Assemblyman Marvel asked if benefits were factored into the surveys or just monetary salaries. Mr. Allbritten answered that was done as best could be determined. He reiterated it was difficult when comparing the surveys as sometimes it is unclear what information is included and what is not. He was confident that the information presented was as comparable as possible.

Mary Ellen Komack, Chief, Field Services Division, Department of Personnel, explained that Director Jeanne Green extended her apologies to the Subcommittee that she could not be present today, as she is recovering from surgery and is under doctor's orders to remain at home. Ms. Komack thanked Mr. Paul Townsend and staff for the courtesy and professionalism during the course of the audit. The Department of Personnel accepts all of the audit recommendations and will strive to adequately implement them. She explained the personnel system must be responsive to the growing demand for efficiency and accountability in government and appreciated the opportunity to work with the Legislative Counsel Bureau towards a common goal of ensuring the most qualified candidates available are serving in classified financial management positions.

Senator Neal questioned where the audit report indicates there is a lack of effort within the personnel administration to hire qualified people and to hire people lacking these particular qualifications. Senator Neal asked if that was what was being accepted as part of the audit recommendation. Ms. Komack replied that the Department has hired qualified individuals for the most part. She explained the main focus of the audit

was to attempt to shine the light on areas where the Department could be attracting individuals with higher qualifications. She added, the audit did focus on individuals promoted from within, the environment where the vacancy exists, and those who have grown up in the programs and meet the minimum qualifications for the job class they are in. Some of the individuals do not have a college degree. The idea of having limited competition when hiring is another focus in the audit.

Senator Neal indicated the auditors placed an emphasis upon the college degree and the fact that these individuals usually bring in a different perspective of skill and learning to the job. Senator Neal asked if it was her position that these people are just as qualified. Ms. Komack replied the agencies have a balance they have to strike when filling a vacancy. The agencies have several options in order to make an appointment. One of them is to look at internal talent, individuals who know the government accounting system, have been trained in it, and also have become expert in the intricacies of their own programs, which is an important consideration agency management must consider. She continued they also look at the point that new blood coming out of a university program could benefit the program. Ms. Komack added agency management has the statutory prerogative to manage their agencies and consider internal talent. Each decision on each vacancy is made on a case-by-case basis.

Senator Neal added the audit report also makes a claim that there is a lack of effort to create entry-level programs to attract these particular individuals. He asked where the Department stood on this issue. Ms. Komack answered the Department does have entry level professional avenues for individuals, especially those without experience. She added the staff professional trainee program is open to an individual that has a college degree and no experience. They would serve a prescribed period of time in a traineeship and then have the ability to progress up through that job series, through the levels. She added that, as mentioned in the Department response letter, the agencies have some decisions to make. Training an individual from the ground up in governmental accounting and in the programs of the agency is quite an investment of time. She added the agencies would be looking at that investment of time. She explained the State is under a very tight budget and a hiring freeze. Agencies filling a position are going to look for an individual with experience that can hit the ground running, or should they make that investment in time to train someone and in 2-3 years have them operating at a level most beneficial to the agency.

Senator Neal asked what was being done to validate the equivalence of experience to education. Ms. Komack deferred to colleague, Carol Thomas, Chief, Technical Services, Department of Personnel. Ms. Thomas answered the Department's validation process establishes the minimum qualifications for a class. She added that a generic blanket statement allows for the substitution of experience for education. Currently, the Department has a documentation worksheet for the minimum qualifications and in response to the audit, the Department will be expanding the worksheet to document appropriate substitutions.

ASSEMBLYMAN MARVEL MOVED TO APPROVE THE AUDIT ON THE DEPARTMENT OF PERSONNEL. SECONDED BY SENATOR NEAL AND CARRIED UNANIMOUSLY.

#### D. State Emergency Response Commission

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

Mr. Klenczar explained the State Emergency Response Commission (SERC) was created to assist in the oversight and implementation of the Superfund Amendments and Reauthorization Act of 1986 (SARA) and as mandated SERC is responsible for the collection of information from facilities about the use and storage of hazardous materials. The information is provided to the public and local emergency teams responding to hazardous material incidents. He added that SERC's mission is to protect the citizens of the State from negative effects of hazardous materials use, manufacture, storage, or transportation, while supporting the state's goal of encouraging industry development and growth. To help accomplish its mission, SERC has

established local emergency planning committees (LEPC's) in each county. Three staff members conduct the daily administrative duties of SERC. The Commission has undergone many member and staff changes during the audit period. Funding and expenditures for SERC is derived from three main sources; legislative appropriation, federal grants, and hazardous materials fees. There are two types of hazardous materials fees; one is for the storage of extremely hazardous materials and the other is for reporting toxic chemical inventories. SERC awards grants to the LEPC's for equipment, training, and planning activities needed to prevent, respond to, and mitigate hazardous materials incidents. Hazardous materials fees and federal grants are used to fund grants to LEPC's.

Mr. Klenczar continued that the audit included a review of Commission financial and administrative activities in calendar years 2000 and 2001. 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 and policies.

The audit found the State Emergency Response Commission needs to improve its financial and administrative practices. SERC did not properly monitor state and federal grants to the LEPC's and as a result some LEPC's did not comply with grant reporting requirements and SERC has little assurance all grant funds were used as intended. SERC did not follow procedures for enforcing grant reporting requirements, requiring LEPC's to revert unused funds, reconciling quarterly reports, or conducting on-site audits of LEPC's. Monitoring of quarterly reports was minimal.

Mr. Klenczar noted, the status of 12 prior recommendations was evaluated and found the Commission has fully implemented 7. The remaining 5 have either been partially implemented or have not been implemented and were modified and repeated in the current report. The Department accepted all eight recommendations from the current report.

Richard Brenner, Co-Chairman, State Emergency Response Commission and member of the Clark County Fire Department, accepted all findings and stated they are diligently working on implementing the recommendations. He explained that SERC, for almost a year, had no leadership and the other Co-Chairs left and there was no direction. He added since he has taken over, along with the other Co-Chair, Dick Mirgon, they have worked very hard to obtain an executive director and also a grant manager analyst. He reported LEPC's are being held accountable for their funding, which in the past had not been done. They are also holding SERC members, made up of industry, state officials, and local public safety officials, accountable for attending meetings and getting actively involved in SERC. He referred the committee to Karen Kennard, Executive Director, for further questions.

Assemblyman Marvel asked if any effort was being made to develop an inventory list of all the equipment being distributed across the state. Mr. Brenner replied this has been done and is constantly checked and monitored. He stated standards have been established for the different LEPC's, adding if they would like to purchase a radio, they actually know the cost associated with that radio and they are keeping track of all that information.

Senator Neal was concerned that the Commission did not have a chairman for over one year. Mr. Brenner replied that Mary Lynn Evans was the executive director and when she left in January the co-chair at the time, Mr. Bennett, had an emergency hire but the individual had very little experience with the state's system, which left SERC at a very big disadvantage. Senator Neal was concerned there was no chairman during the nuclear waste issues. Mr. Brenner replied that SERC only looks at the extremely hazardous substances and the Federal Government has not put radiation as one of those substances, otherwise the Commission could be more actively involved.

