

MINUTES OF THE MEETING OF THE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
Legislative Building
401 South Carson Street, Room 4100
February 2, 2012

This is the first meeting of 2012.
This is the second 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 Sheila Leslie, Chair, at 9:35 a.m., Thursday, February 2, 2012, in room 4100 of the Legislative Building, Carson City, Nevada, with a simultaneous video conference to room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada.

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Carson City:

Senator Sheila Leslie, Chair
Assemblyman Tom Grady, Vice-Chair
Assemblywoman Maggie Carlton

Las Vegas:

Senator Mo Denis
Senator David R. Parks

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Paul Townsend, Legislative Auditor
Donna Wynott, Office Manager
Deborah Anderson, Audit Secretary
Eugene Allara, Deputy Legislative Auditor
Rocky Cooper, Audit Supervisor
Daniel Crossman, Deputy Legislative Auditor
Lee Pierson, Deputy Legislative Auditor
Rick Neil, Audit Supervisor
Doug Peterson, Information Systems Audit Supervisor
Jeff Rauh, Deputy Legislative Auditor
Shannon Ryan, Audit Supervisor
Jill Silva, Deputy Legislative Auditor

The roll was taken. A quorum was present.

Chair Leslie announced that agenda item 6 had been resolved and therefore would be removed from the agenda.

Item 1— Public comment

Chair Leslie called for public comment.

Mr. Barry Lovgren read prepared testimony into the record regarding the Substance Abuse Prevention and Treatment Agency. (attached to minutes) Mr. Lovgren requested that the testimony be taken into consideration for an upcoming audit of the agency. He also provided a handout to the Committee. (attached to minutes)

Senator Leslie stated that Mr. Lovgren's written testimony and letters (handout) would be entered into the record as public comment.

Senator Leslie called for additional public comment. She noted there was none.

Item 2— Approval of minutes of the meeting held on October 17, 2011

Chair Leslie called for a motion.

ASSEMBLYMAN GRADY MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF OCTOBER 17, 2011. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

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

– Paul Townsend, Legislative Auditor

A. Office of the Governor, Office of Energy

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

Mr. Pierson stated the Office of Energy (Office) is responsible for implementing the Governor's energy policy, serving as the state's contact with the federal Department of Energy (DOE), and administering grants and contracts that encourage conservation and energy efficiency, development of Nevada's renewable energy resources, and promoting economic development. The Office also administers certain American Recovery and Reinvestment Act (ARRA) programs.

Exhibit 1 lists DOE grants administered by the Office, including the grant period, and funding amount. These include four ARRA grants totaling more than \$47 million and two other grants totaling more than \$5 million.

Exhibit 2 shows changes in staffing and expenditures from fiscal year 2009 through 2013, showing the impact ARRA grants have on the Office.

Mr. Pierson stated Senate Bill 426 of the 2011 Legislative Session transferred additional responsibilities to the Office. SB 426 eliminated the Renewable Energy and Energy Efficiency Authority (REEEA) and the Nevada Energy Commissioner position and transferred the duties and responsibilities of REEEA and the Nevada Energy Commissioner to the Office. SB 426 also transferred responsibility for tracking energy

usage in buildings occupied by state agencies from the Building & Grounds Division to the Office.

Mr. Pierson stated the audit scope and objectives were to determine if the Office complied with State Energy Program (SEP) Formula and SEP ARRA grant requirements, evaluate the Office's energy reduction planning and project selection processes, and evaluate performance measures including the reliability of reported results.

The audit report found that grant oversight can be improved. Auditors found grant reporting was infrequent and unsupported. Reports from subrecipients were not always provided. Auditors reported only 10 of 78 required quarterly reports were submitted for the quarterly time periods ending June 2010 through March 2011. Mr. Pierson noted, in the absence of quarterly reports staff relied on information obtained through phone calls. However, staff did not obtain supporting documentation for the information reported over the phone.

Mr. Pierson stated auditors found program information generated by the Office was not reliable. First, staff relied on unsupported information from subrecipients. Second, staff made data entry and math errors when preparing reports. Third, information was not reviewed for accuracy. The report identified several examples of unreliable information.

Mr. Pierson reported that grant monitoring was not adequate. First, the Office has not developed a site monitoring schedule to assist with monitoring subrecipients as required by Office policy. Second, aside from one series of site visits conducted with DOE staff, on-site monitoring was informal and not always documented. The Office conducted 15 on-site visits; however, staff stated they visited 8 additional sites, but did not document these visits including areas reviewed or results found. Third, grant funds can be better managed by following federal regulations and guidance. Auditors found some subrecipients received advance payments before the money was needed, and another subrecipient, who received reimbursements, did not request funds timely.

Mr. Pierson reported the Office complied with other grant requirements reviewed.

Five recommendations were made to improve grant oversight.

Mr. Pierson stated energy reduction planning and project selection processes need improvement. He noted, a state energy plan to reduce grid-based energy usage has not been prepared. NRS 701.215 requires the Office Director to prepare a plan requiring Executive Branch agencies to reduce grid-based energy purchases in state-owned buildings by 20% by 2015. Although, the law became effective in 2005, staff indicated a plan was not developed due to a lack of resources. However, based on auditor review, the Office did not request additional resources in its 2007 and 2009 biennial budget requests.

Mr. Pierson stated during the 2009 Legislative Session, Office staff testified they lacked the resources and expertise to develop a plan. Therefore, the Legislature passed Senate Bill 358 authorizing the use of ARRA funding to assist with developing a plan. Despite this, an energy reduction plan has not been prepared. Additionally, SB 358

required the Office to file biannual progress reports with the Legislative Commission. However, biannual reports have not been filed.

Mr. Pierson reported a comprehensive plan to reduce energy consumption in state buildings is needed. In addition to tracking grid-based electrical usage, the plan should include tracking natural gas and energy consumption from other fossil fuels such as propane and oil. The plan should include a variety of strategies to reduce energy consumption. The report includes a list of five potential strategies.

Auditors found that an energy plan could have improved the allocation of ARRA funds. Without a plan, the State focused on spreading ARRA funding around to many state agencies rather than targeting funds based on specific state priorities. It was found that state building upgrades were delayed several months until a list of projects was prepared. Some projects may not provide the best payback. Exhibit 3 shows 16 of the 124 state building projects. Because of the long payback period for these projects, it may have been more beneficial in some cases to spend ARRA funding on other projects such as lighting upgrades which typically have a payback of 5 years or less.

Mr. Pierson stated Exhibit 3 also includes four solar projects. The costs for these four projects were revised because the number of solar panels was increased for two projects, and bids for the other two were lower than original costs estimates. Exhibit 4 shows the revised costs for these four projects. Even with revised costs, the payback period for these projects may exceed the life of the facility.

Mr. Pierson reported vendor owned solar projects can benefit the state but greater scrutiny is needed. On March 1, 2011, the State contracted with a vendor, GA SNC Solar, to allow for the construction of solar energy systems at state agencies. The contract's purpose is to reduce state dependence on grid-based energy, help stimulate the renewable energy sector, and create jobs.

The State's request for proposal identified 40 potential sites for solar projects. The solar company, in its response, identified 24 of the 40 sites as currently feasible for solar energy systems. These 24 sites are listed by state agency in Exhibit 5.

Mr. Pierson reported the solar company has begun discussing potential sites with several state agencies. The solar company also plans to develop a cost analysis to help determine project viability. The facility or state agency will pay for all power generated by the solar panels. The agency will enter into a Purchase Power Agreement (PPA) with the solar company, which is similar to a contract and identifies terms, conditions, and cost. Construction will not begin until the PPA is approved by the Board of Examiners and the Interim Finance Committee (IFC). In addition, the Attorney General's Bureau of Consumer Protection plans to review all PPAs to help ensure agreements are in the State's best interest.

The Office of Energy also plans to provide strategic and technical expertise to state agencies, monitor the solar company's work, and be a party to all contracts, PPAs, and lease agreements. Agencies will also enter into a net metering agreement with the power company. Net metering allows power generated by the solar panels that

exceeds facility needs to be placed on the power grid as a credit to the facility for later use.

