

MINUTES OF THE MEETING OF THE  
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION  
Legislative Building  
401 South Carson Street, Room 4100  
January 17, 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., Thursday, January 17, 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 Lynn Hettrick  
Senator Mark Amodei  
Senator Joseph M. Neal, Jr.

AUDIT SUBCOMMITTEE MEMBERS ABSENT:

Assemblyman Morse Arberry, Jr.

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Paul Townsend, Legislative Auditor  
Steven Wood, Chief Deputy Legislative Auditor  
Marie Cavin, Office Manager  
George Allbritten, Deputy Legislative Auditor  
Jane Bailey, Audit Supervisor  
Tim Brown, Audit Supervisor  
Mike Chadwick, Deputy Legislative Auditor  
Rocky Cooper, Audit Supervisor  
Tammy Dietz, Deputy Legislative Auditor  
Sandra McGuirk, Deputy Legislative Auditor  
Rick Neil, Deputy Legislative Auditor  
Mike Noel, Deputy Legislative Auditor  
Doug Peterson, Information Systems Audit Supervisor  
Shannon Ryan, Deputy Legislative Auditor  
Mike Spell, Audit Supervisor

Chairman Dini welcomed Paul Townsend as the new Legislative Auditor.

***Item 1—Approval of the minutes of the meeting held on October 11, 2001.***

ASSEMBLYMAN MARVEL MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF OCTOBER 11, 2001. THE MOTION WAS SECONDED BY SENATOR NEAL AND CARRIED UNANIMOUSLY.

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

## A. Report on Count of Money in State Treasury

Mr. Townsend introduced Shannon Ryan, Deputy Legislative Auditor, to present the Report on Count of Money in State Treasury. He informed the Subcommittee this report is required by statute to be done every year.

Ms. Ryan explained the auditors counted the money and securities in the State Treasury on Friday, June 29, 2001. The count included actual physical examination, direct confirmation with financial institutions, and other procedures considered necessary to fulfill the statutory obligation.

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

## B. Department of Motor Vehicles and Public Safety, Administrative Services Division

Mr. Townsend introduced Mike Chadwick, Deputy Legislative Auditor, to present the report.

Mr. Chadwick explained the Administrative Services Division (ASD) was organized within the Department of Motor Vehicles and Public Safety (DMV&PS). In 2001, legislation was approved providing for the reorganization of DMV&PS into two departments—the Department of Public Safety and the Department of Motor Vehicles. As a result, ASD was split into two divisions, with most positions going to the Department of Motor Vehicles. The issues in the report primarily dealt with the Department of Motor Vehicles.

At the time of the audit, ASD had 64 positions. Most of these positions were located in Carson City. ASD processed nearly \$464 million in taxes and fees in calendar year 2000. A significant portion of this revenue, about 44%, came from the privilege tax. The name of the privilege tax was changed to the governmental services tax during the 2001 legislative session.

Mr. Chadwick explained the audit included the review of the financial activities of the Administrative Services Division for the year ended December 31, 2000. The objective

of the audit was to determine if revenues and expenditures were properly controlled and accounted for.

Mr. Chadwick stated that ASD lacks adequate controls to ensure transactions are processed accurately and in accordance with laws and regulations. Because ASD did not periodically review its internal controls, serious deficiencies went undetected resulting in significant errors. These errors included inaccurate calculations affecting the distribution of millions of tax dollars to the state and local governments. Although in some instances ASD became aware of and corrected individual errors, weaknesses in the overall system of controls continue, increasing the risk errors will occur again.

ASD's poor internal control system has resulted in revenues and expenditures not always being controlled and accounted for properly. Problems identified in this report could have been avoided if ASD had an adequate internal control system that is periodically reviewed. Although ASD has developed some procedures, it has not developed current and complete policies and procedures related to most problems noted in this report.

Mr. Chadwick said that ASD's lack of adequate controls results in significant errors in the distribution of tax

revenues. Control weaknesses included inadequate procedures for the calculation, distribution, and reconciliation of taxes. These weaknesses caused errors in the distribution of the sales tax to the General Fund, and the distribution of the governmental services tax to the counties. Although these errors have been corrected, without improved controls there is still a risk processing errors could occur again.

ASD did not have current policies and procedures to help ensure revenue distributions were correct, and controls over supervision also need strengthening. Spreadsheets used to distribute tax revenue to the State's General Fund contained a formula error. Consequently, from October 1999 through May 2001, approximately \$9.5 million in sales tax revenue was not distributed to the General Fund. Although this spreadsheet error was corrected in June 2001 and the \$9.5 million was transferred to the General Fund, internal controls are still weak. Consequently, further spreadsheet errors could occur and go undetected.

Mr. Chadwick discussed the governmental services tax distribution. During the period of April 2000 to October 2000, over \$3.9 million in governmental services tax collections were not properly distributed to counties. In 2000, the Department began collecting vehicle registration revenue using four new collection points. Since the governmental services tax was not being collected at these new collection points, it became necessary to include them in the calculation of the tax due to the counties each month.

For the transactions Mr. Chadwick and the auditors tested, the Genesis computer system correctly processed the data. However, once the data was entered in ASD's spreadsheet, the spreadsheet formulas accumulating the data were not adjusted to reflect the addition of the four new collection points. In November 2000, ASD corrected the spreadsheet formulas. ASD then recalculated the governmental services tax for the period affected and made the proper distributions to the counties. Although this spreadsheet error was corrected, additional internal controls were not adopted to help prevent further spreadsheet errors from occurring and going undetected.

Assemblyman Marvel asked what happened to the money before it was distributed.

Mr. Chadwick answered the money was sitting there and the sales tax was later distributed to the General Fund.

Mr. Townsend clarified the money was always in the state's account, so it continued to earn interest during that time.

Mr. Chadwick explained ASD does not use consistent methods when allocating the governmental services tax to counties and school districts. In some instances, ASD used allocation percentages provided by counties, while other allocations were based on percentages provided by the Department of Taxation. Mr. Chadwick noted the auditors did not find any material misapplication of the percentages in terms of dollar amounts. What they were looking for is a consistent application of the percentages to be used and how changes in the percentages used are documented.

Mr. Chadwick explained inadequate controls for processing Motor Carrier Section refunds resulted in undetected errors and incorrect refund checks. Although millions of dollars in refunds were processed, ASD did not review supporting documents to verify the refund amounts. Because ASD is responsible for providing assistance to the Department in carrying out its functions and responsibilities, strong controls are necessary to help ensure refunds are correct. Mr. Chadwick went over a few examples.

Mr. Chadwick stressed this issue is important because the Motor Carrier records indicate ASD issued special tax refunds to 468 individuals and businesses during the audit period. These refunds originated from the Motor Carrier Section and totaled nearly \$4.9 million.

ASD does not have an adequate process to verify that deposits from credit card transactions, as recorded on the Department's computer system, agree to the amount deposited with the bank. This reconciliation is important because the Department receives over \$3.6 million in credit card receipts monthly. Any discrepancy between accounting records and the bank deposit should be investigated and resolved timely.

Mr. Chadwick explained that not monitoring credit card deposits and investigating unreconciled differences increases the risk of loss, misuse, or error regarding credit card transactions. In addition, delays in performing reconciliation procedures could result in significant irregularities going undetected. Delaying reconciliations also increases the difficulty of investigating variances because records and explanations become harder to obtain when not addressed timely.