Senator Neal remarked about the explosion in Clark County that resulted in injuries. He offered that

coordination and control of the situation could have prevented an explosion. Senator Neal asked about the grant process and what is happening now with enforcing grant requirements which includes reversion of unused money. Karen Kennard, Executive Director, SERC, answered that policies were being put in place. Senator Neal asked what Ms. Kennard's job entailed as executive director. Ms. Kennard replied she worked as executive director on the state level which included an office of three staff. She clarified that co-chairs, referred to earlier, were in place for the Commission at all times. Senator Neal asked how long Ms. Kennard had been with SERC. Ms. Kennard replied since July 2001. Senator Neal asked who was in the position prior to Ms. Kennard. Ms. Kennard replied there was an emergency hire, who was there for about 3 months and prior to that time the position was vacant and basically the office was vacant of all staff. She added that Executive Director Mary Lynn Evans retired in December 2000. Senator Neal asked what qualifications Ms. Kennard brought to the job. Ms. Kennard replied her qualifications were in grants management which qualified her for the present position. She was previously employed by the Office of Criminal Justice. Senator Neal asked if criminal justice was her field. Ms. Kennard answered this was correct.

Ms. Kennard referred back to the original question regarding where SERC was going in regard to reversions in the grants management. She stated that policies were being implemented to require unused funds to be reverted. She added with staff on board and in the current process of hiring a grants and projects analyst, SERC will monitor LEPC's expenditures to ensure that they know how much money is owed and to return the money to SERC to be reallocated.

Senator Neal asked if the Commission was up and meeting now. Ms. Kennard answered this was correct. Senator Neal asked if current grants would be approved and signed off. Ms. Kennard agreed.

Senator Neal stated the report indicated that one of the recommendations was to work with the State Fire Marshal to show facility compliance and report payment due dates set forth in public law. He assumed that noncompliance would result in a loss of money. Mr. Brenner agreed that the money would not come in on a timely basis for the funding committee to distribute. Ms. Kennard clarified that SERC is not losing money as the money comes into the state, though it may have to wait until the next grant cycle before it is awarded to the counties. Senator Neal asked if there was a time period to use the money once received from the Federal Government. Ms. Kennard clarified that it was facility money, not federal money coming into the State. She explained that fixed facility money refers to fixed facilities throughout the State that store manufactured hazardous materials and pay a fee to the State Fire Marshal along with a permit fee. The storage portion of the fee is transferred to SERC's budget account and is managed by SERC and that is how fees are awarded to local emergency planning committees. She clarified the fees are collected by the State Fire Marshal and deposited by the State Fire Marshal into the SERC budget account. Senator Neal asked if the Fire Marshal was not collecting the fees. Ms. Kennard answered if reference is being made to ensure that the facilities comply with the reporting and payment due dates, she understood that a previous executive director of SERC had decided to try to alleviate overload in the Fire Marshal's office and attempted to make fees due throughout the year. This caused problems and was in violation of the law. She was currently in the process of working with the Fire Marshal's Office to correct this problem. She stated they have a new database being put online which will take a while to catch up with itself but the problem will be resolved. Senator Neal asked how long this would take. Ms. Kennard replied the Fire Marshal's Office was estimating one year. She added it was a process cycle because next March will be the next billing cycle.

Assemblyman Marvel asked if she had a pretty good handle on all the people handling hazardous materials in the State now. Ms. Kennard replied she could not answer that question. She deferred to the SERC Co-Chair, Richard Brenner. He responded he did not think so. He believed, from an enforcement standpoint, even in Clark County, that his division only has a handful of staff to enforce the fire code and he thought that they needed additional staff in enforcement, especially from the State Fire Marshal's Office and even in southern Nevada. He added Senator Neal spoke of the Arrowtech fire, and since that time eight fire inspectors have been hired and assigned to do annual inspections for hazardous materials. He reported that

additional inspectors are needed to enforce the reporting of hazardous materials and then responders would know exact locations of these businesses.

Assemblyman Marvel explained in his area they have two railroads and do not know what is coming in and going out of the State or where it is going to be stored. He commented it is a concern as to how one would respond if an accident occurs.

Senator Neal asked if the companies were not reporting hazardous materials as mandated in the statutes. Mr. Brenner answered that a lot of facilities do not know about the reporting requirements. He added they are not maliciously trying to go around the law, there has not been an inspector to advise them of the need to fill out forms and submit them to the State Fire Marshal, to the local LEPC, and the local fire department. Senator Neal asked at what point the Fire Marshal gets involved if an individual is going to build and says he is going to have a certain amount of explosives on hand. He further questioned, if the Fire Marshal would get involved with the development of the plans and what if an individual already has a building with some type of explosives that needed to be reported. He asked how the Fire Marshal or other enforcer of the law would get involved to get that information. Mr. Brenner replied that in Clark County they had an idea to put a notice on the business license with a phone number to call if a business has hazardous materials. He added he receives 1-2 phone calls a month. He suggested the businesses be given the combined agency reporting form which is then input into a state computer system. He added if an existing facility does not know about the state requirements, it takes an inspector going out to inform them that permits are required. A package of forms is then given to the business owner to fill out.

Chairman Dini asked if SERC was involved in the explosion outside of Dayton. Mr. Brenner was not aware of this event. Ms. Kennard replied this was prior to her employment. She did not believe that SERC was involved. She explained that SERC funds locals so they can respond and added she is working on a process of being notified of incidents and doing follow-up work. SERC has not done that previously.

ASSEMBLYMAN MARVEL MOVED TO APPROVE THE AUDIT ON THE STATE EMERGENCY RESPONSE COMMISSION. SECONDED BY ASSEMBLYMAN ARBERRY AND CARRIED UNANIMOUSLY

Assemblyman Arberry commented when the audits are prepared and the agency does not implement the recommendations, what can be done to get the agencies attention. He gave the example of the Printing Division, as it was suggested the last audit be used as it was a repeat of the previous audit. He asked if there was anything legally to get their attention. He stated the Audit Division works hard with the agencies to help them become a better agency. He asked what could be done to get their attention.

Chairman Dini replied that the six-month reporting process exists to have agencies report back to the Subcommittee. Reports are prepared by the Department of Administration, and then agencies must respond with proposals to correct the deficiencies.

Assemblyman Marvel added that Internal Auditors were now on board.

Chairman Dini stated Internal Audit was created at the state level and Administration was suppose to train agencies and be sure they follow procedures and establish regulations. Chairman Dini stated the same problems exist with the established procedures. We just have to keep the oversight and then we have the Audit Committee during the session that reports to the money committees and that is when the Legislature can make changes and restructure. He felt there are long-term problems such as short budgets, lack of help, and turnover of staff. People are brought in without training and they do not even know what the rules are. He explained that if we were not doing audits and staying on top of these agencies, there could be a real mess.

Assemblyman Arberry agreed and thought that the audits were truly needed, but at the same time, though the agencies agree with recommendations, in 6-months they are often not implemented. He thought that something needed to be done to get their attention to let them know that this is a serious business. It is a business. And that is why he brought this to the attention of the Committee and requested input to help enforce these procedures.

Mr. Townsend explained the process has been in place for a number of years and was evolving. He continued, at this point the Division of Internal Audits in the Executive Branch verifies the status of the recommendations. He believes the Division of Internal Audits looks into the status more closely than was done in the past. He stated current 6-month reports now show more partially implemented recommendations than before. He added that the Subcommittee is also having the agencies return. The Committee is not letting them off the hook at the 6-month process. He reported several of those agencies were here today. And several of them are coming back for the second time, and they will continue to come back until they demonstrate they have satisfactorily implemented the recommendations. He reported the process is evolving and the Subcommittee is taking action to make agencies more accountable in coordination with the Executive Branch.

