

MINUTES OF THE MEETING OF THE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
January 7, 2014

This is the first meeting of 2014.
This is the first meeting of the 2013 - 2014 Interim.

A meeting of the Audit Subcommittee of the Legislative Commission (NRS 218E.240) was called to order by Assemblywoman Maggie Carlton, Chair, at 1:02 p.m., Tuesday, January 7, 2014, in room 4100 of the Legislative Building, Carson City, Nevada , with a simultaneous video conference to room 4412 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada.

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Carson City:

Assemblywoman Maggie Carlton, Chair
Assemblyman Michael Sprinkle

Las Vegas:

Senator David Parks, Vice Chair
Senator Mo Denis
Assemblyman Cresent Hardy

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Paul Townsend, Legislative Auditor
Donna Wynott, Office Manager
Deborah Anderson, Audit Secretary
Jane Bailey, Audit Supervisor
Rocky Cooper, Audit Supervisor
Yette M. De Luca, Deputy Legislative Auditor
Diana Giovannoni, Deputy Legislative Auditor
Tammy Goetze, Deputy Legislative Auditor
Dennis Klenczar, Deputy Legislative Auditor
Richard Neil, Audit Supervisor
Janz Nino Pena, Deputy Legislative Auditor
Doug Peterson, Information Systems Audit Supervisor
Lee Pierson, Deputy Legislative Auditor
Shannon Ryan, Audit Supervisor

The roll was taken. A quorum was present.

Item 1— Public comment

Chair Carlton called for public comment. There was none.

Item 2 — Approval of minutes from December 13, 2012

Chair Carlton called for a motion.

SENATOR PARKS MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES FROM DECEMBER 13, 2012. THE MOTION WAS SECONDED BY ASSEMBLYMAN SPRINKLE AND CARRIED UNANIMOUSLY.

Item 3 — Selection of Vice-Chair of Audit Subcommittee of the Legislative Commission

Chair Carlton opened the item for discussion.

ASSEMBLYMAN SPRINKLE MOVED TO NOMINATE SENATOR PARKS AS VICE-CHAIR OF THE AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION. THE MOTION WAS SECONDED BY ASSEMBLYMAN HARDY AND CARRIED UNANIMOUSLY.

Chair Carlton stated item 5, a through f, would be taken out of order.

For purposes of continuity, the minutes appear in the order of the agenda.

Item 4 — Presentation of audit reports (NRS 218G.240)

Mr. Townsend stated there were 7 audit reports, 11 six-month reports, and 1 follow-up six-month report on the agenda.

a. Office of the Governor, Agency for Nuclear Projects

Mr. Townsend introduced Diana Giovannoni, Deputy Legislative Auditor; and Rocky Cooper, Audit Supervisor, to present the report.

Ms. Giovannoni began the presentation with background information. She explained the Agency for Nuclear Projects (Agency) was established by executive order in 1983 following passage of the federal Nuclear Waste Policy Act of 1982. The 1985 Nevada State Legislature formally established the Agency in statute and created a seven-member Commission on Nuclear Projects to advise the Agency and provide guidance to the Governor and Legislature on matters concerning the high-level nuclear waste program. The Agency's mission is to assure that the health, safety, and welfare of Nevada's citizens and the state's unique environment and economy are adequately protected with regard to any federal high-level nuclear waste disposal activities in the State.

In recent years the Agency's General Fund appropriations were reduced because of decreased activity related to the Yucca Mountain licensing proceedings and pending federal litigation. In addition, the Department of Administration assumed responsibility

for the Agency's fiscal functions. In 2010, staffing levels were also reduced to four positions. Ex. 1 on page 2 shows the Agency's revenues decreased from \$7 million in 2008 to \$1.1 million in 2013. Ex. 2 shows expenditures were approximately \$1 million in fiscal year 2013.

Ms. Giovannoni explained the Agency contracts with consultants for assistance with research, impact monitoring, reporting, and expert witness services. This work supports the state's activities with the Yucca Mountain licensing proceeding before the U.S. Nuclear Regulatory Commission and oversight of the federal Yucca Mountain repository program. In addition, the Agency contracts for services to coordinate the state's oversight of shipments of transuranic and low-level radioactive waste within Nevada.

Ms. Giovannoni stated the audit objective was to evaluate the Agency's financial and administrative practices over contract monitoring, property and equipment, employee compensation, and the ongoing monitoring of its system of internal controls during fiscal year 2013.

Ms. Giovannoni stated auditors concluded the Agency had adequate internal controls over key financial and administrative functions. Specifically, the Agency properly monitored its contracts with consultants, and maintained adequate controls over property and equipment. In addition, employee compensation did not exceed the maximum authorized by state law, and the Agency complied with state requirements for internal controls. Consequently, this report contains no findings or recommendations.

Ms. Giovannoni concluded the presentation. She offered to answer questions from the Committee.

Chair Carlton thanked Ms. Giovannoni for the presentation. She called for questions or comments from the Committee.

Chair Carlton asked if agency staff would like to testify. Seeing none, she called for a motion.

ASSEMBLYMAN HARDY MOVED TO ACCEPT THE REPORT ON THE
OFFICE OF THE GOVERNOR, AGENCY FOR NUCLEAR PROJECTS.
THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED
UNANIMOUSLY.

b. Report on Count of Money in State Treasury

Mr. Townsend introduced Janz Nino Pena, Deputy Legislative Auditor; and Shannon Ryan, Audit Supervisor, to present the report.

Mr. Pena stated in accordance with NRS 353.060, the auditors counted the monies and securities in the State Treasury on Friday, June 28, 2013, and prepared Ex. A with supporting Schedules 1-3 in the report. The Money Count included actual and physical examination, direct confirmation with financial institutions, and other procedures considered necessary to fulfill the statutory requirements.

Mr. Pena stated in accordance with NRS 353.075, the report was filed with the Secretary of State on December 6, 2013.

Mr. Pena continued his presentation stating the count of monies and securities on June 28, 2013, showed \$227 million on deposit with financial institutions, \$2.4 billion of state owned securities, and \$1.1 billion of securities held for safe keeping for a grand total of \$3.7 billion. Details are shown in Schedules 1-3 of the report.

Mr. Pena concluded the presentation. He offered to answer questions from the Committee.

Chair Carlton called for questions from the Committee. She called for a motion.

ASSEMBLYMAN SPRINKLE MOVED TO ACCEPT THE REPORT ON
COUNT OF MONEY IN STATE TREASURY. THE MOTION WAS
SECONDED BY SENATOR PARKS AND CARRIED UNANIMOUSLY.

c. Department of Administration, Nevada State Library and Archives – Mail Services

Mr. Townsend introduced Shannon Ryan, Audit Supervisor, to present the report.

Ms. Ryan began the presentation with background information on the Nevada State Library and Archives (NSLA). She stated the NSLA is responsible for providing full access to a range of information services that enhance the quality of life for all and center on creating an educated and enlightened citizenry while supporting the interests of the State of Nevada.

Ms. Ryan explained Ex. 1 and 2 detailed NSLA's revenues and expenditures for fiscal year 2013. Mail service charges and postage represent a significant portion of NSLA's revenues and expenditures. Mail Services was integrated into NSLA during the 2011 Legislative Session. Mail Services picks up mail from state agencies, processes it, and delivers it to other state agencies.

Ms. Ryan stated Mail Services receives postage discounts from the United States Postal Service (USPS) for processing and delivering mail to them in a certain manner. The types of mail and related descriptions are listed in the report. Ex. 3 and 4 detail Mail Services activity for calendar year 2012. Ex. 5 shows the agencies with the highest mail volume.

Ms. Ryan reported the scope and objective of the report were to determine if Mail Services process of billing state agencies for mail service was accurate and complete during calendar year 2012.

Findings and recommendations in the report found that generally Mail Services' billing process is reasonably accurate and complete. However, minor control weaknesses at Mail Services and the Administrative Services Division (ASD) of the Department of Administration can allow errors and omissions to occur and not be identified. Mail Services and ASD rely on multiple spreadsheets and manual operations to generate billings. Auditors found that spreadsheets had inaccurate or non-existent totals and inconsistent formulas.

Ms. Ryan reported some of the errors found included fees of \$4,200 not being billed because formulas on spreadsheets were missing. Six agency bills included duplicate charges totaling about \$2,800 because formulas were incorrect. One agency was overbilled when an error in a formula occurred, adding the number of pieces processed to the agency's total postage.

Ms. Ryan explained auditors found some minor data entry errors when reviewing billing claims. These errors occurred because information is manually transferred from certain logs that were not periodically reviewed to ensure accuracy.

Ms. Ryan stated two recommendations were made for Mail Services and the Administrative Services Division over reviewing and monitoring the billing process and enhancing policies and procedures.

Ms. Ryan stated the agency accepted the two recommendations. She offered to answer questions from the Committee.

Chair Carlton thanked Ms. Ryan for the presentation.

Chair Carlton called for questions from the Committee. She asked if the agency wanted to comment on the report. No one came forward to testify.

Chair Carlton called for a motion.

ASSEMBLYMAN SPRINKLE MOVED TO ACCEPT THE REPORT ON
THE DEPARTMENT OF ADMINISTRATION, NEVADA STATE LIBRARY
AND ARCHIVES – MAIL SERVICES. THE MOTION WAS SECONDED
BY SENATOR PARKS AND CARRIED UNANIMOUSLY.

d. Department of Business and Industry, Nevada Transportation Authority

Mr. Townsend introduced Lee Pierson, Deputy Legislative Auditor; and Doug Peterson, Information Systems Audit Supervisor, to present the report.

Mr. Pierson stated the Nevada Transportation Authority (NTA) administers and enforces state laws pertaining to passenger transportation, household goods movers, and tow cars. Passenger transportation regulated by the NTA primarily includes limousines, taxicabs outside of Clark County, charter buses, and airport shuttle services.

Mr. Pierson explained the NTA has offices located in Las Vegas and Reno. In fiscal year, 2012 expenditures were approximately \$2.9 million. NTA has 24 authorized positions, including three commissioners appointed by the Governor, to 4-year terms. These commissioners serve as administrative hearings officers. The Governor designates one commissioner to serve as the chair or executive officer.

