

MINUTES OF THE MEETING OF THE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
Legislative Building
401 South Carson Street, Room 4100
October 11, 2001

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, October 11, 2001, in room 4100 of the Legislative Building, Carson City, Nevada.

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Assemblyman Joseph E. Dini, Jr., Chairman
Assemblyman John W. Marvel
Assemblywoman Vonne Chowning
Senator Mark Amodei
Senator Joseph M. Neal, Jr.

AUDIT SUBCOMMITTEE MEMBERS ABSENT:

Assemblyman Morse Arberry, Jr.

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Gary Crews, Legislative Auditor
Stephen Wood, Chief Deputy Legislative Auditor
Marie Cavin, Office Manager
Ian Allan, Deputy Legislative Auditor
Jane Bailey, Deputy Legislative Auditor
Tim Brown, Audit Supervisor
Mike Chadwick, Deputy Legislative Auditor
Rocky Cooper, Audit Supervisor
Shawn Heusser, Deputy Legislative Auditor
Mike Noel, Deputy Legislative Auditor
Doug Peterson, Information Systems Audit Supervisor
Mike Spell, Audit Supervisor
Paul Townsend, Audit Supervisor

Item 1³/₄ Approval of the minutes of the meeting held on March 14, 2001.

ASSEMBLYMAN MARVEL MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF MARCH 14, 2001. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CHOWNING AND PASSED UNANIMOUSLY.

Item 2³/₄ Selection of Vice Chairman of the Audit Subcommittee.

Assemblyman Marvel was unanimously selected Vice Chairman of the Audit Subcommittee.

Chairman Dini mentioned this would be the last Audit Subcommittee for Gary Crews. He noted Gary has done an outstanding job for the State of Nevada for 25 years, and had helped to create the Audit Subcommittee and guided it through rough waters. Chairman Dini congratulated him for a job well done and an outstanding job for the people of the State of Nevada. He wished him well and congratulated him on his retirement.

At the request of Chairman Dini, Mr. Crews introduced his staff present at the meeting.

Mr. Crews pointed out that he has been a member of the National State Auditors Association for 18 years and has had the opportunity as chairman of the peer review committee to see audit staff in other states. In doing that, he would compare the Nevada Legislative Audit Division staff second to none in the nation as far as quality of staff. He felt that when he leaves there will be a fine staff to carry on the tradition for the Counsel Bureau. Without the support of the staff, the Audit Division would never have been as successful as they have been.

Item 3^{3/4}Presentation of audit reports.

A. Purchasing Division

Gary Crews introduced Ian Allan to present the audit report on the Purchasing Division.

Mr. Allan explained the audit on the Purchasing Division specifically covered the purchasing component of the Integrated Financial System (IFS). The purpose of the Purchasing Division is to obtain supplies, equipment, and services in a timely fashion; secure best value; and provide an equal opportunity for all vendors to do business with the State. The Division performs 4 major functions:

- Centralized commodity purchasing;
- Centralized services purchasing;
- Commodity food distribution; and
- Personal property management.

Mr. Allan explained the State of Nevada issued a request for proposal to develop an Integrated Financial System (IFS) in 1997. The System has various components and this audit focuses on the materials management component. The materials management module, which essentially handles the basic purchasing functions, has been rolled out as part of the general IFS over the past several years. Since 1997, the IFS project has received funding of over \$56 million.

The objective of the audit was to determine if the purchasing component of the State's IFS has controls to provide reasonable assurance that purchasing transactions are appropriately processed and reports generated by the system provide reliable information.

Mr. Allan pointed out that one of the goals in implementing this system is to reduce the amount of paper involved in the transactions the government processes. He added the goal was to see whether the system contained controls.

Mr. Allan explained controls are very important to ensure all of the on-line processes in the system work properly. The auditors found several processes in the system that could be tightened, and written policies and procedures that guide staff in various transactions related to the system need to be improved.

Mr. Allan noticed the process involved in generating a payment to vendors needed better controls. Data entry duties of various Purchasing staff were not adequately segregated. He also noticed that payment

vouchers were routinely approved without sufficient criteria to guide staff responsible for those approvals. The Administrator agreed to address these particular problems.

Cash discounts offered by vendors for timely payment of goods purchased were not consistently taken. This occurred because payment terms were not included in over 20% of the purchase orders reviewed. Incorrect discount information was also recorded on some purchase orders. In addition, Mr. Allan could not find a report listing cash discounts offered and then taken by the Purchasing Division.

In response to Assemblyman Marvel's questions, Mr. Allan stated the information on discounts is not available. The State has not kept good information on this. The system is able to generate a report on cash discounts but one had not been produced up to the time of the audit. Mr. Allan explained the Purchasing Division acquired more than \$100 million worth of goods on behalf of state and local agencies during fiscal year 2000. If discounts were offered at 1% on that amount, it would be \$1 million, but not everyone offers discounts.

In order for IFS to record fixed assets that are purchased, an "FA" code has to be entered. This is a personnel training issue. If these codes are not entered properly, the system does not allow fixed assets to be recorded. Mr. Allan added it is particularly important fixed assets are recorded since there is a new accounting standard requiring fixed assets be properly valued.

Mr. Allan explained the policies and procedures do not fully document the purchasing component of the IFS and have not been fully developed.

Mr. Allan noted that in order to process certain transactions, incorrect delivery dates must be used in order to get the system to work. These specific transactions are related to purchases that are often made by Nevada Department of Transportation (NDOT) when they are out working on a highway job, and the paperwork is taken care of after the delivery has been made. He found that in those cases, the system would not take the correct delivery date requiring the staff to work around the problem and enter an incorrect date into the system.

When the State has two fiscal years open, transactions can be completed in one fiscal year, but recorded as expenditures in the other fiscal year. He found that there is no system edit in place to control instances where transaction dates conflict with the year the transaction is charged. Mr. Allan noted this area has budget implications and, if not addressed, could open the door to some budgetary abuse.

The Purchasing Division accepted all six recommendations made in the audit.

In answer to Assemblyman Dini's question on the dates, Mr. Allan felt it was an issue with the coding of the software and was something that could be fixed. The auditors were advised the Division would look at the problem and change it.

Assemblyman Marvel asked if NDOT went through Purchasing.

Mr. Allan replied some of their purchases do go through the Purchasing Division, but they do have their own system. One of the modules of the IFS is for NDOT.

Senator Neal asked why the IFS project has cost so much. The figures in the audit report show it has cost double the original cost of the system. He asked if the State is dealing with people who do not understand.

Mr. Allan felt implementation costs would have to be expected when buying an off-the-shelf package to make sure it fits in with what needs to be done. Programming and testing raises the original cost but is needed to

get the system to work as expected. The auditors did not look at the issue of how much these little changes add up in terms of cost, but that is an important issue.

Mr. Crews added the overspending consistency in IT projects is a concern of the Audit Division. The auditors just started an audit of the Department of Information Technology and will be looking into this issue.

Mr. Crews was not sure the original appropriation was an all-inclusive figure. It could have been a phased-in process and he wouldn't necessarily say the cost has doubled. The \$56 million figure is the total amount of money provided to the system.

Senator Neal asked if this was all the money to be expended on this project.

Mr. Crews did not feel his office was in the position to answer that question.

Assemblywoman Chowning noted the IFS project is one of the projects showing better results than the other computer projects the State has spent a lot of money on. She felt this system would eventually end up saving a lot of money. She asked about the procedure to follow up on these items.

Mr. Crews informed the committee the Division will have the opportunity to prepare a plan on how to implement these recommendations more specifically than they have in their response. Mr. Comeaux's Office will evaluate the implementation of the recommendations in six months and bring it back to the subcommittee to evaluate.

Mr. Bill Moell, Administrator, Purchasing Division, informed the subcommittee that of the six recommendations, four were in the direct authority of the Purchasing Division to correct and were corrected before the auditors left the premises. As far as discounts earned, a report was implemented indicating how many discounts were taken and how many missed. It is approximately \$5,000, not the \$2 million suggested. The reason for that is people who bid on government goods do not normally give discount incentives because they give their pricing on discounted straight pricing. With IFS, the Purchasing Division has the opportunity to educate the vendors to give more discounts. He concluded the amount of discounts for the State is growing all the time.

Mr. Moell added the last 2 recommendations are under the IFS management group and the Purchasing Division has received approval from the management group to implement the last 2 recommendations, and he reported that one is finished and one is expected to begin testing in 2 to 3 weeks.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE AUDIT REPORT
ON THE PURCHASING DIVISION. SECONDED BY ASSEMBLYWOMAN
CHOWNING AND PASSED UNANIMOUSLY.