Assemblyman Arberry asked how to make agencies conscious of the importance of audits.

Mr. Townsend replied the Audit Division has increased communication levels with the agencies and with the Division of Internal Audits. In the past once the Audit Division made recommendations it was left to the agencies and the Department of Administration, as part of their function in the Executive Branch, to make sure the recommendations were implemented. The Audit Division is increasing its communications to have a better grasp of the issues and will also work closely with the money committees throughout the legislative session to keep the legislators informed.

#### E. Performance Audit Preliminary Survey, Clark and Washoe County School Districts

Mr. Townsend introduced Shawn Heusser, Deputy Legislative Auditor, to present the report. Mr. Townsend explained the difference between an audit and a preliminary survey was that the preliminary survey is the initial phase of an audit, used to gain an understanding of an organization's programs through interviews, observations, and collection of data. The auditors also identify criteria or best practices against which to assess performance. As this information is gathered, a risk assessment is performed which includes considering various risk factors that cause one issue to be a more auditable topic. This report does not include findings and recommendations. It shows key areas that based on the survey, we would recommend the Legislature consider in determining the need for future audits. The report also provides data relative to the topics to assist the reader in gaining a general understanding of the report.

Mr. Heusser explained during fiscal year 2001, the school districts of Nevada had operating expenditures in the General, Special Education, and Class Size Reduction Fund of nearly \$1.76 billion. Clark County School District had operating expenditures of \$1.13 billion, while Washoe County School District's totaled almost \$286 million. Of these operating expenditures salaries and benefits account for approximately 89% of these expenditures throughout the State.

The report documents growth with the State with regards to student enrollment. For Clark County School District for fiscal years 1998-2002, the student enrollment increased by 28%. During that same period of time, Washoe County School District's enrollment increased by 13%. Instructional staff in both districts also increased during that same period of time by 24% in Clark County and 9% in Washoe County.

Various tables in the report related to the dollar amounts of expenditures in each district. A potential audit



objective was to determine if the districts have developed sufficient controls to provide accountability for financial resources. He pointed out that controls included the effectiveness and efficiency of operations.

Facilities management includes the planning, use, and construction of new buildings. This includes growth in the number of schools in the districts, comparisons of maintenance budgets to estimated district replacement values, and historical utility costs data. In addition, it includes the maintenance, custodial services, grounds keeping, and energy management of the districts facilities. To point out the significance of this, in Clark County there are 23.5 million square feet of facilities and in Washoe County there are approximately 6.1 million square feet. Also, the estimated replacement values of these facilities in Clark County during fiscal year 2002, was \$2.7 billion and in Washoe County during that same time was \$585 million.

To ensure facilities are appropriately and equitably maintained, school districts should have both a maintenance schedule and guidelines for maintenance priorities. A program of preventative maintenance helps to keep facility costs down. This is accomplished by giving attention to minor maintenance work before it becomes a major expense. A potential audit objective would be to address construction, maintenance, and facility usage programs and determine if they are properly planned and controlled.

Mr. Heusser explained a teacher shortage exists in the country, and throughout the nation there are concerns with the ability to recruit and retain teachers, especially in fast growing states such as Nevada. The number of new teacher hires in Clark County is outlined for the past five years with 1,852 for the 2001-2002 school year, and in Washoe County the number of new teacher hires for the 2001-2002 school year was 502. Not only is it difficult to recruit and hire teachers for the general classroom, but also for limited English proficiency students. Also, for special education it is very difficult to find qualified teachers to be in the classrooms for these students. A potential audit objective was identified to determine if recruitment and retention efforts of the districts were adequate to ensure qualified staff.

The report also discusses district organization. Effective school district management requires an appropriate organizational structure. Administrators should not only have authority to manage their schools, but also a reasonable span of control. During the 1999 and 2001 Legislative Sessions, concerns were raised over the size and organization of school districts. The purpose of Clark County School District's recent reorganization was to organize into five geographic regions which would provide local control of schools while maintaining supervisory oversight. The reorganization was to facilitate achievement, access, and accountability. Beginning June 15, 2003, will be the first time that Clark County will report on the regional subdistricts and will provide that report to the Legislative Commission, the Legislative Committee on Education, and the Department of Education. The Washoe County School District had an audit conducted in 1997 that provided recommendations concerning their management organization. Since that time they have changed their organization, most recently in July 2001. The District reorganized the area superintendent responsibilities with the goal of this reorganization to provide greater focus on Title One and At-Risk Schools. A potential audit objective was to determine if the districts' organization structures enhance program effectiveness and staff efficiency in the delivery of educational services.

With budget constraints, districts need to operate efficiently in transportation areas. One recommendation from other states was to have a district board of trustees adopt an economical replacement cycle of buses that ensures the safety of students. The industry has not established an actual standard but various organizations have a rough estimate which, for the larger buses is about a 12-15 years replacement cycle and for the smaller buses a replacement cycle of 8-10 years. The Clark County School District Transportation Department has established a goal of 9 years for a replacement cycle; however, this has not been adopted by the Board of Trustees with approximately 32% of the buses over 10 years old. The Washoe County School District Transportation Department has established a goal of 12 years, and again has not been adopted by the School Board. Sixty-one percent of the district buses are currently over 12 years old. Officials from both districts reported that older buses are more expensive to operate and

maintain.

Assemblyman Marvel asked how much a new bus costs. Mr. Heusser thought it was around \$60,000 and more likely \$65,000 to \$70,000.

In addition, Washoe County recently had budget cuts which has limited the numbers of buses they were able to purchase. This has led to purchasing some older model buses from the Clark County School District in order to meet the needs of their students. Computerized routing is another way to enhance efficiency. Washoe County has had difficulty working with the mapping data and not been able to implement the software at this point. However, when Clark County implemented theirs in 1995, they reported being able to park 80 buses or 10% of their fleet just by using the computer system. A potential audit objective for this area would be to determine if student transportation programs are adequately planned to ensure the safe and efficient transportation of students.

The amount each district spent on health plans was outlined in the report. Clark County contributed \$81 million while Washoe County had approximately \$24 million. Currently, in Clark County there are three separate health plans; one for the support staff, one for the teachers, and one for the administrators. Washoe County has a self-funded health plan that is available to support staff, teachers, and administrators. District officials in Washoe County also report health care cost increases over the past few years which has forced the district to make adjustments to that plan. A potential audit objective was to investigate the configuration and oversight of the districts' health plans and determine if they provide adequate benefits programs at a reasonable cost to taxpayers and employees.

Mr. Heusser stated that at the conclusion of the survey, the auditors met with Clark and Washoe County School District officials to discuss survey results applicable to each district. The auditors encouraged superintendents to provide comments or concerns regarding the information. In addition because this report was not an audit, the evidence was not verified to the same extent as an audit. Other additional potential audit issues were also included in the report.

Chairman Dini introduced a letter from Clark County in response to questions in the audit (Exhibit B).