Mr. Pierson stated NTA issues a Certificate of Public Convenience and Necessity (CPCN) to carriers authorizing them to operate in Nevada. NTA is responsible for the regulation of fully regulated as well as partially regulated carriers. Ex. 1 shows the types of carriers and NTA's regulatory authority. Fully regulated carriers follow a more stringent financial requirements and application process. NTA also has authority over the rates, routes, and services of fully regulated carriers. For partially regulated

carriers, NTA oversight is limited to motor carrier safety and insurance requirements, and approval of rates for non-consensual tow cars. Ex. 2 lists the number of carriers by type of carrier.

Mr. Pierson stated audit objectives were to evaluate the processes for selecting and conducting operational inspections, and to evaluate performance measures, including the reliability of reported results.

Mr. Pierson reported that NTA's selection procedures do not always ensure carriers are inspected at least once every 5 years as required by policy. Auditors identified 18 carriers not inspected during fiscal years 2008 through 2012. A list of these types of carriers are noted in the report. Mr. Pierson stated NTA's policy requires that each carrier receive an operational inspection at least once every 5 years; however, the current selection process does not identify carriers without a previous inspection. NTA's methods to select carriers for inspection include: (1) random selection, (2) risk-based, (3) restructure, and (4) voluntary. In addition, NTA selects carriers when their last inspection occurred 5 years ago.

Mr. Pierson stated auditors found carriers with safety violations were not selected for follow-up inspections. NTA issued citations to 15 carriers during fiscal year 2012 for safety violations identified during operational inspections. However, NTA did not conduct a follow-up inspection on 10 of the 15 carriers. Auditors identified carriers with no safety violations that were selected 2 or 3 years in a row for an inspection.

Ex. 4 lists some of the violations found during safety inspections that resulted in NTA issuing a citation. For example, one carrier not selected for a follow up inspection failed to have 10 buses inspected by NTA prior to putting them in service. According to NTA records, violations found were corrected subsequent to NTA's inspections. However, conducting follow-up inspections at a later date would help ensure that carriers do not repeat similar violations and stay in compliance.

Mr. Pierson stated three recommendations were made to improve the inspection process.

Mr. Pierson reported that performance measures could be improved. Auditors found several performance measures as currently written and reported that do not provide management with the best information. He stated, as an example, one measure addressed the percentage of industry applications completed within 6 months. As currently reported, all applications, regardless of the time needed to complete, were combined into this measure.

Ex. 6 shows 10 different types of industry applications included in the measure, and how timely these applications were completed during fiscal year 2012. The Ex. shows the average number of days to complete applications can vary significantly. Applications such as expansion of authority, sale and transfer, and applications for a CPCN on average took longer than six months to complete. Other applications take considerably less time to complete.

NTA staff indicated applications for a CPCN, expansion of authority, sale and transfer, and tariff modifications are the most important applications to complete timely, but often take the most time to complete. NTA should revise its measures to provide more specific information of the time needed to complete these applications.

Auditors found some goals understate performance. For example, one measure addressed the percentage of consumer complaints resolved within 6 months. NTA's goal for this measure is to resolve 90% of all complaints within 6 months. However, auditors found NTA resolves most complaints in 60 days or less. Ex. 8 shows the number of complaints resolved, percentage resolved in 60 days or less, and the average number of days to resolve complaints for fiscal years 2010 to 2012. The Ex. shows in all three fiscal years the NTA resolved 90% or more of complaints in 60 days or less. The current goal of resolving 90% of complaints within 6 months significantly understates how timely complaints are resolved and should be revised to more accurately reflect performance.

Finally, auditors found policies and procedures governing performance measures do not always clearly define what should be measured and need revision.

Mr. Pierson stated four recommendations were made to improve performance measures.

Mr. Pierson reported the agency accepted all seven recommendations. He offered to answer questions from the Committee.

Chair Carlton thanked Mr. Pierson for the presentation. She called for questions from the Committee.

Assemblyman Hardy asked if there was a reason why these inspections were not followed up and why they did not happen between the years of 2008 and 2012. He was concerned and asked for comment as to why the bus inspections would not be a top priority.

Mr. Pierson answered the reason that the 18 carriers were not inspected was due to a gap in their selection process which did not take into account a new carrier who, during the first 5 years of operation, did not come up as a random or as a risk based inspection. That is the reason they were not inspected.

Assemblyman Sprinkle asked for comments about the oversight of agencies that received citations in which 10 of the 15 did not have follow-up inspections. He asked if auditors were able to identify what caused this oversight. He commented they were not new carriers or new agencies because they had been given a citation. He was concerned that citations were not being followed up to ensure compliance.

Mr. Pierson answered NTA did not have a process in place to stipulate that if NTA issued a citation they would automatically do a follow-up inspection. Mr. Pierson explained when they issued a citation, they made sure that the problem was corrected at that time. The audit states that because these carriers have been shown to have problems, NTA should do a follow-up inspection to ensure that the agencies are in

compliance. He explained the audit states that NTA should do a follow-up inspection where problems are significant enough to result in a citation.

Chair Carlton called for agency representatives to expand on the above questions and to report how they were addressing the issues. She noted the agency had accepted the recommendations and were working to implement them.

Mr. Andrew Mackay, Chairman, Nevada Transportation Authority, addressed the second part of Assemblyman Hardy's question, explained relative to the 10 buses, the carrier had put the buses into service. When NTA discovered this, the carrier was cited and the inspections were completed.

Mr. Mackay requested that Assemblyman Sprinkle repeat the question.

Assemblyman Sprinkle asked for comment on Recommendation 3, which was for NTA to require a follow-up inspection on carriers issued a citation during the prior inspection. He asked if the agency was willing to comply with the recommendation, was it something that would require legislation, or could it be accomplished through a procedural change.

Mr. Mackay answered he would defer to the legislative body as to what they find necessary to put into statute. He did not think legislation was necessary. He agreed with the audit recommendation and stated this was actually best practice. He explained in the case of carrier safety violations they are cited, they go to a hearing, and they are rectified. There was no policy in place that would mandate that NTA would direct staff, to complete a re-inspection. He stated the audit recommendation was being implemented by adopting policy that after one year another operational inspection is to be done on that carrier.

Chair Carlton was concerned that some carriers had not been inspected in five years. She stated NTA was testing some but not looking at all carriers to ensure they are in compliance. She hoped NTA would inspect the carriers that had been missed for five years and re-visit them to ensure they are in compliance.

Mr. Mackay agreed with Chair Carlton. He stated they all have been inspected. He appreciated the audit for pointing out these issues. He assured the Committee that corrections had been made to the inspection process to prevent a recurrence of this problem.

Chair Carlton encouraged Mr. Mackay to inform the Committee if a statute change was necessary, but emphasized going through the regulatory process would be preferred. She appreciated the cooperation from NTA.

Chair Carlton called for questions from the Committee. She asked for further comments. Chair Carlton called for a motion.

ASSEMBLYMAN HARDY MOVED TO ACCEPT THE REPORT ON THE
DEPARTMENT OF BUSINESS AND INDUSTRY, NEVADA
TRANSPORTATION AUTHORITY. THE MOTION WAS SECONDED BY
SENATOR DENIS AND CARRIED UNANIMOUSLY.

e. Department of Public Safety, State Fire Marshal Division

Mr. Townsend introduced Tammy Goetze, Deputy Legislative Auditor; and Rocky Cooper, Audit Supervisor, to present the report.

Ms. Goetze began the presentation with background information. She explained the State Fire Marshal Division's mission is to protect life, property, and the environment from fires and hazardous materials in the State. The Division's four bureaus include: Investigations and Enforcement; Fire Protection Engineering and Inspections; Fire Protection Licensing, Permitting, and Data; and Fire Service Training and Certification.

Ms. Goetze stated the Division has 21 employees located in its Carson City, Elko, and Las Vegas offices. The Division collected over \$1.5 million in fees from licenses, certificates, building plan reviews, specialized license plates, hazardous material permits, and other program fees. Ex. 1 summarizes the Division's revenues and expenditures in its operating account for fiscal year 2013.

Ms. Goetze explained the Division's hazardous materials program. The Division is responsible for permitting and regulating hazardous materials within the State. Hazardous material facilities permitted by the Division include businesses that store substances which could threaten the health and safety of the public. Examples include designated quantities of fuels, paints, gases, and toxic chemicals. As of June 2013, the Division had 5,170 facilities with hazardous material permits. Ex. 2 shows the number of hazardous material facilities per county.

Ms. Goetze stated permitting facilities that store hazardous materials helps to ensure public safety and fund Division operations. For example, permit fees help fund hazardous material training programs for emergency responders. In addition, information collected during the permit renewal process helps ensure emergency responders have accurate information when responding to an incident.

Ms. Goetze described the audit scope and objectives. The audit focused on the Division's activities for the 12-month period ending March 31, 2013, and included permitting activities up to June 2013. Audit objectives were to evaluate the Division's permitting and licensing processes, and evaluate controls over revenue collections.

Ms. Goetze discussed the report findings and recommendations. The audit revealed weaknesses continue to exist in the hazardous materials program. Many businesses that store hazardous materials have not been identified and permitted in accordance with program requirements. State regulations require any person who stores, transports on-site, dispenses, uses, or handles hazardous materials in excess of the amount listed in the 2006 International Fire Code to report chemicals and obtain a hazardous materials permit. Auditors tested 16 types of facilities that typically possess quantities of hazardous materials requiring a permit. Audit testing identified 1,686 of 3,895 facilities (43%) did not have a permit. Based on the annual permit fee of \$150, auditors estimate about \$250,000 in annual revenue was not collected. Ex. 3 summarizes the testing results.

Ms. Goetze indicated that the Fire Code requires all fuel dispensing stations to be permitted because of the flammable and combustible liquids stored. Auditors identified 346 of 1,178 (29%) of gas stations and retail fueling sites without a permit. Auditors analyzed this information by county and found that noncompliance was widespread throughout the State, as shown in Ex. 4.

Ex. 3 and 4 show that the Division has been unable to achieve equitable regulation of the hazardous materials program. Some facilities consistently comply with annual permit requirements and others do not. Although it is not reasonable to expect 100% compliance, the Division should work toward ensuring most businesses with hazardous materials comply with program requirements.

