

**MEETING OF THE AUDIT SUBCOMMITTEE
OF THE LEGISLATIVE COMMISSION
Legislative Building – Room 2134
Carson City, Nevada
Grant Sawyer State Office Building – Room 4412
Las Vegas, Nevada
Wednesday, January 18, 9:00 a.m.**



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MEETING NOTICE AND AGENDA

Name of Organization: Legislative Commission's Audit Subcommittee
Date and Time of Meeting: January 18, 2017 – 9:00 a.m.
Place of Meeting: Legislative Building
Room 2134
401 South Carson Street
Carson City, Nevada

Note: Some members of the Subcommittee may be attending the meeting and other persons may observe the meeting and provide testimony through a simultaneous videoconference conducted at the following location:

Grant Sawyer State Office Building
Room 4412
555 East Washington Avenue
Las Vegas, Nevada

If you cannot attend the meeting, you can listen to it live over the Internet. The address for the Nevada Legislature website is <http://www.leg.state.nv.us>. Click on the link "Calendar of Meetings – View."

AGENDA

Note: **Items on this agenda may be taken in a different order than listed. Two or more agenda items may be combined for consideration. An item may be removed from this agenda or discussion relating to an item on this agenda may be delayed at any time.**

I. Public Comment

(Because of time considerations, speakers are urged to avoid repetition of comments made by previous speakers. A person may also have comments added to the minutes of the meeting by submitting them in writing either in addition to testifying or in lieu of testifying. Written comments may be submitted in person or by e-mail, facsimile, or mail before, during, or after the meeting.)

*For
Possible
Action*

II. Approval of Minutes From October 18, 2016

*For
Possible
Action*

III. Presentation of Audit Reports (NRS 218G.240)

– Rocky Cooper, Legislative Auditor

- a. Report on Count of Money in State Treasury
– Eugene Allara, Deputy Legislative Auditor; Shannon Ryan, Audit Supervisor
- b. Department of Public Safety, Investigation Division
– A. Lilliana Camacho-Polkow, Deputy Legislative Auditor; Shannon Ryan, Audit Supervisor
- c. Nevada Department of Wildlife
– Tammy A. Goetze, Deputy Legislative Auditor; S. Douglas Peterson, Information Systems Audit Supervisor
- d. Department of Health and Human Services, Aging and Disability Services Division
– Todd C. Peterson, Audit Supervisor; Richard A. Neil, Audit Supervisor
- e. Department of Education, Use of Class-Size Reduction Funds by School Districts
– Debra Clark, Deputy Legislative Auditor; Richard A. Neil, Audit Supervisor

*For
Possible
Action*

IV. Presentation of Review of Governmental and Private Facilities for Children, January 2017 (NRS 218G.575)

- Rocky Cooper, Legislative Auditor
- Sandra McGuirk, Deputy Legislative Auditor; Jane E. Giovacchini, Audit Supervisor

V. Public Comment

(Because of time considerations, speakers are urged to avoid repetition of comments made by previous speakers. A person may also have comments added to the minutes of the meeting by submitting them in writing either in addition to testifying or in lieu of testifying. Written comments may be submitted in person or by e-mail, facsimile, or mail before, during, or after the meeting.)

Note: We are pleased to make reasonable accommodations for members of the public who are disabled and wish to attend the meeting. If special arrangements for the meeting are necessary, please notify the Audit Division of the Legislative Counsel Bureau, in writing, at the Legislative Building, 401 South Carson Street, Carson City, Nevada 89701-4747, or call the Audit Division at (775) 684-6815 as soon as possible.

Notice of this meeting was posted in the following Carson City and Las Vegas, Nevada, locations: Blasdel Building, 209 East Musser Street; City Hall, 201 North Carson Street; Legislative Building, 401 South Carson Street; and Legislative Counsel Bureau, Las Vegas Office, Grant Sawyer State Office Building, 555 East Washington Avenue. Notice of this meeting was faxed, e-mailed, or hand delivered for posting to the following Carson City and Las Vegas, Nevada, locations: Capitol Press Corps, Basement, Capitol Building, 101 North Carson Street; Clark County Government Center, Administrative Services, 500 South Grand Central Parkway; and Capitol Police, Grant Sawyer State Office Building, 555 East Washington Avenue. Notice of this meeting was posted on the Internet through the Nevada Legislature's website at www.leg.state.nv.us.

Supporting public material provided to Subcommittee members for this meeting may be requested from the Audit Division of the Legislative Counsel Bureau at (775) 684-6815 and is/will be available at the following locations: Meeting locations and the Nevada Legislature's website at www.leg.state.nv.us.

MINUTES OF THE MEETING OF THE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
OCTOBER 18, 2016

This is the third meeting of the 2015–2016 Interim.

A meeting of the Audit Subcommittee of the Legislative Commission (NRS 218E.240) was called to order by Chair Kieckhefer, Chair, at 9:00 a.m., Tuesday, October 18, 2016, 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:

Senator Ben Kieckhefer, Chair
Assemblywoman Maggie Carlton, Vice Chair
Assemblywoman Jill Dickman

Las Vegas:

Senator Kelvin D. Atkinson
Senator David R. Parks

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Rocky Cooper, Legislative Auditor
Daniel L. Crossman, Audit Supervisor
Jane E. Giovacchini, Audit Supervisor
Richard A. Neil, Audit Supervisor
S. Douglas Peterson, Information Systems Audit Supervisor
Todd C. Peterson, Audit Supervisor
Shannon Ryan, Audit Supervisor
Amanda Barlow, Deputy Legislative Auditor
Shirlee Eitel-Bingham, Deputy Legislative Auditor
Paul E. Casey, Deputy Legislative Auditor
Yette M. De Luca, Deputy Legislative Auditor
Sarah R. Gasporra, Deputy Legislative Auditor
Diana Giovannoni, Deputy Legislative Auditor
James T. Thorne, Deputy Legislative Auditor
Susan M. Young, Office Manager

Chair Kieckhefer called the meeting to order. The roll was taken and a quorum was present. Chair Kieckhefer stated item 4, a through c, would be taken out of order. Agenda items taken out of order have been placed in the proper agenda order in the minutes for purposes of continuity.

Item 1 — Public Comment

Chair Kieckhefer called for public comment. There was none.

Item 2 — Approval of minutes from May 24, 2016

Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN DICKMAN MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF MAY 24, 2016, MEETING. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

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

Item 3 — Presentation of audit report (NRS 218G.240)

Mr. Cooper stated there were five audit reports and six, six-month reports on the agenda.

a. Department of Motor Vehicles

Daniel L. Crossman, Audit Supervisor, began his presentation with a brief overview and background information on the Department of Motor Vehicles (DMV).

He stated the audit report shows the trend of annual DMV revenues from 2006 through 2015, highlighting the year-over-year changes. Ex. 3 and Ex. 4 show the breakdown of revenue sources and primary distribution types for fiscal year 2015. The audit report contains information on the system modernization project to replace DMV's current aging system that was approved by the Legislature during the 2015 Session.

The audit scope and objectives are detailed on page 7 of the report. The objectives were to: 1) determine whether controls over revenue distribution processes and internal accounting records are adequate; and 2) evaluate the adequacy of internal controls over the process for depositing collected funds.

The findings in the audit report discuss that auditors found improved controls are needed to ensure accounting and revenue distribution records are accurate. The work performed by the auditors in this area was based on observations of unusual balances in certain DMV accounting records. Considering the manual nature of the distribution process; that there is more than \$1 billion collected and distributed each year; and the potential impact on state agencies, school districts, and local governments; it was determined to be of value to understand and analyze the related distribution and accounting records practices and control processes.