The audit report contained six recommendations. The Department of Motor Vehicles accepted all of the recommendations.

From reading and listening to the report, Senator Neal envisioned that the State has individuals who have a general knowledge of what needs to be done and they apply that, but there are no procedures for those doing the work to perform those functions.

Mr. Chadwick confirmed his assumption. He explained there are people who understand what needs to be done but the actual people who need to carry out these responsibilities and duties do not have adequate policies and procedures instructing them how these things should be carried out.

Chairman Dini asked Mr. Chadwick to explain the non-reconciliation of the credit card receipts.

Mr. Chadwick went over the process. To provide an additional payment option to its customers, the Department began accepting credit cards at numerous locations in January 1999. When credit card payments are processed, the Genesis system provides daily reports indicating the amount of revenue generated at each department location. These reports include a summary of the revenue that should have been deposited with the bank. ASD staff then prepared a spreadsheet of the Genesis credit card receipts by office, to use for comparison to the bank deposit records. The auditors found that even when discrepancies were identified, ASD did not resolve them.

Mr. Townsend added the systems are not integrated so there is the accounting system, which is separate from the system where the credit card is run through the credit card company. In larger systems those two would be integrated and they would be one in the same. This is what makes it necessary to go through the reconciliation process.

In answer to Assemblyman Marvel's question, Mr. Chadwick said the reconciliation could be done on a daily basis, but ASD is doing it on a monthly basis.

Ginny Lewis, Director of the Department of Motor Vehicles, responded to the audit. She explained the Department has made huge strides forward in the last 2 months. She recognizes the deficiencies, and management in DMV has made this a priority. She agreed that when there are manual spreadsheets, the agency is set up for a potential error, so they clearly recognize the ultimate solution is to automate. While the monies are coming into the computer application and calculated correctly, what DMV needs to do is then automate the monies going back out. The goal is to get that done by June 30, 2002. In the interim, DMV has some procedures in place so as they continue to use those manual spreadsheets, they can ensure those manual calculation errors will not occur.

Ms. Lewis added there is a revenue staff in Carson City basically comprised of three individuals. She has observed that for an agency collecting the level of revenue that DMV does, approximately \$480 million plus the revenue they will be collecting when the gas tax comes in, she believes the revenue unit is grossly understaffed. The highest grade level is a grade 32. She advised the Subcommittee she will submit something in the DMV budget package to create a revenue unit that has the level of staffing to handle revenue at this level. It is critical for the taxpayers to know what they pay the State is being handled appropriately.

Assemblyman Marvel asked if all this will be incorporated in the Genesis system.

Ms. Lewis replied yes.

Assemblyman Marvel asked if all the distributions have been made since the errors were found in the audit.

Ms. Lewis replied that as soon as the \$9 million error was found, the distribution was immediately made to the counties and the local governments.

Senator Neal asked how the credit card transactions are done.

Dennis Colling, Chief of Administration for DMV, testified that when the transaction occurs, the customer presents a credit card and it is swiped in the credit card reader. It then goes to the credit card company to be checked for validity and to get a clearance. Mr. Colling explained there is a record of each and every transaction that occurs. That record is tied to the actual transaction. He added that from DMV's perspective, this has been a very good arrangement.

Senator Neal asked how the receipts are compiled at the end of the day or the end of the month.

Ms. Lewis explained that at the end of the day, the receipts that came into the system are compiled into a spreadsheet. DMV receives the records from the financial institution on a monthly basis so they really cannot reconcile to the bank every day.

Mr. Colling further explained the daily balancing process for Senator Neal. He noted some of the problem areas and how they occur.

In answer to Senator Neal's question, Mr. Chadwick replied there was no evidence of loss of money, just evidence of problems related to the reconciliation.

Assemblyman Marvel asked if DMV was able to reconcile the over- and under- payments and refunds with the Motor Carrier issues.

Mr. Colling believes they have.

Assemblyman Marvel inquired if going to the rack has made DMV's job easier as far as collecting the taxes.

Ms. Lewis wasn't able to answer that question without a program expert. She offered to send him a memo on that. She did agree that when the special fuel went to the rack, there was a surge of revenue.

Assemblyman Dini asked why DMV is still using a spreadsheet when they have the Genesis system.

Ms. Lewis was not able to go back and explain when the revenue piece was designed for Genesis and what happened, but they are currently adding the accounting part.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF MOTOR VEHICLES AND PUBLIC SAFETY, ADMINISTRATIVE SERVICES DIVISION. MOTION SECONDED BY SENATOR NEAL AND CARRIED UNANIMOUSLY.

C. Department of Public Safety, Emergency Management

Mr. Townsend introduced Mike Noel, Deputy Legislative Auditor, to present the report.

Mr. Noel stated the Division of Emergency Management's mission is to (1) anticipate potential public safety problems statewide; (2) coordinate state and federal resources needed to support emergency responses; and (3) facilitate mitigation and recovery processes to reduce the impact of emergencies and disasters upon residents, visitors, businesses, and industries within Nevada. The Division of Emergency Management became part of the Department of Public Safety in calendar year 2001.

Mr. Noel explained the Division is funded mostly by federal grants, of which the Federal Emergency Management Agency (FEMA) is a primary source. Grant money is also used to help state and local agencies prepare for and respond to emergencies and disasters.

The audit scope included the financial activities of the Division of Emergency Management for the year ended June 30, 2001. The objective of the audit was to evaluate the Division's financial management practices.

Mr. Noel explained poor controls over the Division's assets have contributed to thousands of dollars in missing equipment. The Division has not maintained accurate inventory records, and staff could not locate several items the auditors requested to see. In addition, the Division reported a number of assets have been missing for several years. Inventory problems occurred because the Division did not follow its policies and procedures and state laws for safeguarding assets. Safeguarding assets is important because the Division is responsible for more than \$750,000 in equipment, much of which can be converted to personal use.

Mr. Noel stated the Division's inventory list did not clearly identify where most of its assets were located. Because of this problem, the auditors requested the Division identify the location and individual assigned custody for 21 of the 25 assets selected for review. However, the information on the list was not correct for seven items. Also, the Division was not able to locate 5 of the 25 assets selected by the auditors. These missing items cost more than \$7,000. Mr. Noel added that the auditors also found some assets at locations different from where the Division reported they would be found.

Mr. Noel pointed out the Division reported 23 assets totaling almost \$33,000 have been missing since 1997. The disposition of these items has still not been resolved as these items are still on the Division's inventory list. According to the Division, these items were part of a federal investigation and the records were at another agency. The documents provided by the other agency did not contain any information on the 23 missing assets. Mr. Noel also noted state law requires an annual inventory to be completed.

Mr. Noel explained the Division does not follow its policies and procedures requiring an equipment use agreement to be completed for all equipment on loan to state agencies and local governments. The Division could only provide four out of eight agreements for the items on loan the auditors requested. The auditors made two recommendations regarding these findings.

Mr. Noel explained the Division did not follow its overtime approval policy for most overtime it paid during fiscal year 2001. This policy requires overtime be requested in writing and approved prior to being worked.

However, the Division could not provide documentation showing the approval for \$24,000 of \$28,000 in overtime paid. NRS 284.180 requires overtime to be approved in advance.