The solar company is responsible for all costs to construct, operate, and maintain solar energy systems at state agency sites. Solar projects may benefit state agencies but careful review is needed before entering into agreements. Solar projects could provide several benefits including: the costs of constructing, operating, and maintaining systems are paid for by the vendor; the State should use less grid-based energy; constructing and maintaining the solar energy systems will create jobs and additional tax revenue; and electricity from solar panels may be cheaper over time than from the grid.

The Nevada National Guard (Guard) was the first state agency to contract for the development of vendor owned solar projects. Although the Office of Energy was not involved in these projects, the Office and the State can benefit from the Guard's experience. The National Guard was helpful with identifying ways to improve the process for other state agencies. Some of these items are listed in the report and include preparing a cost benefit analysis, completing planned energy efficiency projects before analyzing costs and benefits, identifying staff time and other costs associated with the project, verifying land occupied by solar panels will not be needed, and verifying all energy credits will be used during the term of the net metering contract.

The Office of Energy should ensure the above issues are addressed before the State enters into a contract or PPA. The Office should also track energy usage and costs incurred by state agencies from purchasing solar energy and compare them with grid-based energy costs. Auditors found the process for selecting vendors could also be improved.

Five recommendations were made to improve energy reduction planning and project selection processes.

Mr. Pierson stated the Office rejected recommendations 8 and 9 addressing solar energy projects. Auditors believe the recommendations are appropriate for the following reasons. First, contracts may last for 20 years or more and involve complex issues. Second, the Office is best positioned to develop a comprehensive checklist because of their expertise and oversight responsibilities for the contract. Third, a checklist may save state agencies time. Fourth, a comprehensive checklist should not take a lot of resources to develop.

Mr. Pierson continued with comments regarding recommendation 9. When solar projects are completed, tracking cost savings should not be difficult because data should be readily available once the Office implements a program to track energy consumption and costs in state owned buildings as required by statute (SB 426).

Mr. Pierson stated on page 26 of the report, auditors found that the performance measurement process can be strengthened by ensuring performance measures are aligned with Office goals, and measures are clearly worded. Additionally, the Office has changed its measures in each of the last three Executive Budgets making it difficult to

assess performance over time. Auditors also could not verify the reliability of measures because supporting documentation was not always maintained. The Office can address these weaknesses by preparing policies and procedures focusing on developing, monitoring, and reporting performance measures.

Four recommendations were made to improve performance measures.

Mr. Pierson stated the Office accepted 12 recommendations and rejected the 2 recommendations addressing vendor owned solar energy projects.

Mr. Pierson noted that auditors have included additional comments to assure the reader that auditors believe the findings, conclusions, and recommendations stated in the report are appropriate.

Mr. Pierson offered to answer questions from the Committee.

Chair Leslie called for agency staff to testify.

Chair Leslie stated the Committee has the Office's response to the audit recommendations and also a response from the auditors in regard to the Office's response. She stated the purpose of the audit process is to evaluate and to find areas of weakness that need to be addressed. Chair Leslie stated the Committee takes the auditors findings very seriously. The Committee expects the Office to do so as well. Chair Leslie stated the tone of the response to the audit recommendations was troublesome. She asked for comments from the Director.

Ms. Stacey Crowley, Director, Office of Energy, replied as she had stated to the auditors throughout the process, it had been very helpful for her to understand through a different set of eyes a review of the Office. She stated a lot of the work being reviewed had happened prior to her employment in January 2011. She noted that it was very helpful to understand where the Office can move forward and make improvements. She appreciated the auditors. Ms. Crowley concluded her remarks.

Chair Leslie called for questions from the Committee.

Assemblyman Grady was disheartened by the tone of the response. He stated the auditors are sent in by the Legislature to assist agencies. Although Ms. Crowley stated the Office appreciated the audit findings, the tone in the written response to the recommendations does not indicate this. He was very disappointed in the report findings.

Assemblyman Grady stated Ms. Crowley made comments that Buildings and Grounds should have a shared responsibility. SB 426 states otherwise. He remarked that once the legislature implements rules and regulations it is not up to any particular department to say that they agree or do not agree. The vote on that bill happened to be 41-0 with one excused in the Assembly, and 21-0 in the Senate. Apparently the legislators felt that the issue was necessary to address. He hoped in the future that Ms. Crowley would take the auditor comments as constructive criticism. Assemblyman Grady stated one does not always have to agree but one should not have to be disagreeable with the dialogue. He again hoped this was a learning experience for all. He realized she was

new on the job when the audit process began but stated we all have to work together for the betterment of the State.

Ms. Crowley appreciated Assemblyman Grady's comments. She stated SB 426 certainly is something that we are supportive of. The energy tracking for state buildings is certainly something that we can take on. What we were discussing in our response was that we are going to need to work with their partner agencies on these. She explained the Office does not have access to all of the information that the Buildings and Grounds Section or the Public Works Board has. It is something that is going to have to be done in partnership. She thought the tracking system was certainly something the Office was doing now through some stimulus funds. Understanding how the energy savings can result in cost savings is something that the Office will have to work with the partner agencies on. She apologized for the tone of the response if that seemed harsh. She stated many of the things that were recommended were already under way while the auditors were still in the process of reviewing Office records. She just wanted to reflect that a lot of that work had been done and completed.

Assemblywoman Carlton referred to page 16. She asked for comments on the payback. She stated if an air conditioning unit was purchased with ARRA funds to buy a more efficient unit, she asked if the figure of \$225,000 was the total amount paid for the unit.

Ms. Crowley replied the \$225,000 was the total amount spent. She stated the information came from the State Public Works Board.

Assemblywoman Carlton said if an air conditioner was being purchased at a cost of \$200,000, but a decision was made to upgrade to something more energy efficient for \$225,000, she asked if the \$25,000 would be the payback because an air conditioner would have been purchased anyway. She asked for comments on the accuracy of the 120 year payback.

Ms. Crowley deferred the question to the Public Works Board to work with the Office on finding a different way to reflect the numbers.

Assemblywoman Carlton stated someone looking at the information would see that it is going to take 120 years to get their money back which is not accurate. She also referred to another entry that has a 97 year payback. She stated the calculations should be adjusted to make it more accurate when referring to energy efficiency.

Senator Denis had read the Office's response in regard to performance measurements. He asked for comment on the process the Office is taking to make sure it is clear to the public and meaningful to the legislators.

Ms. Crowley replied as stated in the response that certainly the performance measures are something they are focused on. Currently the Governor's Office and Cabinet have been going through a strategic priority planning exercise. Those are revealing core priorities and the Governor's Office is trying to relate those core priorities to each agency. Ms. Crowley stated her office was working on the issue. She had met with her senior staff to equate and use the Governor's priorities to understand how they can

work with the Office. She explained it is essentially taking a new look at performance measures and, as was stated in the audit, the measures have changed over the biennium because the Office has changed and grown. She hoped that the performance measures the Office develops are something that can last for a long time and really display the success that the State has in terms of clean energy policy and practice.

Senator Denis indicated that sometimes with performance measures it is difficult, but he hoped to do it in a way for the public to understand. He hoped that the agency would make the information easily understandable.

Chair Leslie stated that the Office rejected recommendations 8 and 9. She stated the Committee did not like it when an agency rejects the auditor recommendations. She asked Ms. Crowley to begin with recommendation 8.

Recommendation 8 – Develop a comprehensive solar project checklist including but not limited to the following items: preparing a financial analysis, completing energy conservation measures, verifying solar panel location will not be needed for other purposes during project life, and ensuring net metering credits will be used.

Ms. Crowley replied she was happy to discuss these in more detail and look at changing that statement. The issue is with the solar contract with GA SNC Solar, the winning vendor. A lot of that work was done before the Master Service Agreement (MSA) was ever signed. She stated the Office felt like they did a lot of due diligence to make sure that exactly those recommendations were taken into account with the MSA that went to the winning vendor, GA SNC Solar. The Office had seen presentations from that contractor in which a tremendous amount of due diligence was done on each and every project. She explained the contractor had looked at how the rate structure is developed for each building being considered. The physical constraints, policy constraints, regulatory constraints, and again, the Bureau of Consumer Protection, has been a part of the process and will continue to be as, and if, any of these projects move forward into actual solar contracts, PPAs with GA SNC Solar. So it was more a rejection in that it was all done after what the Office considered the timeframe in which the audit was conducted. She knew that the auditor extended some of his comments to months beyond the audit window but in the Office's opinion it had done exactly that and she needed to make it very clear that was the Office's intent from the very beginning. The Office is proud of this contract and the way that they are moving.

