MINUTES OF THE MEETING OF THE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
April 17, 2012

This is the second meeting of 2012.
This is the third meeting of the 2011-2012 Interim.

A meeting of the Audit Subcommittee of the Legislative Commission (NRS 218E.240) was called to order by Senator David Parks, Chair, at 9:40 a.m., Tuesday, April 17, 2012, in room 4412 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada, with a simultaneous video conference to room 4100 of the Legislative Building, Carson City, Nevada.

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Las Vegas:
Senator David Parks, Chair
Senator Mo Denis
Assemblyman Paul Aizley
Assemblywoman Maggie Carlton

Carson City:
Assemblyman Tom Grady, Vice-Chair

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:
Paul Townsend, Legislative Auditor
Donna Wynott, Office Manager
Jane Bailey, Audit Supervisor
Rocky Cooper, Audit Supervisor
Diana Giovannoni, Deputy Legislative Auditor
Mike Herenick, Deputy Legislative Auditor
Sandra McGuirk, Deputy Legislative Auditor
Rick Neil, Audit Supervisor
Todd Peterson, Deputy Legislative Auditor
Shannon Ryan, Audit Supervisor

The roll was taken. A quorum was present.

***Item 1*— Public comment**

Chair Parks called for public comment.

Mr. Barry Lovgren read prepared testimony into the record regarding the Substance Abuse Prevention and Treatment Agency (SAPTA). (attached to minutes) He also provided a handout to the Committee. (attached to minutes) Mr. Lovgren stated despite a requirement that SAPTA certify and fund programs according to the Division

of Mental Health and Developmental Services' criteria, unauthorized certification and funding to treatment programs has occurred. He noted making numerous requests for public records from the Department of Health and Human Services in regard to legitimate Division criteria for Treatment of Substance Related Disorders had not been addressed. Mr. Lovgren concluded his testimony.

Chair Parks called for additional public comment. He noted there was none.

Item 2— Approval of minutes of the meeting held on February 2, 2012

Chair Parks called for a motion.

> ASSEMBLYWOMAN CARLTON MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF FEBRUARY 2, 2012. THE MOTION WAS SECONDED BY SENATOR MO DENIS AND CARRIED UNANIMOUSLY.

Item 3— Presentation of audit reports (NRS 218G.240)
– Paul Townsend, Legislative Auditor

A. State of Nevada, Single Audit Report

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

Ms. Ryan presented the Single Audit Report for the State of Nevada for fiscal year 2011. Kafoury, Armstrong & Co., completed the report that included an audit of the State's financial statements and an audit over compliance with requirements related to federal expenditures. An unqualified opinion was issued on the financial statements. In addition, no material weaknesses or non-compliance was reported related to the audit of the financial statements. The report on compliance with federal requirements disclosed no material weaknesses. Ms. Ryan stated 64 findings related to internal control deficiencies were noted. In total, the State reported having $4.9 billion in federal expenditures for fiscal year 2011.

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

Chair Parks called for questions from the Committee.

Senator Denis asked for comment about the findings on control issues.

Ms. Ryan replied there were two components. The unqualified opinion relates to the financial statements. A different report relates to compliance with federal expenditures, that federal money is spent in accordance with compliance requirements. The 64 findings were related to the expenditure of federal funds and were not related to the financial statements.

Senator Denis asked for comments on the timeframe for when the 64 findings would be corrected.

Ms. Ryan replied the agency submits a plan of corrective action for each finding. She explained the agencies typically attempt to complete their plan for corrective action as soon as possible but it can take a year or two to implement corrective action.

Chair Parks asked for an explanation of the term "unqualified".

Ms. Ryan replied an unqualified opinion means that there are no material misstatements related to the financial statements. She explained the three types of opinions that could be rendered include: an unqualified, a qualified, and an adverse opinion. She stated the unqualified opinion is preferable because that means the auditors did not find evidence that financial statements were misstated in any way on a material basis.

Chair Parks called for a motion.

> ASSEMBLYMAN AIZLEY MOVED TO ACCEPT THE REPORT ON THE STATE OF NEVADA, SINGLE AUDIT REPORT. THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.

B. Department of Business and Industry, Housing Division

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

Mr. Peterson stated the Housing Division, created in 1975, is located within the Department of Business and Industry. With offices in Carson City and Las Vegas, the Division administers several programs to help stimulate low- and moderate-income housing by the use of public and private financing.

The Division administers the Low-Income Weatherization Assistance Program. This program uses state and federal funding to provide weatherization measures to low-income households that will increase the energy efficiency of the dwellings and reduce expenditures on energy. Weatherization measures include, but are not limited to, insulating ceilings and floors, sealing gaps and cracks, replacing drafty windows and doors, and installing window solar screens.

Mr. Peterson stated the 2009 Legislature approved Senate Bill 152, which provided for the use of incentives contained in the American Recovery and Reinvestment Act of 2009, also known as ARRA. These incentives were to provide job training, promote energy efficiency, and promote the use of renewable energy in Nevada. The bill also required the Division to establish contractual relationships with nonprofit organizations, to provide training in weatherization jobs, and to identify neighborhoods that would qualify for weatherization assistance.

Exhibit 1 provides details on weatherization funding for fiscal years 2009 to 2011. As shown in the exhibit, ARRA provided a significant increase of funding to the weatherization program. Exhibit 2 provides details of how ARRA weatherization funding was spent in fiscal years 2010 and 2011.

Mr. Peterson stated the report outlined problems found in other states regarding the expenditure of ARRA weatherization funding. These problems included program mismanagement and poor workmanship by contractors installing weatherization measures. Because of the significant increase in weatherization funding and the problems documented with other weatherization programs, auditors chose to audit the Division's weatherization program.

The objective of the audit was to determine if the Division has established adequate controls to ensure compliance with ARRA weatherization requirements and accurate reporting of related performance information.

Mr. Peterson began the findings and recommendations section of the report. The Division's oversight of ARRA weatherization funding was effective. ARRA weatherization funding was spent timely and appropriately. For about $1 million in project costs reviewed, auditors found that ARRA funding was spent on priority measures that were billed according to pre-approved contractor prices. In addition, the Division received approximately $37 million in funding for its weatherization program. As of December 2011, about $35.7 million had been expended. In contrast, other states have experienced difficulties spending their ARRA weatherization funds and risk losing those funds.