The Division allowed two employees to accumulate and maintain compensatory time balances over 120 hours without an agreement required by personnel regulations. In May, compensatory time balances for these employees were 206 and 141 hours. NAC 284.250 prohibits compensatory time accrual in excess of 120 hours unless an agreement provides for accruing up to 240 hours. Mr. Noel went over the two recommendations regarding the findings on overtime.

Mr. Noel stated that since 1999, Nevada law has required the Division to establish regulations for the State's Emergency Assistance Account. However, the Division has yet to develop and adopt regulations. This account provides money to help local governments pay for disaster related expenses. These expenses totaled about \$647,000 during fiscal years 2000 and 2001. Regulations are needed to help the Division carry out statutory requirements, ensure local governments are treated consistently regarding financial assistance and reporting, and provide assurance that activities meet the Legislature's intent.

In place of regulations, Division management has provided local governments with the *Disaster Response and Recovery Guide for Local Government* that covers how to report damages. The Division has also developed a State Comprehensive Emergency Management Plan that includes some proposed regulations addressing expenditure reimbursement; however, the Division has not taken action to adopt them. Mr. Noel noted this guidance is not an adequate substitute for regulations and recommended the Division develop and adopt regulations for the Emergency Assistance Account.

The Division of Emergency Management accepted all five audit recommendations.

Assemblyman Marvel mentioned the issue of the Division not having regulations was brought up at the last Interim Finance Committee. Staff reported the Division was spending money without authorization. He was glad this was picked up in the audit and he hoped the agency would now correct this problem.

Assemblyman Marvel inquired if there are any sanctions against Emergency Management when the inventory cannot be found.

Mr. Noel did not believe so.

Senator Neal asked if the Division of Emergency Management is responsible for buying their own equipment.

Mr. Noel replied the Division is part of the Department of Public Safety and the process to purchase equipment goes through the Purchasing Division, as well as the Department.

Senator Neal then asked how the equipment could be missing. He inquired if the equipment is labeled and numbered.

Mr. Noel responded that when an item is purchased, if it is over \$500, it is given an ID number and goes on an inventory list at State Purchasing. They then send out the lists to the state agencies. It is up to the state agencies to do inventory annually and to reconcile to State Purchasing's list.

Assemblyman Marvel asked if State Purchasing requires this inventory reconciliation every year and if it is being done.

Mr. Noel replied an annual inventory should take place each year and it has not been done at the Division of Emergency Management during this past year.

Assemblyman Marvel commented that Purchasing should be informed.

Mr. Townsend added this is important because a lot of equipment gets loaned out to local governments, so it is even more important for the Division to track where the equipment goes. The Purchasing Division has been slow in providing inventory lists to agencies. It is a statutory requirement for the agencies to conduct an annual inventory of their assets. He suggested the agencies may have to contact Purchasing and request a list, rather than expecting the list to come annually. He also pointed out a prior audit of Purchasing suggested they needed to make improvement in distributing those lists.

Chairman Dini asked what could be done to ensure State Purchasing does send out the list every year and if the Audit Subcommittee would be in line sending them a letter.

Mr. Townsend replied the problem could be addressed when Purchasing comes for their 6-month report.

Frank Siracusa, Chief of the Division of Emergency Management, responded to the audit. He thanked the auditors for the professional job they did on the audit. He added the Division has complied with all of the recommendations the auditors made.

He commented on the inventory and explained the Division has provided older equipment out to local governments. Many times in the past, equipment might have been given to a local department and then given to another local department. The Division has now implemented a new inventory system so they can better track that equipment. In the future they will not have these problems. The procedures are in place and the staff is in better communication with the local governments. The Division is cleaning up the inventory and trying to identify where all the equipment is located.

Assemblyman Marvel asked if the Division was getting their regulations in place.

Mr. Siracusa replied yes. The Division currently has draft regulations at LCB Legal to deal with all of the emergency funds.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE REPORT  
ON THE DIVISION OF EMERGENCY MANAGEMENT. MOTION  
SECONDED BY ASSEMBLYMAN HETTRICK AND CARRIED  
UNANIMOUSLY.

D. Division of Water Resources

Mr. Townsend introduced Sandra McGuirk, Deputy Legislative Auditor, to present the Division of Water Resources audit report.

Ms. McGuirk explained the Office of State Engineer was established in 1903 and the Division of Water Resources was established in 1957. The mission of the Division is to conserve, protect, manage, and enhance the state's water resources through the appropriation and reallocation of public waters. During fiscal year 2001, the flood plain management program and State Water Plan were transferred from the Division of Water Planning to the Division of Water Resources. The Division of Water Resources administers 53 budget accounts, of which 41 are water system accounts. For the 12 months ended March 31, 2001, expenditures exceeded \$6 million.

The scope of the audit included a review of the Division's financial activities for the 12 months ended March

31, 2001. The objective of the audit was to evaluate the Division's financial administration practices including whether transactions were carried out in accordance with applicable state laws, regulations, and policies.

Ms. McGuirk pointed out the Division has taken strong action to correct problems noted in the prior audit and to improve its financial administration practices. However, the Division can strengthen its financial administration by improving the deposit process that currently does not provide adequate safeguards and, as a result, there is an increased risk of loss or unauthorized use of the state's assets.

Ms. McGuirk explained the Division charges various fees and when they are received they are receipted and recorded. Subsequently, they are transferred to the fiscal unit of the Department of Conservation and Natural Resources for deposit. Although this deposit process provides a strong platform for segregation of duties, it results in two problems: 1) At least five employees handle the cash before it is deposited. 2) The cash is removed from the Division's safe and placed in a filing cabinet in the fiscal unit pending deposit. Ms. McGuirk stressed a filing cabinet is not as secure as the Division's safe. These weaknesses contributed, in part, to an instance in which the Division lacked adequate accountability of cash receipts.

Ms. McGuirk explained internal control standards require agencies to establish physical controls to secure and safeguard vulnerable assets. These controls include security and limited access to cash. If the Division prepared deposits, fewer employees would have access to cash and security would not be compromised.

The Division implemented all eight recommendations from the 1996 audit, and it has accepted both recommendations made in the current report.

Assemblyman Marvel asked how much money is collected in cash.

Ms. McGuirk replied about \$1.6 million is collected but she was not sure how much was cash.

In answer to Senator Neal's question, Ms. McGuirk explained the prior audit focused on the outside bank account and the budgets regarding the water system accounts. During the current audit the auditors determined the Division did a fine job implementing those recommendations. The current audit focused more on the processing of transactions. Based on the audit results, the auditors felt the Division had processed its transactions adequately and the only issue was the deposit process needs to be improved because of the risk associated with handling cash.

Mr. Townsend added that the last time the Division of Water Resources was audited there were significant weaknesses and the report was fairly critical. He felt the Division has come a long way and these are minor findings compared to findings in the past report.

Chairman Dini commended the agency for straightening out the mess from 1996.

Hugh Ricci, State Engineer, responded to the audit report. He stated the Division generally receives very little cash. Most of the monies come in by check through the mail.

In response to Assemblyman Marvel's question, Mr. Ricci said they do not accept credit cards.

Mr. Ricci added that since the fiscal staff moved to another building they lost the ability to put the money in the Division of Water Resource's safe. With the new procedures going into place as a result of the audit recommendations, the Division will be doing everything in their office.