The auditors also found certain year-end accounting entries were not made in fiscal years 2012 through 2014 that were needed to maintain accurate accounting records. As a result, the DMV accounting records were significantly misstated. Certain cash accounts increased to more than \$5.6 billion in fiscal year 2015 in the DMV accounting records. In comparison, total annual collections in 2015 were \$1.3 billion. Supervisory oversight was insufficient to ensure the necessary entries were made. After the auditors brought this to the attention of management, correcting entries totaling more than \$4.4 billion were made at the end of fiscal year 2015 to adjust the accumulated errors.

Auditors identified two significant nonroutine accounting entries that were not sufficiently supported, totaling more than \$100 million. Supervisory review and related policies and procedures were not adequate to understand the nature of the adjustments or the rationale. Staff later explained the adjusting entries were made to correct for another accounting error that had been made, which resulted in a negative cash balance in certain DMV records.

Furthermore, the auditors found two accounting entries in fiscal year 2013 that were not properly recorded in the DMV's distribution spreadsheets. One of these entries resulted in an imbalance within the distribution spreadsheet of more than \$40 million that remained in the records until the end of fiscal year 2015.

The auditors performed an analysis of the DMV distribution records with the State accounting system and identified various discrepancies. These occurred because only 3 of 24 quarterly account-level reconciliations between the DMV and State accounting records were completed from fiscal years 2010 through 2015. The errors identified by auditors were almost exclusively classification recording errors and did not result in significant amounts of funds being distributed to the wrong entity. The first bullet point on page 14 of the report highlights an example where \$11.7 million in funds were distributed to the proper entity, but the coding on the transfer of funds from the DMV (expense) was incorrect. This error in the DMV budget account suggested that the money was transferred to the wrong entity; however, it was not.

Mr. Crossman reiterated the auditors' findings identified control deficiencies that resulted in accounting and distribution record errors. He restated the auditors did not identify significant amounts that were improperly distributed.

Continuing his presentation, Mr. Crossman stated six recommendations were made to improve policies and procedures and supervisory oversight of nonroutine accounting entries and accounting discrepancies, ensure necessary reconciliations are completed timely, and enhance controls over distribution spreadsheets.

The auditors conducted tests of deposits of receipted cash and checks found that deposit amounts for 350 randomly selected deposit dates from the 18 field offices were deposited timely and accurately. However, some control improvements can be made. The records of deposits in the DMV system were not always "closed" timely to lock the deposit transaction record. Although modifications to deposit records in the system would not impact the actual funds that were deposited, the auditors did not identify any

such deposit modifications in the sample. It was noted that timely review and closing of deposits would enhance the control environment.

Additionally, auditors found that certain deposit records were prematurely destroyed by staff in one field office. The DMV needs to enhance its oversight of technicians' overrides of system calculated fees. Currently, the DMV system requires a supervisor approval for an override. However, existing fee override summary reports are not being reviewed to identify recurring or unusual overrides that could be indicative of a need for additional training for certain staff or in certain offices.

Furthermore, auditors found controls over deposits in certain program areas could be improved and credit card authorization information could be better secured. Four recommendations were made to improve controls over deposits and related functions.

Concluding his presentation, Mr. Crossman stated the audit methodology is contained in Appendix A of the report and Appendix B contains the response for the DMV. The DMV accepted all 10 recommendations.

Chair Kieckhefer called for agency representatives.

Terri L. Albertson, Director, DMV, thanked the auditors for a thorough review during the course of the audit. She introduced Cyndie Munoz, Administrator, Division of Administrative Services, DMV.

Chair Kieckhefer called for questions.

Senator Parks queried as to the staff turnover rate and if that was related to the findings in the report.

Ms. Munoz replied that the findings in the report were related to staff. The DMV had a complete turnover in 2012 and in 2015. She was of the opinion from 2015 to 2015 was when the deficiencies occurred. As a result of the audit, the deficiencies were corrected immediately by the DMV.

Chair Kieckhefer noted that there was no indication any funding was inappropriately transferred. He pointed out that the manual input process was prone to these types of problems. He asked if the new system would address some of these issues.

Ms. Albertson replied that the hope and the goal of the new system modernization efforts will have a complete financial system that will be completely automated. This will eliminate staff having to collect and distribute on spreadsheets. Part of what the DMV presented to the Legislature during the 2015 Session regarding system modernization is that the DMV distributes and collects \$1.3 billion per year on spreadsheets. The financial system is a major component in phase 1. By early 2018, the system should be developed, tested, and ready for use. The financial system is the foundational piece for system modernization.

Assemblywoman Carlton asked about staffing levels with regard to being able to complete the manual process before proceeding to the automated system.

Responding to Assemblywoman Carlton's question, Ms. Munoz replied that the DMV is currently fully staffed. Key revenue staff is in place and have accomplished many of the adjustments along with monthly and quarterly reconciliations. Furthermore, she stated that they are working on the policies and desk manuals to ensure that those step-by-step processes are documented in the event of future turnover.

Assemblywoman Carlton requested to be notified when the DMV is not fully staffed, especially during the next session to allow for the Legislature to provide needed staff. Furthermore, she noted the amount of responsibilities delegated to the DMV. She expressed the need for those responsibilities to be examined. If certain responsibilities would be better suited in other agencies, consideration should be given as to whether or not to transfer certain responsibilities out from the purview of the DMV. She was of the opinion that Nevada's DMV has far greater responsibilities than in other states' DMVs.

In response to Assemblywoman Dickman's question regarding the quarterly reconciliation reports, Ms. Munoz stated the reports are now current and will continue to stay current. She noted the reports are a vital piece to the reconciliation to ensure proper distribution occurs. The employees who work on these reports will also provide input to the system modernization.

Chair Kieckhefer referred to the manual fee overrides. He asked if there is a set policy for how fees can be adjusted and who would have the authority to approve the override.

Ms. Albertson replied there is a policy in place. There is a \$5 limit for technicians for overrides. Anything above that amount would require a supervisory override. She was of the opinion that the policies will be amended in order to address the specific issue of overrides to include oversight by the Administrative Services Division to look for any anomalies and inaccuracies that occur over the \$5 limit.

Chair Kieckhefer queried as to why a technician would override a fee.

Ms. Munoz replied that sometimes the DMV makes an error where there is a typographical error.

Ms. Albertson stated that it is typically a technician error that is cause for the fee override or the customer may have a credit he or she would like to apply. The fee override provides for some flexibility for the technician to make adjustments. Majority of the overrides are under the \$5 limit; however, it is the DMV's responsibility to review those that exceed the amount to ensure technicians do not give freebies to customers.

A discussion ensued between Chair Kieckhefer and Ms. Albertson regarding wait times at the DMV. Ms. Albertson noted that the wait times down in the Las Vegas offices are consistently around 60 minutes since the staffing levels were increased. The new appointment system has been well received and is operating effectively. Wait times at the Carson City and Reno offices are also around 60 minutes. The increased congestion at the Carson City office has significantly impacted wait times due to citizens from Reno driving to Carson City for service. During the next legislative session, the DMV would like to request funding for a capital improvement project to build a new Reno facility.

Assemblywoman Carlton pointed out that the goal for the Las Vegas offices was to reduce wait time to 60 minutes; however since wait times in the Reno office is 60 minutes, customers are driving to Carson City because they do not want to wait 60 minutes.