Mr. Peterson stated the Division has established controls to monitor subrecipients. These controls include continued monitoring of subrecipients' financial and program activities related to the weatherization program. Auditor review of 100 files, totaling about $1 million in project costs, found subrecipients were timely when approving applications, performing energy assessments, completing projects, and performing final project inspections.

Mr. Peterson noted the report summarizes the weatherization process. The Division established controls to ensure effective monitoring of contractors' work. Auditors inspected 40 homes that were weatherized by subrecipients and only found a few minor instances where measures previously paid for were not installed.

Mr. Peterson stated the uninstalled measures totaled $1,092, which was less than 1% of the $405,000 in project costs inspected. Most uninstalled measures were windows or solar screens that were included on contractors' original estimates; however, were not installed for some reason, and were not removed from the final billings. Effective monitoring of contractors helps ensure approved weatherization measures are installed and the workmanship is of good quality.

Although the Division's oversight is effective, auditors observed the Division could strengthen a few processes. Mr. Peterson stated that subrecipients' documentation of inspections could be improved. For 11 of 100 files tested, subrecipients did not properly complete inspection forms used to review contractor work. The report explains that 11 projects were divided into several categories. He indicated subrecipients did not include all installed measures on the inspection form, or the inspector did not document inspecting all measures listed on the inspection form. Comparing inspection forms to

contractor invoices and periodic training regarding inspections will help improve this process.

Mr. Peterson reported that the process to document applicant eligibility for the program could be strengthened. To be eligible for ARRA weatherization funding, an applicant's household income has to be at or below 200% of the federal poverty level. Exhibit 3 shows the 2011 federal poverty level based on household size.

Mr. Peterson stated that for 19 of 100 weatherization files tested; better documentation is needed to support the applicants' incomes. The report groups the 19 files by the problems observed with their documentation. For example, some files did not include all required forms and others lacked sufficient documentation to help ensure all of the applicant's current income was reported.

Mr. Peterson reported auditors observed 28 of 100 files that included conflicting documentation regarding the number of household members. In most instances, the difference between the household size reported by the applicants and contractors was one. In addition, during inspections of weatherized homes, auditors observed two instances where the number of people living in the home did not match the application. For example, auditors inspected one home where several people were living. The application for this home reported one person living in the home. However, a form completed by the contractor indicated five people were living in the home. Documentation of income and household size is important to ensure a home qualifies for the weatherization program. Although the Division has established policies for documenting household income, it has not developed procedures for the subrecipients to follow.

Two recommendations were made to help improve documentation of weatherization inspections and household income.

Mr. Peterson stated that the Division has established an effective method to collect reliable performance information for the weatherization program. Reliable information is important so the Division can monitor subrecipients' activities and report program results. The Division developed a database that collects and compiles weatherization project information and calculates energy savings. In addition, to help ensure information is reliable, the Division randomly selects project files and verifies reported information when performing site visits to subrecipients. Auditor testing found only a 4% error rate when comparing project file information to project information in the database.

Although auditors found ARRA weatherization performance information to be reliable, the accuracy of some information could be improved. Mr. Peterson stated that errors occurred more frequently in certain areas tested. For 28% of the files reviewed, subrecipients did not input the correct draft reduction amounts realized through their installation of weatherization measures. Additional training of subrecipient staff charged with reporting weatherization data will help improve its accuracy in those areas where errors were more frequent.

One recommendation was made to improve performance information.

Mr. Peterson stated Appendices A & B provide additional details of ARRA projects by county which were performed in fiscal years 2010 and 2011.

Mr. Peterson stated the Division accepted the three audit recommendations.

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

Chair Parks called for questions from the committee.

Senator Denis asked Mr. Peterson if national weatherization program problems had prompted the focus of the audit.

Mr. Peterson replied yes.

Senator Denis stated that the Housing Division was not following the national pattern, in that, the Division did not have any major problems.

Mr. Peterson replied yes.

Senator Denis stated when Nevada does things right it should be pointed out.

Assemblywoman Carlton referred to the audit methodology in the report. She asked, when looking at how the Division complied with SB 152 of the 2009 Legislative Session, did auditors compare the contractual relationships with the contractors.

Mr. Peterson replied auditors ensured in the audit survey work that there were contractual relationships with the subrecipients. Auditors did not audit that aspect. Mr. Peterson suggested that a representative from the Division could respond to the question.

Assemblywoman Carlton asked for clarification of the term subrecipient.

Mr. Peterson replied the subrecipient is the non-profit entity selected through a competitive process by the Housing Division to administer the ARRA grant funds.

Assemblywoman Carlton just wanted to make sure she understood the process. She stated there are ARRA grant funds, and the subrecipients are the non-profits that establish relationships with the contractors who did the work for the residents to improve their homes through weatherization. She commented that auditors did not review the relationships between the non-profits and the contractors as far as their training, expertise, pay rates, and things along that line. She clarified that auditors just looked at the basic function of whether they fit the non-profit definition and not who they actually contracted with.

Mr. Peterson replied that was correct. He added the audit work focused on the weatherization projects and whether they were performed and completed correctly.

Assemblywoman Carlton clarified that SB 152 was not addressed in this audit. She stated there are questions that will need to be addressed beyond the actual audit. She asked if there were consequences to the subrecipients or the contractors for the lack of documentation for the windows or solar screens that were not installed.

Mr. Peterson replied documentation to verify applicant income was in the files. However, in some cases the files lacked additional documentation that would help ensure that they had met the income eligibility guidelines as shown in the report. For example, 9 files lacked a zero income statement to verify that someone living in the home above the age of 18 did not have income. He explained auditors saw this as a documentation issue. Regarding the contractors and the work that was missed, auditors concluded this was an oversight. Mr. Peterson had contacted two subrecipients who reported they had received credits from the contractors for work that was not performed.