B. State Contracting Process

Mr. Crews explained the audit on the State Contracting Process was a subject matter he suggested to the Legislative Commission a couple sessions back as far as a cross-cutting audit. The auditors went out and audited several agencies because they felt there could be a systematic problem in this area. He introduced Rocky Cooper, Audit Supervisor, and Mike Chadwick, Deputy Legislative Auditor to present the report.

Rocky Cooper explained the State of Nevada awards hundred of millions of dollars in contracts annually to help it deliver services to the public. He showed the Board of Examiners (BOE) approved 1,867 contracts totaling more than \$544 million. This was based on available information. This includes contract amendments and extensions. He explained the state's contracting process varies by agency, contract type,

and dollar thresholds.

Mr. Cooper noted the State has had a history of problems related to contracting activities. Some of the problems have been noted in recent legislative audits. For example, in the Department of Information Technology (DoIT) audit in 1998, most of the \$36 million in cost overruns identified in the report related to services performed under contracts.

Another example would be the Group Health Insurance Program in 1998. The audit found the Committee on Benefits did not use appropriate practices to manage its contracts. As a result, the State spent tens of millions of dollars to bailout the program.

Mr. Cooper explained this audit examined the state's contracting process for contracts approved by the Board of Examiners during fiscal years 1998 to 2000. The objective of the audit was to determine if the State has established and followed sound contract management practices.

Mr. Cooper found state agencies did a poor job in planning the contracts reviewed. Planning deficiencies include (1) incorrect identification of vendors as sole source providers, (2) unclear cost estimates, and (3) inadequate contract performance requirements.

The auditors found agencies incorrectly identified five of seven contractors as sole source providers. These vendors were awarded contracts without having to compete with other available vendors. Although seven contracts indicated services were provided by only one vendor, the auditors identified five contracts where services could have been provided by another vendor. Two of these contracts were amended several times without soliciting proposals from other potential vendors. In one example, more than \$86,000 did not go through a competitive process.

Mr. Cooper explained that effective December 13, 1999, state regulations required the Purchasing Division to determine the services that may only be contracted from a sole source provider. Although the State has recognized the importance of reviewing decisions that restrict competition, the Department of Administration does not have policies and procedures in place to ensure agencies seek approval from the Purchasing Division.

Accurate cost estimates are essential for planning contracts. Estimated contract values determine the type of solicitation method required and when the Purchasing Division is responsible for contracting for the service. Mr. Cooper gave examples of problems related to cost estimates and planning.

Mr. Cooper stressed that performance requirements are essential to determine if vendors delivered the desired level of services intended by the contract. However, most contracts reviewed did not clearly state the contract's deliverables. In addition, performance incentives were often lacking. Only 1 of 16 contracts reviewed by the auditors contained a penalty provision for poor performance. Although agencies are required to use the Model Contract Form Book, this book does not explain how to develop performance requirements.

Mr. Cooper informed the committee that poor planning contributes to frequent contract amendments. The BOE approved 27 amendments to the 16 contracts reviewed. These amendments included multiple changes to contract terms. He stated that when contracts are frequently amended, the benefits of a competitive contracting process can be reduced. This reduction occurs because the services originally requested in the RFP may be much different than the amended contract. Therefore, other vendors do not have the opportunity to compete for the additional services.

Mike Chadwick continued with the presentation of the report. He explained the state's contract award

process does not ensure vendor proposals are consistently and objectively evaluated, and contracts are awarded fairly. Without proper awarding practices there is little assurance the State is selecting the most qualified vendor at the best price. Furthermore, contracting decisions may not be defensible if challenged.

State agencies use a wide variety of methods for evaluating vendor proposals. Although statute requires agencies to numerically score proposals, only five of the nine contract evaluations we reviewed assigned a score to each proposal. For the evaluations that were scored, the auditors identified numerous shortcomings in the way state agencies scored proposals. Most problems related to a lack of guidance on how to score the information received.

Mr. Chadwick mentioned that problems with scoring proposals occur when evaluators do not have a clear understanding of the criteria to be evaluated and how to award points to a particular scoring category. Of the scored evaluations reviewed, none of the proposals were evaluated using a technical evaluation process. This process includes defining the scoring elements to be evaluated and determining the maximum number of points awarded for each element.

Of the nine competitive awards, Mr. Chadwick explained only two contracts by DoIT used an appropriate method to evaluate cost. DoIT uses a mathematical formula to assign a score to the price of the proposal. State law requires scores be assigned to the price of a proposal; however, procedures have not been developed to provide agencies with guidance on evaluating cost.

The auditors found an evaluation committee was not used to evaluate proposals in three of nine solicitations.

Mr. Chadwick explained the auditors found state agencies did not follow proper monitoring practices. Without a sound monitoring process, the State does not have adequate assurance it receives what it contracts for. For example, state agencies did not prepare a Contract Compliance Checklist for 7 of 16 contracts reviewed. In addition, most checklists prepared were incomplete. The checklist was developed by the Office of Attorney General to help agencies improve their monitoring efforts.

Mr. Chadwick also noted agencies did not perform a final project evaluation on eight of nine completed or terminated contracts. The Department of Administration (DOA) does not have policies and procedures related to monitoring contracts.

Mr. Chadwick explained the DOA lacks the information it needs to oversee the state's contracting activities. Information regarding state contracts is not complete, accurate, or readily available. Although DOA staff maintains information on contracts awaiting Board of Examiners' (BOE) approval, statewide information including the type of service provided, service area, and contract length is not tracked. Better information would allow the BOE to identify multiple contracts for the same service.

Mr. Chadwick noted the DOA accepted the recommendation to collect statewide contract information, and to establish policies and procedures to do so. The DOA also indicated a spreadsheet was recently developed to track the state's relationship with independent contractors in regards to funding. Mr. Chadwick felt that although tracking funding information may prove useful, it may not go far enough.

Mr. Chadwick found the State does not ensure employees responsible for contracting activities are adequately trained. The Department of Personnel's training section offers a 3½-hour contracting course several times a year. Although this course provides a basic understanding of Nevada's contracting requirements, it is not designed to provide in-depth training on how to plan, award, and monitor contracts. Mr. Chadwick suggested Nevada could provide more comprehensive contract training without a significant increase in costs by reallocating its training resources and providing in-depth training to those employees who have a greater responsibility for services contracted for, rather than training people not necessarily involved in contracting activities.

Mr. Chadwick explained the accountability for the state's contracting activities is poor because the framework for accountability has not been established. No single entity or individual is responsible for ensuring the State follows sound contracting practices.

The Department of Administration accepted all six recommendations.

Senator Neal found it interesting that no single individual is responsible for the accountability of issuing the contracts.

Mr. Crews replied that the Board of Examiners is ultimately responsible for the contracts going through the State. The BOE sets policies and procedures and he felt they need to work with the Department of Administration in setting this up. It will take a lot of parties and involvement by a lot of individuals and it will be a big undertaking, but it is something that needs to be done. A lot of money goes through the contracting process.

Assemblyman Marvel asked why there was such a big discrepancy in the contract with DoIT and Sprint Communications.

Mr. Cooper responded the contract was amended several times and some of the amendments were planned extension options in the original contract, and a lot of the changes were not planned. The contract was originally for a 2-year period for \$1,044,538, and was amended soon after entering the contract to provide Internet services.

In response to Assemblyman Marvel, Mr. Cooper confirmed all the change orders go through the BOE. He added the information provided by the agencies is usually adequate when they are doing amendments, but the critical phase is when the contracts are planned.

Senator Neal asked when looking at the overall picture, if the State is dealing with the violation of statute.

Mr. Crews answered there are certain violations of statute that have occurred.

Senator Neal felt someone had to be held responsible for these violations.

In talking with legal counsel, Mr. Crews explained it is on a case-by-case basis and there is no general statute that addresses this. Each type of issue has to be addressed specifically. Counsel has indicated that the court can require an agency to carry out its duty as specified by statute, but there is, in most cases, no penalty for not following the statute.

Assemblywoman Chowning noted that in the 1997 session a lot of these problems were brought up and there was a position that was created and implemented specifically to address these kinds of problems with the multiple contracts. She asked if that position is necessary and accomplishing what is needed. She added it is very distressing to see these problems still occurring.

Assemblywoman Chowning was glad to see in the response to the audit report there will be a Board of Examiner's policy requiring training for agency contract administration personnel. The BOE is a stop-gap check measure and they would not have to do that if these were already being accomplished.