To assist the Division, auditors provided staff with electronic spreadsheets listing the name, address, and phone number of all facilities auditors identified that did not have a permit. This information could save the Division significant resources in its efforts to identify businesses storing hazardous materials.

The Division also needs assistance from local governments to enforce the permit requirements. Management explained they will work with city and county representatives to educate staff and support the local enforcement of the state's hazardous materials permit requirements.

Ms. Goetze explained that efficient and effective methods are needed to identify businesses storing hazardous materials. These methods include the use of internet searches, state agency business listings, information from local governments, the state's business portal, and efficient use of the hazardous materials database.

Audit staff found many businesses with a hazardous materials permit do not understand what types and quantities of hazardous materials should be reported. Some facilities under report hazardous materials, whereas other facilities over report. For example, one automotive repair business reported less than one gallon of flammable paint. When auditors visited this facility, Division staff identified a large quantity of unreported flammable paint and supplies, and several other types of hazardous materials.

Additionally, auditors found high schools reported a wide range in the number of chemicals stored, as shown in Ex. 5. Because each chemical requires a separate page to report information such as the chemical name, hazard classification, material type, daily and average inventories, and storage location; resources are wasted when gathering and reporting unnecessary information. Reporting requirements are also difficult to understand. Businesses are required to report hazardous materials in excess of the amount stated in the Fire Code; however, the code contains technical language that can be difficult to understand.

Ms. Goetze stated two recommendations were made for improving the hazardous materials program.

Ms. Goetze continued the report stating audit testing found the Division has licensed fire protection businesses as required by state law. This includes businesses which service, install, or sell fire extinguishers, fire alarm systems, or fire sprinkler systems.

Auditors tested 40 fire protection businesses identified from internet searches and found all 40 were licensed by the Division.

Finally, auditor testing revealed that the Division collected and deposited fees in accordance with state requirements. Although staff properly deposited and recorded the money collected, improvements could be made to the Division's internal controls regarding separation of duties.

Ms. Goetze stated one recommendation was made for improving internal controls over revenues.

Ms. Goetze stated the Division accepted all three recommendations. She offered to answer questions from the Committee.

Chair Carlton thanked Ms. Goetze for the presentation. She asked for a breakdown of the 21 employees located in Carson City, Elko, and Las Vegas.

Ms. Goetze answered there are 18 employees in Carson City, 1 in Elko, and 2 in Las Vegas.

Chair Carlton asked for comments about the Division having only two staff in the largest county in the State. She asked how the Division addressed the workload issue and if auditors had discussed this with the Division.

Ms. Goetze answered most hazardous materials permits were handled by the administrative side in the Carson City office. She explained the Las Vegas office was involved in the inspection process. Ms. Goetze stated Division staff could also address the question.

Chair Carlton was aware that monies were utilized to train fire fighters. She wondered if training for employers was needed to ensure they understood what they are complying with. It seems like there is a knowledge gap here that is not quite working.

Chair Carlton called for Division staff to testify.

Mr. Peter Mulvihill, State Fire Marshal, answered in Washoe and Clark Counties and in the consolidated municipality of Carson City, the State Fire Marshal does not have the authority to enforce its regulations except for state buildings; and in the case of Clark County, the school district. The local fire departments, or in the case of two agencies in Clark County where the Building Department runs the fire prevention programs, have the responsibility and the authority to enforce permit regulations. The State Fire Marshal's office works closely with these agencies. He stated staff in the Las Vegas area, one officer and one inspector, are not there to locate hazardous materials permits but have other assignments. He stated inspections are performed by fire prevention staff in Clark County, Las Vegas, Reno, Sparks, and Carson City. He stated the Division supports these entities with education and information and staff in Carson City answers permit questions.

Chair Carlton asked if some of the confusion is coming from that they are working with either Las Vegas, Clark County, Henderson, North Las Vegas, Washoe, and not realizing that they need to work with the State. She asked if a gap existed there.

Mr. Mulvihill answered there is a communication gap there. He stated the Division identified two agencies that have their own local hazardous materials permit but in issuing that permit the businesses are also required to obtain the state hazardous materials permit. He was working with management of the various agencies affected with the issue. The database that the LCB audit staff gave to the Division was provided to each of the agencies on disk. He stated several of the agencies responded back. He stated the Division had seen a significant increase in permits in Reno, Sparks, Las Vegas, and in Carson City. The Division had noted an increase of over 400 permits since distributing the information to the agencies. He continues to work with the other agencies to join the program, adding, they all benefit from the training dollars and other programs funded by permit fees.

Chair Carlton was concerned that many gas stations were not permitted.

Chair Carlton recognized Assemblyman Hardy.

Assemblyman Hardy commented that Mr. Townsend stated similar weaknesses were identified during the audit in 2007. He asked how often departments are audited.

Mr. Townsend replied there is not a set number of years for each department. He explained a risk assessment is performed biannually which goes into the audit plan. A number of factors such as the size of the agency, dollar amounts flowing through, and a history of past problems are taken into consideration. The last audit of the State Fire Marshal Division was in 2007. He noted that similar recommendations were included in the current audit report. Mr. Townsend explained auditors utilized an audit follow-up process to ensure that the recommendations at that time were implemented. There were new policies and procedures put in place. He explained the agency had gone through many changes since then and those efforts were not sustained. Mr. Townsend explained the current audit revisited similar issues from the previous audit in 2007.

Assemblyman Hardy commented that agency changes could have caused this lapse in following the recommendations implemented from the 2007 audit.

Chair Carlton concurred.

Assemblyman Sprinkle referred to a comment made that the fire code contains technical language that can be difficult to understand. He asked who was having difficulty in understanding the fire code, noting those in the profession should know this. He asked what the difficulty was.

Mr. Mulvihill answered it is not the agencies, inspectors, or the health and safety professionals that have difficulty with the technical language. It can be difficult for the general public, the business owners, and the staff that work for the business owners to interact with the online database permit process. It is difficult for a layperson to understand some of the technical details. The Division has a new website that they

control in house that will provide terminology which is more understandable and less technical for a layperson. He stated they can direct a layperson to assistance to translate the code into plain English. Mr. Mulvihill stated the Division would be working on their website to provide better instructions and less of the technical engineering language.

Assemblyman Sprinkle wanted to be clear in his understanding that the business owners, in a profession that requires possessing hazardous materials, are having a difficult time understanding technical language associated with their business. He asked if this was correct.

Mr. Mulvihill answered it was not everybody but the Division recognized the need to provide a clearer direction for a better understanding. He stated, for example, a property manager in a large office building needs a hazardous materials permit for their landscaping supplies. They are an office manager that might not be knowledgeable about fertilizers and fuels and things of that nature. He stated it is that type of situation they want to have a better explanation to help people through the system. Mr. Mulvihill stated the Division's permit software is difficult to deal with; however, the Division is working with a vendor on a new version, a scheduled update that will improve the ability of the general public to use the system to obtain their permits.

Assemblyman Sprinkle asked if updating the website information would be enough for some of these individuals to understand the chemicals they may or may not be dealing with on their property. He stated that it is government's responsibility to make sure people are safe. If these individuals are having a difficult time understanding the permitting requirements and other information, will updating the website be enough to make sure that they understand what they are dealing with and potentially what they are allowing their clients to come in contact with.

Mr. Mulvihill answered that was only part of the communication between the Division and the business community. He stated the two inspectors when they are out in the community doing inspections take the opportunity for the inspections to be educational type settings and assist the business owner through the permitting process for obtaining a safe facility. They also provide information for the local responders. The Division provides telephone support; staff in Carson City specialize in this permit process and the hazardous materials requirements. This is one component. The website would be one component of those three approaches. The telephone support, and also the inspector whether it is one of ours or a county or city inspector out there working with the business owner, and providing the correct information for obtaining a permit. The Division is looking at integrating their system with the Secretary of State's Silver Flume business portal to renew permits.

Chair Carlton commented that 90% of the dry cleaners where the cleaning is done on premises did not have a permit. She knew how dangerous the chemicals can be. She related a personal experience of having to be aware of where hazardous materials had to be stored. Her employer ensured the employees were trained. She stated employers need to be outreached to make sure they are aware of compliance in

handling hazardous materials. Chair Carlton stated training funds could be used if necessary to ensure everybody is safe. She added gas stations are also a problem. She stated hospitals and outpatient facilities are supposed to have information regarding hazardous materials. She noted the Division accepted the recommendations, adding the Committee would have future discussions with the Division. She asked that Assemblyman Sprinkle keep tabs on and follow up on these issues. The Committee would be involved to make sure the issues are addressed. It is serious.

Chair Carlton called for a motion.

ASSEMBLYMAN SPRINKLE MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF PUBLIC SAFETY, STATE FIRE MARSHAL DIVISION. THE MOTION WAS SECONDED BY ASSEMBLYMAN HARDY AND CARRIED UNANIMOUSLY.

f. Commission on Mineral Resources, Division of Minerals

Mr. Townsend introduced Yette De Luca, Deputy Legislative Auditor; and Rick Neil, Audit Supervisor; to present the report.

Ms. De Luca began the presentation with background information. The Division of Minerals administers various programs. This audit covers two programs. The Abandoned Mine Lands (AML) Program provides for public safety by identifying and ranking dangerous conditions at abandoned mines, notifying parties of their responsibility to secure abandoned mines, and by securing abandoned mines without a known responsible party. The other major program is the Oil, Gas, and Geothermal program with responsibility for permitting, inspecting, and monitoring all oil, gas, and geothermal drilling activities on both public and private land in Nevada.

Ms. De Luca reported the Division includes 11 full-time employees and 8 summer interns assigned to the AML Program. The Division is primarily funded from fees paid by the mining industry with expenditures at approximately \$2.5 million in fiscal year 2013.

Ms. De Luca provided information about Geothermal Production in Nevada. Auditors noted that Nevada's electrical generation capacity from its geothermal plants is second only to California. In 2012, there were 21 geothermal-producing plants and 430 geothermal-related wells. The report also includes information about the exploration and production of oil in Nevada. In 2012, there were 12 oil producing fields and 111 oil-related wells.