Assemblywoman Carlton referred to Appendix B, Projects by County, which included the number of projects, the costs, and the breakdown per project. She stated in Carson City a project was about $5,400, Clark County averaged about $3,900, in Elko $3,200, in Lyon $4,006, and in Washoe County $3,200. She tried to take a cross section of the whole state when she made this comparison. She asked if auditors knew why the variation in the numbers was so great.

Mr. Peterson replied as shown in the audit report on page 7, the process for performing weatherization measures in a home starts with an application from an applicant. An energy assessment is performed on the home to outline valid weatherization measures. Measures that can be performed will determine the amount of work done in each home. Weatherization measures can differ from one home to another. Mr. Peterson stated the Division has established a priority list of weatherization measures that have gone through a benefit cost analysis to ensure that these measures are effective and that they will realize energy savings over the life of the measure. Mr. Peterson suggested that the Division could further respond to the difference in average costs in the counties.

Assemblywoman Carlton commented on the variables within the audit, adding questions would be asked of the agency.

Chair Parks asked about findings in regard to documentation problems by the subrecipients. He asked if some subrecipients had more problems than others.

Mr. Peterson replied no, the instances where some measures were not installed, those were done across a range of subrecipients and contractors so there was no pattern observed by the auditors that one subrecipient and/or contractor consistently failed to install weatherization measures.

Chair Parks called for the agency representative to testify.

Assemblyman Grady stated the report shows that the state spent a little over $1.6 million on training. He thought that this was training to do the installation. He asked for comments on who did the training and what qualifications they had to do the training to receive the payment of $1.6 million.

Mr. Peterson deferred the question to the agency.

Dr. Hilary Lopez, Chief of Federal Programs, Nevada Housing Division (NHD), introduced Sue Martin, Weatherization Assistance Program Manager. She thanked the

audit staff for the thorough review of the Weatherization Assistance Program (WAP). She appreciated and accepted the three audit recommendations. The Housing Division received $37.1 million in ARRA and WAP funding which represented an approximate 1,000% increase over prior year funding. Many states have struggled to get funds allocated, while NHD was commended by the US Department of Energy for its ability to expend the funds in a timely manner. Additionally, prior monitoring by the US Department of Energy has shown that the Division and its subgrantees operate an effective program. The Division was pleased that the LCB audit report reached a similar conclusion. To date, the Housing Division and its subgrantees have provided ARRA and WAP services to approximately 8,500 low income households throughout the state and as indicated in the LCB audit have done so in an efficient and effective manner. The recommendations made by LCB staff will enable the Division to further strengthen this already successful program. She stated within the next 60 days the Division would outline a corrective action plan to address the three recommendations noted in the report. She stated the Division's preliminary response for the specific recommendations, as indicated in the response letter, are as follows.

For Recommendation 1 for providing additional training to subrecipients regarding the inspection of weatherized units they are reviewing policies and procedures so that additional training and guidance can be provided to subrecipient staff to ensure that all inspection forms are properly completed and that work completed matches invoice cost received.

For Recommendation 2 to develop additional procedures for subrecipients that include gathering and documenting more information to substantiate applicants house size and total income. The current subgrantee administrative manual is being reviewed with regard to income verification and household size. The Division is also reviewing the income verification procedures of other US Department of Energy Weatherization Assistant Program grantees as well as discussing this issue with other agencies within the State of Nevada that require income verification for their programs.

For Recommendation 3 to provide additional training and monitoring of subrecipients weatherization data entered into their building weatherization report system. She stated the Division would be providing one-on-one training with subrecipient staff responsible for data entry into the system.

Dr. Lopez added the Division is already in the process of reviewing the issues and will prepare a corrective action plan and submit it to Audit staff within the next 60 days.

Dr. Lopez referred to Assemblywoman Carlton's question concerning SB 152 compliance. She indicated that as part of the Divisions monitoring of subgrantees, the Division monitors for compliance with SB 152 requirements. They have monitored subgrantees to ensure that their contractors offer health insurance to their employees as well as their dependents, that they maintain the proper work force make up, and that employees are paid prevailing wage rates.

Dr. Lopez deferred to Ms. Sue Martin, Weatherization Assistance Program Manager, to discuss the other questions asked by members of the Committee.

Ms. Martin referred to Assemblywoman Carlton's question regarding the variations in costs per county. She stated they were many reasons, which begins with the housing type. She explained costs for a multi-family unit versus a single-family unit would go down. She stated the Division tries to maintain an average cost per household of $5,000; however, each household can vary due to the age of the unit being weatherized. For example, if a house was 50 years old, it might need insulation; if the house is 12 years old it may be up to code with insulation. Those types of measures would vary per dwelling and by county. Some of the outlying counties have old housing stock. She was unaware if the counties had different prevailing wages, which could be an issue. She added travel costs in the outlying areas would be figured into the average cost per unit.

Dr. Lopez referred to Assemblyman Grady's question regarding the DETR training. She stated DETR, at the beginning of this process, had selected several groups to provide training to individuals. The contractors that were working in the program then employed those individuals. She concluded and offered to answer questions from the Committee.

Chair Parks called for questions from the Committee.

Senator Denis asked if it was known what the breakdown was in regard to single family homes versus multi-units.

Dr. Lopez offered to provide the information to the Committee.

Senator Denis asked if the information was broken down by single family units into a regular home versus any other type of dwelling.

Ms. Martin replied it is broken down into single family, which would be 1-4 units; multi-family, which would be 5+ units; and mobile homes.

Assemblywoman Carlton asked about the cost benefit analysis that was used with the application approval, the assessment, the measures, and the inspection. When she looks at one home in Humboldt County being weatherized for $8,200 compared to a home in Clark County being weatherized for $3,900, she was concerned about the cost that was spent on the home versus the benefit and the savings. She asked if there was a way to go back and look at the analysis that was made before a home was chosen to get an idea of how it was evaluated and how decisions were made. She added that she supported the program. She was having difficulty with an $8,200 improvement on one home.