Mr. Crews could not particularly address that particular position, but it is a big process and it takes the requirements of all state agencies. He didn't feel the State has done a good job in training in a lot of areas over the years, and more emphasis needs to be placed in that area. The State has people in lower-end

positions with very little training, making big decisions and soliciting large contracts. Mr. Crews noted that in the initial response, the DOA mentioned the reporting is going to be developed in-house, and he does not believe it is adequate. That is something that will have to be reviewed when DOA submits its 60-day plan.

Mr. Crews noted it is a big project and some states have certified contract individuals within the agencies. These people have been trained to a certain level where they receive a certification. Nevada has not taken it that seriously and he felt it was something it should do.

In response to Senator Neal's question, Mr. Chadwick explained all the contracts mentioned in this audit report were Board of Examiners' contracts and not from any exempt agencies.

Mr. Crews agreed there are statutory violations. He stressed the BOE approves contracts, but when the decisions are made, those decisions are only as good as the information provided. Poor information is provided to the BOE and it makes decisions based on that information. This is why a process needs to be put in place. It is not the problem of just a board or an agency. It is a complete process from the individual agency to the DOA, to the Purchasing Division, to the BOE. People need to be held accountable when they do not follow the rules, but the rules need to be provided and it needs to be made very clear what they are responsible for.

No one from the agency was present to respond to the report.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE AUDIT REPORT
ON THE STATE'S CONTRACTING PROCESS. SECONDED BY
ASSEMBLYWOMAN CHOWNING AND PASSED UNANIMOUSLY.

C. Internal Controls in State Government

Mr. Crews explained the audit on the Internal Controls in State Government deals with the Department of Administration and is a cross-cutting audit dealing with internal controls in state government as a whole. He introduced Paul Townsend, Audit Supervisor, and Shawn Heusser, Deputy Legislative Auditor, to present the report.

Mr. Townsend explained internal control is broadly defined as a process, affected by management and other personnel, designed to provide a reasonable assurance regarding the achievement of objectives in specific categories. These categories include effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. A fundamental concept of internal control is that it is a continuous built-in component of operations. Internal controls mean the same thing as management controls, which are sometimes mentioned in other audit reports. This concept can cause some confusion in the implementation of internal control because, traditionally, internal control applied only to accounting activities. Today, internal control affects virtually every aspect of an organization's operations.

Mr. Townsend noted the Legislature demonstrated its longstanding commitment to strong internal controls at state agencies. Laws designed to strengthen controls at state agencies have been passed during three legislative sessions since 1987. In 1987, concern was expressed that state agencies did not have uniform controls related to accounting functions. Many audit reports at that time contained findings from weaknesses of fundamental accounting issues. Also, many agencies had not developed well-documented policies and procedures and were not properly documenting their transactions. Therefore, SB 341 was passed in 1987 that required the Director of the Department of Administration to establish a uniform system of internal accounting and administrative control for state agencies. Agencies were required to adopt written procedures to carry out the system.

Subsequent to that, the Director of the Department of Administration did establish a uniform system of internal accounting and administrative control. However, agencies were slow to implement that. As several years went by, the same problems were occurring. In 1995, SB 460 was passed. This required agency administrators to review their compliance with the uniform system and then report on that biennially to the Director of the Department of Administration. The Legislature also assisted the agencies by creating the Office of Financial Management, Training and Controls through AB 24. This office was to train and assist agencies in the development of these control systems. Currently, that office has been organized under the Division of Internal Audits within the Department of Administration.

Mr. Townsend explained that even with the legislation, some agencies did not perform the required reviews, many did not report timely, and others did not report at all. In 1999, AB 255 was passed which required the Director of the Department of Administration to report on the status of internal controls at state agencies. The report is then submitted to the Legislature, the Governor, and the Legislative Auditor beginning in 2001.

Mr. Townsend noted the audit included the internal control activities of state agencies as of December 31, 2000. The objective of the audit was to evaluate the status of internal controls in the State.

Assemblyman Marvel commented that he and Speaker Dini have been on this committee since it was instituted, and to tighten internal controls has always been one of the recommendations. It is appalling that the State has gone this long with the same recommendation. He added it is time to take a hard look at this problem.

Assemblyman Dini added that the same problem occurs with each change in administration. With each change people are changed and they are not trained. That is why the Legislature created the agencies to train them.

Shawn Heusser explained agency managers have not established strong internal controls and have not always implemented recommendations designed to improve those controls. In some cases, known weaknesses have gone on without being corrected.

Many agencies have not capitalized on the opportunity for improvement. The Financial Management, Training and Controls Section (FMTC) provides recommendations to improve internal controls at state agencies. FMTC considers agencies to be responsive when they have implemented at least 75% of the recommendations provided. However, as of June 2000, 37% of the agencies assisted had not met the criterion.

Mr. Heusser found that some agencies have also not reported conducting a periodic review of their internal controls. In July of every even-numbered year, agencies are to report on the status of their internal control systems. In July of 1998, 54% reported conducting a review of their systems. While this number increased to 67% in July 2000, this still represents that 47 agencies did not report conducting this review. Reviews assist agency managers in determining how they can improve agency internal controls.

A reason weaknesses continue to occur is that many agency employees do not have a sufficient level of knowledge to design and implement internal control systems. A 1996 audit found that, in most cases, work experience could be substituted for a college degree, and formal examinations were often waived when there were few qualified applicants. While improvements in the hiring practice have been reported, it will take several years to ensure that highly qualified individuals hold financial management positions.

Mr. Heusser reported that in fiscal year 2000, state agencies responsible for implementing the state's internal control standards had expenditures of nearly \$4 billion. Internal controls provide the framework for the accomplishment of agency goals and objectives. These

controls provide reasonable assurance that agency managers use resources effectively and efficiently.

Mr. Heusser explained that with the creation and implementation of the Integrated Financial System (IFS) this has caused a change in the control structure of the State. The State is currently in the transition of moving from a pre-audit to a post-audit function and the controls have been shifted somewhat to the agencies. FMTC is currently working with agencies to strengthen controls by certifying agencies' control systems before each agency can begin processing transactions online.

Mr. Heusser stated that effective controls can save millions of dollars. For example, the Division of Parole and Probation revised its policy regarding collections of delinquent accounts. The auditors estimate this revision increased collection of offender supervision fees by \$800,000 in fiscal year 2000. Also, in a 1998 audit of the Department of Prison's Inmate Medical Services, auditors identified control weaknesses over the utilization of outside medical care. According to officials from the Department of Prisons, management implemented the audit recommendations and strengthened internal controls. The auditors estimate the strengthened controls saved the State approximately \$3 million during fiscal years 1999 and 2000.

While meeting internal control requirements is the responsibility of agency managers, Mr. Heusser felt the DOA is in the position to provide oversight of state agencies' implementation of the requirements described in the State Administrative Manual. The Director of the DOA has the statutory authority to investigate and study the organization and administration of departments, institutions, and agencies in the executive branch.

Continuing, Mr. Townsend explained there have been a number of reasons for poor internal controls in the State. The auditors feel one way to improve these would be to provide more-specific assistance in certain areas. Over the past 5 years, over 1,400 employees throughout state government have attended training sessions provided by FMTC. There have been positive results and an improvement. The audits now are more focused on individual areas as opposed to the broad range of general control requirements; therefore, the auditors feel FMTC can expand the other types of assistance it provides to agencies. This can include working more extensively with agencies to strengthen controls over high-risk processes that have not been addressed through the general training provided.

Mr. Townsend discussed that agencies would benefit from more extensive assistance over specific, high-risk processes such as IFS transactions, revenue collections, and credit card transactions. The auditors feel FMTC has the ability and expertise to work with the agencies, and they are currently doing that with the IFS project.

Mr. Townsend went over the internal controls adopted by the private sector, Federal Government, and the Department of Administration. Guidance that goes with these standards can also be incorporated into the State Administrative Manual to make it clearer for agencies.

The audit report contained four recommendations. The Department of Administration accepted three of the recommendations, and rejected the recommendation to focus more attention on providing assistance to agencies in high-risk areas that significantly impact operations.

Assemblywoman Chowning asked if part of the problem is the reports are being filed without the reviews being conducted.

Mr. Townsend responded that agencies file the report without conducting an adequate review. This is a matter of the agency managers not giving this a high priority, but there has been some improvement.

Assemblyman Marvel asked if anyone from the Governor's Office was present. He asked how the Division of Internal Audits is working.