Chair Leslie stated recommendation 8 was the one that refers to a comprehensive solar project checklist. She asked if Ms. Crowley was rejecting doing the checklist.

Ms. Crowley replied the Office rejected the recommendation because the Office felt like they had done that. She explained there are spreadsheets and charts the contractor is developing which will help the Office and something that the Office can certainly transfer into future projects. She stated it is something that she guessed the Office could accept in that it has been done and the Office plans to continue to do that.

Chair Leslie stated that the point is to go forward. She stated it seemed to her that the recommendation for the checklist was a tool because renewable energy is a long-term project. She interpreted that the auditors were recommending the checklist be developed so the Office has a tool and framework for moving forward that is efficient. She asked for comments from Audit staff.

Mr. Pierson stated the solar company has done a lot of work and wanted to make this successful. He noted a lot of items on the checklist must be addressed on the state level. He stated an agency would address staffing and other costs that would be involved during development and construction. Planning for energy efficiency projects need to be completed before going forward with the solar panels. The state needs to determine if land would be needed for putting panels up for possibly as long as 20 years. Mr. Pierson stated these are examples of the kinds of things that the state and state agencies needed to decide and determine rather than a solar company.

Chair Leslie asked for comments from Ms. Crowley.

Ms. Crowley replied certainly those are valid comments in that the solar company is helping the Office to determine what things might go into that checklist. And certainly the agencies will need guidance and that is what the Office was hoping to provide them. State Lands is heavily involved in this because they are the ones that determine the long-range plans for the properties mentioned by Mr. Pierson.

Chair Leslie encouraged Ms. Crowley to reconsider the rejection of the recommendation as she meets with auditors to work toward follow up on the audit recommendations. She stated the recommendation was a good one.

Chair Leslie stated the second recommendation the Office rejected was recommendation 9.

Recommendation 9 – Track and record cost savings from solar energy projects by comparing solar costs to grid-based costs.

Chair Leslie asked that Ms. Crowley comment on why the Office rejected the recommendation.

Ms. Crowley offered to revisit the rejection of the recommendation. She thought that tracking the energy consumption was something that the Office was now responsible for under SB 426 which took effect July 2011, which was beyond the window of the audit. Tracking the savings was going to have to be done in concert with their agency partners, whose rate structures are all unique depending on which facility and the location. So while the Office can set up a system and track and have the energy usage tracked, the Office would have to work with their agency partners on that. She noted that Buildings and Grounds was still responsible for the upkeep and management of those facilities and State Public Works was responsible for capital improvement projects that would result in additional savings. Ms. Crowley stated it is just going to be a partnership and the Office would need to look at some sort of funding source if the Office was going to do more than track the energy.

Chair Leslie stated she was looking at the Office's response which stated, "Without or until an inter-agency agreement or associated funding, this recommendation will likely need to reside with B&G." Chair Leslie asked for comment on this statement. She was confused whether the Office was going to comply as required under SB 426 or not.

Ms. Crowley replied certainly, the energy tracking, yes. It is the savings and the additional items that the Office will have to work on with their agency partners. She stated the Office was not opposed to the statutory change in SB 426. In fact it was part of their discussion and recommendation because it was not being done in the speed in which it needed to be done to expend ARRA funds in a timely manner under the previous organization.

Chair Leslie asked if the Office intended to track and record the cost savings.

Ms. Crowley replied the Office will track the energy consumption. She added the Office would have to work with their agency partners on the energy savings in regard to the dollar amounts because again, those are tracked differently on different rate structures.

Chair Leslie stated the Office would be asked to reconsider and figure out a way to do what is required.

Ms. Crowley replied yes.

Chair Leslie called for additional questions or clarifications from the Committee.

Assemblyman Grady asked if the Office was going to request funds in the upcoming budgets to implement these recommendations. He asked for comments from Ms. Crowley.

Ms. Crowley replied the Office is starting to look at their needs for future budgets. The Office does not have any general fund appropriation at this time. She explained the Office is grant funded and funded by some tax revenues coming in from renewable energy tax abatement projects. She stated the Office had learned a great deal in the past year about its responsibilities, the growth, and the advocacy role that the Office plays. She added the Office was gaining a better understanding of what it would like to request for the next session.

Chair Leslie referred to the evaluator scores. As Ms. Crowley stated in the response, the Office utilized a system of evaluation from Purchasing. Yet some evaluators do not evaluate or score the application. She asked if Ms. Crowley agreed there was a problem that needed to be revisited and addressed. Chair Leslie stated maybe the framework came from Purchasing but how it was applied in evaluating the applicants does not seem like it was done very well.

Ms. Crowley replied first the evaluation was an option the Office chose to adopt for this process. The Office did not need to go through the evaluation but they thought it would be better to have a few other eyes on this. Second, the Office wants the evaluations to be meaningful and the Office supplied the evaluators with criteria by which to judge these things. Ms. Crowley stated the Office certainly would not ask the evaluators to modify their evaluation unless it was thought the evaluations were done inappropriately.

Certainly, in any evaluation, folks should understand what they are evaluating, and what the criteria is by which to judge it. Ms. Crowley stated the Office will continue to grow and get better at that. In fact they have a similar system in place for their revolving loan fund projects which has gone very well.

Chair Leslie stated being on both sides herself as the applicant and the evaluator is difficult. She suggested that additional preparation in the beginning and making sure that the process is handled appropriately would save the Office from problems later on. She asked that the Office look back on that. She stated for the Committee's benefit she knew there was a lot of detail in this audit, a lot to follow up on. She asked when the Committee would see the Office back before the Committee. She asked that Mr. Townsend review the process for the Committee.

Mr. Townsend replied the next step in the audit follow-up process is that the agency is asked to prepare a 60-day plan of corrective action which is due at the end of April 2012. He stated implementation of the recommendations would be outlined in the plan. He offered that auditors are happy to work with the Office as they go through the recommendations the Office previously rejected. Mr. Townsend offered that perhaps the Office would reconsider accepting the recommendations and auditors could reach an agreement on the appropriate way to proceed. Following the 60-day plan of corrective action is the six-month report. The Office would be asked to prepare an additional plan on the status of the recommendations at that point which is due at the end of October 2012. Mr. Townsend stated the Office would be asked to return to the Audit Subcommittee to review the status of the audit recommendations. Mr. Townsend noted there had been instances in which, if auditors believe the 60-day plan is inappropriate, the agency is asked to return to the Subcommittee to discuss the plan. He stated the next step would be to work with the agency in regard to the 60-day plan of corrective action due at the end of April 2012.

Chair Leslie asked if Ms. Crowley would be able to comply with these deadlines.

Ms. Crowley replied yes, the Office understood the time parameters and would comply.

Chair Leslie reiterated the purpose of an audit is not to find fault, but is to improve the quality of service coming from the Office. She stated in the long term the audit benefits the Office and certainly benefits the citizens of our state. She encouraged Ms. Crowley to work closely with the auditors and come up with a resolution that moves the Office forward.

Ms. Crowley thanked Chair Leslie. She thought the audit process was a good learning experience and certainly there are some really good things happening in the Office which should be acknowledged as well.

Chair Leslie stated they were acknowledged in the audit.

Chair Leslie called for a motion.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE REPORT ON THE OFFICE OF THE GOVERNOR, OFFICE OF ENERGY. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

B. Report on Count of Money in State Treasury

Mr. Townsend introduced Eugene Allara, Deputy Legislative Auditor; and Shannon Ryan, Audit Supervisor, to present the report.

Mr. Allara stated in accordance with NRS 353.060, auditors counted the money and securities in the State Treasury on Thursday, June 30, 2011, and have prepared therefrom Exhibit A with supporting Schedules 1 through 7. The count included physical examination, direct confirmation with financial institutions, and other procedures considered necessary to fulfill statutory obligations. In accordance with NRS 353.075, this report was filed with the Secretary of State on November 23, 2011.