Dr. Lopez replied the Division does not track this information on a house-by-house basis. She explained they have a priority list established with the US Department of Energy. The priority list used by the Division is established based on cost versus savings of a particular measure within a particular area of the state, within a particular unit type, to determine the savings to investment ratio. She added, in terms of the disparity in some of the pricing she explained it could be that the average cost is lower

in Clark County because the Division would have more multi-family units within that region of the state. Heating and air conditioning systems used in single-family homes might be more expensive. Also, in multi-family homes the Division asks the landlord for a contribution towards the improvements to the property. She stated depending upon the age of the property they may not need substantial improvements in terms of an overhaul of their heating or air conditioning system.

Assemblywoman Carlton asked if the Division would be able to provide future legislatures with information regarding homes improved in 2011. She asked if the Division would be able to provide information on actual savings versus the projected savings.

Dr. Lopez replied the Division does not prepare an actual billing analysis as part of their evaluation of the installed measures because there are a variety of factors to consider in terms of if the household changes, if there are other improvements to the household, and also due to the Division's limited financial resources. The Division works from the estimated savings based on the priority list.

Assemblywoman Carlton clarified that the Division would not be able to verify the estimated savings in the future.

Dr. Lopez replied that was correct unless the Division undertook a specific study to evaluate based on billing analysis for what the actual realized savings were.

Assemblywoman Carlton stated this information might be helpful to legislators to see data showing how the funds are spent. She suggested that the Division could pick cases to follow.

Dr. Lopez commented that one part of the billing analysis would be to review data trends in terms of usage, household size, weather, increases in rates, etc. She stated the Division also participants in the national WAP evaluation and as part of that the US Department of Energy has hired a third party to run those types of analysis which will include some of the Division's data that national WAP evaluation.

Assemblywoman Carlton thanked Dr. Lopez for the information. She stated that was good to hear. She added it is good to move forward to glean as much data as possible so that future legislators will have hard data to make a decision.

Dr. Lopez stated the Division has received many comment cards from clients who received the weatherization services. The recipients let the Division know they are very pleased with the weatherization program and are saving money due to receiving these services.

Chair Parks commended the Housing Division staff for doing a great job on this program.

Chair Parks thanked Audit staff for their work on the audit.

Chair Parks called for a motion.

SENATOR DENIS MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, HOUSING DIVISION. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

C. Division of Mental Health and Developmental Services, Substance Abuse Prevention and Treatment Agency

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

Ms. Giovannoni began the presentation with background information. She stated the Substance Abuse Prevention and Treatment Agency (SAPTA) is within the Department of Health and Human Services under the Division of Mental Health and Developmental Services. SAPTA's mission is to reduce the impact of substance abuse in Nevada. SAPTA receives funding primarily from federal grants and General Fund appropriations. Exhibits 1 and 2 in the report show that fiscal year 2011 revenues and expenditures exceeded $25.5 million.

SAPTA serves as the single state authority for the federal Substance Abuse Prevention and Treatment Block Grant, but does not provide direct services. Instead, SAPTA awards grant funds to community-based public and nonprofit organizations that provide prevention and treatment services. SAPTA distributed over $46 million to these organizations during fiscal years 2010 and 2011.

Ms. Giovannoni continued, for substance abuse prevention programs, SAPTA funds prevention coalitions and oversees them to implement strategies recommended by the federal government. The prevention coalitions distribute the funds to prevention providers and are responsible for oversight of prevention providers that provide services. For substance abuse treatment programs, SAPTA provides funds to and oversees treatment providers for services to adults and adolescents including comprehensive evaluations, interventions, detoxification, outpatient, intensive outpatient, residential, transitional housing, and opioid maintenance.

Ms. Giovannoni stated Exhibit 3 depicts the flow of federal and state funds to SAPTA and on to other entities. Exhibit 4 summarizes, by type of award, the grant payments SAPTA made in fiscal year 2011, which totaled over $22.6 million.

Ms. Giovannoni explained this audit focused on SAPTA's subrecipient oversight activities conducted in fiscal years 2010 and 2011. The audit objective was to evaluate whether SAPTA provided adequate fiscal oversight of subrecipients.

Ms. Giovannoni continued the report presentation with audit findings and recommendations. Beginning with independent audits, SAPTA needs to improve its oversight of subrecipients to ensure that audit requirements are met. Independent audits are one of the primary means by which SAPTA ensures subrecipients spend grant funds for their intended purposes. Auditors explained that SAPTA accepted audit reports on subrecipients that did not provide assurance of how grant funds were spent.

Specifically, 8 of 30 audit reports on subrecipients that SAPTA accepted did not examine whether grant funds were used for the grants' intended purposes or indicate compliance with other grant requirements. Consequently, for these entities, SAPTA did not have the information it needed to provide oversight of subrecipients' grant expenditures.

Ms. Giovannoni stated subrecipients often did not submit timely audit reports to SAPTA, in accordance with federal and state requirements. Over half of the subrecipients tested submitted audit reports late. Further, SAPTA took little action to follow up on late audit reports. By not ensuring subrecipients submit audit reports timely, SAPTA delays the detection of potential problems with subrecipients not using funds for their intended purposes. This is apparent by reviewing problems with one subrecipient as explained in the audit report. The subrecipient did not provide required audit reports to SAPTA for three consecutive years, 2006 through 2008, until May 2010. This entity received about $6.8 million from SAPTA for fiscal years 2006 through 2010, of which a significant amount was forwarded to other subrecipients. Although SAPTA requested the audits on numerous occasions, it did not impose sanctions on the subrecipient until March 2010, when it cut off funding. Subsequent to this, SAPTA notified federal and state authorities that it suspected the subrecipient had intentionally misused or misappropriated federal and state funds so the entity could be investigated.

Ms. Giovannoni stated auditors noted the lack of procedures contributed to untimely audit reports. SAPTA did not have procedures for imposing sanctions when subrecipients fail to submit required annual audits. Federal regulations provide for sanctions in these cases, such as withholding a percentage of federal awards until the audit is completed satisfactorily. In addition, SAPTA did not verify that subrecipients took appropriate corrective action for material weaknesses and other findings noted in audit reports. The usefulness of audit reports for fiscal oversight is diminished when SAPTA does not verify problems are corrected.

For 9 of the 14 audit reports, or 64% of those auditors tested that reported material weaknesses or other findings, the subrecipients did not comply with SAPTA's requirement to submit corrective action for audit findings. Further, SAPTA did not request the subrecipients provide documentation of corrective action for audit findings for seven of the nine reports.