Bill Chisel, Chief of the Division of Internal Audits, introduced Mary Keating, Chief of the Financial Management, Training and Controls section. Ms. Keating explained state agency internal controls are an on-going process and she thinks the office has made great improvements in the last 2 years. In the last 5 years they have trained 1,400 employees and made 2,400 recommendations. She pointed out FMTC has 4 employees and there are 148 state agencies. They try to hit as many people as possible.

Ms. Keating felt her office has the expertise and they do offer a lot to the agencies. They have found the agencies are very receptive to the recommendations and try to accommodate FMTC as much as they can. She explained the reason FMTC rejected the third recommendation isn't that they don't believe the task should be not done, but they believe that task is being handled by the Internal Audit staff. She felt it would be duplicative.

Assemblyman Marvel asked if there would be 100% containment. He felt that if she feels they are accomplishing the tightening of internal controls, then it won't be showing up in future audits.

Senator Amodei asked if the Department of Transportation is included within the functions described and if they are currently performing an audit on them at this time.

Ms. Keating replied they are included in the functions described. Mr. Chisel responded the Internal Audits Division has an audit on-going at this time and it will possibly be completed by January.

Senator Neal asked if the agencies are not fulfilling the commitment in terms of internal controls now, how is it going to happen when the agencies are doing their own paperwork.

Mr. Crews replied that when the decision was made to go with a decentralized system, it scared the auditors. There can be weaknesses when there is a centralized system and controls in place, but it just magnifies the problem when every agency has the capability of inputting and originating documents. It is going to become even more important that each agency has strong controls.

Ms. Keating expanded on that by explaining that is the reason FMTC is reviewing those controls before any agency goes on-line. They have to have written documented controls that, if followed, should not result in a fatal flaw or an audit failure. The IFS is set up requiring a letter from FMTC to the Controller's Office saying the agency has the proper controls. At this point the agency would be given the passwords. She cannot assure the committee there would not be failure, but she assured them that if the agency followed the procedures as written, it would mitigate those facts and result in positive transactions.

Chairman Dini added there is always the human factor.

ASSEMBLYWOMAN CHOWNING MOVED TO ACCEPT THE AUDIT
REPORT ON THE INTERNAL CONTROLS IN STATE GOVERNMENT.
SECONDED BY SENATOR NEAL AND PASSED UNANIMOUSLY.

D. STATE FIRE MARSHAL DIVISION

Mr. Crews introduced Mike Noel, Deputy Legislative Auditor, to present the report on the Fire Marshal Division.

Mr. Noel explained the Fire Marshal Division is headquartered in Carson City, and also has offices in Elko, Henderson, and Pahrump. It had 32 full-time positions as of last December. The Division's primary mission is to reduce the loss of life and property from fire and hazardous material incidents. Revenue for the Division comes from hazardous material permit fees, building plans review, and license fees. In fiscal year 2000, the Division recorded just over \$500,000 in hazardous material permit fees. Expenditures during this time totaled about \$2 million. As of December 31, 2000, 4,511 entities in the State held a hazardous material permit.

The audit objectives were to determine if the Division: (1) has an adequate process to ensure businesses storing hazardous materials are identified, (2) has established a permit renewal process that ensures businesses hold a current and valid hazardous material permit, and (3) has implemented the National Fire Incident Reporting System as required by NRS 477.030.

Mr. Noel explained the State Fire Marshal Division lacks an adequate process to ensure businesses storing hazardous materials are identified. As a result, some businesses have operated for years without the required hazardous material permits that provide information about the type and quantity of hazardous materials stored at businesses. This information is vital to the safety of emergency personnel, such as fire fighters and police officers, when responding to hazardous material incidents, fires, or other emergencies. Mr. Noel noted this condition was noted in the 1994 audit of the State Fire Marshal Division, but little progress has been made.

During the audit, the auditors selected 30 businesses holding permits in Nevada. Of these businesses, 18 had been in business for at least 4 years prior to receiving a permit from the Division. In addition, 7 of the 18 had been operating without a permit since 1989—the year the hazardous material permit program began. The Division recently estimated the number of businesses in Nevada that should hold a hazardous material permit could exceed 20,000. However, as of December 31, 2000, less than 4,600 businesses held a permit.

Mr. Noel explained the Division can improve how it identifies businesses storing hazardous material. The primary method used by the inspectors to identify these businesses is to select a geographical location and inspect those businesses within that area. Efforts the Division could undertake to improve the identification process include coordinating with other state agencies, such as the Department of Taxation, to obtain information about new businesses in Nevada, and placing the hazardous material permit application on the Division's website. Mr. Noel stressed an important point about the Division's identification process is educating businesses about the proper storing and handling of hazardous materials. Continuing, Mr. Noel stated the Division lacks basic management controls over the permit renewal process. As a result, many businesses have been operating for months without the required annual permit. Without current information available on hazardous materials obtained from permits, there is increased risk to emergency responders. To help the Division process hazardous material permits, the Interim Finance Committee approved an additional position in September 1999. Despite the increased focus on improving the permit renewal process, the Division is still experiencing problems in this area.

The Division has two methods for renewing hazardous material permits for businesses. For one method, the Division follows up monthly with businesses that have not renewed, but for the other method, no follow-up activities are done to ensure the required permit renewal forms and fees are sent to the Division. This renewal method has a lower permit renewal response rate.

Mr. Noel noted another weakness in the permit renewal process is the lack of management information. The Division does not prepare reports comparing the number of renewal forms sent to the number returned. These reports could provide management with information to monitor the permit renewal program. Also, the Division should enforce its requirement that businesses submit a plan for terminating hazardous material storage. Once again, when businesses do not renew their permits timely, the Division lacks current information on the type and quantity of hazardous materials stored. Without current data there is greater risk

to the public and emergency responders.

Mr. Noel explained the State Fire Marshal Division has not made implementing the National Fire Incident Reporting System (NFIRS) a priority. Although required by state law since 1979, the Division has still not fully implemented NFIRS. As a result, the State has missed opportunities to use NFIRS information in helping prevent fire incidents and improve public safety. This issue was also raised in a 1994 legislative audit report.

The 1994 audit of the State Fire Marshal Division contained three recommendations. The Division indicated all three recommendations had been fully implemented; however, the auditors found two were partially implemented and one was not implemented.

The Division accepted all six of the recommendations.

Assemblyman Marvel asked if there was a staffing problem to get all the information. He also inquired if the Division goes to the Department of Taxation for information on the business licenses.

Mr. Noel replied the Department of Taxation has a form for new businesses coming into Nevada and if they deal with hazardous materials. Mr. Noel pointed out the audit did not focus on additional resources, it focused on how the Division can improve with the resources it has.

Bryan Slobe, State Fire Marshal, responded to the report. He felt the problems were an issue of staffing. The Division has only 4 deputies and they are responsible for 20,000 businesses. In the last legislative session, the Division was allowed to cross-train the hazmat deputies and the regular enforcement deputies so those forces can combine to all do hazmat, and fire and life safety inspections. This has helped to increase the staffing without adding additional people. He stressed staffing is still a question considering the amount of country they have to cover. Currently, there is a hazmat deputy in Clark County, which is a target-rich environment. The deputies in Carson City go to Eureka, Lander, Humboldt, and Elko counties, which takes a lot of travel time to do inspections.

Assemblyman Marvel asked if the mines qualified for hazmat.

Mr. Slobe replied it depends on the material and process they are using.

Senator Neal asked what the total expenditure is for the State Fire Marshal Division.

Mr. Slobe replied the total expenditure comes from two budget accounts. One of the accounts is for training that is expended for training officers to go out and teach the hazardous materials and terrorism classes. This budget is approximately \$1.2 million. The hazmat fees collected are about half that amount. He agreed with Senator Neal that the fees collected could greatly increase if they had more staff to get out and collect the fees.

Mr. Slobe concurred with Senator Neal that no one knows what is out there in terms of hazardous material. Senator Neal then asked if the State had anthrax-type material.

Mr. Slobe answered the Fire Marshal Division does not know.

Senator Neal felt the audit report seems to say there is proposed danger to the health and welfare of the citizens of Nevada by not having an adequate listing of the places where hazardous material is stored.

Mr. Slobe answered it is actually two-fold. There is a danger to the citizens by not knowing what is out there,

and there is danger to the fire and law enforcement services not being able to provide the necessary training with more training officers.

Chairman Dini felt one of the problems is some counties don't even have a requirement to have a business license. He referred to the business in Douglas County that just blew up. They made aerosol cans and didn't have to have a business license. Because of this, DETR didn't know they were in existence and they didn't have workman's compensation. He was concerned how many other companies were like that in the State. He stressed the Fire Marshal Division needed to develop a way to work with other state agencies to find out about the new businesses and then get the word out about the permits.