Ms. De Luca stated the report provided an overview of the Abandoned Mines Program (Program). The Program was established in 1987 to protect the public and animals from dangerous conditions at mines that were no longer operating. The program was in response to a number of fatal and nonfatal incidents at abandoned mines.

The audit focused on activities from July 1, 2010, to June 30, 2013. Audit objectives were to evaluate the Division's efforts to monitor oil, gas, and geothermal drilling

operations for compliance with regulatory requirements, and to evaluate the Division's efforts to secure abandoned mines by notifying responsible parties.

Ms. De Luca reported findings and recommendations within the report. For the first objective, auditors found the Division could enhance its monitoring of oil and geothermal drilling operations. Specifically, by performing periodic inspections, it can obtain greater assurance that operators are complying with regulatory requirements related to the construction, operations, and abandonment of wells. The regulations are intended to ensure safety, protect the environment, and minimize the waste of natural resources. Management indicated wells are visited on an exception basis if problems arise. However, auditors found that visits are not sufficiently documented. Near the end of the audit, the Division began taking steps to establish an inspection process.

The audit included another finding related to this objective. Auditors found the Division did not witness safety tests performed at geothermal wells in accordance with regulations adopted by the Commission. The Division is required to witness the testing of blowout prevention equipment immediately following installation at a well site to ensure the equipment can prevent the uncontrolled escape of fluids and gases from geothermal wells. Auditors randomly selected 10 safety tests and found that none were witnessed by Division personnel.

Ms. De Luca reported that according to Division personnel, it is not always feasible to witness these tests. In lieu of witnessing tests the Division accepts electronic test results and other types of reports from the operators. However, the regulations do not provide for alternative ways to verify this safety test. Furthermore, of the 10 randomly selected tests, auditors found that only 6 contained reports from operators that provided reasonable assurance that pressure tests had been performed. In one instance the Division just had an e-mail from the operator stating that the test results were good.

After auditors brought this to management's attention, the Commission voted to begin the process of amending the regulation to allow Division personnel to obtain assurance that operators conducted well pressure tests through ways other than by witnessing it.

Ms. De Luca reported two recommendations were made related to inspections of oil, gas, and geothermal operations. A third recommendation was made related to ensuring geothermal well blowout prevention tests are performed by operators.

Ms. De Luca stated the audit objective related to the securing of abandoned mines. Auditors found that efforts to secure abandoned mines have been effective, but could be improved. Based on auditor testing of Division records, in the past 3 years, 642 abandoned mines have been secured by responsible parties after the Division notified them of their responsibility. Ms. De Luca reported the Division did not perform sufficient follow-up when responsible parties failed to respond to notification of their securing responsibility. From the unsecured hazards that remained after the Division notified the responsible parties, auditors randomly selected 40 hazards and reviewed records for follow-up efforts. Testing found that after the initial notification, the Division did not follow-up with the responsible party for all 40 hazards.

Ms. De Luca reported that state laws provide counties with the authority to take action against parties failing to fulfill their responsibility to secure abandoned mines. Division procedures indicate that if no response is received from the responsible parties within 65 days, the appropriate county would be notified to initiate enforcement action.

Ms. De Luca reported one recommendation was made to establish a follow-up process to ensure that parties notified of their responsibility to secure abandoned mines do so, including referral to county officials so that enforcement action can be taken when appropriate.

Ms. De Luca stated the Division accepted all four recommendations. She offered to answer questions from the Committee.

Chair Carlton thanked Ms. De Luca for the presentation.

Chair Carlton called for questions from the Committee.

Assemblyman Sprinkle asked if auditors were aware of how often cases got to that level and if the counties were following through with enforcement action.

Mr. Rick Neil, Audit Supervisor, answered the counties were not currently being notified of the responsible parties that are not taking action to secure their abandoned mines, so therefore it is unlikely counties are taking any enforcement action.

Chair Carlton referred to the regulatory issue. She pointed out the Commission has the statutory authority to change the regulation. She asked if the Commission had indicated when that process would begin and where they were going with it.

Mr. Neil answered the Commission indicated in the response letter that there would be a delay as the Commission was making other changes to those regulations. The response indicated that draft language would be included with other language proposed for modification as part of a larger review which was planned to be submitted to the auditors in January 2014.

Chair Carlton was concerned about the blowout preventers and looked forward to seeing how the Commission addresses the issue so we do not have an incident.

Chair Carlton called for Commission staff to testify.

Mr. Richard Perry, Administrator, Commission on Mineral Resources, stated that regulations in NAC 534 which apply to geothermal regulations date back to a time when it was necessary to inspect blowout preventers. Division staff have resumed and will continue performing physical inspections until the regulations are changed. Mr. Perry explained the Commission has a Memorandum of Understanding (MOU) with the Bureau of Land Management (BLM). About half of the geothermal wells in the state and more than 90% of the oil wells are located on BLM ground and they have primacy with respect to permitting. He explained the Commission's MOU with the BLM allows either agency to do the inspections; however, the Commission does inspections on private land. With technology changes some procedures exist through the American Petroleum Institute that allows these inspections to be completed and certified by a third party. He

stated the Commission has an option to change language and enact this process in the coming year.

Assemblyman Sprinkle stated the third audit recommendation requests that the Commission obtain credible evidence that these prevention tests were performed. He stated the Commission response states: The installation and testing of blowout prevention equipment can occur any time, day or night, making it difficult for Division to physically witness each and every test. Therefore, the Division has accepted the test results via electronic means for review. He thought that was counter to Mr. Perry's testimony, that the Division was trying to do the physical inspections. He asked for clarification and if receiving an email that a test was performed was credible evidence.

Mr. Perry answered in the past the Division was accepting pressure test curve data as evidence for the correct operational blowout preventer. He stated several months ago the Division returned to physical inspections until language changes are made to the regulations to resolve the issue.

Chair Carlton called for a motion.

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

g. Department of Public Safety, Division of Emergency Management

Mr. Townsend introduced Dennis Klenczar, Deputy Legislative Auditor; and Rick Neil, Audit Supervisor; to present the report.

Mr. Klenczar began the report presentation with background information. The Division of Emergency Management's mission is to coordinate the efforts of the State and its political subdivisions in reducing the impact of disasters. This includes developing programs for prevention, mitigation, and recovery from disasters.

Mr. Klenczar continued with the report section on budget and staffing. In fiscal year 2013, the Division had three budget accounts and total funding of approximately \$23.7 million. The Division is funded primarily by federal grants. Ex. 1 shows the portion of funding retained by the Division for its operations. Auditors explained the Division is responsible for applying for federal funding and for the pass-through of these funds to subgrantees. In fiscal year 2013, the Division had 33 approved positions. Audit objectives were to determine if the Division properly tracks, safeguards, and disposes of its equipment, and to determine if the Division provides sufficient oversight of equipment purchased by its subgrantees with federal funds. The audit focused on activities from July 2011 through June 2013.

Mr. Klenczar reported the Division needs to strengthen controls over equipment in its custody. Auditors found the Division did not perform an annual inventory or properly track its equipment. As a result, items could not be located and property records were not accurate. For example, the Division was unable to locate 7 of 50 items selected.

Ex. 2 lists the missing items. Auditors noted that strong controls over equipment are important because the Division is responsible for a significant number of items, many of which are highly susceptible to theft or loss. Specifically, the total acquisition cost of items currently held by the Division totaled about \$1.5 million and included 290 laptop, tablet, and desktop computers.

Mr. Klenczar reported the Division did not always attach state ID tags to its equipment and the Division's property records did not include all items in its custody. For example, 21% of items tested did not have an attached state ID tag. Because the Division has equipment in multiple locations, there is an increased need for proper tracking.

Mr. Klenczar stated three recommendations were made to enhance controls over the Division's equipment.

Mr. Klenczar began the section on federally-funded equipment in the custody of subgrantees. The Division could improve its oversight of equipment purchased by subgrantees with federal funds. Auditors found the Division did not implement a sound methodology for scheduling onsite visits, or perform sufficient testing of equipment while onsite. Specifically, the Division's risk assessment for scheduling onsite visits did not include the entire population of active subgrantees for the grant program under review. The report provided an explanation of the scheduling process in detail. For example, the Division's risk assessment included 42 active Homeland Security grants totaling about \$17 million but did not include 92 other active Homeland Security grants totaling almost \$33 million. Furthermore, some of the onsite visits that were performed during fiscal years 2012 and 2013 did not align with the Division's risk assessment. Auditors found 4 low-risk subgrantees had a site visit and 5 high-risk subgrantees did not have a site visit. Because the Division has only one staff person available for onsite visits, a more comprehensive risk-based approach would allow the Division to maximize its limited resources.

Mr. Klenczar began the section on testing equipment during onsite visits. The Division's procedures for testing equipment during onsite visits of subgrantees could be enhanced. Auditors found the Division did not always evaluate internal controls over equipment, perform physical observations of equipment, or verify the subgrantee conducted a physical inventory. Without an assessment of internal controls and adequate testing of equipment, there is an increased risk the Division will not detect a subgrantees' control weaknesses, missing equipment, or noncompliance with federal laws.

Mr. Klenczar reported overall, audit testing did not find any major problems with subgrantees' accountability over equipment purchased with federal funds. However, stronger controls could help ensure equipment is properly safeguarded and readily available when needed. For example, subgrantees are only required to track equipment that cost \$5,000 or more. Commonly purchased equipment such as laptop computers, and high-definition cameras costing less than \$5,000 are not required to have an asset tag or be listed in the property records. According to Division records, the combined total spent on equipment by subgrantees was about \$24 million for grants awarded in

federal fiscal years 2008 to 2010. Ex. 3 shows test results in this area. As noted in the Ex., all 142 items selected were physically observed but some items did not have an ID tag or were not included in property records.

Mr. Klenczar stated five recommendations were made to improve oversight of equipment in the custody of subgrantees.

Mr. Klenczar reported the Division accepted all eight recommendations. He offered to answer questions from the Committee.

Chair Carlton thanked Mr. Klenczar for the presentation. She called for questions from the Committee.

Assemblyman Hardy commented on the \$5,000 threshold. He stated it is difficult to insure something that does not have a tag on it. He stated the level of \$5,000 is not far enough down in order to tag items. He asked if this was due to a lack of manpower. He stated it could be cost effective to hire staff to help in the tagging process. He asked for comments on the issue.