There being no further questions, Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN DICKMAN MOVED TO ACCEPT THE PERFORMANCE AUDIT ON THE DEPARTMENT OF MOTOR VEHICLES. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

b. Office of the Military

Yette M. De Luca, Deputy Legislative Auditor, began her presentation with a brief overview of the Office of the Military (Office). The Office was established to supervise the military affairs of the State of Nevada. The Office is under the direction of the Adjutant General, who also serves as the Commander of the Nevada National Guard. The Nevada National Guard is composed of the Army Guard, Air Guard and State employees. The mission for the State employees is to provide outstanding customer service that maximizes the available resources and informs the pertinent parties as to the status of the Cooperative Agreement between the National Guard Bureau and the State of Nevada in relation to the state budget, and to maintain and secure the facilities in conjunction with those resources.

Continuing her presentation, Ms. De Luca stated the report provides information regarding the budget and staffing. For fiscal year 2015, General Fund appropriations amounted to \$3.4 million and federal funding totaled \$15.7 million. Ex. 1 in the report provides funding sources by budget account and Ex. 2, shows the locations of the guard facilities throughout the state.

The objectives of the audit were to determine the reliability of performance measures used in the State's budget process and to evaluate the controls over contracts, inventory, and procurement account purchases. The primary focus of the audit was from fiscal year 2013 through 2015. The findings and recommendations related to the performance measures begin on page 5. Auditors noted that the Office did not have adequate documentation to support the reliability of four of the six performance measures tested. Although the Office maintained a spreadsheet with final numbers for each measure, auditors could not verify the accuracy of the information since supporting documentation was not retained.

In addition, the auditors noted the Office can provide better information to decision makers by improving its performance measures. Three of the six performance measures reviewed either did not accurately describe the measure presented or could better communicate program operations. For example, the measure for tuition assistance reports the number of claims processed in a fiscal year; however, additional information on program benefits was not provided. Tuition assistance has been described as providing up to 100% of the credit hour costs for summer school tuition.

For the 2015 summer school session, all 93 tuition reimbursement claims were paid at 74%. The measure, as reported, does not reflect the demand for the tuition reimbursement, the adequacy of funding or the Guard member's satisfaction with the program.

Furthermore, the auditors found that the measure for the Patriot Relief Account (Account) reports the number of economic hardship claims processed, but did not provide information on textbook reimbursements or life insurance premium reimbursements. The Account was created to reimburse Guard members for certain text books and life insurance premiums, as well as assist with economic hardships. Ms. De Luca stated that reporting additional information provides insight, particularly if tuition and textbook assistance is viewed as a benefit for Guard members. Three recommendations were made in the report to improve performance measures.

The auditors noted that the Office can strengthen its controls over contracting activities, inventory, and procurement accounts. For contract activities, the Office did not have a process to ensure vendor invoices are compared to contract terms. For example, a contract for electrical services included a payment schedule; however, the invoices were not itemized and were not compared to the payment schedule to ensure payments were within the contracted terms. In fiscal year 2015, payments exceeded the maximum annual contract amount by almost \$10,000. A contract for hood cleaning services included an estimate for services. Nonetheless, the contract did not reflect an agreed upon dollar amount, such as an hourly rate or flat fee. Therefore, the accuracy of the contractor's invoices could not be determined.

Ms. De Luca pointed out that there are additional examples provided in the audit report. She noted that vendor invoices were not compared to contract terms, because the pricing terms were only suggested and were not required during the contract award process. Once the contract is awarded, price negotiations can begin with the vendor. However, the pricing terms were either not provided to the Certified Contract Manager or were not retained in the contract file. The Office policy states contract quotes will be the basis of the costs, and copies of all bids and communication from vendors must be provided to and retained by the Certified Contract Manager.

The auditors noted the Office did not comply with its policies for contract solicitation and contractor insurance coverage. Solicitation documents for all 10 contracts tested did not include evidence of review and approval of the scope of work and evaluation criteria in accordance with the established policy. In addition, 6 out of the 10 contract files did not have up-to-date insurance information.

In addition, the auditors noted the Office's statewide inventory listing was incomplete. The testing conducted by the auditors identified nine items not added to the inventory list. The value for the nine items totaled \$281,000, which included gym equipment and network hardware. The Office did not comply with established reconciliation procedures for procurement account purchases.

Seven recommendations were made in the report. Three recommendations were related to enhancing controls over the contracting process. Two recommendations were made related to the inventory practices and two recommendations were made related to procurement activities.

Concluding her presentation, Ms. De Luca stated Appendix A in the report contains the audit methodology. The Office's response to the audit is contained in Appendix B. The Office accepted all 10 recommendations.

Chair Kieckhefer called for questions. He then called for agency representatives.

William R. Burks, Brigadier General, Adjutant General of Nevada, Office of the Military, thanked the audit staff for the thorough review. He commented that several of the findings were result of improper staffing levels. In the 2015 Legislative Session, two more positions were approved. Recently, those positions were filled; however, the Office is not yet fully staffed. The Office is in the process of examining skill levels of the various staff members, especially in the area of construction. There were approximately 60 contracts where several of the vendors were not asked to place the hourly rates in the contracts. He was of the opinion that having the hourly rates in the contracts would be beneficial.

Cheryl Tyler, Administrative Services Officer II, Office of the Military, discussed the performance measures, inventory, and internal processes. She noted the Office has taken steps to update its policies.

Chair Kieckhefer asked if some of the performance measures have been updated for the current budget process and cycle.

Ms. Tyler affirmed that one of the performance measures related to textbook reimbursement had been updated. In fiscal year 2016, the Office only had enough in its budget to reimburse its Guard members at approximately 74%. The performance measure has been updated to reflect the change in the budget.

Chair Kieckhefer commented that performance measures may seem innocuous when compared to the duties of the Office; however, the performance measures are helpful to the Legislature during its budget process. He called for further questions.

Chair Kieckhefer inquired if there was a policy in the Office regarding how contracts were written.

Ms. Tyler stated that there are policies and it was just a matter of having the personnel to review the contract process and that policies are followed.

In response to Assemblywoman Dickman's question if the policy had been updated to remove terminated employees as authorized buyers, Ms. Tyler stated it had been updated.

Assemblywoman Carlton referred back to the issue of staffing. She stated low staffing levels have continued to be an issue even when compared over the past few biennia. She expressed concern that the Office might not be hiring the correct staff for the needed positions. She pointed out that the job descriptions for these positions might

need to be reworked in order to attract the types of applicants who would be competent for the positions.

General Burks agreed with Assemblywoman Carlton's statement regarding the need to rework the job descriptions. He surmised that the proper personnel needed for certain jobs were not hired. He noted one of the largest factors that have affected the Office was the federal funding received through master cooperative agreements with Air Guard and the Army Guard. This has become a dynamic source of funding and an issue when the federal government has been sequestered and shut down. As a result, such issues as these have placed a large burden on a static workforce. It is important to find staff that can meet both state and federal requirements for the positions in which they are hired.

Assemblywoman Carlton asked if there had been issues with recruiting qualified applicants.

Ms. Tyler stated the Office had a difficult time recruiting for qualified accounting technicians; however, the personnel currently in those positions are highly qualified. For other vacant positions, the Office will recommend increasing the starting step level for new employees.

Chair Kieckhefer called for further questions. There were none.

Chair Kieckhefer called for motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE PERFORMANCE AUDIT ON THE OFFICE OF THE MILITARY. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN DICKMAN AND CARRIED UNANIMOUSLY.

c. Department of Business and Industry, Division of Mortgage Lending

Diana Giovannoni, Deputy Legislative Auditor, began her presentation with a brief overview of the Department of Business and Industry, Division of Mortgage Lending (Division). The mission of the Division is to promote and grow Nevada's non-depository mortgage lending and related industries through implementation and enforcement of laws, to protect industry and consumer interests and safeguard the public trust, and to provide a thorough and fair consumer complaint resolution process. The Division licenses and regulates mortgage brokers, agents, bankers, escrow agencies, and covered service providers. Through examinations of licensees, investigations of consumer complaints, and actions taken to curtail unlicensed activity, the Division safeguards public interests.