Senator Neal clarified that the square footage per student in Washoe County was based upon the number of students in attendance at the facilities. Mr. Heusser agreed. The Senator asked what the significance was to use this as a suggestion for an audit. Mr. Heusser replied the purpose was to show the comparison between Washoe and Clark County School Districts as there were 23.5 million square feet in Clark County and 6.1 million square feet in Washoe County, and he was looking for ways to put things in perspective. Senator Neal asked if this had anything to do with learning capacity.

Mr. Townsend added that all information in the report filters down to educational service delivery, whether it is financial management or square footage. If students are crammed into classrooms, that could result in an unhealthy teaching environment. Everything in the report is indirectly going to relate to education of the students.

Chairman Dini asked if action was to be taken on this report. Mr. Townsend replied that the Subcommittee should take action to accept the report. Mr. Townsend indicated that Washoe and Clark Counties had representatives present today to comment on the report.

Senator Neal asked if this came out of last session. Mr. Townsend explained yes, it was included in the Appropriations Act.

Chairman Dini called for public testimony.

Steve Hall, Assistant to Superintendent for the Washoe County School District thanked the Audit staff and offered that Washoe County generally agreed with the results of the survey.

Chairman Dini commented that the report substantiates the difficulties in keeping up with the growth. Maintenance of buildings was viewed as important in the State also, and if one does not have enough operating money the first place to cut is maintenance on buildings and plants, which costs more later on when you have to replace everything. He stated the report highlights a lot of things we all knew but it documents serious problems in the long range for education in the State of Nevada.

Mr. Hall added the maintenance budget has declined, adding they have an entirely new way of cleaning the facilities and a systematic inspection program where they look at what needs to be fixed.

Assemblyman Marvel stated maintenance costs run into millions of dollars just to keep up. He asked how many school districts were on a pay-as-you-go basis. Mr. Hall replied in terms of maintenance, he was unsure. Assemblyman Marvel thought it existed in some of the counties.

Mr. Townsend added that he understood that Elko County is on the pay-as-you-go basis, but is unaware if any other counties were on the system. Assemblyman Marvel interjected that Lander County had it for a while.

Joyce Haldeman, Executive Director of Community and Government Relations for the Clark County School District, explained that in 1984 Clark County did have a pay-as-you-go program that built 13 schools. She is in a district that has high growth and pay-as-you-go does not provide adequate revenues in pace with the growth.

Assemblyman Marvel asked how much of the tax rate is dedicated to bond retirement. Ms. Haldeman apologized that Dr. Rulffes was unable to attend due to dental surgery and she was unable to answer the question.

Senator Amodei asked if Ms. Haldeman was familiar with Dr. Rulffes' response he submitted to the Committee. Ms. Haldeman replied she was. Senator Amodei asked for explanation of parts of the letter in regard to the context in which they were offered. He stated the reason he is asking the question is, and maybe he was reading it wrong, but there seems to be a little bit of a tone to the letter that, depending on Ms. Haldeman's comments, bothered him. The first one on page one is: Kafoury Armstrong audits the school district and basically to duplicate what Kafoury is already providing would be a redundant expenditure of public funds.

Senator Amodei stated he was unsure he saw anything in the report that suggested that anybody duplicate anything. He added that this requirement was driven by many legislators from Clark County. He asked for clarification of that statement. He added he was not stating Ms. Haldeman should, must, or shall, he was asking if she had anything to put that into proper context for him.

Ms. Haldeman replied she was happy to provide an explanation. She thought the concern that Dr. Rulffes was expressing is that auditing and re-auditing does not change anything and the feeling is that CCSD does have a considerable number of audits in place that are done on a regular basis. She thought his concern was that if further audits are done, he wants to make sure they are compatible with what we are already doing, but that the district is not expected to bear the expense of an additional audit to redo what has already been done.

Senator Amodei asked if he could assume from the response that there was not a problem with the

Legislature deciding that they wanted the auditors to take a look at whatever was identified in this report. Ms. Haldeman replied, absolutely, in fact exactly the opposite. She added as we are looking at the Legislative Session there will be a great deal about the adequacy of funding for education. She thought it behooves everyone to take a look and find out the difference between things that are not working right due to under funding and things that are not working right because they could have some improvements internally. We welcome those kinds of observations and again she thought Dr. Rulffes was concerned that parts of the discussions that we had were merely a rehashing and reproduction of some of the audits that are done on a regular basis. She thought his recommendation would be that he would like to see us go to some areas that might have or give new information or produce results that we could really work with, rather than just point out things that we already are aware of and cannot do anything about because we do not have the money. She added this was the real frustration that might be sensed in this letter from Dr. Rulffes.

Senator Amodei next referred to the section referring to personnel management: If a legislative audit were to result in an increased number of applicants and/or retention of existing staff, we encourage an audit to take place as soon as possible.

Senator Amodei asked for clarification of the context of the statement. Ms. Haldeman answered she did not know quite how to answer the question. Senator Amodei stated this was an honest answer and would let it stand at that.

Senator Amodei stated in summary that Ms. Haldeman has done a very good job and perhaps she could work with the deputy superintendent before he writes another letter such as the one before the Committee. He explained the Legislature meets every other year for 120 days and a large part of its oversight role is done by the Audit Division. He stated he was a little sensitive to some of the tone of the letter, which was maybe not in the correct context and she has helped him with that and thanked her. He noted that legislators try to fulfill an oversight function, and sitting here today she could see by and large that she has not heard a lot about heavy handedness.

Ms. Haldeman added that Clark County wanted to thank the auditors for their professionalism and the amount of time taken to prepare the report. She looked forward to the recommendations and hoped that the Committee would recognize that the school district is open to ideas and recognizes that they are a large operation and that there are many things that they can do to be more efficient and look forward to finding what those things are.

Senator Neal made comment that the audit helps the school district and that the legislative body does not have to ask any school district whether they should audit them. The normal process is through votes and passing a bill or resolution within this body to do that. He hoped that this would be understood because the people who were pushing this had some concerns as to how Clark County School District was spending its money. They wanted to take a look at it in relationship to those questions that the auditors attempted to answer. He assumed that when this report is received by those with concerns, they would respond in kind to whatever was found in the report and would address it in some way that would be meaningful not only to the Clark County School District but the State as a whole. He added this letter from Dr. Rulffes would have been better coming from Mrs. Mouton than it would have been from a person down in the organization. It seems to him that the School Board of Trustees should have responded to the Committee rather than Dr. Rulffes, or the Superintendent of Schools should have responded. He did not see anything showing the Superintendent of Schools signed off on this report. In dealing with the reply from Dr. Rulffes, the legislature will hold the School District accountable and if we get comments that come in that address the Committee in such a way that we do not know what we are doing, then we are apt to respond to that, and some people get a little bit angry over that. He personally does not get angered over this. He just picks up the phone and calls the Superintendent to let him know that he better get his act together because the hammer is going to drop some day, either in the budgetary process or some legislation that is going to be passed in which he might feel that

it is not amenable to his operation. He asked that these words be kindly passed on and tell him that next time the Committee meets, he should sign the letter and take a look at it before he has one of his undermen send it to this body.

Ms. Haldeman stated she would pass the information on and agreed that an audit does two things that helps all of us; (1) it might help others see that the Clark County School District is, in fact, spending their funds correctly and, (2) it also might point out to the District things that we can do better which we would like to do to make the best use of our money. She agreed that was the purpose of the audit and that was the attitude we all should have.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE REPORT ON THE PERFORMANCE AUDIT PRELIMINARY SURVEY, CLARK AND WASHOE COUNTY SCHOOL DISTRICTS. SECONDED BY ASSEMBLYMAN ARBERRY AND CARRIED UNANIMOUSLY.