Senator Neal asked if there was a statute governing this subject.

Mr. Noel replied there is a statute that requires businesses holding certain types of hazardous material to obtain a permit.

Senator Neal then inquired if those businesses are up-to-date on their permits.

Mr. Slobe informed the committee there are businesses cropping up over night. It has to go much further than just working with state agencies. The Division needs the manpower and the deputies to go out on the county and city levels, especially in the rural areas, where they can go out and talk to that level of people to get the information on what is out there.

Assemblywoman Chowning felt this is a prime example of a constant, vicious circle. The Division has only two clerical positions and the Division deals with 20,000 businesses now instead of 5,000. That is a 400% increase. There has not been a 400% increase in staff. She noted the Division is a 100% funded agency. If they don't have the personnel to collect the funds and do the inspections, how will there be the money to pay for the positions? The taxpayer dollars don't pay for this, yet hazardous material is very important subject. She believed there was an anthrax scare in Henderson last year. Ms. Chowning felt it was important for the Division to ask for more personnel because the State can't take care of the vital inspections needed for our citizens' safety if the State does not step up to the plate and give the Fire Marshal Division the help it deserves.

Assemblywoman Chowning pointed out tomorrow is Mr. Slobe's last day. He will be retiring after 25 years and congratulated him. She thanked him and hoped his health issues will be resolved.

Assemblyman Marvel added he appreciated what the Fire Marshal does for the rural fire departments. It has been a tremendous service for the volunteers. He wished him well in his retirement.

Assemblywoman Chowning commented that the agency has accepted the recommendations, but how many years will it take the Fire Marshal Division to truly get these recommendations accomplished without the personnel.

Mr. Slobe agreed that it can not be done without the personnel.

On a personal note, Mr. Slobe thanked the members of the Legislature. They have been very good to him on a personal level and they have been good to the Fire Marshal's Office.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE AUDIT REPORT
ON THE STATE FIRE MARSHAL DIVISION. SECONDED BY SENATOR
NEAL AND PASSED UNANIMOUSLY.

E. OFFICE OF THE MILITARY

Mr. Crews introduced Jane Bailey, Deputy Legislative Auditor, to present the report. He pointed out this was a special requested audit that went to the Legislative Commission for its approval.

Ms. Bailey explained the audit included the financial and administrative activities of the Office of the Military during calendar year 2000. The objective of the audit was to evaluate the Office's financial and administrative practices, including whether the practices were carried out in accordance with laws, regulations, policies, and contractual requirements, and whether appropriate controls were in place.

Ms. Bailey stated the Office of the Military has not always followed state laws and regulations or its policies and procedures for controlling expenditures. The auditors found the employees frequently made purchases without proper authorization and approval. Of 27 purchase orders tested, the auditors found 14 were not properly approved. Of these 14, seven were approved by individuals acting outside their scope of authority, and seven contained no evidence of approval. In addition, five purchase orders were prepared after the vendor provided services, and two purchase orders were used that bypassed state purchasing requirements. Ms. Bailey stated that the Office has established procedures for purchase orders; however, the auditors found staff did not always follow these procedures.

The auditors reported the Office overspent its budget for college tuition reimbursement (National Guard Benefits budget account) by more than \$9,000 in fiscal year 2000. This occurred because staff recorded expenditures in the wrong fiscal year, which is a violation of the state accounting procedures law.

To make up for overspending from this budget account, Ms. Bailey informed the committee the Office has dropped its college tuition reimbursement rate to Guard members. The reimbursement rate has dropped from 50% in the summer of 1998, to 25% in the summer of 2000.

Ms. Bailey explained the Office overspent its authority for the operating category of its main budget account by more than \$11,000 in fiscal year 2001. This occurred because goods were purchased outside the state's accounting system and were never recorded as Office expenditures.

Ms. Bailey stated the Office did not follow many contracting requirements intended to provide open competition for contract awards and adequate protection to the State. These contracting problems stem from a lack of understanding of the state's requirements, poor oversight, and inadequate policies and procedures.

The Office did not follow the state's solicitation requirements for 5 of 10 contracts reviewed. For three contracts, the Office did not document that it attempted to solicit and review at least three bids from vendors. In addition, two contract solicitations were not advertised in local newspapers as required. Therefore, Ms. Bailey explained these contracts were awarded without ensuring sufficient competition from other vendors.

Ms. Bailey reported the Office did not always obtain independent contractor services by contract. When the auditors tested expenditures, they found 5 payments totaling over \$16,000 that should have been paid under contract, but were not.

Ms. Bailey noted the Office allowed 3 of 10 contractors to perform work prior to receiving approval from the Board of Examiners (BOE). In total the Office made 15 payments of about \$19,000 for services rendered outside contract effective dates.

Also, the Office did not ensure its contractors obtained and maintained appropriate insurance coverage.

The auditors found the Office did not always obtain approval from the Buildings and Grounds Division when leasing non-state-owned facilities. Two of three leases reviewed were not approved timely or were missing required approvals from the Buildings and Grounds Division.

Ms. Bailey addressed the finding that personnel and payroll rules were not always followed. The Office did not ensure employees had current work performance standards and were given annual performance evaluations.

Ms. Bailey reported the Office has significant problems related to the approval, accumulation, and use of overtime. The auditors found over 70% of instances of overtime tested showed no evidence of supervisory approval prior to the overtime being worked. They also found that two employees accumulated more compensatory time than allowable under state regulations.

Ms. Bailey noted employees used annual leave rather than accrued compensatory time in at least 10 instances during a 6-week period. One employee used 28 hours of annual leave during a pay period even though his accrued compensatory time balance was over the maximum allowed by the end of the pay period.

Ms. Bailey pointed out some employees did not complete their timesheets accurately, and military and other leave was not always recorded on timesheets when fire crew members did not work their regularly scheduled shifts.

Ms. Bailey reported the Office does not adequately safeguard its assets. The auditors found multiple problems with the Office's control over assets valued over \$500. Some of the assets tested did not have a state property tag affixed, some items found at the Office facilities were not on the Purchasing Division's list of fixed assets, some of the items tested were not at the location listed on the Purchasing Division's assets listing. Also, an internal inventory list prepared by the Office was not complete and almost half the assets tested were not on the inventory list. These problems occurred because Office staff did not follow Office procedures and management did not review controls over assets to ensure procedures were followed.

Ms. Bailey explained the Office has not established an adequate system of financial and administrative controls as required by NRS. The lack of controls contributed to many of the problems discussed in this report. A system of controls is especially important because of recent organization changes and staff turnover. The responsibility for establishing a system of internal controls rests with the management of an organization, and includes establishing and maintaining a control environment throughout the organization that sets the tone for ensuring control systems are in place and working.

Ms. Bailey stated the prior audit contained two recommendations and she found neither of the recommendations had been fully implemented and they had been modified and repeated in this report.

The Office of the Military has indicated it has accepted all 13 recommendations made in the current report.

Assemblyman Marvel congratulated General Miles Vanderhoof on his recent promotion from Brigadier General to Major General.

Senator Neal asked how the Office of the Military accounts for the money received from the Federal Government.

Ms. Bailey answered some state expenditures are reimbursable through the Federal Government. This is when the money is spent from the State first and reimbursed from the Federal Government back to the State. Other expenditures are made directly by the Federal Government and do not flow through the state accounting system.

Senator Neal inquired what portion of the money are the auditors speaking about when they talk about internal controls—the federal or the state side.

Ms. Bailey replied the auditors only looked at the money flowing through the state budget accounts, including reimbursements from the Federal Government, but not those expenditures made directly by the Federal Government.

Major General Vanderhoof responded to the report. He said the Office of the Military accepted all of the findings and recommendations and felt the audit was very beneficial. When taking over a new job, it is nice to have an audit to point out the problems. He believed they would have caught these problems, but not nearly as fast as it has happened in the audit. He added the Office has a very good state work force but there has been a lot of turnover in the last couple of years. He pointed out the auditors not only did a good job on the audit, they took the time to point out things to the staff and gave them procedures that would benefit in the future.

Ms. Chowning stated she hoped so. Things as elementary as time sheets and reporting expenditures for people going to conferences are things that any business person is able to review. Someone needs to be held accountable. She asked if the people who were not doing the job adequately are gone, and now there are others that will do the job.

Major General Vanderhoof replied in some cases, but with the specific instances Assemblywoman Chowning was referring to involved firemen with unique shifts. Their interpretation of the Fair Labor Standards Act was they were allowed to trade shifts, but in the trading of shifts for fireman, they recorded it as it was laid out and then balanced it out. He agreed filling out time sheets is fairly simple and shouldn't be much of a problem. With firemen it gets very complicated and many people had to get involved to really sort this out and come up with a procedure that really worked.