On June 30, 2011, there was \$0 cash on hand, \$168 million on deposit with financial institutions, \$2.3 billion of state-owned securities, and \$1.1 billion of securities held for safekeeping, for a grand total of \$3.6 billion.

Mr. Allara concluded the presentation and offered to answer questions from the Committee.

Chair Leslie called for discussion from the Committee.

Assemblyman Grady asked for comment on accounts with minimal balances.

Ms. Ryan replied the accounts referred to are held open as test accounts. She explained the process as it applies to the money count report.

Chair Leslie asked about accounts such as one that has a balance of \$2.76. She asked if this came under the same process as previously explained.

Mr. Townsend replied that the agency representative would be able to address the question.

Mr. Mark Mathers, Chief Deputy Treasurer, suspected the account was an investment account set up to hold interest for a donation account that was just set up. He offered to further investigate the question.

Chair Leslie replied that was not necessary.

Chair Leslie called for a motion.

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

Chair Leslie called on Mr. Townsend to present the next audit report.

Mr. Townsend pointed out that more audits are reviewing agency performance measures. With passage of AB 248 during the 2011 Legislative Session agencies are seeing a movement toward more performance based budgeting. He noted that performance measures have been in the budgets for many years and auditors have periodically looked at performance measures in regard to particular agencies. As the law is being implemented, audits presented today and in the future will frequently include discussion of performance measures.

C. Department of Administration, Buildings and Grounds Section

Mr. Townsend introduced Jill Silva, Deputy Legislative Auditor; and Shannon Ryan, Audit Supervisor, to present the report.

Ms. Silva began the presentation with background information. The Buildings and Grounds Section (B&G) was established to proactively manage state facilities, provide efficient office space within budget, and reliable water delivery. Senate Bill 427 from the 2011 Legislative Session reclassified B&G from its own division to a section within the State Public Works Division organized under the Department of Administration. The bill also transferred mail services to the State Library and Archives Division.

Exhibit 1 shows B&G's revenue sources for fiscal year 2011. B&G was authorized 66 full-time equivalent positions during the 2011 Legislative Session. B&G continues to operate in Carson City, Reno, and Las Vegas. Exhibit 2 shows total expenditures by functional area, for fiscal year 2011.

Ms. Silva stated since 1993, B&G was required to establish a comprehensive energy tracking program for the buildings occupied by state agencies. B&G had not established a program until recently. An interlocal agreement between B&G and the Office of Energy executed in early 2010 established that B&G would audit energy bills and coordinate the development and delivery of a centralized tracking database, and the Office of Energy would transfer funding for the program to B&G.

Ms. Silva stated SB 426 from the 2011 Legislative Session, transferred the responsibility of the energy tracking program to the Office of Energy effective July 1, 2011. B&G is still required to coordinate with the Office of Energy in accordance with the statute.

The audit objective was to determine if adequate controls and processes were in place to ensure the efficient, effective, and proper administration of performance measures, leasing, purchase card procurements, and energy tracking.

Ms. Silva continued with the findings and recommendations of the report. Auditors found reported results for performance measures were not always reliable due to mathematical and clerical errors, the inclusion of inaccurate and unsupported costs, and the misclassification of certain properties. Exhibit 3 shows the four performance measures, as reported by B&G, that were tested.

Ms. Silva stated the report describes how B&G calculated the noted performance measures. Exhibit 4 shows the lease statistics by urban area for fiscal year 2010 prior

to adjustments. Ms. Silva noted the lease rates for 21 of 197 leases were miscalculated due to mathematical and clerical errors. The report describes how ancillary costs, such as custodial and utilities, added to less than full service lease rates were not supported, verified, or consistent. Auditors identified 13 instances of non-office space costs such as playgrounds, warehouses, and storage space being included in the per square foot calculations.

Ms. Silva noted three of four performance measures had flaws in their calculations because B&G used simple averaging methodology. For example, one property of 11,000 square feet leased at a cost of \$1.78 per square foot was given the same weight as a property of 800 square feet at a cost of \$1.00. Exhibit 5 provides an illustrative example regarding the difference between using a simple versus a weighted average.

Exhibit 6 provides the type of information that can be obtained when considering each urban area in the calculation of the overall state rate. Exhibits 7 and 8 show the results of correcting average state and market rates for errors and methodology. Corrections for errors and methodology resulted in the savings due to leasing activities being reduced.

Three recommendations were made to improve performance measure reliability.

Ms. Silva continued the report with a discussion on leasing activities. Due to the lack of documentation on lease negotiation activities, auditors could not always determine whether negotiated lease rates were advantageous to the state. B&G did not always document an analysis of market lease rates and trends when negotiating leases. This is important due to significant declines in leasing rates over the last several quarters.

Ms. Silva stated for lease rates that included lessor funded tenant improvements, B&G did not document estimates of the costs or the rates available without the improvements. Additionally, for leases due for renewal, B&G does not document a cost/benefit analysis of relocating an agency for more favorable lease terms.

Auditors found that renegotiated lease savings provided to the Budget Office and the Legislature were overstated. Also, lease payment errors were made in 5 of 29 leases tested resulting in about \$145,000 in overpayments. One agency overpaid about \$116,000 over a period of six quarters. Neither the agency nor B&G were aware the overpayment had occurred until it was brought to their attention. Errors occurred because lease procurement and lease payment activities are separate whereby one agency executes the lease and another agency makes the lease payments.

Four recommendations were made to improve the administration of leasing.

Ms. Silva continued the report with a discussion on improving purchase card monitoring and controls. Auditors found transactions circumvented established limits in 6 of 26 purchases reviewed primarily by splitting transactions. Other purchases exceeded limits because B&G personnel lifted limits electronically on 43 occasions for over \$24,000 of purchases. The State Administrative Manual (SAM) and B&G policies disallow the splitting of transactions in order to evade individual limits.

Ms. Silva reported that B&G has significant monthly and annual exposure to potential loss because it has issued procurement cards to most employees and monthly limits are high for certain cards. Exhibit 9 shows B&G's issued purchase cards and associated transaction and monthly limits.

Three recommendations were made to better manage and control the purchase card program.

The Buildings and Grounds Section accepted all 10 recommendations.

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

Chair Leslie noted there were a lot of math mistakes noted in the audit. She stated the weighted average methodology that needed to be changed was explained very well in the report. She asked for comment about the math and clerical errors. Chair Leslie stated in regard to the lease overpayment, both the agency and Public Works made math errors and did not notice that they were not being paid the correct amount. She asked for comments on what needs to happen to catch math errors. She asked if management needed to review it.

Ms. Silva replied a second set of eyes looking at the calculations would help. Auditors found that the spreadsheets included a lot of hard coding where the math was not done by the spreadsheet. She stated a lot of errors would be caught if the spreadsheet was automated or a database was implemented.

Chair Leslie noted that was a good point. She asked if the agency staff did not know how to use the Excel program formulas.

Ms. Silva replied she thought the agency staff knew how to use Excel. She understood the agency would be implementing a database going forward. She stated the agency has personnel to implement a database.

Chair Leslie asked if this would improve the agency calculations.

Ms. Silva agreed and hoped this would be the case.

Chair Leslie called for agency staff to testify.

Mr. Gus Nunez, Administrator, State Public Works Division, stated as reported earlier that B&G is now a section of the Public Works Division. He introduced other staff in attendance at the meeting. Mr. Nunez stated B&G had accepted all of the audit recommendations and were in the process of implementing them. He offered to answer questions from the Committee.

Mr. Nunez explained the spreadsheet process and thought it was problematic in regard to consistency of transferring the data and the analysis. He stated the agency plan, as indicated in the response letter, is to utilize a database. He explained how the agency would utilize this approach when gathering and inputting the data. He stated this process should provide the agency with an additional level of accuracy to prevent errors.

Chair Leslie stated another area of concern was the many procurement cards used, the splitting, and the overrides. The agency already had a policy in place regarding splitting. She noted the agency responded that staff would be given a verbal directive that staff cannot split transactions. She asked for comments on how a verbal directive would help since there was already a policy in place.