Chair Carlton agreed there might be an employee issue, but she did not want to exclude the subgrantees. They should be held just as accountable as everyone else.

Assemblyman Hardy concurred.

Mr. Klenczar clarified that the \$5,000 threshold for equipment in the custody of subgrantees is a federal requirement. The State also has a \$5,000 threshold, except that all weapons and computers have to be tagged and tracked.

Chair Carlton was concerned with the subgrantee issue also. She commented all entities, including the subgrantees, need to follow the same set of procedures. She thanked Mr. Klenczar for his comments.

Assemblyman Sprinkle asked for an example of subgrantees.

Mr. Klenczar answered the main entities include Clark County, the City of Las Vegas, Washoe County, Washoe County Sheriff, Las Vegas Metropolitan Police Department, Douglas County, and Carson City. Smaller entities include the Intertribal Council of Nevada and the Nevada Hospital Association. He stated there are also state agencies that are subgrantees. For example, they include the Division of Investigations and the Nevada Department of Transportation.

Assemblyman Sprinkle asked how a subgrantee is categorized as a high or low risk.

Mr. Klenczar answered the Division's risk assessment process has two basic stages. The first one is based on the grant amount awarded to that subgrantee. Based on the grant amount, each subgrantee is categorized as Type A, Type B, or Type C, with Type A being the largest. Then once they have made that determination they determine if each Type A and Type B is a high or a low risk subgrantee. He stated a lot of factors go into this determination. Mr. Klenczar stated the agency could provide additional specific information to further address the issue.

Assemblyman Sprinkle thanked Mr. Klenczar for the explanation. He stated asked for comments on what was meant by risk.

Mr. Klenczar answered he believed that it would be the risk for non-compliance with grant requirements.

Chair Carlton called for a motion.

ASSEMBLYMAN SPRINKLE MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF PUBLIC SAFETY, DIVISION OF EMERGENCY MANAGEMENT. THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.

Item 5 — Presentation of six-month reports (NRS 218G.270)

Chair Carlton stated item 5, a through f, would be taken out of order.

Mr. Townsend explained this is the first meeting of the interim, with the previous meeting taking place in December 2012. He stated several agencies have had time to fully implement all recommendations and Audit staff have no questions for these agencies. Mr. Townsend commented the Chair may want to take a motion to accept the reports listed as item 5, a through f, on the agenda. He added that representatives from those agencies could then leave the meeting. However, Subcommittee members should advise the Chair if they would like any of these agencies held. He offered to read the items into the record.

Chair Carlton asked for comments from the Committee.

Mr. Townsend stated the motion would include item 5, a through f:

- a. Department of Business and Industry, Division of Insurance**
- b. Department of Conservation and Natural Resources, Division of Forestry**
- c. Department of Business and Industry, Housing Division**
- d. Division of Mental Health and Developmental Services, Substance Abuse Prevention and Treatment Agency**
- e. Department of Conservation and Natural Resources, Division of State Lands**
- f. Department of Conservation and Natural Resources, Division of Water Resources**

Chair Carlton called for a motion.

ASSEMBLYMAN SPRINKLE MOVED TO ACCEPT THE SIX-MONTH REPORTS, ITEM 5, A THROUGH F. THE MOTION WAS SECONDED BY SENATOR PARKS.

Chair Carlton called for questions or comments from the Committee.

Senator Denis asked Mr. Townsend about items from the motion that were partially implemented. He asked for comments.

Mr. Townsend answered some of the six-month reports received from the Department of Administration noted agencies with some partially implemented recommendations. Audit staff performed follow-up procedures prior to this meeting. He added that the recommendations for agencies listed in item 5, a through f, are considered fully implemented at this time.

Chair Carlton called for a vote on the motion.

THE MOTION CARRIED UNANIMOUSLY.

Mr. Townsend provided an explanation on the audit follow-up process. Years ago the legislature found that a number of audits were returning time after time and the audit recommendations had not been implemented and the problems were continuing. He stated the legislature instituted some of the most elaborate legislation in the country in regard to audit follow up. He added that is what we would be going through in this next area. Mr. Townsend stated the first step is that agencies must complete a plan of corrective action within 60 working days after the meeting or release of the audit. Auditors review the plan to make sure it will satisfy the intent of the audit recommendations. Then, 6 months after that the Department of Administration through its Division of Internal Audits contacts the agency and goes out to the agency to verify the implementation status. He added the Audit Division does have some partnering with the Executive Branch in this area. He explained the packet today contains the reports provided by the Department of Administration as well as the Audit Division analysis. In some cases, the Audit Division has provided specific questions that need to be addressed by the agency. Sometimes the recommendations are not fully implemented within 6 months. Audit staff continue to monitor those agencies and in some cases the agency is asked to return to a future Committee meeting.

Mr. Townsend moved to item 5g of the agenda.

g. Department of Corrections, Accuracy of Criminal History Information

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

Mr. Neil stated in February 2013 an audit report was issued on the Department of Corrections. This audit report contained 10 recommendations. As of November 2013 the Department of Administration indicated six recommendations were fully implemented and four recommendations were partially implemented. He indicated discussion would take place in regard to these partially implemented recommendations.

Mr. Neil stated the first recommendation was to review the accuracy of inmate criminal history information in reports provided to the Parole Board. The audit found that about 13% of the reports tested contained errors when they went to the Parole Board. The Department of Administration indicated the same percent of report errors despite additional controls put in place to reduce the likelihood of errors. The question is, has the Department evaluated why the three levels of review did not detect errors before the reports were provided to the Parole Board.

Chair Carlton called for agency staff to testify.

Mr. Scott Sisco, Deputy Director, Nevada Department of Corrections, introduced other staff members: Quentin Byrne, Associate Warden, Lovelock Correctional Center, who was Acting Division Administrator of Offender Management at the time of the audit. He also introduced Dwayne Deal, Division Administrator of Offender Management. He asked Mr. Deal to comment on the issues.

Mr. Deal stated most of the audit recommendations had been implemented prior to his employment in September 2013. He had worked with Department of Administration staff and reviewed inaccuracies in the Parole Board reports. He reported in each instance incorrect information submitted by the Department of Corrections had been corrected by the Parole Board during their assessment. Mr. Deal stated the information did not have a negative impact on the Parole Board hearing. The incorrect information occurred in two categories. One error was in the criminal history reflected in property crimes and the other error was in reference to prior revocations of parole and probation. In 3 of the 54 instances reviewed there had been a prior parole revocation not noted in the Department of Corrections report.

Mr. Deal stated these were the two main issues, noting most were simply staff errors. Following the initial report from the Department of Administration, the Deputy Director sent the associate wardens correspondence emphasizing their responsibility to ensure that Parole Board reports were reviewed, and were accurate and complete. Mr. Deal reported the Department was working to come up with a report that would tag discrepancies between the assessments done by the Department of Corrections and the subsequent assessments done by the Parole Board. He stated this would determine where errors were occurring and offered that the issue could be addressed through subsequent training and/or disciplinary action.

Chair Carlton was concerned that the Parole Board would change a report received from the Department of Corrections. She suggested the report could be sent back for corrections. She asked for comments on the issue.

Mr. Deal answered the Parole Board does not change the Department of Corrections' report. He explained within the report the parole risk assessment section is where the inaccurate information was noted. He added the Parole Board completes their own assessment which is in that subsection of the Parole Board report. It is redundant but is appropriate to have that checks and balance in place. The Parole Board could return a report for review and correction, but typically the Parole Board makes a note in their own assessment.

Chair Carlton asked if the Department tracks whether the corrections resulted in more positives or negatives to the assessments.

Mr. Deal answered the seven Parole Board reports in the follow up audit showed the Parole Board assessment at a higher score, usually 2 to 3 points. He explained a higher score could change a moderate risk assessment to a higher risk assessment, potentially impacting the Parole Board's decision. In these particular instances the errors added points to the risk assessment.

Chair Carlton stated this issue of one assessment containing different scores than another assessment needed to be addressed.

Mr. Sisco stated the Department has been authorized to input an upgrade to the Nevada Offender Tracking Information System (NOTIS). They are also creating in house a new sentence calculation component of NOTIS. He believed the new system would resolve the issue.

Chair Carlton stated there needs to be action as far as the Department and the Parole Board. There should not be differing rules and differing sets of assessments. She noted the Committee might need to have a conversation with the Parole Board in the future.

Assemblyman Sprinkle was trying to understand what caused this recommendation to be needed in the first place. The recommendation was to ensure the accuracy of information. He stated the Department, in the last six months, had come up with three levels of review. A Department of Administration audit noted the Department had incurred 13% in errors in the last six months. He suggested this review process was not resolving the issue. He asked if the Department should be looking at something else besides three levels of review since the Parole Board still noted the errors in the assessment. Assemblyman Sprinkle stated with a 13% error rate maybe something else needs to be done.

Mr. Deal answered the Department needed to focus on the key area in which the mistakes are being made to resolve the issue. He suggested training could be utilized to address the issue. He stated that every Parole Board report looks at the same questions. They all look at the questions whether the inmate has property crimes and/or prior revocations on parole and probation. The caseworkers are doing multiple reports each month. He noted they are missing some of these on occasion, but are doing most of the reports correctly. It is not that the caseworkers do not know what to do, the issue is to ensure they correctly complete the reports consistently. He noted the associate wardens are responsible and the caseworkers should make this a priority to ensure the reports are completed correctly.

Chair Carlton asked Mr. Neil to continue the presentation.

Mr. Neil stated the other three partially implemented recommendations (6, 7, and 10) are related to controls that limit access to criminal history information. The audit found that the Department could improve controls that limit access to important inmate information in the Department's primary information system called NOTIS which stands for the Nevada Offender Tracking Information System. NOTIS is used to manage an inmate's period of imprisonment, risk classification, parole eligibility, medical needs, and other critical information.

Mr. Neil stated recommendation 6 related to limiting the ability to change criminal history information and sentencing information. The Department of Administration's six-month report indicated the Department of Corrections is in the process of developing a new enhanced sentence management system that would address this recommendation.