The Division has one budget account, which is self-funded, primarily by license and examination fees, as well as industry assessments. In fiscal year 2016, the Division had 19 authorized positions. Ex. 1 in the audit report shows the number of licensees by type for fiscal years 2014 and 2015. Ex. 2 in the report summarizes the Division's revenues and expenditures for fiscal years 2014 and 2015.

Continuing her presentation, Ms. Giovanonni stated the audit objectives were to determine whether the Division performed timely examinations of mortgage companies and had adequate controls over the examination fee billing process. The audit focused on examination and billing activities conducted from July 2014 through December 2015, but included fiscal year 2016 in some instances.

The auditors found the Division continued to have problems completing required examinations of most mortgage companies it regulates. Specifically, the Division did not perform required examinations timely for most of the 238 licensees that were subject to examinations. Over the 18-month period that ended December 31, 2015, 58% of licensees either were not examined or had untimely examinations. Furthermore, as of December 31, 2015, examinations for 124 licensees were past due by an average of 13 months.

As noted on page 4 of the audit report, Nevada Revised Statutes provide for annual examinations of licensees, but allows for biennial exams of mortgage brokers and bankers who have lower risk factors. The Division follows a risk-based approach for examinations by giving scheduling priority to licensees with greater risk. Ex. 3 in the report shows the Division averaged 14 months late for lower risk licensees on the biennial schedule. Thus, licensees that should have no more than 2 years between examinations, and on average went unexamined more than 3 years.

The auditors found examiners did not conduct timely follow-up examinations for 14 of 22 licensees (64%) who had adverse ratings on their most recent examinations. Examination ratings are on a scale from 1 to 5, denoting the best to the worst ratings. Timely follow-up with licensees who receive adverse ratings (that is, ratings of 3, 4, or 5) is important to help ensure they properly implement appropriate corrective action.

For example, in one instance a covered service provider received an examination rating of "4" in August 2014. A rating of "4" indicates substantial non-compliance requiring immediate remedial action with the licensee subject to close regulatory supervision. The follow-up examination, due within 9 months, was 218 days late as of December 31, 2015. Although the Division's records showed an examination began in September 2015, according to management it did not progress because the examination involved novel issues, was complex, and contentious. The draft examination report, issued in April 2016, again gave the licensee an adverse rating of "4" and cited numerous violations.

The auditors stated in the report that an inadequate staffing plan coupled with employee turnover directly affected examination timeliness. The Division's problems in maintaining sufficient staff were reported in the Audit Division's prior audit and documented in a 2007 Letter of Intent issued by the Legislature's money committees. In 2013, the money committees again documented their concern with the Division's staffing issues. A recommendation was made for the Division to implement a staffing plan for determining the number of examiner positions needed and fill vacancies timely.

Ms. Giovannoni stated the Division needs to address inconsistencies in its billing practices for examination fees. Because of inconsistent practices, many examination hours are not billed to licensees and billing disputes can occur. During fiscal year 2015, examiners' timesheets showed 2,252 hours were non-billable, which is 37% of the total examination hours. Therefore, about \$135,000 was not billed based upon the timesheet allocations to non-billable hours.

Ex. 4 provides an example of 1 week of an examiner's time that was recorded for a mortgage broker examination during fiscal year 2015. The examiner's time during the week was allocated between billable and non-billable time without further explanation. Overall, the examiner recorded 63 hours on this examination; however, only 32 hours was billed to the licensee and the remaining 31 hours were not billed even though the time records show examination tasks were performed. Without written procedures there is no assurance examination fees are billed consistently regardless of which staff performs the examination. A recommendation was made to implement written procedures for tracking and billing examination hours.

Concluding her presentation, Ms. Giovannoni stated Appendix A in the audit report summarizes the Division's examination ratings criteria. The audit methodology is contained in Appendix B. Appendix C contains the Division's response. The Division accepted both recommendations.

Chair Kieckhefer called for questions.

Responding to Assemblywoman Carlton's question regarding a staffing report, Ms. Giovannoni stated the audit report did not contain a staffing report; however, the auditors recommended the Division implement a staffing plan.

Assemblywoman Carlton asked if there was a timeframe or a breakdown for the license examinations categories.

Ms. Giovannoni replied that because there is such a vast array times involved with examinations, it was best for the Division to respond to the question.

Chair Kieckhefer called for agency officials.

Bruce Breslow, Director, Department of Business and Industry (DBI), stated both the Commissioner and Deputy Commissioner of the Division recently retired. He introduced Marcel F. Schaerer, Deputy Director, DBI, as the Acting Commissioner for the Division until those vacancies are filled.

Mr. Breslow stated that previously, the Division lacked adequate funding to have enough staff in order to catch up to the backlog. The Division requested mortgage settlement money from the Office of the Attorney General. With that money, some of the positions were kept that otherwise would have been lost due to effects from the recession. During the 2015 Session, the Division developed a strategy to regulate out-of-state mortgage servicers. This increased funding which has allowed the Division to allow additional examiners.

Assemblywoman Carlton asked for clarification regarding the revenues and expenditures for 2014 and 2015. She pointed out the amount of funding created from the examination fees does not appear that it has been utilized effectively. She noted that the account is a self-funded account and would like to know what needs to be done to fix the problem, whether it is staffing issues or a combination thereof. She opined that after the experiences from the last foreclosure crisis, the last thing she wants is for the "bad guys" to have more time knowing their examination will not happen for at least a year.

Mr. Breslow offered clarification stating that since September 2013, the examination program had a complete staffing turnover. The recruitment process had to be completed to hire new examiners. When there was the decline in the economy, the numbers and the revenues dropped dramatically. The revenues have since improved due to an increase in the economy and with the revenues from the out-of-state examinations. He was of the opinion that even if the Division was staffed 100%, it would be impossible to exam each because there are so many companies. The licensed mortgage companies increased by 26%; the number of licensed offices increased by 93%; and the total number of mortgage loans made increased 98%. The Division is a small agency and cannot do what it is tasked to do and catch up just by the sheer numbers. There is an industry bill that will be presented to the 2017 Legislature that will change that requirement to go to a sampling and companies that have been problem companies will become a higher priority. He was of the opinion that no matter how many people are hired, the Division cannot complete the number of examinations that are required by law.

Assemblywoman Carlton stated that this has been a systemic problem that has been ongoing longer than the timeframe referenced by Mr. Breslow. She voiced concern that when the economy was bad, the Division could not get the examinations done and now that it is better, the Division still cannot complete the required examinations. She opined that the public is not being protected when the Division has not completed its job.

Mr. Breslow stated the State has received more than \$100,000,000 in mortgage settlement money and the Division has not received any of it. With the money that is allocated to the Division, the Division has a different idea to try increase the revenue by regulating out-of-state servicers. The staffing plan is being developed.

Chair Kieckhefer restated Assemblywoman Carlton's other point that this needs to be a sustainable entity and to receive money from settlements is not the best way for an ongoing regular basis.

Mr. Schaerer stated that in response to Recommendation No. 1, the Division has begun to refine its existing staffing plan to address those identified deficiencies. According to the data results as of October 17, 2016, approximately 76% of the licensees have been examined for the end of the scope period.

To address the staffing plan and the systemic problem that dates back to 2013, Mr. Schaerer stated the Mortgage Examination Unit has been fully staffed for July through September. The Unit lost one examiner due to a divisional promotion effective September 12, 2016. As of October 17, 2016, another examiner position became available due to a lateral transfer. Interviews have taken place in anticipation of having those vacant positions filled by the end of October 2016. The plan is to fill vacant positions by the end of October 2016 and to retain adequate staffing levels in order to maximize efficiencies and meet the requirements set forth in NRS.