Mr. Nunez agreed the Division needed to review policies and procedures for the procurement cards. He stated procurement card usage and limits would be reviewed on a regular basis. Purchase limit adjustments will be addressed by a procedure for a supervisor to review and report to management. Card agreements with employees will be recreated for the agency to maintain proper records.

Chair Leslie agreed that strengthening the policies and procedures should include a complete overhaul of who gets purchase cards and what they are used for. From the audit it looks like a lot of people are just gaming the system. It is bad to have people breaking the policy in those proportions. She looked forward to seeing changes made by the agency. She added that this is a very important issue. The public needs to know that these cards are being used appropriately and that policies are in place.

Mr. Nunez asked that Mr. Pete Etchart make comments regarding the issue.

Mr. Pete Etchart, Chief Engineer, State Public Works Division, stated he was relatively new to the position. He related the agency had been looking into procurement card purchases. He stated a system is being maintained that if anyone needs to make purchases over their credit card limit, they have it approved by a supervisor who will authorize a temporary lifting which provides an audit documented trail to the item. Mr. Etchart stated this was a recommendation from the auditors which they completely agreed with.

Chair Leslie thanked Mr. Etchart for the explanation. She called for questions from the Committee.

Senator Denis asked for comments about leases and how that had changed over the last year or two. He stated it did not seem like the leases were reduced much.

Mr. Nunez stated 2 to 3 years ago when the economy took a downturn, B&G was asked to renegotiate leases, as it was obvious the cost of leasing space was actually going down just as the economy was going down. He stated many of those leases were negotiated at that time to a much lower value. He was not aware of the exact figures but offered to provide the information to the Committee. B&G had already reduced, across the board, almost all of the leases and still track where the market is in the various areas. The goal is to achieve a savings and always be able to lease space below the current rate for the area. He believed they were exceeding the market at this time. Mr. Nunez asked if Senator Denis was inquiring if B&G could be doing better because currently leases are coming in at or below market.

Senator Denis stated the explanation was appropriate. Between 3 years ago and now the savings would not have been as much as for a lease from 10 years ago.

Assemblywoman Carlton asked for percentages of state-owned and leased buildings.

Mr. Nunez replied he was not able to provide the percentages at this time. He stated the fact that staffing is down has allowed for agencies in leased space to be brought into state-owned office space.

Assemblywoman Carlton asked that the agency provide the requested information to the Committee.

Chair Leslie called for a motion.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF ADMINISTRATION, BUILDINGS AND GROUNDS SECTION. THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.

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

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

Mr. Rauh began the presentation with an overview of the Division of Enterprise Information Technology Services formerly known as the Department of Information Technology. During the 2011 Legislative Session the Department of Information Technology was changed to the Division of Enterprise Information Technology Services and was transferred into the Department of Administration. The Division is composed of an Administrator's Office and the following three units: the Administrative Services Unit, the Information Security Unit, and the Technical Operations Unit. In fiscal year 2011, the Division employed 130 full-time employees and had expenditures of over \$28 million.

The objective of the audit was to determine if the Division's information security controls were adequate to protect the confidentiality, integrity, and availability of sensitive information and information systems.

Mr. Rauh discussed the audit findings in the report. The first finding is related to outdated and untested information technology emergency plans for the state's primary computing facility in Carson City. These plans are intended to reduce the impact on state business activities from the effects of a major information system failure, whatever its cause. For example, if a backhoe were to cut the fiber optic lines that connect outlying state agencies to the computing facility, the plan would outline the actions to take to quickly restore connectivity. Auditors found these plans were outdated or unavailable. In addition, the plans had not been tested since 2006.

Keeping these plans up-to-date and periodically testing them helps ensure the rapid and orderly recovery from a major system failure. Periodic testing of these plans enables information technology staff to retain familiarity with the restoration process, helps

identify plan shortcomings, helps incorporate new technology and systems into the process, and familiarizes new staff with the restoration process.

Three recommendations were made to improve these IT emergency plans.

Mr. Rauh stated confidential personal information collected by the state needs better security oversight. There are approximately 30 state occupational licensing boards that collect applicant social security numbers (SSNs) as part of their licensing process. The SSNs are normally used by the licensing agency to determine if the applicants are current with any child support payments they may be required to make. However, auditors found that the Division's Office of Information Security did not provide security oversight to ensure the boards were properly protecting the confidential information they collect.

For example, one state board collects licensee information including SSNs and stores that data in a computerized database in its one-person office in Carson City. The board's manager indicated the computer that stores the information has never had any security checks since it was installed over 5 years ago.

Mr. Rauh stated auditors uncovered a separate item where confidential personal information was posted on an agency website that was viewable to anyone on the Internet. This was a repeat finding from a previous audit of the Department in 2004. While the primary responsibility for monitoring website content is the agency owning the website, a backup monitoring process is required to detect any confidential information posted unintentionally.

Three recommendations were made to improve the security of confidential information.

Mr. Rauh continued the report by discussing two weaknesses with managing network users and facility access cards. Auditors found nine former employees still retained current network access. Five of the employees had been gone over 3 years. In addition, auditors found 18 facility access cards that control access to the Division's offices and computing facilities needed to be deactivated.

Two recommendations were made to improve disabling former employee computer accounts and the administration of facility access cards.

Mr. Rauh discussed two areas where routine network maintenance could be improved. The first involves four computers without current virus protection and the second involves seven computers missing Windows Operating System security updates.

Mr. Rauh reported three other issues related to security controls which included data encryption in newly developed applications, risk mitigation during policy development, and complying with state password policies.

The Division accepted all 15 of the audit recommendations. He noted the Division has already taken action to implement the recommendations.

Mr. Rauh concluded the presentation and offered to answer questions from the Committee.

Chair Leslie asked for comment about the website that had confidential information that could have been viewed by anyone on the Internet. The report refers to a law that requires the state contact each person whose personal identifying information was accidentally released. She asked if the law was applied.

Mr. Rauh replied it was not applied. It was kept confidential as part of the audit process. Audit staff contacted the agency directly and they immediately removed the information. Auditors do not believe anyone accessed the information.

Chair Leslie called for agency staff to testify.

Mr. David Gustafson, Chief Information Officer, Division of Enterprise Information Technology Services, stated he saw audits as an opportunity to improve on service to their customers. This audit is no different. They had a productive engagement with the Audit staff. He learned a lot about their program and their goals. He stated the audit experience was a positive interaction between the Legislative and the Executive Branches of government. He valued the audit process. Mr. Gustafson related he had asked Mr. Rauh to attend the State IT Security Committee to continue building on the collaboration that has been established by the audit process. He agreed with the findings in the audit report. He stated most of the findings had been remedied. For those which have not yet been implemented, corrective action plans have been developed. He offered to answer questions from the Committee.

Chair Leslie thanked Mr. Gustafson for his comments and the spirit of collaboration in which they were delivered to the Committee.

Senator Denis asked for comments on the written plan.

Mr. Gustafson replied the division or unit that was responsible for disaster recovery planning disbanded a few sessions ago. It essentially fell through the cracks. He has since added these duties to a staff IT manager's work performance standards. Mr. Gustafson related the agency has a draft plan in place and a plan on prioritizing those systems for testing beginning in April 2012.

Senator Denis asked for comments about the web server content.

Mr. Gustafson replied they established policies for agencies. He stated the agency does not actively monitor other agency websites for personally identifiable information. He agreed with the recommendation to periodically scan websites looking for this information. The issue of a state website that posted personal information was correct as Mr. Rauh reported. It was found that the website was from an agency for which the Division acts as a host website. He explained the agencies manage their own content but the Division has agreed to periodically scan for this information to help them. It is never acceptable for people to have personally identifiable information on their websites.

Mr. Christopher Ipsen, Chief Information Security Officer, agreed with the audit findings. He stated one of the key methodologies the Division is looking at is to reach out to agencies to proactively educate them to prevent them from placing this information up

before we find it. The focus is on prevention rather than on reaction. The Division takes this very seriously. SB 82 from the 2011 Legislative Session gave the Division a number of powers to assist agencies in the processes they use for posting information. He noted the Division was looking for grants and other opportunities to come up with technologies that allow Division staff to be a safety net for agencies.