***Item 3—Presentation of six-month reports.***

Steve Wood, Chief Deputy Legislative Auditor, explained there are six, 6-month reports to be presented from reports issued in October 2001.

A. Department of Administration, Purchasing Division

Mr. Wood introduced Tim Brown, Audit Supervisor, to present the report.

Mr. Tim Brown explained that in October 2001, an audit report was issued on the Purchasing Division. In accordance with NRS 218, the Division filed a 60-day plan for corrective action. The Department of Administration indicates the six recommendations have been fully implemented. Mr. Brown appreciated the efforts of the Purchasing Division in implementing the six recommendations and, therefore, he had no questions.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF ADMINISTRATION, PURCHASING DIVISION. SECONDED BY SENATOR NEAL AND CARRIED UNANIMOUSLY.

B. Department of Administration, State's Contracting Process

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

Mr. Rocky Cooper explained in October 2001, an audit report on the State's Contracting Process was issued. The 6-month report prepared by the Department of Administration indicates that two recommendations have been fully implemented and four recommendations have been partially implemented. The Department has made progress on the four partially implemented recommendations, three of which are expected to be fully implemented by the end of 2002 and the implementation of the one other recommendation involved a state-wide database that is expected to be completed by December 2003. Because the implementation of this recommendation will take one year to complete, Mr. Cooper plans to monitor the status of this recommendation and keep the Audit Subcommittee informed of the Department's progress. This should occur some time after the 2003 Legislative Session.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE

DEPARTMENT OF ADMINISTRATION, STATE'S CONTRACTING PROCESS. SECONDED BY ASSEMBLYMAN ARBERRY AND CARRIED UNANIMOUSLY.

C. Department of Business and Industry, Dairy Commission

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

Mr. Rocky Cooper explained in October 2001, an audit report on the State Dairy Commission was issued. The Department of Administration indicates that four recommendations have been fully implemented and substantial progress has been made on the one recommendation that has been partially implemented. There were no questions regarding the implementation status of these recommendations at this time.

Chairman Dini asked if there was a concern regarding the partially implemented recommendation. Mr. Cooper replied the partially implemented recommendation involves just initialing a form they have developed to collect receivables. They just need a little more follow through.

SENATOR NEAL MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, DAIRY COMMISSION. SECONDED BY ASSEMBLYMAN ARBERRY AND CARRIED UNANIMOUSLY.

D. Department of Administration, Internal Controls in State Government

Mr. Steve Wood, Chief Deputy Legislative Auditor, explained in October 2001, an audit report on the Internal Controls in State Government was issued. It included four audit recommendations. The Department of Administration indicates that two of those recommendations have been fully implemented, one recommendation has been partially implemented with full implementation expected in the near future, and finally the Department reports that although one recommendation has not been implemented, it has been addressed through alternative measures and we are quite pleased with the progress they have made. We do not have any questions or concerns at this point.

Senator Neal asked if the rejected recommendation was the one Mr. Wood spoke of. Mr. Wood stated yes, that was the one reported having no action and actually in reading the response and discussions with the agency, he felt they have made progress on that through other means. He continued, initially there was some disagreement just in the nomenclature about the recommendation but an agreement had been reached on it and they are addressing it satisfactorily.

Senator Neal asked if the Audit Division was satisfied with the action. Mr. Wood responded he believed that was the case. They are still working on the implementation with their internal audit group and are addressing that in conjunction with the Office of Financial Management, Training, and Controls. The auditors are working with them on that as well.

Chairman Dini commented the report could be accepted and ask the agency to present a follow-up report. Mr. Wood stated he could contact the agency and monitor and report back to the Committee.

ASSEMBLYMAN ARBERRY MOVED TO ACCEPT THE SIX-MONTH REPORT ON INTERNAL CONTROLS IN STATE GOVERNMENT, AND TO HAVE A FOLLOW-UP ON THE REPORT TO ENSURE THAT ALL RECOMMENDATIONS ARE BEING IMPLEMENTED. SECONDED BY SENATOR NEAL AND CARRIED UNANIMOUSLY.

E. Department of Public Safety, Fire Marshal Division

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

Mr. Peterson reported in October 2001, an audit report on the Department of Public Safety, Fire Marshal Division was issued. In that report there were six recommendations. The Department of Administration indicates that five recommendations have been partially implemented and one has been fully implemented. Mr. Peterson suggested the Audit Subcommittee obtain more detailed information on the status of the partially implemented recommendations.

Mr. Peterson explained under the first finding the Division does not identify all businesses that store hazardous materials. The primary method used by Division inspectors is to select a geographical location and inspect businesses in that area. The Audit Division recommends the Division coordinate with other agencies to obtain information about businesses and notify these businesses about the requirement to obtain a permit. The audit recommends the Division place the hazardous material permit application form on their website. In response, the Division reported it had obtained lists of businesses from other agencies but found the lists were impractical because of differences in data entry methods. The Division also represented that they had contacted the Department of Information Technology (DOIT) but they did not have funds to initiate work proposed by DOIT. Mr. Peterson noted that the recommendation did not ask them to seek a solution based on technology, but rather a manual solution to see what was available from other state agencies. Finally, the Division indicated it is converting its permit application form into a web usable format with full implementation within 90 days. Mr. Peterson stated he would like to know if the Division could use lists from other agencies to manually identify businesses that store hazardous materials.

Doyle Sutton, State Fire Marshal, replied he has attempted to meet with other state agencies to obtain their lists. He added one from the Department of Employment, Training and Rehabilitation was used in a sweep in White Pine County. He explained a sweep is taking all of the deputies in that county and actually comparing that list with what is actually on the ground. He found that list to be inadequate due to the fact that not only the data on the list but a lot of the locations were listed at post office boxes and corporate offices listed in other states, so the list was not very effective in the sweep in White Pine County. He also discussed with other state agencies about lists they have and found that no one has a database or list that can be printed out and utilized in that fashion. He continued, in working with the other state agencies, DOIT and Public Safety IT are in the process of getting a statewide database in place and share the information from each agency. He agreed this was overdue and needed to be done.

Assemblyman Marvel asked if Mr. Sutton was in contact with the Nevada Division of Environmental Protection. He suggested they would have a lot of information. Mr. Sutton stated he had met with the agency but had not been able to receive a database from anyone else except from DETR. Assemblyman Marvel asked how many inspectors there were. Mr. Sutton replied he has four hazmat inspectors for the State and two clerical persons. Assemblyman Marvel asked if the hazmat staffing was adequate. Mr. Sutton answered absolutely not. Assemblyman Marvel questioned that there was no general fund money, that it was inspection fees that fund the operations. Mr. Sutton agreed it was all fee based and he estimated there was an excess of 20,000 facilities, more closely 30,000 facilities that need to be inspected. He continued that presently on the database he has approximately 5,600 facilities and that approximately 20 additional inspectors were needed. He added that one thing they had done was send a letter to all the cities and counties and other fire departments asking to use their databases. Also there has been no database come back but they did receive some hard copies which is time consuming and labor intensive. He continued he was going to meet with the five Chiefs in Clark County and ask for support of the Blue Ribbon Committee Report and talk to them about sharing. It was his understanding they are starting to implement a hazardous materials database and they have had their IT people talk to Public Safety's to see if they could incorporate the information into the Fire Marshal's system.