The target date for this system to be functional is March 2014. Auditors stated that they would follow up with the Department to ensure the recommendation has been fully implemented. Therefore, auditors did not have any questions in regard to this recommendation.

Mr. Neil stated recommendation 7 concerned the disabling of certain user accounts, in particular disabling accounts after employees left the Department. Auditors found some ex-employees' access was kept active for as long a couple of years. The Department of Administration stated that although the agency has developed new controls to disable that access, some terminated employees still had access to NOTIS after they were gone. Auditors asked if the Department has determined why its new procedures did not remove access to NOTIS for the 21 terminated employees found by the Department of Administration's followup.

Mr. Sisco answered the part they implemented was 100% successful in regard to disabling the ex-employees from accessing the Department's network. They cannot get into the network but they had a database within NOTIS that they were still listed as authorized users. The Department implemented a process to disable ex-employees access to NOTIS at the same time that network access was disabled.

Mr. Neil stated recommendation 10 related to security awareness training that is required of all employees. The Department of Administration determined the recommendation was partially implemented. Auditors found after additional follow up that the recommendation has been fully implemented. Therefore auditors do not have any questions for the Department of Corrections in regard to this recommendation.

Chair Carlton called for questions from the Committee.

Chair Carlton called for a motion.

ASSEMBLYMAN HARDY MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF CORRECTIONS, ACCURACY OF CRIMINAL HISTORY INFORMATION WITH THE PROVISION THAT THE DEPARTMENT WOULD RETURN TO THE COMMITTEE AT A FUTURE DATE. THE MOTION WAS SECONDED BY ASSEMBLYMAN SPRINKLE AND CARRIED UNANIMOUSLY.

h. Department of Health and Human Services, Division of Welfare and Supportive Services

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

Ms. Bailey stated an audit report was issued on the Division of Welfare and Supportive Services in September 2012. The Department of Administration submitted its six-month report in June 2013, indicating that three of the five recommendations were fully implemented and two were partially implemented. The two partially implemented recommendations were to develop policies and procedures for using additional sources of information to identify when clients have died and to more timely stop the payment of benefits to deceased clients. The six-month report states that the Division is manually

matching deaths reported by the Office of Vital Statistics to its client database. However, changes to the policies and procedures will be made after an electronic interface is developed between the two databases. This is expected in early 2014. The Division administrator has agreed to provide auditors with a copy of the policies and procedures when they are completed. Auditors have one question for the Division. She asked if the Division anticipated fully implementing these two recommendations in early 2014.

Mr. Michael McMahon, Administrator, Division of Welfare and Supportive Services, answered the Division would fully implement the recommendations in the first six months of 2014. He commented on the process.

Chair Carlton called for questions from the Committee.

Ms. Bailey noted that auditors would continue to monitor the Division's implementation of the recommendations

Chair Carlton called for a motion.

ASSEMBLYMAN HARDY MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, DIVISION OF WELFARE AND SUPPORTIVE SERVICES, WITH THE PROVISION THAT AUDITORS WOULD MONITOR PROGRESS UNTIL COMPLETION AND FULL IMPLEMENTATION OF THE TWO PARTIALLY IMPLEMENTED RECOMMENDATIONS. THE MOTION WAS SECONDED BY ASSEMBLYMAN SPRINKLE AND CARRIED UNANIMOUSLY.

i. Department of Employment, Training and Rehabilitation, Employment Security Division

Mr. Townsend introduced Shannon Ryan, Audit Supervisor, to present the report.

Ms. Ryan stated in December 2012 auditors issued an audit report on the Employment Security Division (ESD). The report contained 12 recommendations. The six-month report issued by the Department of Administration indicated that 8 recommendations had been fully implemented, three were partially implemented, and one had no action taken on it.

Two of the partially implemented recommendations (2 and 5) dealt with the development and improvement of policies and procedures. The Department of Administration indicated certain processes had not been incorporated into ESD policies keeping these recommendations partially implemented. Specifically, recommendation 2 referred to data comparisons and recommendation 5 addressed notifying claimants when their personal information was discovered to be potentially compromised. Auditors asked if the Division has made further progress on the development and implementation of policies and procedures over data comparisons and on notifying claimants when their personal information is compromised.

Renee Olson, Administrator, Employment Security Division, answered they have made policy changes and published those policies in their manual of operations for benefits and for benefit integrity programs. She stated to her knowledge the Division had provided those policy changes in terms of the data comparisons.

Ms. Olson stated notifying people of possible personal information being compromised is a more complicated issue. She introduced Kelly Karch, Deputy Administrator, to address the issue.

Chair Carlton stated they would address the first question in regard to recommendation 2 first. She asked if a miscommunication existed in regard to the question posed and the answer that was given.

Ms. Ryan stated auditors based their question from the Department of Administration which actually reviewed the policies and procedures. The Department of Administration indicated the second part of that recommendation had been completed but there were no policies and procedures detailing the actual process for the data comparisons. She restated the question was had they modified their policies and procedures to include the actual data comparison process.

Ms. Olson stated she would go back and make sure that the issue has been addressed adequately. She stated the Division would follow up on the issue.

Chair Carlton asked that auditors be provided the documentation to ensure the issue had been addressed.

Ms. Olson answered the Division would comply with the request.

Chair Carlton asked Ms. Olson to address recommendation 5 on the personal information. She deferred the question to Mr. Karch.

Mr. Karch answered the Division contacts the compromised individual by phone or by mail. A lot of fraud cases involve a person that is known to the individual.

Because the Division is digital the claimant comes in to hand in their job search, they are given an ID card, the ID card is swiped and the Division can tell if they are the right person or not. What really happens is that they never come in. So when the fraud case is initiated the Division speaks with all parties at that time. If an individual files a claim and someone has used their information the Division still processes that claim. The Division conducts a wage protest investigation to find out exactly what has happened to make sure the claimant gets their benefits and then pursue the fraud. It is really a matter of the claimant letting the Division know what is going on. The Division is updating all policies and procedures in relation to UINV (the new system).

Chair Carlton was unsure that she heard the full answer to the questions.

Mr. Karch related recently the Division had approximately 1,700 cards stolen, however, only about 25 were compromised. Those cards were suspended and new cards were issued.

Ms. Ryan stated when auditors cross-matched information from the Department of Corrections to the benefit data, instances were found where an inmate would be using the social security numbers; the name would match but the social security numbers would not match; or vice versa. Auditors knew about incarcerated individuals who were using 3 or 4 social security numbers. So there was an indication then, in matching of that data that somebody else was using a benefit persons' social security number incorrectly. The recommendation was centered around if the Department is getting an indication that a claimant's information is being used by another individual incorrectly, just simply notifying them that their information is potentially compromised or that somebody might be using that information. She stated the Department of Administration's response indicated that Division policies and procedures did not address notifying the benefit individual that their information was being used by somebody else. So that is where the question is coming from now and what their policies and procedures need to address going forward.

Chair Carlton called for agency response.

Mr. Karch answered that consisted of a write up in the policy and procedure manual. The Division had been working with the Department of Corrections and since August 2013 the Division was down to zero events. He agreed they need to make changes in the policies and procedures.

Chair Carlton asked that the Division forward all of the information to the auditors for review to consider the recommendation fully implemented.

Ms. Olson agreed.

Ms. Ryan continued the presentation. The report noted that NRS 612.265 requires ESD to compare industrial insurance information to claimant data. The Department of Administration found ESD had discussed obtaining information from insurers but found it not to be cost effective. As a result ESD attempted to use the Division of Industrial Relations' data to cross-match this information but found it to be labor intensive. The Department of Administration noted that ESD expects an upgrade to the Division of Industrial Relations' system to be discussed during the 2015 Legislative Session. She noted that NRS 612.265 states that private insurance carriers must submit this information to ESD in a manner determined by the ESD administrator and requires ESD to make a comparison of this data with workers compensation benefits. She understood that manual cross-matches may not be cost effective but encouraged ESD to continue to pursue this data in a manner that allows ESD to compare this information effectively. Auditors have two questions for the Division regarding this recommendation. First, if the Division of Industrial Relations is able to obtain data from Industrial insurers in a useable format related to workers compensation benefits why is ESD prevented from being able to obtain that data as well.

Chair Carlton commented she remembered having this conversation in Commerce and Labor during the 2013 Legislative Session trying to figure this one out.

Ms. Olson answered the Division had been working with the data to do the cross-match manually to see how many of those individuals receiving benefits under the industrial insurance program would not be entitled to unemployment insurance benefits. At this point the Division had reviewed approximately 140,000 records and had found no instances that would block a claim at this point. The Division talked about this issue at the 2013 Legislative Session and believed the most efficient means of obtaining the information would be if the insurers were reporting that as they report other things to the Division of Industrial Relations and then ESD could do some kind of data match download with the Division of Industrial Relations' system. She was more than willing to work with the Division of Industrial Relations to obtain the information and the Division would be willing to work through that.

Ms. Olson addressed the second question which asked if the Division would consider putting forth statutory changes during the 2015 Legislative Session. She stated they would be willing to work with the Division of Industrial Relations and other interested parties.

Chair Carlton stated if she remembered the conversation with Mr. Jayne while he was still at the Division of Industrial Relations (DIR), that DIR would act as a clearing house which would provide access to their records and that would be one of the verification checks for ESD. So until we actually have the program available for ESD that that would not be possible. But there is a process they are going through to change that.

Ms. Olson did not know the status of DIR's system. She agreed with the Chair's statement, noting they were willing to work to move forward on the issue.

Assemblyman Sprinkle asked what the legislative change would look like, if the potential legislative change would be to upgrade the system or were they looking at needing some sort of change that allows the Division to obtain the information.

Ms. Olson answered she was unsure and offered that was why ESD needed to communicate with the other agencies to work that out.

Mr. Karch stated the problem with the information that ESD has obtained to date is that programmers from ESD have gone to DIR and have found the system is antiquated. He stated the precision by which ESD needs information is presently not available. The Division cannot accuse someone of fraud or take away a benefit without the information they can take to court. He reiterated that ESD had gone through 140,000 files.

Chair Carlton stated this issue should be figured out and would probably involve a new computer system. She stated they would move on the next issue in recommendation 4.