Chair Leslie agreed that prevention is the way to go if possible, and that it was good to have a plan in place to detect this information.

Chair Leslie called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF ADMINISTRATION, DIVISION OF ENTERPRISE INFORMATION TECHNOLOGY SERVICES. THE MOTION WAS SECONDED BY ASSEMBLYMAN GRADY AND CARRIED UNANIMOUSLY.

E. Department of Motor Vehicles

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

Mr. Crossman began the report with background information on the Department of Motor Vehicles and its' divisions.

Mr. Crossman explained Exhibit 1 shows the trend of increased usage of web and kiosk services by customers to renew vehicle registration. Exhibit 2 shows the distribution of revenues from fiscal year 2011.

Mr. Crossman stated objectives for the audit included to determine whether sufficient controls are properly functioning over certain Department revenues and assets, and to evaluate the reliability and adequacy of performance measures. The first audit finding deals with the agency's management of vehicle registration decals issued to customers in its field services offices. Enhancements are needed to the controls over these decals to properly account for and safeguard them.

Mr. Crossman noted 13 of the 14 inventory control spreadsheets tested at 7 offices were not reliable. For example, decals shipped to the field offices were not properly recorded, decals were often assigned to the name "unknown" or left blank (instead of the name of the technician), and unused decals returned to Carson City were not properly recorded in the inventory control worksheet. Decal monitoring procedures were not sufficient to identify errors in the offices' decal inventory sheets. Auditors found that 5% of the decals tested could not be readily accounted for. The agency should develop a process to improve accountability for decals issued to technicians in the field offices.

Mr. Crossman reported auditors identified errors in the decal production forecasts. For example, decals issued to offices in the forecast spreadsheets did not agree with the supporting documentation in 11 of 14 months tested. These forecasts are used to

estimate the number of decals to produce for the next year. From fiscal years 2008 through 2011, auditors found more than 1 million excess decals were printed at a cost of more than \$250,000. Auditors concluded with a discussion the agency consider implementing a print-on-demand registration decal program.

Three recommendations were made to improve controls over vehicle registration decals.

Mr. Crossman stated auditors reported on the need for improvements to certain reconciliation processes. First, auditors found monthly reconciliations of the revenues and distributions in the DMVs system to the State accounting system were not sufficient. Unreconciled monthly balances in fiscal years 2010 and 2011 reached as high as \$2.5 million. Auditors also identified unsupported adjustments totaling \$1.3 million to close out fiscal 2010. Last, these reconciliations were not always completed, reviewed, or approved by a supervisor timely. Although auditors did not identify any evidence of missing funds, improved reconciliations of accounting records are needed to determine whether all funds are properly accounted for. The Department took corrective action to address these errors and revised these reconciliations when the issue was brought to their attention.

Two recommendations were made to improve the reconciliation process.

Mr. Crossman stated the next section of the report addresses the need to improve controls over the monitoring of driver license issuances and vehicle registration exemptions. In May 2011, a DMV employee was arrested for issuing numerous fraudulent driver licenses. In response, management requested new control procedures to be put into place at the field offices. Auditors reviewed the implementation of these new controls and found management's expectations needed to be better documented. Additionally, management could improve their monitoring of offices' implementation of the transaction monitoring control procedures. Auditors identified one office that had not implemented the new controls.

Auditors noted improvements could be made to controls over the issuance of governmental services tax exemptions on vehicle registrations in two of the five offices tested.

Two recommendations were made in regard to the monitoring of driver license transactions and registration exemptions.

Mr. Crossman identified the need to improve system access controls on DMV's information system. Specifically, two of eight individuals tested at the county branch offices were granted access to the DMV system without a criminal history background check. Additionally, system logins and passwords were being shared in both county branch offices.

Two recommendations were made to improve system access controls.

Mr. Crossman stated auditors found improvements were needed to address a backlog of administrative fines pending assessment to motor carriers that received certain

citations by the NHP. This represents a backlog of about one year. The backlog of more than 1,500 citations represented an estimated \$600,000 in fines that were delayed in being billed.

Two recommendations were made to improve the processing of administration fines.

Mr. Crossman stated the report addressed the need for more outcome oriented performance measures. Outcome oriented measures help decision makers determine the agency's progress toward department and division goals. Only 7 of 47 measures were outcome oriented. Better alignment was needed between performance measures and division goals. He noted that 25 of 49 key program activities were not supported by a performance measure. For example, the Department's Facial Recognition Program which is used to identify identity fraud and keep people from fraudulently obtaining driver licenses, does not have a performance measure.

Auditors documented the need for a consolidated strategic planning document. The Department has developed many of the elements of a strategic plan, but these elements were located in several different documents.

Three recommendations were made to increase the number of outcome oriented measures, align measures with strategic goals and activities, and develop a single strategic planning document.

Mr. Crossman stated auditors looked at eight performance measures and found that supporting documentation for five measures was not available. As a result, auditors could not determine the accuracy of the reported figures. It was found that the three remaining measures were not calculated using a sound methodology. For example, 37% of the amount reported for fiscal year 2009 for the measure "Delinquent Revenue Collected", was collections of current or non-delinquent revenue.

Two recommendations were made to maintain support for measures and improve performance measure calculation methodologies and descriptions.

The Department accept all 16 audit recommendations.

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

Chair Leslie thanked Audit staff for a very important and well done audit report. She called for questions from the Committee.

Chair Leslie called for agency representatives to testify.

Chair Leslie noted in its' response to the print-on-demand recommendation, the Department was looking into the cost-benefit of such a program. She stated print-on-demand seemed like the answer to the problem of sending decals back and forth and printing too many of them. She asked for Mr. Breslow to comment on the issue.

Mr. Bruce Breslow, Director, Department of Motor Vehicles, accepted the audit recommendations. The Department looks at audits as a learning tool. He thanked

Audit staff for their professionalism during the audit process. He stated the recommendations either have been, or are in the process of being implemented.

Mr. Breslow replied they are in the process of looking into a print-on-demand system. They have identified grant funding. He explained challenges included finding a machine to utilize in all of their different offices, finding where it will fit, and if they would use data lines to interact with the current system or drop all new lines that have nothing to do with their current IT systems. Mr. Breslow stated policies and procedures have been changed.

Chair Leslie understood that to go to print-on-demand would take some analysis and figuring out how to proceed. She was glad the Department was going in that direction. She appreciated the Department's response to the audit recommendations and appreciated that Mr. Breslow understood the responsibility he has as the Director, even though he came onboard during the audit process. She appreciated his attitude in accepting the audit recommendations and in the fact that he is looking forward to improving the quality of the DMV.

Chair Leslie commented the DMV had a good record on technology. She looked upon the DMV as being very proficient and was sure that the Department would be able to find a solution to the print-on-demand process for the decals. She looked forward to hearing further details about the implementation of a print-on-demand process.

Assemblywoman Carlton was concerned about the backlog of administrative fines in the Motor Carrier Division. She stated that DMV has 1,500 citations given out that amount to \$600,000. She asked for comments on the issue.

Mr. Breslow replied he had discussed the issue with the new administrator over the Motor Carrier Division. He stated the administrator accepted the responsibility for the issue even though he was new to the job. Mr. Breslow stated they have many audits in the Motor Carrier Division. Most of the audits have to do with multi-million dollar issues. He stated staffing was an issue and smaller concerns were put aside. They have since re-prioritized and finished their requirements for the federal government with the 3 percent IFTA. They have added staff to address the issue. The backlog has dropped from 1,500 citations to a little over 1,000. He projected they will be caught up by June 2012. Mr. Breslow added the DMV will be requesting an enhancement of one person to focus on this issue in their new budget request. He stated that staff moves from audit to audit because of the huge federal mandates they have to follow. He stated the issue was an alarming note that caused concern for the DMV.

Assemblywoman Carlton asked for comment on how DMV was keeping records on the issue.

Mr. Breslow deferred the question to Mr. Wayne Seidel, Administrator, Motor Carrier Division.