Assemblyman Marvel asked how many people he had that are exclusively dedicated to fires. Mr. Sutton answered there were six life safety inspectors and investigators. Assemblyman Marvel asked if the

personnel was sufficient in this area. Mr. Sutton replied no, he would need at least 10-12. Assemblyman Marvel asked how this was funded. Mr. Sutton answered funding was through SERC and HAZMAT money. He added they had been doing some cross training with HAZMAT deputies and life safety inspectors and when they go out to an area they will do both HAZMAT and life safety inspections. Assemblyman Marvel asked if he was on alert for September 11, 2002. Mr. Sutton answered definitely.

Assemblyman Arberry asked what kind of marketing program the Fire Marshal Division used to get the word out to the businesses. Mr. Sutton replied that no such program existed to date, other than sending out notifications to existing facilities. He reported in working with DOIT and Public Safety IT, they have come up with a process of once the names are in the database, cards will be sent out to businesses addressing the reporting of the storage of hazardous materials.

Mr. Peterson pointed out that audit staff was made aware early on that there were only four inspectors to cover the State of Nevada and the Division was working on ways they could increase the efficiency with four inspectors. He continued, there was a need to obtain a better way to notify businesses and to find which businesses had hazardous materials, other than driving around. Some state agencies had been contacted and have information on some businesses that store hazardous material. He continued regarding the next question, the State Fire Marshal has alluded to the ability to identify businesses through this coordination effort. Mr. Peterson added this area had been addressed by Mr. Sutton and he was not aware if any further clarification was necessary.

Mr. Sutton commented the lists were inconsistent because they need name, address, physical location, and phone number. He found out that a lot was done at corporate level, but a lot of offices are located out of the area.

Mr. Peterson continued that weaknesses in the permit renewal process have resulted in businesses operating for months without the required permit. The audit contained two recommendations to address this area. First it was recommended the Division capture basic information to track permit renewal forms and develop specific timeframes to follow-up on businesses that have not returned permit renewal forms. Mr. Peterson added, the Division represents it is converting to a new database for these forms that will capture and report the information. The Division, in their report, indicated a three to six month timeframe to fully implement this recommendation. Mr. Peterson asked the status of and when the permit tracking and follow-up processes will be fully operational.

Mr. Sutton replied he has assigned the task of working with Public Safety Information Technology and attending Discovery school training that teaches how to write reports and create templates for the reports. He explained that the individual has completed Discovery training and is in the process of writing the programs and templates. Mr. Sutton stated the goal was that once they go into a county and look for facilities, they give them packets and 30 days to respond. If there is no response a notice will be sent and after 15 days a deputy will return to the delinquent facilities.

Assemblyman Marvel asked what other sanctions the Fire Marshal's Division has for noncompliance. Mr. Sutton replied they could be cited with a misdemeanor in civil court. Assemblyman Marvel asked if administrative assessment fees were received. Mr. Sutton replied very little but some were received.

Mr. Sutton noted that with Dave Becker, the program manager's diligence, and his hard work he felt they would be able to generate the reports within the next 90 days and be able to begin that process. The most important thing is to go out and do these sweeps with a limited number of people to actually participate and gather that information and once the information is obtained, it has to be input into the computer and with only two data processing staff members to input the data, it is imperative that they get additional staff members on board to help get the information input so it is current for the local fire departments.



Mr. Townsend stated that since only one recommendation out of six had been implemented, this would be an agency he would suggest return to the next meeting for follow-up.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF PUBLIC SAFETY, FIRE MARSHAL DIVISION WITH A FOLLOW-UP ON THE REPORT TO ENSURE THAT ALL RECOMMENDATIONS ARE BEING IMPLEMENTED. SECONDED BY ASSEMBLYMAN ARBERRY AND CARRIED UNANIMOUSLY.

F. Office of the Military

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

Ms. Bailey stated in October 2001, an audit report on the Office of the Military was issued. The Office filed its 60-day plan for corrective action in January 2002. In July 2002, the Director of the Department of Administration issued a report outlining the implementation status of the audit recommendations. The Department has indicated that all 13 recommendations have been partially implemented. Although full implementation is expected by December 31, 2002, Ms. Bailey did have questions to ask to get more detailed information on the status of a couple of those recommendations at this time. Ms. Bailey explained that Mr. Miles Celio, Administrative Services Officer, from the Office of the Military was present to answer questions.

One of the findings in the report stated that the Office of the Military employees frequently made purchases without proper authorization and approval. The audit found that 14 of 27 purchase orders tested were not properly approved. Although the Office has procedures for purchase orders, staff did not always follow those procedures and, in addition, management review was not sufficient to ensure that the procedures were followed. The audit recommended the Office review purchase orders to ensure that purchases were authorized and approved by employees that were acting within the scope of their authority. The Department of Administration indicated the Office assigns responsibility of maintaining purchase order logs and the authority to approve the purchases to the regional managers. Additionally the Administrative Office maintains a separate miscellaneous purchase order log. Because management controls and reviews the logs, the Office states it assures compliance with state laws and proper purchase approval. Further, the Office has indicated it trained employees on the revised procedure and the requirements established by the State Administrative Manual. They have also stated that state employees now, and not Federal employees, sign the purchase orders. The Office plans to incorporate these new procedures into written office policy by December 31, 2002. Ms. Bailey asked if the Office policy requires fiscal staff to verify proper approval of purchase orders prior to processing payment of invoices and if not, how will the Office ensure that only authorized employees approve the purchase orders and that purchase orders are completed for all required purchases.

Miles Celio, Administrative Service Officer, Office of the Military, conveyed Major General Vanderhoof's apologies for not being present as he is out of the State at a conference. Mr. Celio answered that accounting staff do review purchase orders. He explained at the time of the audit they had some problems with federal officers signing on the approval line of purchase orders, which was not in agreement and compliance with Office policies. Those purchase orders are now reviewed and, a federal manager signs authorizing Federal reimbursement, but requires an authorized state employee to approve the purchase orders. He continued, accounting personnel do review the documents and they are provided to himself or the Account Tech II to sign off and approve. He added it has been a process of training accounting clerks and the review process continues and will be updated and changed in the policy and procedures manual by the end of December 2002.

Ms. Bailey continued that the Office has significant problems related to the approval, accumulation, and use of overtime. She reported that 70% of the instances of overtime tested showed no evidence of supervisory approval prior to the overtime being worked, and two employees accumulated more comp time than allowable under state regulations. Finally, employees were allowed to use annual rather than accrued comp time at least 10 times during a 6-week period. The recommendation was that the Office monitor the approval, accumulation, and use of overtime in accordance with state laws and office policy. The Department of Administration indicated the Office has stated it is training all supervisors in overtime administration. The Office states that a personnel technician audits the timesheets and the technician brings any reporting, accumulating, and use problems to the attention of management. Finally, the Office states that management also conducts spot checks of timesheets and accrual records to assure that staff properly record, maintain balances, and use overtime. However, the Office has reported it is still finding cases of excessive accumulated overtime and in these cases the individuals are counseled. The Office also reports it will have full implementation by December 31, 2002. Ms. Bailey asked why is the Office still finding cases of excessive accumulated overtime if supervisors and a personnel technician are reviewing accumulations.