Ms. Ryan continued the presentation. The recommendation with no action had to do with requesting a statutory change to compel state and local detention facilities to provide certain incarceration data to ESD. She stated receiving this information is important as offenders are typically housed in local detention facilities prior to being transferred to the Department of Corrections. Auditors asked if ESD intends to request legislation during the 2015 Legislative Session to compel local detention facilities to provide records of incarceration.

Ms. Olson answered yes. They have and will continue to work with the Department of Corrections on a cross-match process. She added, the Division would also be working with local entities as well to develop statutory language to accomplish that.

Chair Carlton reiterated that ESD would be proposing legislation in the 2015 Legislative Session to deal with the issue. Chair Carlton commented legislation was not submitted during the 2013 Legislative Session due to cost. She stated the issue came forward, was discussed, but no action was taken due to the actual cost. She asked if that was correct.

Ms. Olson asked if Chair Carlton was referring to the legislation regarding the correctional facilities.

Chair Carlton thought that was the issue.

Ms. Olson remembered a discussion on the cost of implementing a new system with the Division of Industrial Relations.

Chair Carlton stated that DIR would need the new system in order for ESD's system to talk. That is where it will all fit together.

Ms. Olson agreed.

Chair Carlton called for a motion.

ASSEMBLYMAN SPRINKLE MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION, EMPLOYMENT SECURITY DIVISION. THE MOTION WAS SECONDED BY SENATOR PARKS AND CARRIED UNANIMOUSLY.

j. Public Employees' Benefits Program

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

Mr. Cooper stated in December 2012 an audit was issued on the Public Employees' Benefits Program commonly referred to as PEBP. PEBP filed its plan for corrective action in March 2013. The six-month report prepared by the Department of Administration reported on the status of the 14 recommendations contained in the audit. The Department of Administration indicated that nine recommendations were fully implemented. In addition, auditors concluded that two other recommendations were fully implemented. Three recommendations remained partially implemented. In regard to Recommendation 2, PEBP has made significant progress in providing additional resources to participants to facilitate comparing prices among medical providers. PEBP is providing information to participants through an online pricing tool. However, certain pricing information is still not available. Regarding Recommendations 4 and 5, yesterday PEBP provided auditors with an update to document that Recommendations 4 and 5 were now fully implemented.

Mr. Cooper stated because of PEBP's update auditors had modified their question on recommendation 2. He asked when PEBP anticipated it would achieve full implementation of recommendation 2 regarding the online pricing tool.

Mr. Jim Wells, Executive Officer, answered part of the reason that Recommendation 2 has not become fully implemented is due to the complexity in dealing with inpatient and outpatient services. There are so many components to an inpatient surgery that can vary from one surgery to the next. PEBP continues to work with the vendor on the pricing. He noted that PEBP has included this in the request for proposal for the PPO network effective July 1, 2014. He has included a section requiring that the new vendor provide participants with a couple of different options. They will provide the details regarding the remaining pieces for inpatient and outpatient as well as the existing services that have already been completed. He explained one of them is to have the data given to the third party administrator similar to what is done now. The participant logs onto the third party administrator's website, views their claims, and looks up the cost of the services. That is what is available now for office visits, labs, x-rays, and those types of services. It will include both inpatient and outpatient surgical procedures with some caveat information that this is typical and may not be exactly a participant's experience based on the complexity of the individual surgery.

Mr. Wells continued. The second piece is that participants can do it themselves so that the new network which will be awarded a contract July 1, 2014, can create a website that would have the same type of information. They can require that providers give that information to the participant at the time of service or they can set up a hotline and do something similar where the participant can call the number to get information. He stated PEBP has had some success with a pilot program at the Carson Tahoe Regional Hospital. They have set up a hotline and they will assist participants in determining costs. From the indications received from participants who have used the hotline it has been pretty close. So that is another avenue PEBP will be working on, having the inpatient and outpatient facilities provide the information to the patient at the time.

Chair Carlton said to get back to the specific question of timeframe. When will that be.

Mr. Wells hoped to have all of this in place by July 1, 2014.

Chair Carlton was concerned that you can have a pricing tool but if there is not network adequacy then everyone goes to that certain group with that price. They may not have enough professionals to handle everyone that chooses to go there. She asked if there was a way to help figure this out. If you have a number of people all going to one provider because of that pricing tool how do we know the network can handle all those people. We are advertising something and saying where you can go for this price but we are not sure if the network can handle it. She asked if there was a variable in there.

Mr. Wells stated PEBP has not received many complaints on the self-funded plan which is where the pricing tool is most widely used. He stated in the customer satisfaction survey that was one area that scored relatively high with the adequacy of the network. He had not heard of the pricing tool making wide variations in specific doctors. He

stated where you are seeing a pricing gap is in certain services such as MRIs. MRIs have a very wide pricing disparity and a slight disparity in quality. PEBP's is starting to see participants going to different MRI facilities and had not heard complaints about access to those types of facilities.

Chair Carlton stated as more people enter the exchanges, as more people have the Medicaid card and start accessing these same medical professionals that are in the state then there could be an access problem. She stated the state is ranked at the bottom third again as far as professionals. If there are problems in the future, tracking this information could help, as far as the network goes, to know what types of professionals are needed in the state. Chair Carlton added that this could be a good guidance tool also.

Mr. Wells stated provider access with the additional insured population that came on effective January 1, 2014, is certainly a concern for PEBP, not just from an access perspective but from a cost perspective. Because as you change the payor mix those will be offset with higher costs to insurers such as ourselves.

Chair Carlton stated it would interesting to watch the documents and note how it relates to Medicaid caseloads and then to look at others with the pricing tool. She reiterated that the target date for full implementation of the recommendation is July 1, 2014.

Chair Carlton asked Mr. Cooper if he had any other information to present.

Mr. Cooper stated all questions had been addressed. He stated there were 14 recommendations and they had done a good job in implementing those and are in the final stages for full implementation of all of the recommendations. He stated auditors would monitor the progress for full implementation.

Chair Carlton called for questions from the Committee. She called for a motion.

ASSEMBLYMAN SPRINKLE MOVED TO ACCEPT THE SIX-MONTH
REPORT ON THE PUBLIC EMPLOYEES' BENEFITS PROGRAM. THE
MOTION WAS SECONDED BY ASSEMBLYMAN HARDY AND CARRIED
UNANIMOUSLY.

k. Department of Business and Industry, Division of Industrial Relations

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

Mr. Peterson stated in September 2012 an audit report was issued on the Division of Industrial Relations. As of June 2013 the Department of Administration indicated that five recommendations were fully implemented and three were partially implemented. Based on review of the six-month report prior to this meeting auditors determined that two of the partially implemented recommendations were now fully implemented. There was one partially implemented recommendation remaining was to develop comprehensive aged accounts receivable lists for each of the division's sections. According to the six-month report from the Department of Administration the Division is currently working to develop a solution for aged accounts receivable reporting and they

anticipated full implementation by June 2013, which was last year. The question is what has prevented the Division from fully achieving implementation of this recommendation.

Mr. Jan Rosenberg, Deputy Administrator, stated the new administrator, Mr. Don Soderberg, was in attendance in Las Vegas.

Mr. Soderberg stated Mr. Rosenberg had been working on this since the audit came out and asked him to provide an overview on the status of this recommendation.

Mr. Rosenberg introduced Grant Reynolds, IT Manager, Department of Business and Industry. He asked for the question to be repeated.

Mr. Rosenberg stated the Department has computer issues. He explained of the five operational units, three have receivables. They have received funding to replace one unit in VERSA in the mechanical section. Implementation is going very well. It is being converted. All the deliverables are in place. The final touches are going on the boiler portion of the system to be implemented in approximately 30 days. The vendor jurisdiction online has a super team with double the number of people that they usually do for implementation. In dual concert they are working to put in the elevator site while the boiler site is being completed. He anticipated that the entire system may all be in place by May 2014. Once that is in place the mechanical section will be taken care of. It has a robust reporting system that will provide all the accounts receivable aging reports that they need. Each one of these has its own story. On the OSHA side, the antiquated side, the NCR system does not adequately track things. We use an Excel database as an interim step waiting on an OIS system which is a new web based OSHA federal system. That system is in excess of 2 years overdue. The latest dates of implementation could be in August or September 2014, but we do not have anything official yet. Once that system is in place it is anticipated that it will provide the necessary aging reports to eliminate double entry in Excel. Along with that DIR has a bandwidth issue because we currently have a T-1 line that supports the OSHA system. In Henderson they have somewhere in the neighborhood of 100 employees on the system. T-1 lines only support about 20 employees. They are looking at a couple of alternative solutions. One is a DS-3 line which will give us 20 times the capacity that a T-1 would. Or to switch agency staff in OSHA over to the state system. The most cost effective option would be to switch to the state system as most of the information is already in place. He stated Mr. Reynolds could address any additional questions.

Mr. Rosenberg stated testing would begin in the next 2 weeks because we have had some recent contact with the federal OSHA on that and we are real close to testing that. That is a crucial step because we will not even be able to operate in the OAS system because it will lock up on us with the number of users and accessing the web at the same time. That is a bottle neck choke issue. It is an operational issue and once we get OIS and we get the bandwidth that we need then the aged accounts receivable report should be taken care of.

Mr. Rosenberg stated the last one was workers comp. He stated ESD had already opened the door on that. In workers comp we have two systems. The one referred to

by ESD is a claims indexing system he understood was developed by DoIT. There is no support for it. There have not been any updates for it for a long time. Operationally, other than from the claims indexing system we use VERSA in the rest of workers comp. We are having issues with accounts receivable reports in there. We have been using CRYSTAL reports through queries and the complexity of the way the databases are structured is very difficult to do a CRYSTAL report that gets all the information. We get missing information so the accounts receivable reports are not complete and accurate. Again we are doing a dual entry, using Excel and trying to track things that way. In the process of going through all this and trying to work through CRYSTAL reports we determined that there is another report writing tool that is a sort of drop and drag method which might be easier than writing queries which is Datamart. We obtained Datamart and have integrated that into the VERSA system but the issues are there are so many different databases, called universes, that they asked us to provide all the elements needed into one or two universes to be able to make Datamart work properly. When we asked for all those elements they said that we could not have all those elements. He stated Mr. Reynolds had been working closely with all the vendors and could answer more detailed questions. The long story of all this is we probably need a new system. We probably need to take the claims indexing system and the VERSA system that we use on the other part of the workers comp and get one modern system that meets all the needs that we have.