**ASSEMBLYMAN HETTRICK MOVED TO ACCEPT THE REPORT  
ON THE DIVISION OF WATER RESOURCES. MOTION SECONDED  
BY SENATOR NEAL AND UNANIMOUSLY CARRIED.**

## E. Reliability of Performance Measures Used in the State's Budgetary Process

Mr. Townsend introduced Rick Neil, Deputy Legislative Auditor, to present the report on the Reliability of Performance Measures Used in the State's Budget Process.

Mr. Neil explained that spurred by difficult economic conditions and public criticism about service quality, public officials have become increasingly committed to demonstrating what is being accomplished with tax dollars. Public officials, legislators, and citizens want and need to know more than whether government funds are handled properly and in compliance with laws and regulations. They also need to know whether government programs are achieving the purposes for which they were authorized, and whether they are doing so economically and efficiently. Performance measures are a tool by which programs can be evaluated.

In addition to input, output, and outcome measures, Mr. Neil explained there are three other common types of measures: efficiency, effectiveness, and quality measures.

Mr. Neil discussed the three main users of performance measures:

**Agency managers** can use measures to focus agency efforts on achieving goals and objectives and, thereby, improve the quality of services. Ongoing performance measurement provides feedback, which is critical to continuous improvement and future success.

**Oversight bodies** can use measures in making decisions about the allocation of resources. Currently, performance measures are included in agency budget requests

and are especially useful in evaluating new programs and deciding whether to expand a program.

**Stakeholders and the general public** can use performance measures to rate a program's performance and assess accountability. Measures can be used to increase awareness, understanding, and involvement of citizens in their government.

Mr. Neil added that over the past decade, the Legislature has incorporated performance measures into state government. The efforts began with an interim study after the 1989 Session recommending agencies be statutorily required to include measures in their budget requests. Additional legislative efforts have continued in subsequent sessions.

The audit included performance measures for fiscal year 2000 as reported by selected state agencies in the Executive Budget for fiscal years 2002 and 2003. The objective of the audit was to determine if the performance measures used in the state's budgetary process were reliable.

Mr. Neil explained that performance measures used in the state's budgetary process were not always reliable. About one-half of the measures examined lacked sufficient documentation, were based on inappropriate methodologies, or were calculated incorrectly. In addition, the description of the measure frequently did not reflect what was reported. As a result, managers and oversight bodies used unreliable information when evaluating programs and making budget decisions.

Mr. Neil noted the first area where problems were found was the lack of underlying records. Some agencies could not provide underlying records to support their performance measures reported in the executive budget. Of the 35 measures examined by the auditors, 15 did not have sufficient documentation. Although the measures may be accurate, the lack of underlying records prevents the information from being verified

and, therefore, they are not reliable.

Mr. Neil explained the second problem area was inappropriate methodologies. Some agencies used inappropriate methods to measure their performance indicators. Thirteen of the measures we examined (about 40%) were based on flawed procedures.

The third area where the auditors found problems was with simple calculation errors. Calculation errors resulted in agencies reporting inaccurate data in four measures reviewed. For example, the Northern Nevada Child and Adolescent Services reports an average monthly caseload of 141 for Early Childhood Services. The caseload calculations contained simple math errors that understated the average by 22 cases.

Mr. Neil noted the final problem area was the description of the performance measure did not always reflect the reported information. For example, the Division of Health Care Financing and Policy described one of its measures as the increase in enrollment of children in Medicaid. However, the Division actually reported the number of children enrolled in August 2000, not the change in enrollment during the year. Unreliable performance measures can misrepresent the actual results of agency's operational or financial activities. Consequently, key budget and policy decisions could be based on flawed information.

Mr. Neil explained all of the agencies included in the audit lacked sufficient controls to ensure performance measures were reliable. Control weaknesses included inadequate written procedures on how to collect and calculate performance measurement data. In addition, the auditors noted insufficient review of the data collection process. Performance measurement systems should have effective controls to ensure information is properly collected and accurately reported. The auditors found that reliability can be improved by the Department of Administration providing agencies with additional guidance and oversight concerning controls over the collection and reporting of performance measures.

Mr. Neil explained agency managers are responsible for ensuring adequate performance measurement controls exist, and the Department of Administration can help improve the control environment by providing additional guidance and oversight. He noted the auditors looked at 35 performance measures at 11 agencies.

The Department of Administration accepted all three recommendations.

Senator Neal asked what authority the Department has in developing the performance criteria.

Rick Neil replied that NRS 353A.025 deals with the internal control report and in that statute an evaluation of control systems has to be reported to the Department of Administration. The Department of Administration has set up guidelines for what types of questions agencies should answer in evaluating their system. The main purpose of this NRS is to help agencies assess their internal control system. The auditors are just suggesting that one additional area is to talk about performance measures in order to give agencies another opportunity to think about what they are doing with regard to performance measures, and specifically what they are doing to ensure they are reliable.

Senator Neal asked if this gave the Department the authority to force any corrective action in terms of performance criteria.

Mr. Townsend explained the statute is a tool and their authority is limited. The Department does not have any authority to enforce it, but they are providing guidance through that tool for agencies to assess their own controls.

Senator Neal asked what happens if the agency does not follow the guidance.

Mr. Townsend replied the issues are brought out in audit reports presented at the Audit Subcommittee meetings and, many times, that prompts change.

Senator Neal reiterated that the Legislature just gives guidelines through that particular NRS statute, but it has no teeth to force the agency to write these things or report back to the Department.

Mr. Townsend confirmed there are no specific punitive consequences.

Assemblyman Marvel stated that if the money committees are not satisfied with the performance indicators, it makes it more difficult for the agency to get the enhancement portion of the budget approved. He felt the agencies should take this seriously. Assemblyman Marvel mentioned that in the past people have been critical of performance indicators because they were meaningless. He felt the agencies should take this into account.

Chairman Dini added that he has never liked performance indicators. His personal opinion is they are a waste of time and make the agencies do a lot of work for nothing.

Assemblyman Hettrick felt he would probably agree with Chairman Dini in terms of the performance indicators the Legislators have seen because many of them meant absolutely nothing to the committees. But, when there were indicators that said, for example, the number of cases processed per staff person or something where there was a comparison with some measure, it can make a difference for the money committees and the agencies. The only punishment has been the embarrassment of those trying to defend their performance indicators. He hopes there is a way to get some meaningful performance indicators going that the agency actually uses and it could be beneficial.

Senator Neal explained his comment was directed toward the efficiency of the statute. Whether or not it was sufficient to get the proper information the Legislature is requesting. He suggested the Legislature should take another look at this, or get rid of it all together.

Maud Naroll, Chief Planner for Budget and Planning, responded to the audit. She stated they are also very concerned about the reliability of performance measures. The State Records Manager was expeditious in developing a records retention schedule for performance measures and that has been distributed to all agencies. It is now a requirement those records be retained. The Internal Audit Division has revised its questionnaire that goes to agencies, and there is now a section on performance measures. The questionnaire will also be a part of the State Administrative Manual and there will also be a section on performance measures in the budget instructions going out to the agencies. The employees in Planning are going out to agencies and giving training on strategic planning and are also developing more meaningful performance measures.

Senator Neal asked if there has been any training provided by the Department of Administration.