Ms. Giovannoni stated SAPTA also did not detect that a subrecipient provided forged audit reports for fiscal years 2007 through 2010. Due to concerns upon reviewing the photocopied reports, auditors contacted personnel at the CPA firm whose name was on the forged reports and verified that the firm did not prepare them. Then, as required by statute, auditors reported this information to the Governor, each legislator, and the Attorney General. Because audit reports were forged, there is significant risk that grant funds were not spent appropriately. Exhibit 5 shows the subrecipient received over $1.1 million from SAPTA during the 4 years it submitted forged reports. The subrecipient is working with an independent auditor to have audits performed for the past 4 years.

Ms. Giovannoni stated nine recommendations were made to help SAPTA ensure subrecipients comply with audit requirements to provide assurance that federal and state grant funds are used for intended purposes.

Ms. Giovannoni explained SAPTA's direct fiscal monitoring of subrecipients was not adequate. The grants oversight process includes periodic visits to subrecipients to determine whether they comply with grant requirements, including verifying that federal and state funds are used for intended purposes. These fiscal monitoring visits, along with independent audits previously discussed, are the primary means SAPTA uses to provide fiscal oversight of subrecipients.

Ms. Giovannoni stated SAPTA did not perform required fiscal monitoring site visits of subrecipients timely. Auditors explained that none of the five coalitions tested had timely site visits by SAPTA. Visits of coalitions are required annually, yet the visits were late from 6 months to over 3 years. In addition, 5 of 10 treatment providers auditors tested had untimely fiscal monitoring visits. Of these, SAPTA was unable to provide documentation when its largest treatment provider was last subject to a fiscal monitoring site visit. This provider received nearly $7.1 million in fiscal years 2010 and 2011.

Ms. Giovannoni explained that documentation of procedures performed on fiscal monitoring visits was not sufficient to verify that staff properly performed important steps. In some cases, fiscal monitoring forms showed affirmative responses to steps without explanation or reference to documentation. This included the fiscal monitoring form for the July 2009 site visit to the subrecipient that SAPTA stopped funding and referred to federal and state authorities for investigation.

When monitoring steps are not properly documented, there is increased risk that subrecipients could misuse state and federal funds and go undetected. Furthermore, this makes it more difficult for SAPTA to demonstrate that it complied with federal requirements for fiscal oversight of subrecipients. This potentially puts SAPTA at risk of losing federal funds.

Ms. Giovannoni stated the report describes untimely follow-up on problems SAPTA found during fiscal monitoring site visits. Specifically, SAPTA delayed handling problems staff noted during site visits of three subrecipients auditors tested, to wait for them to respond to questions and provide information that should have been provided during the site visit.

An example of untimely follow-up is described in the report. During an April 2011 fiscal monitoring visit to a coalition, staff questioned many unsupported expenses paid with SAPTA funds. The coalition's responses to repeated requests failed to answer SAPTA's questions. However, SAPTA continued to make payments to the coalition through September 2011. A second site visit in December 2011 was unsuccessful in resolving the questioned items. The matter has since been referred to the Department Director's Office to determine the next course of action, including whether to require the subrecipient repay SAPTA for unsupported costs.

SAPTA needs to follow-up timely on problems staff note on fiscal monitoring visits, including imposing sanctions or special conditions to mitigate the risk of fraud, waste, or abuse of federal and state funds.

Ms. Giovannoni stated seven recommendations were made to improve fiscal monitoring performed by SAPTA personnel.

Appendix A lists the subrecipients that received grant funds in fiscal years 2010 and 2011. The report issued to the Governor, each legislator, and the Attorney General concerning the forged audit reports is included in the report.

Ms. Giovannoni stated the SAPTA accepted all 16 recommendations.

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

Chair Parks called for questions from the Committee.

Chair Parks stated the report revealed substantial findings as well as the need for improvements.

Chair Parks called for agency staff to testify.

Assemblywoman Carlton asked about the possibility that the state could lose close to $15 million in federal grants due to the problems outlined in the audit report.

Ms. Giovannoni deferred the question to the agency.

Ms. Deborah McBride, Agency Director, SAPTA, stated the agency accepted all of the audit recommendations. She thanked the audit staff for their work and professionalism throughout the audit process. She agreed that the audit clearly reflects the deficiencies in the agency system, prompting changes in the agency. She stated some of the recommendations have been implemented or are in the process of being implemented. She stated the next report will indicate progress in addressing the issues. Ms. McBride stated the agency was reviewing system processes, and writing new procedures to ensure that all the recommendations are implemented.

Chair Parks thanked Ms. McBride for the comments. He had questions in regard to how the agency got to where they are as identified in the report. He knew that staffing at the agency had changed in recent years. He also knew that most community-based organizations are finding it increasingly difficult to perform their mission. He asked for the agency to comment on the current staffing component and to address whether staffing was insufficient to do this monitoring to ensure that the work was done satisfactorily.

Ms. McBride replied the agency did have some staffing issues that had been addressed. They had to cut back substantially on their staffing. For the last 3 years they have gone from 33 staff down to 23 staff. They are looking at the issues to address that, change procedures and processes, and reassign responsibilities to various staff.

Chair Parks asked for a summary of the staffing changes. He was concerned about the insufficient accounting oversight by SAPTA.

Ms. McBride replied they have changed fiscal staff within the program. The new fiscal staff are reviewing procedures and processes to address the deficiencies. She stated the agency was looking at assigning some of the responsibilities for the fiscal monitors in audits to other staff. They recently hired an account technician and are looking to hire a Management Analyst I position to help with fiscal monitors and audits. She added, the agency would be setting up better tracking systems to monitor and follow up on the audits.

Chair Parks asked Ms. McBride to address the previous question from Assemblywoman Carlton relative to the possibility of interruption and/or a decrease of federal funding.

Ms. McBride replied she believes they will be ok with that. Ms. McBride replied the agency is making timely corrections to ensure that procedures and processes are in place to avoid a possible interruption or decrease in federal funding. She noted that additional improvements were going to be made starting July 1, 2012, when new subgrants are issued.