Mr. Celio reported the personnel technician does not monitor every overtime accrual that comes in on a timesheet. In fact, the problem with excessive accumulation is not so much people are accruing too much overtime, it is the people that had overtime or comp time on the books were not using the comp time before using annual time. Mr. Celio stated the intent of the response was the personnel technician does review all overtime accumulations and the Office does not allow personnel to accrue overtime in excess of the stated requirement in the NAC. Cases have been found where individuals are using annual leave prior to using comp time and the Office has taken that to the supervisors to correct. Mr. Celio found that some supervisors have not picked up on the issue so the personnel tech brings them to him on the second case and he contacts the supervisor and explains that they have been counseled in the past to use comp time before they use annual leave. It tends to happen more with the firefighter people at the airbase who accumulate in some cases a significant amount of comp time and then tend to try to hold it. It has been explained to them that they are not allowed to accumulate comp time to keep on the books. The problem has been driving that home to supervisors.

Senator Neal asked how long one was allowed to keep comp time. Mr. Celio replied as far as he was aware there was no limitation, but staff are required to use comp time in 6 months or submit a plan, a written document stating when they will use comp time and in a stated period of time. He explained the reason is that comp time becomes a liability against payroll costs if an individual leaves and they have to cash out an amount of leave before leaving the agency. Typically the fire department at the airbase is required to keep two people on shift at all times and when they are flying military aircraft they must keep three people on shift. That sometimes results in the fire chief having to place people on comp time to meet those requirements. He had explained to the fire chief they must meet the requirements that staff must use comp time prior to annual leave and if they cannot consume it in a reasonable timeframe, 6 months, we need a written plan to consume it.

Senator Neal asked how this is handled with a shortage of employees. Mr. Celio stated it has not happened in that particular case because there has not been a lot of turnover at the fire department. He explained the shortage is in his own office. Senator Neal asked if it was a matter of planning. Mr. Celio agreed.

Ms. Bailey continued, because the Office has yet to fully implement any of the 13 audit recommendations, she will continue to monitor their implementation status. In addition, the auditors will use the Department of Administration's 6-month report in the next audit of the Office. However, she did recommend that the Office of Military return to report on the status of these recommendations at the next Audit Subcommittee meeting.

ASSEMBLYMAN NEAL MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE OFFICE OF THE MILITARY WITH THE RECOMMENDATION THAT THE OFFICE OF THE MILITARY RETURN

TO THE NEXT AUDIT SUBCOMMITTEE MEETING TO REPORT ON THE STATUS OF THE RECOMMENDATIONS. SECONDED BY SENATOR AMODEI AND CARRIED UNANIMOUSLY.

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

Mr. Wood stated there were three follow-up reports to present today. They were from 6-month reports presented earlier this year in which the Subcommittee requested the agencies report back on the status of the audit recommendations.

**A. State Public Works Board, Lied Library Project**

Mike Spell, Audit Supervisor, presented the six-month report on the State Public Works Board, Lied Library Project at the May 8, 2002, Audit Subcommittee meeting. The six-month report indicated the State Public Works Board had partially implemented six of the nine audit recommendations. During discussions on the 6-month report the Public Works Board Deputy Manager informed the Audit Subcommittee that the Agency was in the process of developing policies and procedures. In accepting the 6-month report on the Lied Library Project, the Audit Subcommittee voted to have follow-up reports on the status of the partially implemented recommendations and on-going litigation. On August 7, 2002, the Audit Division requested the State Public Works Board manager provide copies of any new policies and procedures to address the partially implemented recommendations and also requested a litigation status report be submitted at the same time. Based on a telephone discussion with the manager, the Board has not developed policies and procedures. Therefore, Mr. Spell suggested the Audit Subcommittee obtain additional information on the status of Public Works Board's efforts. Mr. Spell asked when does the State Public Works Board expect to finalize the policies and procedures.

Dan O'Brien, Manager, State Public Works Board, explained that October and November 2002 will be dedicated to doing that. As the Committee members are probably aware, the Public Works Board has been focusing on the Veterans' home as well as the qualifications of bidders processes and some of these policies and procedures need the assistance of the Attorney General's Office. He could not speak for the Attorney General's Office, but they have dedicated three people to the State Public Works Board part time to work with them on different areas within the Public Works Board to address a lot of these things. He added he had also been involved in getting the Veterans' home completed. He committed that over the next two months, October and November 2002, that he would have the written policies before the committee and the Audit Division staff. He has been discussing them. Of the three items, the SPWB has implemented the procedures in house to take care of those things with the Board being more active and involved in what is going on. A Certificate of Substantial Completion, which was one of the items needing policies and procedures because Lied Library was issued a Certificate of Substantial Completion before it should have been. That is not happening. And the reason is because liquidated damages hang on the certificate completion date and currently we do have a project in Carson City that has approximately \$407,000 in liquidated damages associated with them not getting the project completed. The date is very important and cannot be manipulated. The SPWB has been monitoring projects very closely and notifying the Board and keeping them informed on status reports every month. They have not, as stated, had the time to put down any true policies and procedures, but will commit to do that and be able to bring them back to the Subcommittee.

Chairman Dini asked if they would be completed by the next Audit Subcommittee meeting scheduled for December 11, 2002. Mr. O'Brien replied they would be completed by that date.

Assemblyman Marvel asked what was being done to refine the bidding procedures. Mr. O'Brien replied they have instituted the qualification of bidders process. They have developed regulations that went through substantial hearings with the Board. As of this date, 4 out of approximately 150 contractors are not qualified,

and have appealed the finding.

Assemblyman Marvel asked how much longer the State would be involved with the Lied Library litigation. Mr. O'Brien replied it could be years as it is a very complex issue. In conversations with special counsel, they have attempted to begin mediation. Discovery was put on hold and a special master will meet with the SPWB shortly to go back into the discovery process. SPWB experts are beginning to look at the mechanical and electrical systems of the Lied Library to make sure that everything is ok. He added they do have some indications from the maintenance staff that there are problems and these things are going to play in the litigation. Mr. O'Brien added they have a third party complaint against the architect for errors and omissions. He does not see it being resolved in the next 2 months.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE REPORT REGARDING THE STATE PUBLIC WORKS BOARD, LIED LIBRARY PROJECT, SUBJECT TO RETURNING TO THE NEXT AUDIT SUBCOMMITTEE MEETING IN DECEMBER 2002 TO REPORT ON THE STATUS OF THE RECOMMENDATIONS. SECONDED BY ASSEMBLYMAN ARBERRY AND CARRIED UNANIMOUSLY.

#### B. Department of Business and Industry, Real Estate Division

Mike Spell, Audit Supervisor, reported at the May 8, 2002, meeting of the Audit Subcommittee he presented a follow-up report on the status of the recommendations made in the Real Estate Division audit. The follow-up report indicates the Real Estate Division, with assistance from the Division of Internal Audits, has made progress in updating policies and procedures but more work remained to be done. Therefore the Audit Subcommittee voted to have another follow-up report presented at the next meeting. On August 23, 2002, the Department of Business and Industry's Office of the Director provided copies of the updated policies and procedures. Based on a review and discussions with the Division of Internal Audits, the Real Estate Division's procedures for its Las Vegas office addressed the recommendations, but there were concerns regarding the separation of duties in the Carson City office. Subsequently Mr. Spell met with the Division, and the Division has subsequently provided updated policies and procedures that adequately address the concerns. Therefore, he felt the Division has fully complied with the recommendations and it will be put to the test during our next audit of the Agency.