Mr. Seidel replied they are upgrading their policies and procedures to track these citations. He stated they receive hard copies of the citations in 60 to 90-day batches from the Department of Public Safety. He stated that the Division would begin to be

more proactive in processing the citations with the policies and procedures to track the citations. He noted the Department action plan is to be current by June 30, 2012.

Assemblywoman Carlton asked for clarification that the Division would be able to track who they collected from and which accounts were uncollectible.

Mr. Seidel replied the Division has internal spreadsheets they built to track this information. He thought the need to provide a disposition of each citation was also in the policies and procedures.

Assemblywoman Carlton stated in other professions they share such information with business licensing agencies so if someone has an outstanding item in one area they are not allowed to renew their license in another area or get another contractor's license, for example. She expressed a hope the DMV would be able to share that information so someone does not avoid paying by changing their business name, registering again, and starting all over without paying their fines. She asked that the DMV look into this issue.

Mr. Seidel replied the DMV is very efficient where fees are owed. He stated the DMV works with other departments and through Information Registration Plan (IRP). This gets into a federal clearing house level of tracking if motor carriers owe money to states and involves reciprocity for payments.

Assemblyman Grady stated at the last IFC meeting the Committee authorized additional employees the Department had requested. He believed the timeframe was the new employees would be ready to be on the lines by March 2012. He asked for comments on the issue.

Mr. Breslow replied that IFC had actually approved two-thirds of the number of employees the Department had requested. He stated that people had been interviewed including a separate list of multi-lingual individuals. He stated most of those offered jobs are from the multi-lingual list to communicate in a more efficient manner with the ever dynamic and changing culture in Nevada. He stated the new employees are currently in training. He stated the previous 16 week training course had been narrowed down to 8 weeks. He noted they also have rolling training sessions to get people on the floor faster.

Assemblyman Grady stated he realized that DMV staff get stressed out at the windows but when employees get backed up they are telling people to contact their legislator as it is the legislature's fault they do not have enough staff. He asked if Mr. Breslow could look into using different wording than that.

Mr. Breslow replied this was the first he had heard of such a reported response to waiting customers. He stated it would never be suggested for staff to say that. He stated as of March 1, 2012, all employees would be wearing a button that would say, "Yes, I can help you with that." He stated that posters would be on display at all DMV offices with the same message, adding that DMV is involved in customer service. He stated changing public opinion as well as legislative opinion of the DMV is very important to them. Mr. Breslow noted staff are well trained and educated in DMV

functions. They work hard but get frustrated at times. DMV is working with staff on additional training. He stated he was very proud of the staff at DMV.

Assemblyman Grady thanked Mr. Breslow for the testimony. He congratulated him on improvements made at the DMV during the 10 months of his tenure.

Mr. Breslow thanked Assemblyman Grady. He stated that the DMV has a huge employee base of 1,100 people that are working with almost 3 million customers.

Chair Leslie stated as the DMV prepares its' budget for the 2013 Legislative Session, she encouraged Mr. Breslow to request positions that are going to bring in money to the Department by collecting fines owed, which would likely more than pay for the position.

Mr. Breslow agreed.

Senator Parks commented on recommendations 10 and 11. He was surprised by the large number of citations that had been removed without documentation. He asked for comments on the issue. The report noted that some did not qualify for fines. He asked for a better explanation of the statement.

Mr. Breslow deferred the question to Mr. Seidel.

Mr. Seidel replied sometimes the citations are thrown out of court. He stated the DMV is upgrading their policies and procedures to document the process of removing citations from the list and the criteria of why they would be removed.

Senator Parks appreciated the explanation. He asked about recommendation 7. He stated he and Mr. Breslow had conversations relative to automating the veterans exemption process. He asked for comments on the progress of implementing this.

Mr. Breslow replied the DMV is currently working with 16 of the 17 counties and thought the issue of veterans having to come into the DMV to request the veterans exemption toward motor vehicle registration would be resolved by summer, 2012. He stated Washoe and all of the rural counties are working with DMV IT staff. They have a system in place for online veterans exemption transactions and will eventually move it to the kiosk services, possibly by the end of 2012. He stated Clark County wants to wait until they have their new computer system onboard before implementing the process and expect to come online in 2013 for processing the veterans exemption. The DMV is working with consultants at Washoe and the rural counties to implement the system and get the veterans exemption online in 2012.

Senator Parks thanked Mr. Breslow for the testimony. He stated he would lend his support for implementation of the process.

Chair Leslie called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE REPORT ON
THE DEPARTMENT OF MOTOR VEHICLES. THE MOTION WAS
SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.

Item 4— Presentation of six-month reports (NRS 218G.270)

B. Gaming Control Board

Mr. Townsend explained six-month reports are follow-ups on the implementation of audit recommendations. These reports were issued during the 2011 Legislative Session.

He introduced Shannon Ryan, Audit Supervisor, to present the first six-month report.

Ms. Ryan stated in March 2011, auditors issued an audit report on the Gaming Control Board. The Board filed a plan for corrective action in May 2011. The six-month report was prepared by the Department of Administration on the status of the five recommendations contained in the audit report. The report from the Department of Administration in December 2011, indicated four recommendations were fully implemented and one was partially implemented. Auditors met with Board staff in January 2012, to discuss the remaining partially implemented recommendation. As a result of that meeting the Board submitted a procedure regarding the outstanding recommendation. Auditors considered that to complete the implementation of the recommendation and therefore had no questions for the Board.

Chair Leslie called for questions from the Committee.

Chair Leslie called for a motion.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE SIX-MONTH
REPORT ON THE GAMING CONTROL BOARD. THE MOTION WAS
SECONDED BY SENATOR PARKS AND CARRIED UNANIMOUSLY.

B. Department of Business and Industry, Office of Labor Commissioner

Mr. Townsend stated this audit was also released during the 2011 Legislative Session. He stated auditors worked in coordination with the Office of Labor Commissioner (Office), the Department of Business and Industry, and the Office of State Controller, toward implementing these recommendations.

He introduced Rick Neil, Audit Supervisor, to present the report.

Mr. Neil stated in April 2011, auditors issued an audit report on the Office of Labor Commissioner. The report contained 12 recommendations to improve the safeguarding of cash received from employers on behalf of claimants, to help ensure wage and hour claims are resolved timely, and to improve the information available to supervisors to monitor claim investigations. The Labor Commissioner filed its plan for corrective action in July 2011.

The six-month report was prepared by the Department of Administration on the status of the 12 recommendations contained in the audit report. The Department of Administration indicated eight recommendations were fully implemented and four were partially implemented. Mr. Neil stated auditors had one question and comments in regard to the four partially implemented recommendations.

Mr. Neil stated, first, recommendation 1 in the report was to discontinue use of the outside bank account and instead remit checks received from employers directly to claimants. The audit found significant control weaknesses and inefficiencies related to the Office's outside bank account. To implement this recommendation the Office discontinued making deposits and writing checks from the account in June 2011, and remits employer checks directly to claimants. Furthermore, the Department of Administration indicated the Office intends to close the account by November 1, 2012, so that outstanding checks can clear.

Mr. Neil stated since it has been over 180 days since any checks have been written from the outside bank account, has the Office considered closing the account and depositing the remaining funds to the budget account set up recently in the state's accounting system?

Mr. Thoran Towler, State Labor Commissioner, stated he has been on board as the new Labor Commissioner for approximately 3 months. He thanked audit staff for the work done. He stated as a result the Office had been able to establish new policies and procedures to help it become more efficient and more effective. He stated in regard to the recommendation, the Office had looked at closing the account. He explained the Office had spoken to staff at the Office of State Treasurer which agreed to accept the electronic transfer of the funds. Agency personnel then met with bank staff. The Commissioner was provided with all the information needed to complete the transfer of funds. He explained in December 2011, it came to a point that the transfer could be completed. However, Mr. Towler expressed concern that, although it had been over 180 days since these checks were issued, according to the bank they were still valid. He stated the Office would need to issue new checks to the claimants. Mr. Towler was concerned because he did not want there to be two sets of checks outstanding. He stated the reason the Office picked the date of November 2012 to close the account, was that staff could transfer most of the money to Unclaimed Property by then. The Office makes that transfer in November of each year. He thought this would be the simplest and cleanest way to close the account. He had no problems with closing the account but at the same time had concerns knowing that the claimants are out there. Some of them are in other countries right now and have family members that hold their mail. He expressed concern for confusion of the claimants wondering which check was valid and which was not and for them to get in trouble for cashing the wrong check. He stated also there were only a little over 20 checks outstanding. He stated the Commission was making calls to see how and if they can find these claimants to ask them to cash the checks. He stated the largest check holder was contacted recently. Mr. Towler again offered, if the preferred method was to close the account, he was ready to comply but preferred to keep it open until November 2012.