Chair Parks asked if the agency would pursue the repayment of misused funds from any subrecipient upon completion of their analysis.

Ms. McBride replied yes. She stated in regard to the forged audit reports the agency promptly requested repayment of those funds which were still in their bank accounts. The funds were returned to the agency. For another subrecipient mentioned in the report, the agency has requested repayment of funds that the subrecipient was not able to document. Demand letters had also been sent to the subrecipient.

Chair Parks called for questions from the Committee.

Senator Denis was trying to understand the agency as a whole. The mission statement says the agency is to reduce the impact of substance abuse in Nevada by identifying and responding to alcohol and drug concerns of Nevadans. He asked if this was in relation to prescription narcotic abuse.

Ms. McBride replied yes the treatment programs do accept clients that have problems related to prescription drug abuse.

Senator Denis asked how much substance abuse treatment involves prescription narcotic abuse versus illegal substance abuse.

Ms. McBride offered to provide the information to the Committee.

Senator Denis referred to the testimony in public comment from Mr. Lovgren. He asked why the agency was not able to provide requested information to Mr. Lovgren.

Ms. McBride replied the agency does respond to public record requests in accordance with agency procedures. She was unsure of what Mr. Lovgren was referring to. She emphasized the agency responds to requests and works with their public information officer to ensure they are providing requested information timely.

Senator Denis asked if the agency had any requests for information that they were not been able to fulfill.

Ms. McBride replied she was not aware of any at this point.

Assemblywoman Carlton was pleased to hear that the federal money was not in jeopardy. She was encouraged that the agency would move quickly to implement the recommendations to ensure no future problems.

Assemblywoman Carlton said Mr. Lovgren had submitted a request to the agency for public records and stated he had not received it; she requested that the agency's reply to Mr. Lovgren be provided to the Committee for review, so they can verify that the questions in Mr. Lovgren's letters have been answered.

Regarding one of Mr. Lovgren's information requests, Assemblywoman Carlton asked if Division criteria for the treatment of substance related disorders existed, if it was used, and if it was current.

Assemblywoman Carlton knew Mr. Lovgren from working with him on a committee 10 years ago. She respected his passion for these issues.

She stated that since the audit report uncovered ongoing problems, and then it is found that a citizen is not being responded to in what they believe to be an appropriate manner, this causes her more concern. She asked that the request for information from Mr. Lovgren be addressed by the agency.

Chair Parks noted that the document Mr. Lovgren provided to the Committee included concerns that were not specific to the audit on SAPTA being reviewed today. However, it indicates that there is an interest which should be addressed by either this committee or the Legislative Commission.

Senator Denis stated Appendix A lists the subrecipients. He had previously asked audit staff if they had gone back after this issue with forged audit reports came up and looked at some of the other ones. He was assured that the auditors reviewed the larger ones. He asked for comments on whether the agency goes back when there is an issue as in this case where there was a forged audit, and actually look through all of the subrecipients and ensure that this was not a recurring issue. He asked if the agency had or planned to review the smaller subrecipients.

Ms. McBride replied yes they are planning to go back to check all of the subrecipients to ensure that everything is in order. She noted the agency had sent out a letter to all providers advising them that the agency required an original audit report signed in blue ink.

Senator Denis stated we have had economic issues over the last few years requiring significant cuts. He noted this was an area where those cuts have impacted this agency. He expressed appreciation for all state employees and the work that they do. He was hopeful that resources would improve in the future.

Chair Parks called for comments from the Committee.

Assemblywoman Carlton asked if the agency would be reviewed prior to the six-month follow up meeting.

Mr. Townsend replied he anticipated the next Committee meeting being after the July 12, 2012, date when the 60-day plan of corrective action is due. He stated the Committee could choose to go over the agency plan at the next Committee meeting.

Assemblywoman Carlton agreed considering the concerns with this particular audit.

Chair Parks agreed.

Chair Parks called for a motion.

> ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE REPORT ON THE DIVISION OF MENTAL HEALTH AND DEVELOPMENTAL SERVICES, SUBSTANCE ABUSE PREVENTION AND TREATMENT AGENCY. THE 60 DAY PLAN OF CORRECTIVE ACTION WILL BE REVIEWED AT THE NEXT AUDIT SUBCOMMITTEE MEETING. THE MOTION WAS SECONDED BY SENATOR DENIS.
>
> Senator Parks disclosed for the record that he serves on a board of directors that is a recipient of SAPTA funds. He added, to the best of his knowledge, it is not one of the agencies referenced in the audit report presentation. He noted that he would be voting on the motion.
>
> THE MOTION CARRIED UNANIMOUSLY.
>
> Assemblyman Grady was absent from the vote.

Chair Parks thanked the agency for their responses and the Audit staff for their fine work on the audit.

Item 4— Presentation of Review of Governmental and Private Facilities for Children, April 2012 (NRS 218G.575)

Mr. Townsend stated this report was the result of a statutory requirement that the Audit Division perform reviews on agencies that have residential treatment or care for children. He stated the auditors have been presenting these reports on a regular basis since the legislation was passed. He introduced Jane Bailey, Audit Supervisor; Sandra McGuirk, Deputy Legislative Auditor; and Mike Herenick, Deputy Legislative Auditor.

Mike Herenick, Deputy Legislative Auditor, began the report presentation. He explained the report includes the results of reviews of 5 children's facilities, unannounced site visits to 7 children's facilities, and surveys of 56 children's facilities. Statutes require reviews of both governmental and private facilities for children. As of June 30, 2011, auditors identified 19 governmental and 33 private facilities in Nevada, for a total of 52 facilities. Exhibit 1 shows the number of different types of facilities, their maximum capacity, average population, and the average staffing levels as of June 30, 2011.

Mr. Herenick stated as of June 30, 2011, 150 youths were placed in 22 different facilities in 11 different states by a county or state agency. Exhibit 2 shows the number of youths placed in out-of-state facilities by the placing agencies. Exhibit 3 shows the number of youth placed in out-of-state facilities and the placing agencies from December 31, 2008, through June 30, 2011.