Assemblywoman Chowning referred to the one instance regarding three employees attending a conference. She agreed one part is filling out the time sheets, but it is up to the person in charge at the agency to review and make sure those things are correct. She hoped this problem does get better. She stated it is pretty appalling and embarrassing.

Assemblyman Marvel asked what is going to happen with all the new duties assigned to the National Guard.

Major General Vanderhoof answered they are stretched pretty thin right now and it will continue on. There are around 400 people being mobilized and scattered around in one way or another, and he expects to see considerably more.

In answer to Assemblyman Marvel's question, Major General Vanderhoof said some of the people will be sent over seas.

Senator Neal asked Major General Vanderhoof if when he refers to his people being mobilized if that means the same as being federalized.

Major General Vanderhoof responded yes, and when he says mobilized that means they are immediately put on Title 10 active duty, just like if they were in the air force or the army and the State no longer has control.

Senator Neal asked if the Federal Government was paying for their services.

Major General Vanderhoof said they are, and they are also paying for the airport duty through a provision of the law where the Federal Government pays but they are still under the control of the Governor and himself.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE AUDIT REPORT

ON THE OFFICE OF THE MILITARY. SECONDED BY SENATOR NEAL AND PASSED UNANIMOUSLY.

F. Dairy Commission

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

Mr. Cooper explained the audit focused on calendar years 1999 and 2000. The objective of the audit was to determine if the Commission's audit and investigative activities were carried out in accordance with its standards for monitoring the dairy industry.

Assemblyman Marvel asked if there was an assessment on milk.

Mr. Cooper responded there is and it started in fiscal year 2001.

Although the Dairy Commission developed an audit manual to guide audit activities, the manual was not always followed by staff or enforced by supervisory personnel. For instance, the Commission's audit manual emphasizes the importance of audit planning; however, the Commission's auditors did not document their planning efforts in the 25 audits the auditors reviewed. Also, in 20 of 25 audits tested, supervisors did not review audit workpapers until after the audit was completed. Commission policies and procedures require management to review audit work prior to distribution of the report letter to the entity audited.

Mr. Cooper also identified that time records contained in audit files were not accurate. Auditors understated their time spent on individual audits by 45% compared with the hours recorded in the Commission's time-tracking system. Commission management indicated that auditors were not fully accounting for and documenting time spent completing individual audits. Because these hours are understated, management is lacking information to manage audit resources and evaluate auditor performance.

Mr. Cooper reported that although staff documented the violations they found, audit manual guidance was not always followed for documenting audit procedures performed.

Mr. Cooper explained 15 of 31 items requiring follow-up were not documented in agency audit files according to policies and procedures. Although management was able to provide evidence that most audit recommendations were implemented, timely corrective action did not occur in several instances.

Mr. Cooper reported that in addition to performing audits, Commission staff perform routine investigations of business establishments to discover unlicensed products and prevent and detect unfair marketing and pricing practices. However, staff typically do not document important information such as the establishment visited, location, procedures performed, and result of each investigation. Documentation of these activities is important.

Mr. Cooper explained the Commission does not maintain a record of complaints received, investigated, and resolved. Although staff indicated complaints are often received from the public and the industry, a complaint log is not maintained. Without this information on complaint investigations, management does not have adequate assurance all complaints are investigated timely and appropriately resolved.

Mr. Cooper added the Commission does not always collect late fees when licensees fail to pay their assessments timely. In 19 of 27 instances where late fees were due, staff did not pursue collection of the late fee. Although the amount was only \$700 for the 6 months reviewed, regulation of licensees is inconsistent when late fees are not enforced equally.

While audit and investigative functions need strengthening, Mr. Cooper reported management is taking steps to improve operations. Accomplishments include developing a strategic plan, downsizing the agency to improve efficiency, and protecting Nevada's farms and producers from unfair pricing policies. Because of management's actions, the dairy industry has supported the transfer of dairy inspection responsibilities to the Dairy Commission. As a result, the 2001 Legislature passed SB 505 that authorized the transfer of these duties from the Health Division.

The Commission accepted all five audit recommendations.

Senator Amodei disclosed his firm represents one of the dairy product distributors in western Nevada that has been in discussions with some of the people regulated by the Dairy Commission. As a result of his new membership on the Audit Subcommittee he has sent a letter to the people at Suiza Foods in Dallas indicating his firm will no longer be undertaking any representation of Comstock Distributing. As a result of having to sit in judgment of the report, he wanted to make that disclosure and put a copy of the letter on the record. (Attachment A)

Senator Amodei asked Mr. Cooper to expand on the section of the report where he refers to key decisions in the audit process such as the type of audit, and the procedures to be performed are made without review and approval of management. He asked why he felt it was important in terms of conducting the audit function for this industry.

Mr. Cooper explained the main issue in the report is the documentation, approval, and management information. When the auditors go out to audit an entity, management needs to know where their resources are being spent, how they are being spent, and what procedures are being performed. Currently, they may come back with a clean audit and you may not know exactly the procedures performed, or they may come back with a violation, but it is not known exactly what was done and what was reviewed. This information is needed to more efficiently manage the staff.

Mr. Amodei inquired about the inadequate documentation of investigative activities that was also noted in the 1993 audit. If it was identified 8 years ago, and pops up again in the current audit, does it have an impact on the investigative function achieving its objectives.

Mr. Cooper indicated the Commission went to a very paper-intensive process trying to document the locations investigated and, over a period of years, did not find that useful. At this point in time, the auditors have discussed with management a more efficient way to gather information. When staff perform an investigation, the Commission does not really know what staff are doing or where they have been. It is a management issue. He felt they were working towards developing an efficient way to address that recommendation at this point in time.

Senator Amodei stressed his concern regarding the section in the audit referring to the lack of information on complaint investigations. He quoted a section from the report stating, "Without information on complaint investigations, management does not have adequate assurance all complaints are investigated timely and appropriately resolved." He felt these were pretty strong words in terms of the protection function the State is looking to this entity to fulfill. This tells him the State is not getting the protection Chapter 584 says the State should be getting from the Dairy Commission.

Mr. Cooper concurred with Senator Amodei's concern because the Commission does not have a complaint log on what was received, what was resolved, and the timeliness of the resolution.

Senator Amodei stated that under NRS 584.495 there is requirement to notify the Attorney General's Consumer Protection Division if any hearings are held by the Dairy Commission under any of their charges

under NRS 584. He asked if the audit leads to any information that any of those notifications had been given or that any hearings had been held on any of those sorts of complaints in the 2 years audited.

Mr. Cooper stated that was not the main focus of their objective and they did not look at that. The auditors looked at the Commission's audit and investigative function.

Senator Amodi asked if the audit and investigation documents at the Dairy Commission are public documents.

Mr. Cooper left that up to the Executive Director of the Dairy Commission to answer.

Assemblywoman Chowning pointed out that the industry was very supportive of the changes made in the 2001 session of the Legislature, and this audit is citing the calendar years 1999 and 2000. There are going to be significant changes and she felt it is important for the industry to receive copies of the audit and be apprised of this audit so their faith is well placed. She asked how they can receive copies of the audit report.

Mr. Crews suggested his office could provide enough copies to the Dairy Commission so they can distribute them to the appropriate individuals.

Assemblywoman Chowning requested the Legislative Auditor provide the Dairy Commission with reports to send to the members of the industry, as well as a copy of the 6-month report. She added it was because of the industry support she voted for the bill.

Stacy Jennings, Executive Director of the Dairy Commission, responded to the report. She found this audit to be a useful process for the Commission. As a small agency, it tends to have a lot of interaction between the supervisors, investigators, and auditors. At times it is not documented well. She did not think the auditors found evidence the audits or investigations were not being done. A lot of the communication was being done verbally. The Dairy Commission has taken steps to implement all the recommendations and have put much more of the information down on paper.

Chairman Dini asked how it will work with the Dairy Commission taking over the health inspection of the dairies.

Ms. Jennings responded that the Dairy Commission implemented the assessment on milk July 1, 2001, to help fund this new program. The Commission projects this will provide adequate funds to run the health inspection program and it just completed the hiring of three people for the program. The Commission is in the stages of implementing this program, and it feels the program transfer from the Health Division will be complete by January 1, 2002.

Chairman Dini asked about the defeat of the marketing order in Las Vegas and if it saved the people in Las Vegas money.