Ms. Naroll replied the training done so far is the individual training of agencies where they help them develop a strategic plan and performance measures. She added her job-share partner is going to be doing more group training on this subject starting in February.

**ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE REPORT  
ON THE RELIABILITY OF PERFORMANCE MEASURES USED  
IN THE STATE'S BUDGET PROCESS. MOTION SECONDED**

BY SENATOR NEAL AND CARRIED UNANIMOUSLY.

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

Steve Wood, Chief Deputy Legislative Auditor, explained there are nine six-month reports to be presented today.

A. Nevada Equal Rights Commission

Tim Brown, Audit Supervisor, explained the report on the Nevada Equal Rights Commission (NERC) was issued in April 2001. The audit report contained four recommendations. The Department of Administration indicates three of the recommendations have been fully implemented, and one recommendation has been partially implemented.

The audit found the agency currently has the ability to improve the efficiency of case processing by implementing charge prioritization, thus strategically targeting its investigative recourses. The auditors found no evidence that NERC is prioritizing charges. The auditors recommended NERC use charge prioritization as outlined in its policy and procedure manual. The Administrator indicated that upon further research, NERC is statutorily bound by NRS 233.170 to hold an informal settlement meeting. NERC is considering future legislative change to allow charge prioritization as prescribed by the Federal Equal Employment Opportunity Commission (EEOC). Mr. Brown stated this is a significant departure from NERC's original acceptance of the audit recommendation and its own policies. Therefore, Mr. Brown inquired if a formal legal opinion had been obtained to support NERC's new interpretation of NRS 233.170. If not, what is NERC basing this new interpretation on and is a formal legal opinion contemplated.

Myla Florence, Director of the Department of Employment, Training and Rehabilitation, introduced Linda Parven, the new Administrator of the Nevada Equal Rights Commission.

Ms. Parven testified that she has requested a formal opinion from the NERC Deputy Attorney General. In discussing this informally, he has concurred that NERC does need to make some revisions to the NRS to allow it to proceed with charge prioritization as EEOC has prescribed.

Chairman Dini asked if NERC planned on introducing legislation next session.

Mr. Parven replied yes. They currently have a policy in regards to the time lines. When the material is available to make a decision on a case, the case must be resolved within 30 days.

In answer to Assemblyman Marvel's question, Ms. Parven responded NERC currently has 1,400 cases, but all of these will not be completed in 30 days. The policy states that once all of the necessary material and documentation to make a decision on a case is available to the investigator, they will resolve the case within 30 days of receiving all of that information.

Senator Neal asked the auditors if the prioritization is based on the number of cases coming to NERC.

Mr. Brown explained prioritization is based upon the type of case that comes in, not necessarily the number of cases. It is a concept that uses a three-tier system where each case that comes in will be evaluated based upon its merits. Those that are significant and have a high likelihood there will be a cause finding, are categorized as a category A priority, which mean they will go through a full investigative process.

Mr. Brown discussed category B. Here there is some merit to the case and a possibility that a cause finding

will result in investigation and will be processed until there is enough information to make a determination.

The last is category C, which are those cases where, based upon the merits of the case or sufficient information was gathered, that a determination could be made at that time and resolved at that point.

Senator Neal asked if there is a prioritization on cases where a person files a discrimination charge and there is a finding to go forward with an investigation.

Mr. Brown replied that once it is decided to go forward, there wouldn't be prioritization. He stressed this is a tool the agency can use to better utilize its resources.

In response to Senator Neal's question, Ms. Parven explained NERC does not prioritize its cases at this time. Any case that has all of the information needed to make a decision are required to be closed within 30 days of getting the information.

Senator Neal asked what NERC is doing with new cases.

Ms. Parven replied the new cases are following the new procedures for strict time lines. She added that 180 days after a person files their charge with NERC, they can go to the EEOC and request a right to sue if they want to get a private attorney. Any time NERC closes a case for no probable cause, EEOC automatically issue them a right-to-sue.

Ms. Parven explained the bases of NERC's funding is from EEOC.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE SIX-MONTH  
REPORT ON THE NEVADA EQUAL RIGHTS COMMISSION.  
MOTION SECONDED BY SENATOR NEAL AND CARRIED  
UNANIMOUSLY.

B. Agency for Nuclear Projects

Jane Bailey, Audit Supervisor, explained the audit report on the Agency for Nuclear Projects was issued in December 2000. The agency has indicated that five of the seven recommendations included in the audit report have been fully implemented, and the other two are in the process of being implemented.

No one was present from the Agency for Nuclear Projects to respond to the report.

ASSEMBLYMAN HETTRICK MOVED TO ACCEPT THE SIX-MONTH  
REPORT ON THE AGENCY FOR NUCLEAR PROJECTS. MOTION SECONDED BY  
ASSEMBLYMAN MARVEL AND CARRIED UNANIMOUSLY.

C. Division of Unclaimed Property

Mike Spell, Audit Supervisor, explained the audit report on the Division of Unclaimed Property was issued in December 2000. The report contained six recommendations. The Department of Administration has indicated that four recommendations have been fully implemented and two recommendations have been partially implemented. The auditors' analysis of the Department's report indicates the Division is making progress towards full implementation on the two partially implemented recommendations.

SENATOR NEAL MOVED TO ACCEPT THE SIX-MONTH REPORT  
ON THE DIVISION OF UNCLAIMED PROPERTY. MOTION SECONDED

BY ASSEMBLYMAN HETTRICK AND CARRIED UNANIMOUSLY.

D. Real Estate Division

Mr. Spell explained the audit report on the Real Estate Division was issued in December 2000. The report contained seven recommendations, which the Department of Administration indicated had been partially implemented.

Mr. Spell found the Division's accounts receivable system needed improvement. Accounts receivable reports were not reliable and past-due accounts were not pursued. In addition, key steps in the accounts receivable collection process were not adequately separated. These weaknesses are primarily the result of inadequate policies and procedures that have not been updated to reflect changing circumstances. Mr. Spell explained there were three recommendations made in this area and the Department indicated these recommendations were partially implemented. The Division has developed policies and procedures to account for and collect receivables; however, the Division did not provide the Department copies of the policies and procedures for review. In addition, the Division did not provide information regarding the segregation of duties for billing and collecting monies due from returned checks.

Mr. Spell asked if controls for the proper accounting and timely collection of receivables had been established in writing and implemented, and if return check billing and collection duties had been segregated.

Sydney Wickliffe, Director of the Department of Business and Industry, responded to the questions. She explained the Administrator and the Deputy Administrator of the Real Estate Division have recently resigned effective March 1, 2002, and an accounting person in the Carson City Office has also left. This pretty well shows the results of what is happening in the Division. She added the Director's Office has been involved with the Real Estate Division in the past few weeks in addressing the concerns Mr. Spell has pointed out. Policies and procedures for the internal control system addressing these issues have been written up. Ms. Wickliffe thought they had been submitted to Mr. Spell's office for analysis. Since they had not, she said she would do so in the next few weeks.

Mr. Spell discussed the recommendation regarding the deposit process. No one independent of the deposit process verifies the amount of money collected with the amount that is deposited. This weakness also existed in the prior audit of the Division, and contributed to the embezzlement of \$21,000. The Department of Administration indicates deposits are verified to cash receipts by staff independent of the deposit process; however, based on the information provided, staff performing the verifications are not independent of the deposit process. Mr. Spell inquired if someone independent of the deposit process is verifying cash receipts for the Carson City and Las Vegas office deposits. If not, when will this control be implemented.