Chair Leslie asked about stale dating of checks that need to be reissued after 90 days.

Mr. Neil replied the State Treasurer automatically cancels outstanding checks after 180 days. He noted outside bank accounts can be set up differently and he understood with the Office of Labor Commissioner's account there was no specific timeframe on the

checks. So potentially someone could cash a check after it was six months old. Mr. Neil stated considering today's testimony, because the account balance is much lower and the low number of outstanding checks, he agreed with waiting until November 1, 2012, to close the account. Mr. Neil added there was a bigger concern at the time of the audit because the account contained approximately \$500,000 which was not well-secured.

Chair Leslie stated that was reasonable to her. She asked if auditors were satisfied.

Mr. Neil stated yes.

Chair Leslie asked Mr. Neil to continue with the presentation.

Mr. Neil stated the next partially implemented recommendation was recommendation 3, which was to ensure all money received is deposited timely and to periodically reconcile the outside bank account to the Office's records of amounts owed to claimants, until the account is closed.

Mr. Neil stated auditors found the Office did not reconcile receipts and disbursements recorded in the agency's records to the bank statements and checks received from employers were often not deposited timely. To implement this recommendation, the Office developed policies and procedures that require depositing money received daily and reconciling the account monthly. However, the Department of Administration noted several checks were not deposited timely. Based on auditor discussion with the Department of Administration, the Office was making deposits on Fridays, instead of on Thursdays as required by law. The Office has since revised its procedures to meet statutory requirements and communicated the revised procedures to staff. Therefore, auditors consider this recommendation to be fully implemented.

Mr. Neil stated the next recommendation that was partially implemented was for the Office to notify the State Contractors' Board when contractors have 3 or more substantiated claims in a 2-year period, as required by law. The audit identified 13 contractors with 3 or more substantiated claims in a 2-year period that the Office did not report to the State Contractors' Board. To implement this recommendation, the Office established guidelines for notifying the State Contractors' Board when contractors have 3 or more substantiated claims in a 2-year period. The Department of Administration indicated no contractor has received three or more substantiated claims since the guidelines were established. He stated auditors will follow-up with the Office in a few months to verify the guidelines are being followed.

Mr. Neil stated recommendation 12 was to periodically provide data, at least biennially, to the Governor and the Legislature that relates to the Office's statutory objectives, and to make it available to the public on its website. The audit noted the Office has not prepared a report of its activities for external parties. NRS 607.080 requires the Labor Commissioner to prepare a biennial report for the Governor and the Legislature that includes statistical information relating to the Office's statutory objectives. Without such information, decision-makers might not have the information they need to make informed decisions regarding labor-related trends. To implement this recommendation,

the Office identified a report format for providing data, at least biennially, to the Governor, the Legislature, and the public. The Office plans to prepare its first report by May 1, 2012. Auditors will follow-up with the Office on May 1, 2012, to verify the report has been provided to the Governor and the Legislature, and made available to the public on the agency's website.

Mr. Neil concluded the presentation.

Chair Leslie asked if the projected implementation date of May 1, 2012, was still applicable.

Mr. Towler replied May 1, 2012, was the anticipated date for complete implementation of the recommendation.

Chair Leslie called for a motion.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, OFFICE OF LABOR COMMISSIONER. THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.

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 that sometimes not all recommendations are implemented when auditors present the six-month report to the Committee. Agencies are asked to return to the Committee to discuss the status of the partially implemented recommendations.

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. He stated the Motor Pool Division has made significant progress since the last time we met. Mr. Cooper reported that 10 recommendations were fully implemented and 1 recommendation remains 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 when auditors made this recommendation they had met with NDOT staff and thought it would be a relatively simple fix. It has proved more challenging for the Motor Pool. He stated auditors were attempting to finalize the recommendation with NDOT to see what is truly needed because auditors do not want a recommendation where the cost would exceed the benefit.

Mr. Cooper stated during the audit, NDOT's monthly billing statements provided detailed information about each fuel transaction except for the vehicles' odometer reading. 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. He stated these odometer readings can be helpful in preventing and detecting improper fuel card use. At the October 2011, Audit Subcommittee meeting the Motor Pool 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 and identification of the vehicle or purchase card used.

Mr. Cooper stated on January 5, 2012, the Motor Pool sent a written request to NDOT's assistant director of operations requesting assistance. This letter also explains the two attempts by NDOT staff that have not worked.

Mr. Cooper stated the question for the Motor Pool would be to ask if NDOT has responded to the written request for assistance dated January 5, 2012.

Mr. Keith Wells, Administrator, Motor Pool Division, stated the NDOT assistant director of operations, Rick Nelson, had reached out to him and stated he would look into the issue. Mr. Wells stated that Mr. Nelson had acknowledged the receipt of the Motor Pool request. Mr. Wells stated he emphasized to NDOT staff that he needed to have a resolution to the issue. Mr. Wells was assured by Mr. Nelson that he would provide information as soon as possible.

Chair Leslie stated it has been almost one month since the request was sent to NDOT. She asked that Mr. Wells let NDOT know that the Committee heard this report today and that the Committee wants to know the timeframe for their response.

Mr. Wells replied he had advised NDOT staff that he would be providing testimony at the Committee meeting today. He stated he would stay in contact with NDOT to get this matter resolved as soon as possible.

Chair Leslie asked if Mr. Townsend had comments to encourage cooperation in resolving the issue. It seemed like a long time, a month, to expect a response from NDOT.

Mr. Townsend replied the request was actually made at the last Committee meeting in October 2011. He noted that NDOT had not received the request from Motor Pool until January 2012. Some time has gone by but it sounds like Mr. Wells is in communication with NDOT to resolve the issue. He stated auditors will continue to follow up with Mr. Wells.

Chair Leslie stated this report would be presented at the April 2012, Committee meeting and expected to have a response and a proposed resolution by this time.

Mr. Wells stated he thought they would have the information for the Committee by then. The reason he had not approached NDOT's Director, was to give NDOT's management the opportunity to provide a solution to the issue before contacting to the Director. He followed the chain of command and NDOT staff has been helpful. He has a strong relationship with, and wanted to continue to have, good communication with the Department.

Chair Leslie understood the explanation.

Mr. Wells assured the Committee that NDOT staff would find a solution to the issue.

Chair Leslie stated it sounds like they have been very good at passing it along but the Committee wants a resolution to the issue.

Mr. Wells stated this issue might not be as high a priority to NDOT as it is to us but he would work to provide a resolution to the Committee.

Chair Leslie stated she would see the Division back at the April 2012 meeting.

Chair Leslie stated a motion would not be taken by the Committee. The Committee requested that the agency return to the next Audit Subcommittee meeting to provide an update on the implementation status of the audit recommendation.

Item 6—Transmittal of request to the Legislative Commission to issue subpoenas and direct the Legislative Counsel to initiate such legal actions as are necessary to compel compliance by the Murphy Bernardini Regional Detention Center in Carson City with requests made by the Legislative Auditor and his staff related to the review of the Center pursuant to NRS 218G.500 to 218G.585, inclusive.

Item removed from the agenda.

Item 7—Public Comment

Chair Leslie called for public comment or additional public testimony.

Chair Leslie noted there were no further comments.

Mr. Townsend requested that the next meeting of the Audit Subcommittee would be April 17, 2012.

Chair Leslie asked that the Committee check their calendars for this date.

Chair Leslie called for comments from the Committee.

Chair Leslie thanked the Audit Division staff for another great job. We really appreciate all your hard work and I know the citizens in the State appreciate it also.

The meeting was adjourned at 11:48 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