Ms. Jennings replied that happened in 1999. The Las Vegas area had previously been under the federal milk marketing order program. The Dairy Commission worked with Nevada's congressional delegation and they were instrumental in getting Las Vegas exempted from new provisions that would have made it virtually impossible for any locally-produced milk to be bottled in that area. As a result, Ms. Jennings feels the consumers of Las Vegas are in a better position today than they were 3 years ago.

In answer to Assemblyman Marvel's question, Ms. Jennings said there are approximately 38 dairies in Nevada.

In response to Senator Amodei's questions about a current marketing and stabilization plan in northern Nevada, Ms. Jennings replied there is not an official plan. The Commission is going by the state statute that prohibits below-cost sales.

Senator Amodei noticed the Dairy Commission prepared a strategic plan for July 2000 that includes the investigation of the fair trade marketing and pricing practices. He asked if he could get a copy of that plan or an update at the 6-month report so the committee could see how it is going.

Absolutely, replied Ms. Jennings. The Commission is almost done revising the plan to represent the new program responsibility and developing new performance measures. She would have it available with the 6-month report.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE AUDIT REPORT
ON THE DAIRY COMMISSION. SECONDED BY ASSEMBLYWOMAN
CHOWNING AND PASSED UNANIMOUSLY.

Item 4 – Presentation of 6-month reports.

Stephen Wood, Chief Deputy Legislative Auditor, explained that when an audit report is issued agencies have 60 days to file a plan of corrective action and 6 months after that plan has been presented, the Department of Administration determines the status of the recommendations, prepares a report, the auditors analyze it, and bring it before the Audit Subcommittee. The auditors prepare an analysis of the 6-month report and express any concerns they might have. The exception to that process is elected officials, whose 6-month reports are prepared directly by the official and sent directly to the Legislative Auditor's Office for analysis. Mr. Wood noted 16, 6-month reports are to be presented today: five are from elected officials, and eleven from state agency audits.

A. Office of the Governor

Mike Spell, Audit Supervisor, explained an audit on the Office of the Governor was issued in April 2000. The Governor's Office indicates all four recommendations have been fully implemented. Mr. Spell has no questions at this time.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE 6-MONTH
REPORT ON THE OFFICE OF THE GOVERNOR. SECONDED
BY SENATOR NEAL AND PASSED UNANIMOUSLY.

B. Office of the Lieutenant Governor

Mike Spell explained an audit on the Office of the Lieutenant Governor was issued in January 2000. The audit included 3 recommendations and the Office of Lieutenant Governor indicates all three recommendations have been fully implemented. Mr. Spell had no questions.

SENATOR NEAL MOVED TO ACCEPT THE 6-MONTH REPORT
ON THE OFFICE OF THE LIEUTENANT GOVERNOR. SECONDED
BY ASSEMBLYMAN MARVEL AND PASSED UNANIMOUSLY.

C. Office of the Attorney General

Mr. Wood explained the audit report on the Office of the Attorney General was issued in August 2000. It included nine recommendations. The Attorney General has indicated that all nine of the recommendations

have been fully implemented; therefore, he had no concerns at this time.

SENATOR NEAL MOVED TO ACCEPT THE 6-MONTH REPORT
ON THE OFFICE OF THE ATTORNEY GENERAL. SECONDED
BY ASSEMBLYWOMAN CHOWNING AND PASSED UNANIMOUSLY.

D. Office of the State Treasurer

Tim Brown, Audit Supervisor, explained the audit report on the Office of the State Treasurer was issued in January 2000. The audit contained four recommendations and the Treasurer's Office indicates the four recommendations have been partially implemented. The auditors' analysis of the 6-month report shows three of the recommendations have been adequately addressed, and the fourth recommendation was to be completed in the near future. There were no questions for the Treasurer's Office.

Mr. Brown answered Senator Neal that the fourth recommendation deals with policy and procedures regarding the new IFS and how it affects the Office of State Treasurer and how they process transactions. The Office is in the process of getting those procedures developed and they were to be finished by June 30, 2001, so they should be completed.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE 6-MONTH
REPORT ON THE OFFICE OF THE STATE TREASURER.
SECONDED BY SENATOR AMODEI AND PASSED UNANIMOUSLY.

E. Office of the State Controller

Rocky Cooper, Audit Supervisor, explained the audit report on the Office of the State Controller was issued in August 2000. The Controller's Office indicates all eight recommendations have been fully implemented. There were no questions.

SENATOR NEAL MOVED TO ACCEPT THE 6-MONTH REPORT
ON THE OFFICE OF THE STATE CONTROLLER. SECONDED
BY ASSEMBLYMAN MARVEL AND PASSED UNANIMOUSLY.

F. Strategic Planning Process

Mike Spell noted the audit on the Strategic Planning Process was issued in August 2000. The report included three recommendations. The Department of Administration indicates one of the recommendations was rejected. This recommendation dealt with legislation that would require certain agencies to prepare strategic plans. The Department is in the process of implementing one recommendation, and it is beginning implementation of the other recommendation in the next budget cycle. As such, Mr. Spell had no questions.

SENATOR NEAL MOVED TO ACCEPT THE 6-MONTH REPORT
ON THE STRATEGIC PLANNING PROCESS. SECONDED BY ASSEMBLYWOMAN CHOWNING
AND PASSED UNANIMOUSLY.

G. State Public Works Board

Mike Spell explained the Legislative Auditor's Office recently completed two audits on the State Public Works Board (PWB). The first audit was on the Board's general compliance with their financial practices. The second report was on the Lied Library. Today, he is presenting the 6-month report on the first audit. Within this report the Department of Administration indicates one recommendation has been fully implemented and

five recommendations have been partially implemented, with full implementation expected in the near future.

Mr. Spell suggested the committee obtain more detailed information on the status of the partially implemented recommendation dealing with the legislation approving the Capital Improvement Program establishing the amount appropriated for each project and not exceeding the amount appropriated without the Interim Finance Committee's approval. Consequently the recommendation was to implement controls to ensure legislative approval is obtained to expend CIP funds outside the authorized scope and budget of the project.

The Department of Administration's response stated the recommendation was partially implemented. PWB management represents that all significant changes in project scope and budget have been taken to IFC and provided memos supporting changes submitted in the June and December 2000 meetings. However, the Department indicates written controls to ensure the Legislature's approval is obtained had not been developed. The PWB indicates management will have those controls developed by March 31, 2001. Mr. Spell would like to know if those written policies have been developed.

Chairman Dini suggested the committee move to accept the report and that the Public Works Board report back at the next meeting.

SENATOR NEAL MOVED TO ACCEPT THE 6-MONTH REPORT
ON THE STATE PUBLIC WORKS BOARD AND THE PUBLIC WORKS
BOARD REPORT BACK AT THE NEXT MEETING ON THE WRITTEN
POLICIES AND CONTROLS. SECONDED BY ASSEMBLYWOMAN CHOWNING AND PASSED
UNANIMOUSLY.

H. Office of State Public Defender

Mike Spell explained the audit report on the Office of State Public Defender was issued in August 2000. In the Department of Administration's 6-month report, it indicates one recommendation has been fully implemented and five recommendations have been partially implemented. The auditors' analysis of the report indicates two of the recommendations will be fully implemented in the near future and the Office is making progress toward full implementation of the three other recommendations. There were no questions.

SENATOR NEAL MOVED TO ACCEPT THE 6-MONTH REPORT
ON THE OFFICE OF THE STATE PUBLIC DEFENDER. SECONDED
BY ASSEMBLYWOMAN CHOWNING AND PASSED UNANIMOUSLY.

I. Integrated Financial System, Expenditure and Budgetary Process

Tim Brown explained the audit report on the Integrated Financial System, Expenditure and Budgetary Process, was issued in August 2000. The Department of Administration indicates two recommendations have been fully implemented and three recommendations have been partially implemented. Mr. Brown suggested the committee obtain information on the status of one of the partially implemented recommendations. This recommendation was for the Division to review the operational capability of the IFS. Subsequent to this review, develop and document policy and procedures related to the processing of expenditures and budgetary transactions.

Mr. Brown noted the administrator indicates the IFS project team developed 16 major initiatives to better utilize Advantage. The project team expects to address all of these initiatives by June 30, 2003. The question is, what is the status of completing the remaining 11 major initiatives?

SENATOR NEAL MOVED TO ACCEPT THE 6-MONTH REPORT ON THE INTEGRATED FINANCIAL SYSTEM AND THAT THE AUDIT SUBCOMMITTEE RECEIVE A LETTER BY THE NEXT MEETING AS TO THE STATUS OF THE REMAINING REPORT. SECONDED BY ASSEMBLYMAN MARVEL AND PASSED UNANIMOUSLY.