Assemblyman Marvel clarified that the agency did not need to return. Mr. Spell agreed.

Gail Anderson, Administrator, Real Estate Division, thanked the Audit Division for assistance in working with the agency during the audit period. She added that Bill Maier, Administrative Services Officer, Department of Business and Industry, was in attendance. She explained that she and the management analyst started on July 1, 2002. They have had a fairly busy start with budgets and dealing with the audit. She added that the legal administrative officer had been serving as deputy administrator for the last eight months. She is mindful and has been researching all aspects of the Real Estate Division operations, staffing duties, prioritizing the issues, and concerns relating to the industry they regulate, and areas of internal controls in their operations. She felt comfortable that they have identified the proper procedures for both offices in fiscal processing and will follow the procedures. The management analyst will serve in the position of verification and reconciliation and the deputy administrator, when filled, will also be involved with the fiscal oversight of the Division, particularly in the Carson City office.

Assemblyman Marvel asked how long Ms. Anderson had been in the Division and where her predecessor went. Ms. Anderson replied she had been on board for two months and she was unaware of what happened to her predecessor, except to state she was in Las Vegas.

Assemblyman Marvel asked if they are still getting a lot of applicants with the state exams and how many. Ms. Anderson replied they were and had administered more than 17,000 exams last fiscal year, adding it was

continuing to grow.

SENATOR NEAL MOVED TO ACCEPT THE REPORT REGARDING THE DEPARTMENT OF BUSINESS AND INDUSTRY, REAL ESTATE DIVISION. SECONDED BY ASSEMBLYMAN ARBERRY AND CARRIED UNANIMOUSLY.

C. Department of Education, Analysis of Instructional Costs and Materials Available to Students

Doug Peterson, Information Systems Audit Supervisor, explained at the January 2002, Audit Subcommittee meeting he presented the 6-month report on the Nevada School Districts Analysis of Instructional Costs and Materials Available to Students. At that time all six recommendations had been partially implemented. Based on the Department's responses the Audit Subcommittee requested the Department return in 6 months to provide an update on the status of the recommendations. Mr. Peterson's review of the latest information from the Department indicates they are making progress on the six recommendations with full implementation expected in the near future. As a result he had no questions; however, a representative from the Department is present to answer questions.

Keith Rheault, Deputy Superintendent, Department of Education, referred to recommendation 2. He was still waiting to revise Nevada's fiscal accountability handbook as provided in the recommendations, adding the national center has not issued a revised handbook and about 80% of the Nevada handbook is based on this Federal handbook so as soon as this is received, Nevada can revise it in 4 to 6 weeks and present it to the Superintendent's Finance Committee. A copy will be provided to the Audit Division.

Assemblyman Marvel stated it would be advised for the Department to return after the Audit Division has had an opportunity to do all this. Mr. Peterson stated that was at the discretion of the Committee.

SENATOR NEAL MOVED TO ACCEPT THE REPORT REGARDING THE DEPARTMENT OF EDUCATION, ANALYSIS OF INSTRUCTIONAL COSTS AND MATERIALS AVAILABLE TO STUDENTS, SUBJECT TO RETURNING TO THE NEXT AUDIT SUBCOMMITTEE MEETING IN DECEMBER 2002 TO REPORT ON THE STATUS OF THE RECOMMENDATIONS. SECONDED BY ASSEMBLYMAN ARBERRY AND CARRIED UNANIMOUSLY.

***Item 5—Request for audit of the State's energy efficiency retrofit program for buildings occupied by the Executive Branch of Government.***

Paul Townsend explained the request for an audit of the State's energy efficiency retrofit program as concerns have arisen regarding the manner in which these projects are administered or accounted for. He had included a draft copy of a letter that could be forwarded to the Legislative Commission to request the audit if the Committee votes to move forward today. The letter discusses sections of NRS 338 that provide procedures for procuring energy retrofit contracts and authorize various financing methods. A common method of financing involves shared savings and under this method the contractor will make an estimate of how much energy retrofit will save. Based on this savings the cost of the retrofit project is then repaid over a period of years with interest. A benefit of the program is it does not require an initial cash outlay or bonded indebtedness. He added the amount is considered to apply against the state's debt limit. A weakness found in other states during a preliminary investigation, found that Oregon and Florida, for example, state the estimated savings are not always based on reasonable assumptions and the actual savings in the end are far less than expected. Furthermore, the structure of the contract can result in a circumvention of government competitive bidding requirements. Based on our work in this area and past audits involving public works projects we believe this is a viable audit issue. He added it could involve the awarding of at least \$10 million in retrofit contracts in the future because the amount was raised last legislative session from \$5 to \$15 million.

However, several other factors should be considered when deciding to do an audit. There was a university system internal audit that did look into some of the specific allegations that were made as part of a review of construction projects at UNR. This was released to the Board of Regents on August 15, 2002, and it did find weaknesses in the process involving sole source and emergency contract awards, as well as several other areas. He added the University did identify those and identified it is working to develop new policies and procedures to improve the procurement practices system wide. Further audit work specific to this could result in some duplication. Another consideration is the workload of the Audit Division. Mr. Townsend provided a copy of the Audit Division audit plan for the next biennium that will be going to the Legislative Commission on September 20, 2002. He explained that Schedule 1 shows the audits currently in progress and Schedule 2 is a list of the audits they will be doing. He stated this was an aggressive plan and does include some very large agencies, such as the Department of Corrections, Division of Child and Family Services, Department of Taxation, and the Parole and Probation Division. Also included on the plan is a crosscutting issue on the security and integrity of the State's Integrated Financial System. He noted the State has recently revised its decades old process of controls. There has been a significant change, whereas the expenditures previously controlled through a centralized process had been delegated out to the agencies, in large part, and although the Executive Branch has taken some precautions, he does consider that to be a high-risk area over the next several years. He added there were literally hundreds of millions of dollars flowing through several hundred agencies so he wants to make sure we have a good handle on that. Therefore, the Audit Division is ready and able to take on an energy retrofit audit but it would have an impact, and slow efforts to move to other audits on the plan. The plan may also be affected by any audits coming out of the next Legislative session.

SENATOR NEAL MOVED TO APPROVE THE REQUEST TO SUBMIT THE REQUEST FOR AN AUDIT OF ENERGY RETROFIT TO THE COMMISSION. SECONDED BY SENATOR AMODEI AND CARRIED UNANIMOUSLY.

Assemblyman Marvel commended the Audit Division staff for the fine work and it is a pleasure working with the professional staff members. He added that as legislators they were very proud of the product put out.

***Item 6—Public Comment.***

Mr. Gregory Lee Macraneris thanked the Subcommittee and Mr. Townsend for recommending the audit. He added that he had been trying to bring this to light for over 11 years.

There being no further comments the meeting was adjourned.

Respectfully submitted,

Donna Calhoun, Audit Secretary

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Assemblyman Joseph E. Dini, Jr.  
Chairman of the Audit Subcommittee  
of the Legislative Commission

Date \_\_\_\_\_

\_\_\_\_\_  
Paul V. Townsend, Legislative Auditor  
And Secretary to the Audit Subcommittee  
Of the Legislative Commission

Date \_\_\_\_\_