Mr. Herenick explained that statutes require children's facilities to forward to the Legislative Auditor copies of complaints filed by children in their custody or on behalf of such a child. Auditors reported receiving 541 complaints from 24 facilities in Nevada from July 1, 2011, through December 31, 2011. The other 35 facilities reported no complaints were filed during this timeframe.

Mr. Herenick stated reviews were conducted pursuant to the provisions of NRS 218G. As reviews and not audits, they were not conducted in accordance with generally accepted government auditing standards. The purpose of these reviews was to determine if the facilities adequately protect the health, safety, and welfare of the children in the facilities and whether the facilities respect the civil and other rights of the children in their care. The reviews include an examination of policies, procedures, processes, and complaints. In addition, auditors discussed related issues and observed related processes during their visits.

Mr. Herenick introduced Sandra McGuirk, In-charge, Deputy Legislative Auditor, to present a summary of the results of the reviews.

Sandra McGuirk stated based on the procedures performed and except as otherwise noted, the policies, procedures, and processes in place at all five facilities reviewed provide reasonable assurance that the facilities adequately protect the health, safety, and welfare of the youths at the facilities, and they respect the civil and other rights of the youths. She stated during the seven unannounced visits conducted, auditors did not note anything that caused them to question the health, safety, welfare, or protection of the rights of the children in the facilities.

Ms. McGuirk noted that a summary of all five facilities reviewed is included in the report. All five facilities reviewed need to develop or update policies and procedures. The types of policies and procedures that were missing, unclear, or outdated ranged from a timeframe to complete a youth's initial treatment plan, including when the plan should be reviewed and revised, to the control and security of keys, tools, and kitchen utensils. Policies and procedures are needed to help ensure management and staff understand the facilities' processes and provide consistent services to the youths.

Ms. McGuirk reported that all five facilities reviewed need to improve their medication administration processes and procedures. Auditor reviews found that youth medical files did not always contain complete or clear documentation of dispensed, prescribed medication at four of the five facilities reviewed. For example, at three of five facilities, some youths' files were missing evidence of physician's orders. At 1 facility some youth's files were missing up to 5 months of medication administration records. In

addition, at three of the five facilities medication files and records did not always contain evidence of independent review.

Ms. McGuirk discussed the facilities' implementation of new medication policy requirements. During the 2011 Legislative Session, the Legislature passed Senate Bill 246, which became effective January 1, 2012. The bill requires children's facilities to adopt policies to document physicians' orders; administer and document medications administered, including errors; store, handle, and dispose of medication; and ensure each employee who administers medication receives a copy of and understands the policies. Of 56 facilities surveyed, auditors received responses from 52. Of the four that did not respond, one was in the process of closing, two did not respond timely and one did not respond at all. Ms. McGuirk stated that auditors would assess each facility's compliance with the requirements contained in SB 246 at future reviews and unannounced visits.

Ms. McGuirk stated Exhibit 4 includes a map of the five facilities reviewed. The report provides details on issues noted at each facility, as well as each facility's response. For example, the report includes the Nevada Youth Training Center beginning with background information, followed by the purpose of the review, results in brief, observations, and the facility's response to each observation.

Ms. McGuirk gave an overview of the appendices included in the report.

Appendix A contains a copy of Nevada Revised Statutes 218G.500 through 218G.535 and 218G.570 through 218G.585.

Appendix B contains a glossary of terms used within the report.

Appendix C contains a summary of common observations noted at the facilities reviewed.

Appendix D provides background, population, and staffing information on 52 Nevada facilities.

Appendix E contains a list of unannounced Nevada facility visits.

Appendix F discusses the methodology used to carry out the requirements of the statutes.

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

Chair Parks called for questions from the Committee.

Chair Parks called for the agency representative to testify.

Mr. Tom Criste, State Director, Maple Star, thanked audit staff for the review. He explained Maple Star had three sites audited. He explained that Maple Star represents five locations within the state located in Elko, Reno, Tonopah, Pahrump, and Las Vegas. He explained that Maple Star includes about 43 homes across the state with about 93 children placed in the facility. In addition, Maple Star treats on any given day

about 350 individuals in a community based or an in-home situation. They are not a clinic operation; they treat clients in a community setting. Mr. Criste stated they attempt to make the foster homes as home like as possible.

Mr. Criste stated the audit was comprehensive and defined oversights. He noted, a detailed action plan was written to address the specific areas in the three reviews. Their corpus of policies is statewide, however, the counties, Clark and Washoe, and DCFS have nuances that these entities expect to have applied to policies and procedures in their respective areas.

Mr. Criste stated the audit has impacted Maple Star and has improved their compliance and overall operation to ensure that kids and families are receiving the highest quality of care. They are following all of the compliance issues that are expected in a treatment environment for their clients.

Chair Parks thanked Mr. Criste for his testimony.

Assemblywoman Carlton thanked Mr. Criste for accepting the audit as a way to improve their processes. She stated Mr. Criste had mentioned the differences and inconsistencies in countywide and statewide regulations. She asked for comments on the problems and asked if legislators could make them easier for compliance.

Mr. Criste replied inconsistencies in requirements can involve background checks, durations of reviews for staff, and how often fingerprinting and TB testing should be conducted. He suggested that LCB could lead the charge to bring the government entities together and come out with one regulation or one approach. This would make it a lot easier for implementation of the medication policy.

Assemblywoman Carlton thanked Mr. Criste for the testimony.

Chair Parks thanked Mr. Criste for his testimony and insight of the audit.

Chair Parks asked audit staff for comment on the 541 complaints from 24 facilities.

Mr. Herenick replied the number of complaints depends on the type of facility, the population of the youths being served, and the format in which the complaints are submitted. For example a residential facility or group home tends to provide more of a home like atmosphere which is more conducive to voicing a complaint versus a staff secured facility such as a detention or correctional facility, the youths tend to submit a written complaint. That identifies the difference in the representation of the 541 complaints from the 24 facilities noted in the report. The variation or examples of types of different complaints submitted vary from complaints of dislike of the food to interaction between youths and staff or youths and other youths, or the privilege system.

Chair Parks asked if auditors utilized the complaints to formulate any of the recommendations.