Ms. Wickliffe replied the answer is yes. That was described in the internal control system amendments that were submitted in early October. She added the Director's Office will be doing the necessary oversight to make sure this is being taken care of.

Assemblyman Marvel asked the amount of cash receivables currently on the books.

Ms. Wickliffe could not guess and would let Mr. Marvel know later.

Mr. Wood agreed to work with the agency and review the policies and procedures.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE REAL ESTATE DIVISION AND TO HAVE A

FOLLOW-UP REPORT AT THE NEXT MEETING. MOTION SECONDED BY CHAIRMAN DINI AND CARRIED UNANIMOUSLY.

E. Financial Institutions Division

Rick Neil, Deputy Legislative Auditor, explained the audit report on the Financial Institutions Division was issued in February 2001. The report contained five recommendations. The Department of Administration indicates two recommendations have been fully implemented and three have been partially implemented. Mr. Neil had questions on two of the partially implemented recommendations.

First, he inquired that obstacles prevent the Division from depositing money received in Las Vegas at a local bank.

Mr. Scott Walshaw, Commissioner of the Financial Institutions Division, testified the Las Vegas office had discontinued taking deposits. The Division explored the possibility of getting a courier service to make the deposits, but that turned out to be impracticable based with the implementation of the new IFS system. It would not be cost-effective. People are now asked to mail any type of payment to the Carson City office.

Assemblyman Dini asked if this process impedes anything.

Mr. Walshaw thought the only thing that might create a problem is a person bringing in their payment for a license fee to the office in Las Vegas on the last day before the deadline. They will handle this with a form letter to go with the payment acknowledging the person made the payment before the deadline.

Assemblyman Dini asked what was wrong with making a deposit at a Las Vegas Bank.

Mr. Wilshaw replied there is nothing wrong with that idea, but they are about ready to embark on the new IFS system and they would have to train at least two people in the Las Vegas office and they would have to buy additional computer equipment to allow the employees to access the system.

Mr. Neil briefly described the second finding where the Division had not adequately separated duties related to revenues and expenditures. One employee performed all the key duties and the Division stated it does not have enough employees to separate the duties. He noted the Carson City office where revenue and expenditures transactions are processed, has six employees excluding examiners and the Commissioner. The auditors felt this was enough personnel to separate the duties. The Department of Administration indicates the Division is crafting its procedures in a manner that attempts to address the separation of duties problem and has assigned the Deputy Commissioner in Carson City to provide direct supervision of the accounting function. The Division also reports its existing workload would be unable to fully implement the recommendation until it is able to hire additional staff. Mr. Neil inquired if the Division has now separated the duties.

Mr. Walshaw explained the Division has one account clerk and three administrative assistants. Each one has a very large caseload of licenses and other responsibilities. To the extent possible, the Division has divided up the receipting of deposits. In some point in the future, if they are able to hire additional staff, they can then break up the accounting function between two people. Ironically, yesterday the Division had a meeting with a member of the IFS team and they spent a lot of time on how the Division can adequately separate these duties through implementing the IFS program and the internal control procedures that have to be implemented.

Assemblyman Marvel asked how many financial institutions the Division supervises in the State.

Mr. Walshaw replied it runs into the hundreds, and there are also thousands of mortgage loan agents the Division will be responsible to license starting July 1, 2002. He added there will be more than sufficient money coming in to offset hiring additional employees.

ASSEMBLYMAN MARVEL MOVED TO APPROVE THE SIX-MONTH REPORT ON THE FINANCIAL INSTITUTIONS DIVISION. MOTION SECONDED BY SENATOR NEAL AND CARRIED UNANIMOUSLY.

F. Nevada School Districts, Analysis of Instructional Costs and Materials Available to Students

Doug Peterson, Information Systems Audit Supervisor, explained the audit on the Nevada School Districts, Analysis of Instructional Costs and Materials Available to Students, was issued in December 2000. The audit report contained six recommendations. The Department of Administration indicated the six recommendations have been partially implemented. The auditors' analysis of the report found the Department of Education has made progress toward implementing three of those recommendations; however, they suggested the Audit Subcommittee obtain more information on the remaining three partially implemented recommendations.

When performing the audit, Mr. Peterson found the school districts rely on out-dated accounting guidance provided by the Department. These instructional costs are not always charged to the appropriate categories. This guidance is provided in the form of a handbook referred to as the *Nevada Financial Accounting Handbook for Local Education Agencies*, dated 1979. This handbook has not been updated with changes in the education environment. The auditors recommended the Department update the handbook and the Department of Administration indicated the Department of Education was waiting for a new revision by the National Center for Education Statistics. That review was to take the place in the fall of last year. Mr. Peterson asked if the information from the National Review has been received and what progress has been made based upon that information.

Keith Rheault, Deputy Superintendent of the Department of Education, responded for the Department. He explained the Department has not been able to fully implement this recommendation. In checking with the National Center for Education Statistics last week, the anticipated release of the updated handbook is sometime this month. The Department of Education has also requested additional assistance or staff to help update the book. The 2001 Legislature did provide a position for the Distributive School Account. Due to delays, they are just filling the position and the first assignment for this new position will be to update the handbook. He added it is a priority and they have added it to the Department's strategic plan.

Assemblyman Marvel asked what impact the new bill just signed by the President will have on the Nevada Department of Education.

Mr. Rheault stated the Department will be preparing a summary report for a legislative subcommittee. The new bill will provide approximately \$31 million or more to the State. There are many strings attached, such as having tests in grades 3 through 8. Ninety-five percent of the money is required to flow down to the school districts.

Mr. Peterson explained the next finding. The auditors found that if teachers or administrators in schools decide to use materials other than a book as the basis of instruction, the process does not ensure these materials are properly approved. The auditors recommended the Department work with school districts to identify these materials. The Department indicated it plans to conduct a textbook adoption meeting with

school administrators on September 27, 2001. The auditors asked what progress has been made on this recommendation since the September meeting.

Mr. Rheault mentioned the Department did an assessment of all districts this spring and this item was in their preliminary report. In that assessment, 6 of the 17 districts had policies and procedures in place to identify how they use non-textbook materials. The Department requested the districts that did not have policies and procedures in place, develop them. The policies and procedures will be collected in May and reviewed. He suggested he could follow-up with a report in May on this. He added the Department also added this to the strategic plan as an activity they will be monitoring to follow-up on annually.

Mr. Peterson explained the final finding was the Department of Education maintains a textbook adoption list used by school districts. The auditors found the list is not always accurate and complete. The auditors recommended the Department take steps to ensure the list is accurate and complete. In the Department of Administration's follow-up, they found the list contained incomplete identification numbers and prices for many textbooks, and that it also did not contain information on how long a textbook may be used. Mr. Peterson asked if the Department has taken additional steps to ensure the adoption list is accurate and complete.

Mr. Rheault stated the Department utilized the September 27<sup>th</sup> meeting to approach this subject also. While there were textbook coordinators from every district in attendance, the Department had the textbook coordinators go through the full listing to make sure the textbook adoption list is accurate. The Department has made many of the corrections and he felt the textbook list is the most accurate it has ever been. The Department also addressed the subject of textbooks being taken off the list. They provided a sheet indicating when textbooks would be removed based on the number of years in service. This information is also available on the Department's website.