Mr. Breslow added that the Division should receive revenues from the out-of-state mortgage services. In addition, part of the Division's budget request for this year will be to add two additional examiners.

Chair Kieckhefer asked that if the Division would have adequate staffing levels when the vacant positions are filled and there are additional positions filled to meet the statutory requirements for the examinations.

Mr. Breslow surmised that the Division would be able to meet the requirement; however, as the economy has grown so has the housing market. The Division is trying to retain enough funding in the budget and making the effort to add more positions if necessary.

Chair Kieckhefer asked Mr. Schaerer to address Recommendation No. 2.

Mr. Schaerer introduced Zaljana Ajdari, Supervisor, Division of Mortgage Lending, DBI, and he addressed Recommendation No. 2. The Division has been modifying existing procedures and has developed a written policy for the tracking and billing of examination hours. The modified procedure and newly implemented policy was to begin November 1, 2016. Training will be provided by the supervisor examiner to include the following: review an explanation of examination managers questionnaire timeframe; review and explanation of policies and procedures for tracking and billing of examination hours; and review and discuss an expectation in relation to ongoing improvements in matters of efficiency. Furthermore, the examination tracking method will be utilized includes examinations managers' timeframe for which examination hours allocated and categorized in examination and administrative increments.

Continuing, Mr. Schaerer stated the methodology used in this instance provides written guidelines for staff members and determines time segments for billable examination hours and administrative hours. Billable examination hours and administrative hours will not be billed to the licensees. In addition, the Division revised its examination tracking timesheet to accompany implemented policy of examination manager's timeframe. The Division will focus on a proactive approach and continue its review for efficiencies that will empower the team to meet the statutory requirements.

Chair Kieckhefer asked that with the revised policy effective November 1, 2016, if the Division expected an increase in the amount of time that is currently written off as non-billable hours to move over to the billable hours column. He opined that based on the auditors' review, the same activity would sometimes be considered billable and sometimes considered non-billable with no real indications as to why each was each.

Ms. Ajdari stated that the timeframes that were set up here with the material that is supporting the implemented policy would potentially allow the Division to move some of these hours that were in the previously moved to non-billable columns to billable columns, which will resolve hopefully more revenue for the Division. The guidelines that were provided to the staff in looking at historical data some of those hours were misallocated into non-billable section which ultimately will within the new guidelines that we have set up within the policy will allow for more billing hours going forward.

Chair Kieckhefer requested a copy of the new policy as it is developed and implemented to see what determinations were made over billable versus non-billable hours.

Mr. Breslow stated that the Division will provide a copy of the policy. He then testified that one of the things that had been asked for in this audit and the subsequent follow-up questions was to confirm whether the Division still intends to replace the existing hour exam fees structure. In order for the change, there would need to be a change in the regulations. The new regulations were submitted to LCB on June 29, 2016, and the Division had not received an update yet on the changes. Once the regulations are changed, the exam fee structure changes will be made.

Mr. Schaerer affirmed that the Division had not received information on updates regulations.

Chair Kieckhefer offered two suggestions for the Division. The first is to implement a staffing plan and the second is to implement the written policies and procedures for tracking and billing. He was pleased both of those suggestions would be accomplished. He then called for further questions.

Assemblywoman Carlton asked for clarification on what the revised regulations would accomplish.

Mr. Breslow commented that although he did not have the revised regulations with him at the meeting, he would follow-up with that information when it was available.

Assemblywoman Carlton queried as to how the examinations would be done with respect to the regulatory process and the effect on examination fees.

Responding to Assemblywoman Carlton's questions regarding examination fees and the regulatory process, Ms. Ajdari replied that the proposed regulations would allow for the Division to bill a supervisory fee, which would be based on the licensee's annual volume. There also would be no examination fees. Instead, it would be billed as a supervisory fee based on the volume of loans that the licensee produces.

Assemblywoman Carlton asked how a regulatory process could be performed without the examination fees.

Ms. Ajdari testified that the Division would conduct examinations just as it is doing now and it would bill the annual fee. The Division would ask for the annual reports from the licensee and that would allow them to calculate and formulate formulas according to the increments or what is written within the regulation.

Mr. Peterson offered the assistance of Ms. Giovannoni to respond to the questions.

Ms. Giovannoni was of the understanding that in the proposed plan that was submitted in response to the 2013 Letter of Intent, the Division indicated that they would like to replace the billings for examination fees with the new supervision fee that all the licensees would pay. This would provide for a steady stream of income to cover the highs and lows of billing processes for exams; however, there would be no change in the examination function. Nonetheless, the revenue stream would change from billing to supervision fees that all licensees pay.

Assemblywoman Carlton stated that she would have many of questions for staff related to the 2013 Letter of Intent and other letters that contained more information on the breakdown of fees. She expressed concern that a self-funded agency, such as the Division, might end up allowing for the "good guys" to pay for the behavior of the "bad guys" by picking up the costs for many billable hours.

Terry Reynolds, Deputy Director, Office of Business and Planning, DBI, stated that in discussion with industry-related working groups, there were two main concerns. The first concern is the amount of staff's time that can be taken up when issues are found during the course of an intense examination. The second issue is with fairness and who should get charged for what. There are mortgage brokers who only perform a few types of loans and there are some do not make many loans, but who loan a large amount through a commercial loan. It was felt that the concept of supervisory fees was a fair assessment of the organization when compared to the types of loans and the volumes of loans made by the different mortgage brokers, which is why the approach to use an overall assessment was favored.

Continuing, Mr. Reynolds noted that this approach still does not address the dichotomy where there are issues with "bad companies" who require a great deal of time for examination. The changes in the proposed regulations should help the Division to develop a fair system supported by the industry.

Adding the Mr. Reynolds' testimony, Mr. Breslow stated the industry has a bill in conjunction with the proposed regulation to bring forward to address some of the Subcommittee members' concern. There have been a lot of workshops and meetings with the mortgage industry; however, all sides have not yet come to agreement.

Assemblywoman Carlton pointed out that these regulations would need to come before the Legislative Commission and or the Legislative Commission's Subcommittee to Review Regulations and that would give the legislators another opportunity to review. She expressed interest in knowing which statutory authority would allow for such a drastic change in policy.

Assemblywoman Dickman asked if there was a plan to address the issue with billable versus non-billable hours until the changes to the regulations are in place.

Mr. Breslow was of the opinion that the policy change would be handled internally. He reiterated that he would provide Subcommittee members with the plan and that policy. He noted that what has been suggested by the Division was also part of the audit

recommendations in the report to utilize a different type of fee structure. A considerable amount of time has been spent working with the industry to be able to get these regulations presented to the appropriate legislative committees.

Chair Kieckhefer called for further questions.

Senator Parks queried as to if there would be a bill draft request (BDR) for consideration in the 2017 Session to address some of the potentially contentious and complex concerns that the Division has. He was of the opinion that some sort of bifurcated fee system might address some of these particular problems.

Chair Kieckhefer asked Mr. Breslow if he had indicated that potential legislation would be coming from the industry, not the Division.

Mr. Breslow replied that it is an industry bill that has been vetted and the agency feels it is a good policy; however, he was not certain who was the sponsor of the BDR.

Chair Kieckhefer called for further questions. There were none.

Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN DICKMAN MOVED TO ACCEPT THE PERFORMANCE AUDIT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, DIVISION OF MORTGAGE LENDING. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

d. Nevada Department of Wildlife, Information Security

S. Douglas Peterson, Information Systems Audit Supervisor, began his presentation with a brief overview of the Nevada Department of Wildlife (NDOW), Information Security. The mission of NDOW is to protect, preserve, manage, and restore wildlife and its habitat for the aesthetic, scientific, educational, recreational, and economic benefits to citizens of Nevada and the United States, and to promote the safety of the persons using vessels on the waters of Nevada. NDOW has eight locations throughout the state and is subdivided into seven divisions.

The audit objective was to determine if NDOW had adequate information security controls in place to protect the confidentiality, integrity, and availability of its information and information processing systems. The audit found that sensitive information needed stronger protection. Each of NDOW's 43 game wardens in the Law Enforcement Division have a laptop computer containing unencrypted confidential information, which includes legal case files. The case files can contain unencrypted Personal Identifying Information (PII). For example, some case files contain driver's license numbers and credit card or other payment information. State Security Standards require that all sensitive information, including PII, be encrypted. Mr. Peterson reported that if one of the Law Enforcement Division's laptops were lost or stolen, it is required by state law to notify those individuals whose PII has been disclosed. NDOW agreed to encrypt its laptop computers after discussions with the auditors

Continuing his presentation, Mr. Peterson stated servers were missing virus protection. NDOW has 17 servers, which are the computers that store and process all the agency's information. All of NDOW's 17 servers lacked virus protection software. State security standards require all computer systems to have current virus protection software installed. Without current virus protection software installed, servers could become infected with malicious software. When a server becomes infected with malware, or otherwise compromised, the productivity of the entire NDOW could be affected and the security of the information on the server could be compromised. During the course of the audit, the Division of Enterprise Information Technology Services (EITS) began making SEP server virus protection software available and NDOW has installed the software on all its servers.

The auditors also found that the virus protection system was unable to monitor many computers. NDOW's Information Technology (IT) support staff could not monitor the status of virus protection of many of the computers on the NDOW network. This was caused by faulty installation of software on at least 71 desktop computers. The faulty software installation prevented these computers from communicating with the virus protection management console that is used by IT staff to monitor the virus protection status of computers on its network. State Security Standards require all computers have current virus protection software installed to reduce the risk of malware infecting state computers.

Mr. Peterson noted that some staff did not complete their annual security awareness training. Auditors identified 95 of 236 current NDOW staff who had not completed their annual security awareness training. State security standards require all state employees to have security awareness refresher training at least annually. State employees receive annual IT security awareness training to ensure they remain aware of current security threats. Without completing such training, there is a greater risk that employees will not properly protect the information and information systems to which they have access. NDOW staff indicated that some employees did not heed the email notification to take the training. In addition, staff indicated that other employees, who typically work in field locations without Internet access, have a more difficult time completing the web-based training.

Concluding his presentation, Mr. Peterson stated Appendix A in the report contains the audit methodology and NDOW's response is contained in Appendix B. NDOW accepted the four recommendations contained in the report to improve information technology.

Chair Kieckhefer queried as to how the desktop computers had the virus protection installed and the laptops did not.

Mr. Peterson stated that when NDOW converted over to EITS, the Enterprise Symantec Endpoint Protection (SEP) rollout included virus protection software licenses for desktop and laptop computers, but not for servers, which would was an oversight by NDOW.

Chair Kieckhefer inquired as to which agency would have been responsible, whether it be EITS or NDOW, for needing to know what was required and necessary.

Mr. Peterson noted that with this audit and the next audit to be presented, there was a dual role where the agency has some responsibility and EITS also has some responsibilities in these matters.

Chair Kieckhefer further inquired as to who was responsible and if it was NDOW's job to know when they need to protect themselves or is it EITS responsibility to inform the agency when they need the protection.

Mr. Peterson responded that both parties are responsible. The agency needs to know what it needs are; however, the agency is not always the expert. That is why the experts at EITS are needed to rollout any updates to the software or the machines.

Chair Kieckhefer pointed out there was a gap like this that has repeated itself in multiple departments. He then called for agency representatives.

Tony Wasley, Director, NDOW, testified that NDOW accepted all four recommendations. He addressed Recommendation No. 1. Mr. Wasley stated 43 laptops were identified and 23 laptops have already been updated. The other 20 laptops will be replaced this year. He surmised that it was a software compatibility issue. The 20 laptops purchased prior to 2013 were not compatible with the bit locker software encryption and will be replaced within the fiscal year 2017. By the end of FY 2017, all laptops will have the encryption.

Mr. Wasley addressed Recommendation No. 2. As of September 12, 2016, NDOW indicated that current virus protection had been added to 16 of the 17 servers. Since that time, the remaining server in Las Vegas has had that virus protection added. This recommendation has been implemented. He spoke to Recommendation No. 3 and stated all NDOW computers have SEP, and are in complete compliance.

Concluding his presentation, Mr. Wasley addressed Recommendation No. 4. He stated NDOW has increased its outreach and has significantly improved compliance. Approximately 2/3 of staff is compliant with that training. NDOW will continue to emphasize the need for compliance with the annual IT security awareness training.

Chair Kieckhefer queried as to the issue with virus protection on the laptop computers. He noted the audit report indicated that this was due to faulty installation. He asked if NDOW IT staff installed the software or if it was EITS.

Pat Wlodarczyk, Information Technology Specialist, NDOW, stated that NDOW performs the installations the of rollout virus protection software. During that time, NDOW experienced communications issues. The computers had the antivirus software installed and were current; however, the computers were not communicating to SEP with EITS and with NDOW IT staff to monitor what was up-to-date. Since then, the installation was redone and the computers are now communicating with SEP.

Chair Kieckhefer Clarified that the protection software was installed correctly; however, it was not communication with EITS. Mr. Wlodarczyk affirmed the Chair's statement.

Chair Kieckhefer called for representatives from EITS to answer questions. He then inquired again about the virus protection for the servers and how does that work with who communicates with whom about the needs for a department.

Christopher Finnegan, IT Manager I, EITS, Department of Administration, stated the Enterprise SEP client was originally envisioned for desktop and laptop computers; however, the client is usable on servers as well and EITS had verified with the vendor that this could be used on both servers and desktop operating systems. Originally there was some confusion and EITS obtained clarification from the agencies that the software could be used on both.

Chair Kieckhefer asked if some sort of review was conducted to assess the needs for an agency or does the agency approach EITS notify that the agency is going to make changes.

Mr. Finnegan replied that would depend on the agency. Some agencies utilized its own services. For the agencies that utilize EITS services, EITS will install, as part of the standard package, SEP antivirus protection on the server.

In response to Chair Kieckhefer's question as to why to the standard install was not included for NDOW and if going forward the different levels of protection would be included by EITS, Mr. Finnegan replied that he was fairly new to his role and thusly was not familiar with NDOW's situation prior. Nonetheless, EITS would include all those different levels of protection going forward.

Chair Kieckhefer called for additional questions. There were none.

Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE PERFORMANCE AUDIT ON THE NEVADA DEPARTMENT OF WILDLIFE, INFORMATION SECURITY. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN DICKMAN AND CARRIED UNANIMOUSLY.

e. Department of Administration, Division of Human Resource Management, Information Security

S. Douglas Peterson, Information Systems Audit Supervisor, began his presentation with a brief overview of the Department of Administration, Division of Human Resource Management, Information Security. The mission of the Division is to provide exceptional human resource services with integrity, respect, and accountability. The Division is divided into seven sections that provide services to state employees, state agencies, and the general public. The objective of the audit was to determine whether the Division had adequate information security controls in place to protect the confidentiality, integrity, and availability of its information and information processing systems.