Chair Carlton stated this was not a surprise. This was discussed 2-4 years ago. But getting the inspections and the safety part of it was the priority. Now that is completed these other issues can be addressed.

Chair Carlton asked if auditors had the answers they needed.

Mr. Peterson stated yes, auditors are going to monitor the issue into the future.

Chair Carlton suggested the agency work on their budget to include this issue. This is a very important issue.

Assemblyman Sprinkle stated initially in the presentation the agency expected full implementation by June 30, 2014. He asked why was there an expectation that this would be fully implemented.

Mr. Rosenberg answered the Division had made funding requests at IFC twice to replace VERSA in mechanical. It had been anticipated that in one of the IFC meetings they would receive approval and it did not happen. The request was placed in the regular budget. We had hoped working with the vendor and procuring Datamart which essentially took a year to get that in place, that it would be an answer in workers comp. But, they have had difficulties working with VERSA.

Chair Carlton stated it has been an ongoing odyssey. She asked that Mr. Peterson continue the presentation.

Mr. Peterson stated the question had been answered but he wanted to clarify implementation dates. He stated the agency had indicated that the mechanical unit would be completed by May 2014.

Mr. Rosenberg answered that was correct.

Mr. Peterson asked when OSHA and workers comp would be completed.

Mr. Rosenberg answered they were unsure of a completion date for OSHA. The latest date was in August or September 2014; however, that system has already been pushed back 2 years now.

Mr. Peterson asked when workers comp would be completed.

Mr. Rosenberg answered workers comp would be dependent on the next budget because unless the request is made before IFC it is probably going to be two years from now.

Mr. Peterson stated these were all the questions auditors had for the agency.

Chair Carlton stated she did not think there was anything else. There are a couple of other things that will be discussed at another meeting. Hopefully this saga will end soon. It has been ongoing for way too long but it happened at a time when budgets were going down.

Chair Carlton called for a motion.

Mr. Peterson stated auditors would keep in contact with the Division to be apprised of the completion dates for full implementation of the audit recommendations.

ASSEMBLYMAN HARDY MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, DIVISION OF INDUSTRIAL RELATIONS, WITH THE PROVISION THAT AUDITORS WOULD MONITOR PROGRESS UNTIL COMPLETION AND FULL IMPLEMENTATION OF THE PARTIALLY IMPLEMENTED RECOMMENDATIONS. THE MOTION WAS SECONDED BY ASSEMBLYMAN SPRINKLE AND CARRIED UNANIMOUSLY.

Item 6 — Follow up on six-month report from a prior meeting (NRS 218G.270)

a. Department of Administration, Division of Enterprise Information Technology Services

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

Mr. Peterson stated in February 2012 an audit was issued on the Division of Enterprise Information Technology Services (EITS). The audit contained 15 recommendations. In October 2012 the Department of Administration indicated in their six-month report that 11 recommendations were fully implemented and 4 were partially implemented. In December 2012 at a subsequent Audit Subcommittee meeting the agency testified that the four recommendations were still partially implemented. Based on auditor review of information provided by EITS in November 2013 auditors determined that two of the recommendations had been fully implemented, leaving two that remained partially implemented.

Mr. Peterson had questions for the agency. The Division indicates that the primary computing facilities' contingency plan has been updated; specifically the recommendation was to update the state's primary computing facilities' contingency plan and ensure the plan included a prioritized disaster recovery component. The Division indicated the plan has been updated but is still in process. In addition, the Director indicated they have hired a new position to enhance the plan and they anticipate having an updated plan by January 1, 2014. He asked if the Division had completed updating the contingency plan by the indicated day and if not when would the plan be completed.

Mr. David Gustafson, Administrator, Division of Enterprise Information Technology Services, answered the Division was not able to complete the plan by January 1, 2014. He stated the affordable care act required additional manpower from the Division. He stated they have completed parts of the plan and will begin testing in April 2014, to be completed by June 2014. He apologized for not meeting the deadline but stated there were unforeseen circumstances.

Chair Carlton reiterated that the plan would be completed by June 2014 and was delayed due to the health exchange requiring additional time to complete.

Mr. Peterson stated the second partially implemented recommendation was to develop a plan to periodically test the state's primary computing facilities IT emergency plans to ensure that critical IT resources can be restored in an orderly and timely manner. The Division indicated they have developed a plan to periodically test the state's primary computing facilities and emergency plans and indicated they have tested one core application. However, auditor review of documents and discussion with Division personnel found there is no listing of a priority in which those systems need to be restored, nor is there a written plan indicating when the testing will be done. Mr. Peterson asked when does the Division anticipate completing the plan to periodically test the state's primary computing facilities IT emergency plans with the idea of those last two things being the key parts of what they need to complete.

Mr. Chris Ipson, Chief Information Security Officer, answered with respect to the testing phase, they intend to begin testing in April 2014, to continue with the subsets that Mr. Gustafson has already discussed. Then the information will be included in the plan. Budget recommendations will be made for any deficiencies found as a part of the testing process. He noted that the disaster recovery process is quite extensive. The ultimate goal is to be able to bring the systems up and actually restore the data if needed. There will be recommendations going forward with respect to both processes and budgetary considerations.

Mr. Peterson stated Mr. Ipson had indicated the Division would begin testing in April 2014. The question is still when will this be completed.

Mr. Ipson answered testing would begin in April 2014 and expected to have the first phase of that completed by June 2014, so we will be able to deliver it along with the

plan. It will contribute to the subcomponents of the plan. The Division will do the analysis and make recommendations that extend the plan.

Mr. Gustafson stated it is always difficult for to be able to answer that with a yes here is a date because disaster recovery and contingent planning is an ongoing program. It never really ends. It is difficult to give a completion date.

Mr. Peterson understood the difficulty in putting these plans together and in making sure they go forward but stated that adding a list of priority of systems could be done along with a written plan.

Chair Carlton stated with the realization that a plan is a snapshot in time and time does change.

Mr. Peterson agreed.

Senator Denis understood the issue to doing a contingency plan with a system that is constantly evolving. He asked if the ultimate plan included the ability to actually bring up the system in Las Vegas or vice versa, so that if there were some issue where we could not do things in Carson City that there is another system in Las Vegas that could be brought up. He asked if this was a part of this process.

Mr. Gustafson answered that depends on what system was being referred to. He stated his control of influence was limited to enterprise applications only. He could not comment about another department's systems because the Division does not provide them services.

Senator Denis interjected he was asking only about the Divisions control of influence.

Mr. Gustafson answered their systems are engineered to have accurate failover whether it be the network, phone systems, or whatever it is a microwave infrastructure. He stated to satisfy the audit he would ensure there are plans and that there is a test of sorts that says yes disaster recovery is checked knowing that some of these systems are very complicated and may not ever be able to failover. He was unsure there were parts of the Advantage system that the Controller owns a piece of it; NDOT has a piece of it, we have a piece of it, to actually fail the whole thing over to some disaster recovery and test is not possible. Everybody has their own little piece of these things and it would be hard to give a completion date when he does not control many pieces of the same system that they share.

Senator Denis asked if the tests were actually done opposed to just having written instructions to follow in case of a disaster.

Mr. Gustafson answered tests are done. He gave an example of testing with the payroll system. They were able to build a plan and test the actual cut over to the Las Vegas site which included generating a file for the Controller. From this file the Controller prints checks. This test allowed the Division to failover their piece of that application. He asked if the question was more about the whole list if they could take a picture of it.

Mr. Gustafson answered that is exactly what the Division did with the payroll system. They started this process in 2013. They started with pieces of the Advantage system controlled by the Division and payroll is one of them. They built a plan to test the actual cutover to the Las Vegas site. Can we cut checks. Yes, we were able to generate a file which we would then give to the Controller wherever her systems may be. We cut the file and she actually does the checks. And so we were able to failover our piece of that application.

Senator Denis stated he understood that there is a whole picture. Legislators want to be assured they can continue doing things that need to happen especially in a disaster. He knew that Mr. Gustafson did not control all of that. He stated the question was aimed at items under the Division's control.

Mr. Gustafson answered yes. He added during the 2013 Legislative Session the Division was authorized to hire a resource to spend full time on disaster recovery. He provided a scenario to inform the Committee that there were no false assumptions by the Division. He stated if they failover the mainframe which has many critical applications on it, he could ensure that the hardware is available, and that the system is up and running. He could not guarantee that department applications will run for many reasons. One of which is that there are servers in agencies all over the map of Nevada that are going to be required sometime to make those systems work and whether those systems will work in a true disaster if Carson City were to not be available is not something that the Division could control. The Division can control that the mainframe hardware has failed over, is alive, and is ready for work. He wanted the Committee to understand that he can do that part and that is the easy part but then you would have to go back to every department and say now you have an application on the mainframe and if you work with Enterprise IT can you make a disaster recovery environment work together. That is a different question to ask.

Senator Denis thanked Mr. Gustafson for the comments.

Chair Carlton stated most of the questions were addressed by the Division.

Chair Carlton stated progress would be monitored.

Mr. Gustafson assured the Committee the Division would work with the auditors to ensure that the concerns are addressed and satisfied.

Chair Carlton called for a motion.

ASSEMBLYMAN SPRINKLE MOVED TO APPROVE THE FOLLOW UP
SIX-MONTH REPORT ON THE DEPARTMENT OF ADMINISTRATION,
DIVISION OF ENTERPRISE INFORMATION TECHNOLOGY SERVICES
THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED
UNANIMOUSLY.

Item 7 — Public Comment

Chair Carlton called for public comment. There was none.

Chair Carlton asked Mr. Townsend to comment on the next Audit Subcommittee meeting.

Mr. Townsend stated the next Audit Subcommittee meeting would be scheduled in April 2014.

Chair Carlton adjourned the meeting at 3:57 p.m.

Respectfully submitted,

Donna Wynott, Audit Secretary

Assemblywoman Maggie Carlton, Chair
of the Audit Subcommittee
of the Legislative Commission

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