ASSEMBLYMAN MARVEL MOVED TO APPROVE THE SIX-MONTH REPORT ON THE NEVADA SCHOOL DISTRICTS, ANALYSIS OF INSTRUCTIONAL COSTS AND MATERIALS AVAILABLE TO STUDENTS, AND TO HAVE THE DEPARTMENT OF EDUCATION COME BACK IN SIX MONTHS AND GIVE AN UPDATE. MOTIONS SECONDED BY SENATOR NEAL AND CARRIED UNANIMOUSLY.

#### G. Nevada Mental Health Institute

Mr. Wood stated the audit report on the Nevada Mental Health Institute was issued in December 2000, and contained 15 recommendations. The Department of Administration indicates 4 recommendations have been fully implemented and 11 have been partially implemented. The auditors' analysis of the six-month report indicates that most of those should be fully implemented in the near future; however, there are some areas they would like further information on.

Mr. Wood stated the first finding dealt with the Institute not sufficiently managing its Medicare inpatient hospital reimbursement process. As a result, the Institute had not claimed bad debt reimbursements from Medicare estimated at more than \$650,000 over the last 5 years. The auditors recommended the agency evaluate whether or not the Institute could go back and recover these bad debts from the prior years and, if so, seek reimbursement from Medicare. The Department of Administration indicates a review of the information provided by the Institute revealed that Medicare rules do allow providers to recover bad debts from past years. The Institute is compiling bad debt records for prior years and plans to include these in its cost report that is due to Medicare in November 2001. Mr. Wood felt it would be appropriate to find out the status of this and if the bad debt from prior years had been determined and, if so, how much does the Institute expect to collect.

Bob Harnish, Administrative Services Officer at the Northern Nevada Mental Health Institute, responded to the report. He explained the majority of the initial time was spent developing policies and procedures to make sure bad debt from here forward is verified and documented. These procedures have to be done before it can be declared on the cost report. Mr. Harnish assured the Subcommittee it will be done on a monthly or quarterly basis. For the past bad debt, the Institute has determined and verified the bad debt for fiscal years 1998, 1999, and 2000. The Institute is in the process of verifying the bad debt for fiscal years 1995, 1996, and 1997. The Institute estimates the bad debt is approximately \$82,000 per year. This would bring a total of bad debt between 1995 and 1999 to \$516,773, if the estimates are correct. He stressed the process of doing this verification is very difficult and time consuming because the only way to positively identify this bad debt is to investigate each client's medical record, billing record, and payment file. As far as what debt can be reimbursed, Mr. Harnish explained it has been determined by the public accounting firm of Cupit Mulligan Ogden and Williams, that all debt can be collected. The HICFA definition is that now until the debt is documented, it is an unpaid bill. It becomes a bad debt in the year it is documented. Currently, the Institute anticipates the bad debt from 2000, 1999, and 1998, will be claimed with the fiscal year 2001 cost report that is due on April 1, 2002. Mr. Harnish added they are working very hard to document the bad debt from 1995, 1996, and 1997, so it can be claimed on the 2002 cost report, which will be in November 2002.

In answer to Assemblyman Marvel's question, Mr. Harnish explained it is all Medicare related. There is still no guarantee Medicare will accept these claims. Next week three auditors are coming to the Institute to audit last year's cost report. They could look at the documentation and feel it is not bad debt. They are going to try to claim it all.

Continuing, Mr. Wood explained the auditors reviewed 35 client files and found that more than 25% of the doctors' services provided went unbilled. The missed billings, containing hospital discharge services, had the highest rate with 57% of the services going unbilled. In addition, 4 of the 35 client files did not have a billing log. As a result, doctors' services provided to these clients went unbilled. The auditors estimated a total of \$4,500 in charges went unbilled for the 35 clients reviewed. The auditors recommended the Institute establish management controls including policies and procedures, and a review process to ensure inpatient doctor services get billed. The Department of Administration indicates the Division prepared a policy with the effective date of September 30, 2001. Additionally, the Institute reports it is drafting a policy to implement the Division's policy. In the interim the Institute reports a nurse is reviewing charts on a daily basis to ensure all doctor activities are fully and properly recorded. Mr. Wood asked for an update to see if the inpatient billings have increased compared to prior periods.

Mr. Harnish replied yes, but they have not seen the full increase.

Mr. Wood felt the Institute is well on their way and does not need to come back. He added the auditors could follow up on the bad debt collection and can present that to the Audit Subcommittee at a later time.

ASSEMBLYMAN HETTRICK MOVED TO APPROVE THE SIX-MONTH REPORT ON THE NEVADA MENTAL HEALTH INSTITUTE. MOTION SECONDED BY SENATOR NEAL AND CARRIED UNANIMOUSLY.

#### H. Integrated Financial System, Payroll Process

George Allbritten, Deputy Legislative Auditor, explained the audit report on the Integrated Financial System, Payroll Process, was issued in March 2001. The report contained eight recommendations. The Department of Administration indicates six of

the recommendations have been fully implemented and two have been partially implemented. Based on the auditors' review of the report, they feel the agency is well on the way to fully implementing all of the recommendations. There were no questions.

ASSEMBLYMAN HETTRICK MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE INTEGRATED FINANCIAL SYSTEM, PAYROLL PROCESS. MOTION SECONDED BY SENATOR AMODEI AND CARRIED UNANIMOUSLY.

I. State Mail Services

Rocky Cooper, Audit Supervisor, explained the audit report on the State Mail Services was issued in February 2001. The report contained two recommendations. The Department of Administration's report indicates the Division is making progress to fully implement the recommendations. There were no questions.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE STATE MAIL SERVICES. MOTION SECONDED BY ASSEMBLYMAN HETTRICK AND CARRIED UNANIMOUSLY.

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

Steve Wood explained the Audit Subcommittee has requested agencies come back to testify as a result of hearing their six-month reports. Today five agencies have returned for follow-up reports.

A. Public Works Board

Mike Spell stated the six-month report on the Public Works Board audit was presented at the October 2001 meeting. According to the report, the Public Works Board had not yet implemented controls to ensure legislative approval is obtained to expend CIP funds outside the scope and budget of a project. Therefore, the Audit Subcommittee requested the Board return to the next meeting to provide an update on the status of that audit recommendation. On December 24, 2001, the manager of the Public Works Board provided an update on the status of this recommendation. According to the manager, the Board is in the process of adopting a regulation to establish criteria for determining whether a change in scope of the design or construction of a project requires legislative approval. Draft criteria will be presented to the Board in January.

Mr. Spell suggested obtaining additional information on the status of this recommendation. Mr. Spell had two questions: 1) What is the current status of the draft criteria, and how will the criteria assist in determining whether a change in scope of the design or construction requires legislative approval; 2) Have policies and procedures addressing legislative approval for changes in a project's budget been established in writing?