Continuing his presentation, Mr. Peterson stated that auditors found that confidential information about state employees needed better protection. Confidential information about state employees was stored unencrypted in the Division's databases, increasing the risk of unauthorized access to this information. For example, one database contained Social Security numbers of over 145,000 current and former state employees and their beneficiaries. State security standards require that confidential personal data be encrypted whenever possible; however, this confidential personal information was not encrypted in the Division's databases. Due to a reorganization of agencies, EITS is to provide services for the Division. Support staff who manage the Division's databases, indicated they were not aware that there was a requirement to encrypt this information. He stressed that the Audit Division intentionally delayed the release of this audit until all databases and communication pathways had been encrypted.

Furthermore, Mr. Peterson stated that former staff had current network access. Former employees' computer accounts were not disabled when they left the Division. The auditors identified 42 computer accounts of former staff among the 179 Division computer user accounts we examined whose network credentials (login identification and passwords) had not been disabled. Thirty-one of these former employees had been gone for over 1 year. One employee had been gone almost 10 years. Security standards require employee computer accounts be disabled timely upon an employee's departure to reduce the risks of possible unauthorized access of the state's data or systems.

Auditors also found that some staff did not complete annual security awareness training. Five of the Division's 77 staff had not completed their annual security awareness training. State security standards require that employees each receive annual IT security awareness training to ensure they stay aware of current security threats. This situation arose as a result of several employees not heeding the periodic reminders sent by the Division's information security officer to complete their training. The five employees completed their annual security awareness training after the omission was brought to the Division's attention during the audit.

Mr. Peterson stated auditors found that some of the desktop computers lacked adequate virus protection. Some of the Division's 85 computers were lacking current virus protection. Specifically, 7 of the 85 computers, or 8%, did not have adequate virus protection installed. State security standards require that virus protection software be updated regularly to retain protection from evolving online threats. EITS staff indicated this problem was the result of incomplete antivirus software installations.

Moreover, auditors found that desktop computers were missing Windows operating system updates. Numerous computers showed gaps in the installation of operating system updates. Seventeen of the 85 computers, or 20%, were not receiving Windows operating system updates on a regular basis. State security standards require these updates be installed timely in order to fix security vulnerabilities that have been identified in the Windows operating system software. EITS staff indicated that a technical issue caused some computer operating system software updates to fail.

Furthermore, some servers had vulnerabilities and lacked virus protection software. One of the four servers did not have SEP installed. State security standards require servers have current virus protection software installed. Without current virus protection software installed, servers could become infected with malicious software. Auditors also found that some servers also had high-level vulnerabilities. Three of the four servers had critical or high-level vulnerabilities due to missing Windows operating system updates. State security standards require these updates be installed timely to fix security vulnerabilities that have been identified in the Windows operating system software. Without installation of these software patches, computers remained vulnerable to online threats. Both of the above conditions were the result of not having service agreements between the Division and EITS that specified that EITS should provide these services to the Division's servers. The Division indicated this omission of service agreements was an unintentional consequence of the State's 2011 reorganization that made the Department of Personnel a Division within the Department of Administration.

Additionally, photocopiers were not securely configured. Controls were not in place to ensure sensitive information stored in the Division's six photocopiers was erased. Office copiers contain hard drives that store information. This information is stored when employees make copies, fax, scan, or print documents on these machines. This information is stored inside the photocopiers on internal hard drives, which are the same storage devices as contained in desktop computers. This data must be deleted prior to the photocopiers being replaced or there is a risk that the sensitive information could remain on the copiers' hard drives when they leave Division control. State security standards require these devices be configured with the Immediate Image Overwrite function enabled. In addition, security standards also require the hard drives be removed or securely erased before the copiers leave state control.

Concluding his presentation, Mr. Peterson pointed out that the audit methodology is contained in Appendix A of the report. Appendix B contains the Division's response to the audit report. The Division accepted all 11 recommendations.

Chair Kieckhefer called for questions.

Assemblywoman Carlton expressed gratitude to staff for waiting to release this audit to protect state employees' sensitive information that could have been criminally accessed allowing for fraudulent use and potential identity theft. She appreciated the discretion used with this audit to allow the Department to resolve the issues noted in the report.

Chair Kieckhefer noted that the Department and Audit staff was very cognizant of the problems with the sensitive information and the need to protect it.

Mr. Peterson commented that Rocky Cooper, Legislative Auditor, made the decision and had the courage to wait to release this audit report until the proper time. This was the first time in 20 years that the auditors felt it was necessary to wait.

Chair Kieckhefer called for agency representatives.

Patrick Cates, Director, Department of Administration, introduced Peter Long, Administrator, Division of Human Resource Management; and Gary Dunn, IT Professional IV, EITS.

Chair Kieckhefer restated his questions from the previous audit regarding the lack of communication regarding what is the service agreement between EITS and the agency, and what is necessary to adequately protect sensitive information.

Mr. Cates stated that the State has a somewhat decentralized IT infrastructure. EITS provides a lot of enterprise services. Each agency has its own Chief Information Security Officer and there is a State Information Security Officer for the entire State of Nevada and EITS. That group meets on a regular basis to determine security policies for agencies. The previously discussed antivirus rollout was done under an Executive Order for agencies to rollout for desktops and laptops.

Mr. Cates testified that the rollout took some time and meetings with agencies who were reluctant to have EITS administer that service. There are standards that are collectively agreed to by state agencies and it depends on the relationship with that agency to the Division for which services are provided by EITS. In the case of this audit, EITS was the IT services provider for the Division. He opined that this audit was an eye-opener and the Division had communication and responsibility issues. He expressed thanks to the auditors for their work, which has allowed for the Division to make changes within EITS to the organizational structure to clarify and increase agency IT services and responsibility.

Chair Kieckhefer queried as to if there was an indication in the audit report that Division staff was not aware of a requirement to encrypt PII.

Mr. Dunn, replied that none of the databases at the database-level had any encryption applied at all. There was encryption of data in transit; however, he stated they were not aware at the database-level to encrypt sensitive information.

Chair Kieckhefer asked if encrypting databases will be a statewide policy going forward.

Mr. Dunn surmised that would be the policy. There are licensing fees involved and money required to buy the necessary software.

Mr. Cates stated that there are multiple layers of protection in the state systems. The legacy systems and the older databases did not necessarily come with encryption. Since this audit, the Division has made sure all of the servers have antivirus protection. The Division is looking into refreshing some of the hardware and some of the leases. Each database would need to be evaluated on its own merit as to whether encryption is needed if there is no PII on it.

Chair Kieckhefer asked Mr. Long if the issues had been remedied with former employees where they continued to have access to some of the sensitive databases and a possible breakdown with the exit procedures when an employee left the division.

Mr. Long replied that the issue has been fixed through policy and procedure. Currently, there is a checklist that requires sign-offs at each level that the step has been taken and it is coordinated with EITS to obtain an access report, which is compared to the Division's list.

Chair Kieckhefer called for further questions.

Senator Parks commented that keeping on top of software updates, such as with Microsoft software, can be a tedious, yet important activity. He asked if there was a routine set up within this agency and other agencies that would alert users to run updates to the software.

Mr. Long replied that updates specific to Microsoft and security are sent on a nightly and weekly basis when the computers are logged off. A report is generated and follow up conducted if a particular computer has not received the updates.

Senator Parks asked if many of the updates are done automatically when a computer is rebooted.

Mr. Cates affirmed Senator Parks' statement and stated that updates are pushed out odd hours; however, the tools utilized by NDOW will allow for more monitoring, which is one of the reason why the Altura antivirus software is being.

Mr. Cooper thanked Mr. Cates and Ms. Easton for their efforts and cooperation to implement the recommendations before the audit was issued. It is unusual to have the recommendations implemented before the audit is issued.