Ms. McGuirk replied auditors review all of the complaints that come into their offices. It is a requirement by law. They are due in the office on a monthly basis. Auditors read each one and then use the information from the complaints to help them to assess risk

at the facilities. She explained this helps determine how quickly auditors need to review a facility. She stated auditors use the complaints to determine areas they need to review more extensively at the facilities.

Chair Parks asked about the 150 youths placed in out-of-state facilities. He asked if auditors played a role in monitoring these other facilities. He asked how this impacted the overall scope of the review.

Ms. McGuirk replied auditors identify youths that are placed in the out-of-state facilities from various sources. The facility is contacted and a request is sent for them to submit complaint information to auditors on a monthly basis. Auditors review each complaint received which helps auditors assess risk.

Chair Parks commented that over the years he was aware of horror stories about youth in various facilities around the country, which causes some concern.

Chair Parks called for a motion.

> SENATOR DENIS MOVED TO ACCEPT THE REPORT ON THE REVIEW OF GOVERNMENTAL AND PRIVATE FACILITIES FOR CHILDREN, APRIL 2012. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.
>
> Assemblyman Grady was absent from the vote.
>
> Chair Parks thanked audit staff for their work on this report.

Item 5— Follow-up on six-month report from a prior meeting (NRS 218G.270)

A. Department of Administration, Motor Pool Division

Mr. Townsend stated auditors follow up on the audit recommendations to help ensure implementation. Agencies are asked to return to the Committee to discuss the status of partially implemented recommendations. The follow up involves one recommendation for the Motor Pool Division. This recommendation was discussed at the February 2, 2012, Audit Subcommittee meeting and was brought back to this meeting for review.

He introduced Rocky Cooper, Audit Supervisor, to present the report.

Mr. Cooper stated in September 2010, auditors issued an audit report on the Motor Pool Division that contained 11 recommendations. As reported at the February 2, 2012, Audit Subcommittee meeting one recommendation remained partially implemented. He stated recommendation 9 is for the Motor Pool to request NDOT to provide odometer readings associated with each fuel transaction. He stated NDOT's monthly billing statements provided detailed information about each fuel transaction except for the vehicles odometer readings. Fueling procedures require the driver to enter the odometer reading when obtaining fuel from NDOT facilities. However, this data is not provided to the Motor Pool Division. Odometer readings can be helpful in preventing and detecting improper fuel card use. He stated at the October 17, 2011, Audit Subcommittee meeting the Motor Pool Division was requested to provide the Audit

Division with a written explanation from NDOT regarding why they are unable to prepare a report that includes the odometer readings. On January 5, 2012, the Motor Pool Division sent a written request to NDOT. This letter explains that even though the card reader prompts the operator to enter the odometer reading, the odometer reading does not appear on the monthly fuel invoice. In addition, the letter explains two attempts by NDOT staff that have not worked. On March 15, 2012, NDOT provided a written response indicating they cannot program the fuel system to provide odometer readings to the Motor Pool Division. Because NDOT is unable to provide the odometer readings, auditors have concluded that this recommendation is no longer applicable. Mr. Cooper stated during the audit process, auditors met with NDOT and Motor Pool Division staff and believe this recommendation would be relatively simple to implement. However, this recommendation has proved more challenging to implement than anticipated. Although the Motor Pool Division agrees with the recommendation auditors do not want the cost of implementing this recommendation, such as NDOT requesting a new fueling system, to exceed the intended benefit. Mr. Cooper concluded the presentation. He offered to answer questions from the Committee.

Chair Parks called for questions from the Committee.

Chair Parks commented on the issue. He asked when NDOT might look at upgrading its fuel tracking system.

Mr. Cooper could not answer the question for NDOT. He stated the audit recommendation did not want the cost to exceed the benefit. He was unsure of NDOT plans to upgrade the system. He stated during the audit process auditors identified situations of improper fuel card use and auditors made four recommendations to the Motor Pool Division. He stated the Division was able to implement three of the recommendations, the ones that were under their control. He stated the Motor Pool Division has some controls in place. He stated this recommendation would be more of an added benefit or a compensating control. He stated the Motor Pool Division had implemented controls in regard to detecting improper fuel card use.

Chair Parks called for a motion.

> ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE FOLLOW-UP SIX-MONTH REPORT ON THE DEPARTMENT OF ADMINISTRATION, MOTOR POOL DIVISION. THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.
>
> Assemblyman Grady was absent from the vote.

Item 6—Public Comment

Chair Parks called for public comment or additional public testimony.

Chair Parks recognized Mr. Barry Lovgren.

Mr. Barry Lovgren, private citizen, thanked the Audit Subcommittee for its interest in citizen access to SAPTA's public records. He wanted to place the issue that he had raised about the Division criteria in the context of the audit report. He stated the contents of the audit report generally speaks to whether the program spent SAPTA funding appropriately. The Division criteria that he had been pursuing dealt with quality assurance standards that determine whether a program qualifies under NAC 458.118 to receive that SAPTA funding. He stated those criteria were revised in November 2011 to add some levels of treatment that had been certified before November 2011 even though there were not any Division criteria for them. He wanted to find out the full extent of that problem by finding out what the lawful division criteria for treatment programs were before that November 2011 revision. He stated even that revision did not fix the problem because there is still no division criteria for programs treating co-occurring disorders. Those continue to be funded and continue to be certified by standards established in an unadopted SAPTA draft document that would add co-occurring disorders to the criteria but has never been done. It continues to be a draft.

Mr. Lovgren thanked the Committee for their interest. He offered to answer questions from the Committee.

Chair Parks thanked Mr. Lovgren for his comments. He stated further discussions would occur to attempt to gain a full understanding of the issues.

Chair Parks called for additional public comment. He noted there was none.

Chair Parks called for a motion to adjourn the meeting.

> ASSEMBLYWOMAN CARLTON MOVED TO ADJOURN THE MEETING OF THE AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION. THE MOTION WAS SECONDED BY ASSEMBLYMAN AIZLEY AND CARRIED UNANIMOUSLY.

The meeting adjourned at 11:47 a.m.

Respectfully submitted,

Donna Wynott, Audit Secretary

Senator David R. Parks
Chair of the Audit Subcommittee
of the Legislative Commission

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