Dan O'Brien, Manager of the Public Works Board, responded that the new Public Works Board has been meeting monthly to address a lot of these issues. They have been very pro-active in reviewing what the staff are doing, and they are receiving information so they can be more accountable for what the agency is doing. When this was first addressed, the Public Works Board notified all of the project managers that when things start to change they need to notify the Board of changes in scope so it can be brought to the Legislature's attention. This has been implemented and the project managers are well aware of that at this point. During the last session AB 428 was approved. This legislation required any change of scope had to go before IFC. Mr. O'Brien's concern is what is the definition of change of scope. The Public Works Board needed more time to be working on defining that. It was decided there would be a regulation that the Board would actually adopt that would define the change of scope. The Board has developed some draft criteria to review what

the procedure would be for change in scope. Mr. O'Brien explained that will be discussed at next month's meeting. He pointed out he did have a meeting last week to discuss what the legislators' concerns were so they could address those. They are moving forward with this. It is the next item on the agenda when it comes to regulations and he expects that over the next 3 months something will be adopted.

Assemblyman Marvel asked what is a good definition of scope.

Mr. O'Brien replied that is what they have been working on to define.

Assemblyman Marvel asked how the Board was coming along with the changing in qualifications of bidders.

Mr. O'Brien replied the regulations were adopted and filed with the Secretary of State in December. During the last two meetings, the Board has been looking at the forms that have to be filled out and the ranking of the contractors. Mr. O'Brien informed the subcommittee that at the Board meeting this morning, the Board did approve the 2-year process. Right now the Board is working on qualifications for special projects.

ASSEMBLYMAN HETTRICK MOVED TO ACCEPT THE FOLLOW-UP REPORT ON THE PUBLIC WORKS BOARD. MOTION SECONDED BY SENATOR AMODEI AND UNANIMOUSLY CARRIED.

B. Department of Prisons, Sex Offender Certification Panel

Rocky Cooper stated the six-month report on the Sex Offender Certification Panel was issued in October 2001. The six-month report indicated the Department of Corrections had been awaiting passage of SB 241 before developing administrative regulations needed to fully implement the audit recommendations. SB 241 addressed several issues raised in the audit report; however, it did not pass during the 2001 Legislative Session. When the six-month report was heard, the Department of Corrections indicated procedures were being developed to address issues raised in the audit. The

Department continues to make progress on the issues raised in the audit. They have provided the auditors a copy of draft regulations to monitor.

Rex Reed, Medical Administrator for the Nevada Department of Corrections, introduced Dr. Ted D'Amico, Medical Director, Dr. Ron Centric, Acting Medical Health Director for the North, Dr. Robert Schofield, Psychologist III, and Dr. Art Vogt, Psychologist IV, all from the Department of Corrections. Mr. Reed brought in the draft administrative regulation (Exhibit A) that would control the Sex Offender Certification Panel process, as well as a complementary institutional procedure that would control the Sex Offender Certification Panel process. This is presented to show the Department of Corrections is moving forward. This document is still a draft until it goes through the approval process.

Assemblyman Marvel asked what the fiscal impact would be on this. He added SB 241, that did not pass, had a fiscal note attached.

Mr. Reed replied the fiscal note was for approximately \$13,700. Because it did not pass and no money was put in the budget to implement this, the Department of Corrections has been trying to do this through existing resources. He estimates it will be several thousand dollars.

He noted they will send their people to training, and will also make sure they receive publications that are germane to the field of study—sex offenders. They are planning to put these expenses in the budget.

Dr. D'Amico anticipates the Director will give some direction on instituting a bill again so the air is cleared that

the Department of Corrections actually owns this operation. This is important because no one has really taken a hold of this program and that was pointed out by the audit. He confirmed the Department is going to run the program and will absorb it through the existing budget in one way or another to make it operate, but he was not sure if the Department could do this forever.

Chairman Dini asked when the final version of the regulation will be presented to the LCB.

Dr. D'Amico stated he would like to suggest it become a priority with the AR committee and will try to get the Director to sign-off as quickly as possible to put it in with the next batch of AR's. He anticipated 30 – 60 days and hopefully in effect in 90 days.

Senator Amodei asked if the concerns were also being pursued in the Governor's Study Committee on Corrections.

Dr. D'Amico was not sure.

Senator Amodei suggested Dr. D'Amico talk with the Director of the Department of Corrections because the Governor's Study Committee on Corrections is taking a look at some of these issues.

Dr. D'Amico agreed to discuss this with the Director today.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE FOLLOW-UP REPORT ON THE SEX OFFENDER CERTIFICATION PANEL. MOTION SECONDED BY SENATOR NEAL AND UNANIMOUSLY CARRIED.

C. Bureau of Alcohol and Drug Abuse

Rocky Cooper stated the six-month report on the Bureau of Alcohol and Drug Abuse was presented October 2001. The Bureau officials testified they had fully implemented all 19 recommendations except for 1. The Bureau was having difficulty filling a key position necessary to implement one of those recommendations and the Subcommittee recommended the Bureau keep the auditors informed of the status of filling the position. In December 2001, Mr. Cooper was informed the Bureau had filled the key position and was ready to fully implement the final recommendation. Mr. Cooper added the Bureau officials have made a significant effort to address multiple program and financial management issues. There were no further questions or concerns.

ASSEMBLYMAN HETTRICK MOVED TO ACCEPT THE FOLLOW-UP REPORT ON THE BUREAU OF ALCOHOL AND DRUG ABUSE. MOTION SECONDED BY SENATOR NEAL AND UNANIMOUSLY CARRIED.

D. Integrated Financial System, Expenditure and Budgetary Process

Tim Brown explained the six-month report on the Integrated Financial System was issued at the October 2001 Audit Subcommittee meeting; however, representatives from the Department of Administration were unavailable to answer questions. The Audit Subcommittee requested the Department provide information on the status of one of the audit recommendations. The six-month report issued in May 2001 indicated 5 of the 16 initiatives developed as a result of the auditors' recommendation to better utilize the Advantage system had been implemented. At the October 2001 meeting the auditors questioned the status of the remaining 11 initiatives. On December 18, 2001, the Director of the Department of Administration provided a report on the status of the recommendations. Based on the report, Mr. Brown said it appears the Department is making progress on the initiatives with full implementation expected in the near future. There were no questions.

SENATOR AMODEI MOVED TO ACCEPT THE FOLLOW-UP REPORT  
ON THE INTEGRATED FINANCIAL SYSTEM, EXPENDITURE AND BUDGETARY PROCESS.  
MOTION SECONDED BY ASSEMBLYMAN HETTRICK AND CARRIED UNANIMOUSLY.

E. Division of Health Care Financing and Policy

Tim Brown explained the six-month report on the Division of Health Care Financing and Policy at the October 11, 2001, meeting. During the hearing on the six-month report, Division officials testified that all of the recommendations had now been fully implemented with the exception of one. The Audit Subcommittee requested the auditors review the actions taken and report back at the next meeting.

Mr. Brown stated that on December 10, 2001, the Administrator of the Division of Health Care Financing and Policy reported all nine recommendations have now been fully implemented; therefore, there were no questions.

SENATOR NEAL MOVED TO ACCEPT THE FOLLOW-UP REPORT  
ON THE DIVISION OF HEALTH CARE FINANCING AND POLICY.  
MOTION SECONDED BY ASSEMBLYMAN MARVEL AND CARRIED UNANIMOUSLY.

***Item 4—Public comment.***

There being no further comments the meeting was adjourned.

Respectfully submitted,

Marie Cavin, Secretary to the  
Legislative Auditor

\_\_\_\_\_  
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\_\_\_\_\_