Chair Kieckhefer thanked Mr. Cooper for his leadership.

Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN DICKMAN MOVED TO ACCEPT THE PERFORMANCE AUDIT ON THE DEPARTMENT OF ADMINISTRATION, DIVISION OF HUMAN RESOURCE MANAGEMENT, INFORMATION SECURITY. THE MOTION WAS SECONDED BY SENATOR PARKS AND CARRIED UNANIMOUSLY.

Item 4 — Presentation of Six-Month Reports (NRS 218G.270)

Chair Kieckhefer stated item 4, a through c, would be taken out of order.

Mr. Cooper stated there are a total of six, six-month reports. He stated the six-month reports are generated by the Governor's Finance Office, to help ensure the audit recommendations are implemented. Follow-up procedures were performed on the agencies listed on the agenda as item 4, a through c, and it has been determined that the recommendations have been fully implemented. Therefore, Audit Division staff does not have any questions for those agencies.

Chair Kieckhefer called for a motion to approve the six-month reports for the following: a) Office of the Attorney General; b) Department of Tourism and Cultural Affairs, Division of Museums and History; and c) Department of Public Safety, Capitol Police.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH REPORTS, ITEM 4, A THROUGH C. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN DICKMAN AND CARRIED UNANIMOUSLY.

d. Department of Business and Industry, Manufactured Housing Division

Shannon Ryan, Audit Supervisor, stated in November 2015 auditors released an audit report on the Department of Business and Industry, Manufactured Housing Division. The six-month report was prepared by the Governor's Finance Office indicated 9 of the 11 recommendations were fully implemented. The two partially implemented recommendations, Recommendation Nos. 3 and 9, which related to compliance label inventory and related reconciliation, and redacting sensitive information that was stored in databases.

Continuing her presentation, Ms. Ryan testified that auditors contacted the Division in late September 2016 to obtain an update on the two partially implemented recommendations. Regarding Recommendation No. 3, the Division is in the process developing new databases for a compliance label inventory system. Without an update to the database or an alternative inventory recordkeeping system, the Division is not able to perform an inventory reconciliation that addresses additions, deletions, and inventories held in custody of another. The Division anticipates completing the databases by the 2016 calendar year-end. Therefore, Audit Division staff does not have any questions for the Division.

Regarding Recommendation No. 9, on October 11, 2016, the Division had redacted all of the sensitive information from the databases. Therefore, Audit Division staff does not have any questions for the Division and considered this recommendation to be fully implemented. Concluding her presentation, Ms. Ryan stated Audit staff will continue to track the progress of Recommendation No. 3.

Chair Kieckhefer called for questions. There were none.

Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN DICKMAN MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, MANUFACTURED HOUSING DIVISION. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

e. Office of the State Treasurer, Unclaimed Property Program

Jane E. Giovacchini, Audit Supervisor, stated in November 2015 auditors issued an audit report on the Office of the State Treasurer, Unclaimed Property Program. The report contained eight recommendations. The six-month report was prepared in August 2016 by the Office on the status of the eight recommendations. The six-month report indicated that seven of the eight recommendations had been fully implemented and one recommendation had been partially implemented. The partially implemented recommendation, Recommendation No. 8, related to implementing additional controls

over the automated claims process system to help prevent and detect fraudulent claims. The Office indicated it had implemented additional safeguards and further controls would be programmed into the database by the vendor. The Office reported that it expected to have Recommendation No. 8 fully implemented in early Fall 2016.

Audit staff had one question for the Office regarding the changes necessary to implement that recommendation.

Grant Hewitt, Chief of Staff, Office of the State Treasurer, stated that as of October 17, 2016, Recommendation No. 8 has been fully implemented. The Office went live with the database upgrades to the Fast Track claims processing module. It had been delayed due to some API communications issues that had to be addressed.

Chair Kieckhefer called for additional questions. There were none.

Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN DICKMAN MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE OFFICE OF THE STATE TREASURER, UNCLAIMED PROPERTY PROGRAM. THE MOTION WAS SECONDED BY SENATOR ATKINSON AND CARRIED UNANIMOUSLY.

f. Department of Public Safety, Nevada Highway Patrol

S. Douglas Peterson, Information Systems Audit Supervisor, stated in November 2015 auditors issued an audit report on the Department of Public Safety (DPS), Nevada Highway Patrol (NHP). As of August 19, 2016, the Governor's Finance Office indicated two recommendations were fully implemented and five recommendations were partially implemented. Based on additional information provided by NHP and the Finance Office in September 2016, six recommendations are now fully implemented and one recommendation is partially implemented.

The partially implemented Recommendation No. 5 relates to the use of a vendor for issuing single-trip hazmat permits. NHP indicated that they intended to discontinue using the vendor and issue the permits internally based on guidance from their Deputy Attorney General (DAG). NHP intended to make this change by October 1, 2016; however, NHP extended the deadline to November 30, 2016.

Audit staff had one question for NHP representatives.

Captain Natasha Koch, NHP, DPS, replied that the deadline was extended because NHP did not have a form that they could print and to provide to the consumer that was easily readable while providing all the required information for the permit. NHP is working with the vendor. As soon as NHP is able to legibly print out the form, the permits will then be issued internally and the contract with the vendor will be canceled.

Chair Kieckhefer asked what made the form difficult to read.

Captain Koch stated the original formatting did not allow for all of the required information to be included on the form. NHP needed to send the RMS system the required information to be able to put it into the system for proper printing format.

Mr. Peterson asked the agency if they still anticipate permits would be issued internally by November 30, 2016.

Captain Koch stated the NHP still anticipated being able to issue permits internally by November 30, 2016.

Assemblywoman Carlton pointed out that issuance of permits was handled by the vendor; however, it had evolved into returning the issuance of permits in-house. She noted concerns if NHP would have adequate staff levels and enough time to issue the permits. She wanted to know if an analysis had been done to compare the cost difference between the use of a vendor and State employees to issue the permits.

Captain Koch responded that NHP had to go in-house, be recommendation from its DAG, because NHP does not have the authority to have the contract with the vendor. When the DMV and DPS was split, the authority remained with DMV and was not transferred to the DPS director.

Assemblywoman Carlton advised against splitting agencies in the future. She then asked if DMV could be given back the responsibility of issuing the trip permits. Responding to Assemblywoman Carlton's question, Captain Koch stated NHP is the correct agency to handle the issuance of the 72-hour trip permits.

Assemblywoman Carlton queried as to if adjustments would need to be made to staffing levels given the amount of time and effort necessary to issue the single-trip permits.

Captain Koch testified that there currently is a staff person who issues the permits between 8:00 a.m. to 5:00 p.m. The 24-hour service will be handled in the Warrants Division when General Services Division staff is not present.

Assemblywoman Carlton further queried if there was enough personnel or would more be need to accomplish issuing the permits in-house in the necessary timeframe. She expressed concern over adequate staffing levels.

Captain Koch replied that NHP is confident that there is adequate staff since NHP has not received as many trip permits as before.

Assemblywoman Carlton commented that she looked forward to the agency's update when addressing personnel issues in the 2017 Session.

Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF PUBLIC SAFETY, NEVADA HIGHWAY PATROL. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN DICKMAN AND CARRIED UNANIMOUSLY.

Item 6 — Public Comment

Chair Kieckhefer called for public comment. There was none.

Chair Kieckhefer adjourned the meeting at 11:07 a.m.

Respectfully submitted,

Susan M. Young, Audit Secretary

Senator Ben Kieckhefer
Chair of the Audit Subcommittee
of the Legislative Commission

Rocky Cooper, Legislative Auditor
and Secretary to the Audit Subcommittee
of the Legislative Commission