J. Health Care Financing and Policy

Mr. Brown explained the audit report on the Division of Health Care Financing and Policy was issued in April 2000. The Department of Administration indicates that two of the recommendations have been fully implemented and seven recommendations have been partially implemented. The auditors' analysis of the 6-month report found four of the seven partially implemented recommendations have had good progress toward implementation. Therefore, Mr. Brown suggested the committee obtain information on the status of the remaining three partially implemented recommendations.

Mr. Brown asked if the procedures to periodically review the edit process have been finalized, and what is the status of the gender edits.

Charles Duarte, Administrator for the Division of Health Care Financing and Policy, responded to the questions. He stated on October 9, 2001, a letter was sent to Mr. Crews indicating his Division did fully implement all of the recommended findings in the audit report. One of the exceptions is they were not able to replicate the findings of the auditor.

Senator Neal asked if a copy of the October 9, 2001, letter was provided as part of the committee packets.

Mr. Crews replied that the only letter he is aware of is the response to the audit report and the 6-month report letter from Mr. Comeaux.

Mr. Duarte apologized for Mr. Crews not receiving the letter and thought he should receive it shortly if he has not already received it.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE 6-MONTH REPORT ON THE DIVISION OF HEALTH CARE FINANCING AND POLICY AND TO HAVE THE DIVISION RETURN TO THE NEXT MEETING AND ANSWER THE QUESTIONS. SECONDED BY SENATOR AMODEI AND PASSED UNANIMOUSLY.

K. Public Utilities Commission

Mr. Wood explained the audit report on the Public Utilities Commission was issued in August 2000. It included five recommendations. The 6-month report shows four of those have been fully implemented and one was addressed through legislation this past session. There were no questions.

SENATOR NEAL MOVED TO ACCEPT THE 6-MONTH REPORT ON THE PUBLIC UTILITIES COMMISSION. SECONDED BY SENATOR AMODEI AND PASSED UNANIMOUSLY.

L. Department of Prisons, Sex Offender Certification Panel

Rocky Cooper explained the audit report on the Department of Prisons, Sex Offender Certification Panel,

was issued in August 2000. The 6-month report from the Department of Administration indicates the Department of Prisons was waiting for passage of SB 241 during the 2001 Legislative Session before developing regulations to fully implement the audit recommendations. Mr. Cooper pointed out that SB 241 was on behalf of the Audit Subcommittee and addressed most of the issues contained in the audit report, such as clarifying responsibility for the Sex Offender Program, identifying who selects certain panel members, establishing qualifications for panel members, developing regulations for documenting that sex offenders were under observation, and ensuring a consistent process for evaluating offenders.

Mr. Cooper noted the Department of Prisons planned its implementation of audit recommendations around SB 241; however, this legislation did not pass. This bill was on the clerk's desk in the Assembly when time ran out during the session. Mr. Cooper suggested the Audit Subcommittee obtain more information on how the Department plans to address the issues raised in the audit—basically, what is plan B.

Senator Neal asked if the legislation was needed to accomplish this.

Mr. Crews felt it was necessary. Some things can be done administratively, and he felt the agency can implement the recommendations administratively, but holding them accountable may be questionable since it isn't in the statute.

Mr. Rex Reed, Medical Administrator, introduced Dr. Robert Schofield, lead Psychologist at the Lovelock Correctional Center, and Dr. Art Vote, Principal Psychologist for the northern portion of the Department of Corrections (DOC) system. Mr. Reed explained the Director, Ms. Crawford, has given explicit direction to carry out as much of what they had planned even though the bill did not pass. They are proceeding with this. Mr. Reed pointed out the bill also had a fiscal note attached to it. For the DOC portion, which is two of the three members of the panel, they expect a cost of about \$13,750 per year. Part of the problem was when the bill did not pass, the fiscal requests also did not pass. They are currently trying to find resources in other parts of their budget.

Assemblyman Marvel asked if the DOC will ask for a bill draft request for next session.

Mr. Reed replied yes.

Assemblywoman Chowning asked how the Department of Corrections plans on establishing the qualifications without any guidance.

Mr. Reed stated he was given direction by the Director to follow the intent of the bill. The bill said to use licensed psychologists or psychiatrists in the State. The two people the DOC provides will be either of these, but Mr. Reed could not speak for the other Division that contributes a member.

Mr. Reed noted that Dr. Ron Centric, Mental Health Coordinator for the northern part of the Nevada Department of Corrections system, has informed him that most of the goals should be in place within 30 to 60 days.

SENATOR NEAL MOVED TO ACCEPT THE 6-MONTH REPORT ON THE DEPARTMENT OF PRISONS, SEX OFFENDER CERTIFICATION PANEL, WITH A REPORT AT THE NEXT MEETING OF THE AUDIT SUBCOMMITTEE. SECONDED BY ASSEMBLYWOMAN CHOWNING AND PASSED UNANIMOUSLY.

M. HEALTH DIVISION, BUREAU OF ALCOHOL AND DRUG ABUSE

Mr. Cooper explained the audit report on the Bureau of Alcohol and Drug Abuse was issued in April 2000. The report contained 19 audit recommendations. The Department of Administration indicates that most recommendations were partially implemented and full implementation of 15 recommendations was anticipated by June 2001, and the other recommendations would be implemented shortly thereafter. Mr. Cooper suggested the committee obtain additional information on the status of implementation of the audit recommendations from the Health Division.

Phil Weyrick, Administrative Services Officer for the Health Division, introduced Maria Canfield, Chief of the Bureau of Alcohol and Drug Abuse. Mr. Weyrick explained the Bureau of Alcohol and Drug Abuse was transferred to the Health Division on July 1, 1999. Because of that transfer, the Health Division requested an audit to determine potential areas for improvement. As of today, Mr. Weyrick stated 17 of the 18 applicable recommendations are fully complete. The one finding not complete, recommendation #5, recommended a program to increase publicity for the availability of services and treatment for pregnant women.

Mr. Weyrick noted this finding is still incomplete because they have been unable to fill the Community Education Information Officer position. The Bureau has announced it twice, selected someone twice, and they have both declined. They are in the process of opening that again.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE 6-MONTH REPORT ON THE BUREAU OF ALCOHOL AND DRUG ABUSE CONTINGENT ON GETTING ANY ADDITIONAL INFORMATION ON RECOMMENDATION 5. SECONDED BY SENATOR AMODEI AND PASSED UNANIMOUSLY.

N. Welfare Division

Mr. Wood explained the audit report on the Welfare Division was issued in April 2000. The report contained two recommendations and both of those have been partially implemented. The Division is taking substantive action towards full implementation. There were no concerns at this time.

ASSEMBLYMAN MARVEL MOVED TO ACCEPT THE 6-MONTH REPORT ON THE WELFARE DIVISION. SECONDED BY ASSEMBLYWOMAN CHOWNING AND PASSED UNANIMOUSLY.

O. Health Division, Bureau of Licensure and Certification

Mr. Wood explained the audit report on the Health Division, Bureau of Licensure and Certification was issued in January 2000. The report contained seven recommendations for corrective action and the Department of Administration indicates that three of those recommendations have been fully implemented and four recommendations will be fully addressed when the Bureau's new information system is completed. The auditors' analysis indicates they are on track for full implementation once the system is online so there are no questions.

ASSEMBLYWOMAN CHOWNING MOVED TO ACCEPT THE 6-MONTH REPORT ON THE BUREAU OF LICENSURE AND CERTIFICATION. SECONDED BY ASSEMBLYMAN MARVEL AND PASSED UNANIMOUSLY.

P. Aging Services Division

Paul Townsend, Audit Supervisor, explained the audit report on the Aging Services Division was issued in

January 2000. The Department of Administration states one recommendation has been fully implemented and two have been partially implemented.

Mr. Townsend has reviewed the report and there are no questions.

SENATOR NEAL MOVED TO ACCEPT THE 6-MONTH REPORT
ON THE AGING SERVICES DIVISION. SECONDED BY
ASSEMBLYWOMAN CHOWNING AND PASSED UNANIMOUSLY.

Item 5³/₄Public Comment

Assemblywoman Chowning stated it was an honor to serve as a substitute on the Audit Subcommittee. Some of the audits take as long as 6 months to prepare and several of the comments from the agencies state the auditing staff conduct themselves in a very professional manner. She thought it provides a marvelous service to our state and would like to have their efforts noticed.

Assemblyman Marvel agreed.

Chairman Dini wished Gary Crews well on his retirement.

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 _____