

MINUTES OF THE MEETING OF THE  
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION  
September 19, 2012

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

A meeting of the Audit Subcommittee of the Legislative Commission (NRS 218E.240) was called to order by Senator David Parks, Chair, at 9:37 a.m., Wednesday, September 19, 2012, in room 4412 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada, with a simultaneous video conference to room 4100 of the Legislative Building, Carson City, Nevada.

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Las Vegas:

Senator David Parks, Chair  
Senator Mo Denis  
Senator Dean Rhoads  
Assemblywoman Maggie Carlton

Carson City:

Assemblyman Tom Grady, Vice-Chair

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Paul Townsend, Legislative Auditor  
Donna Wynott, Office Manager  
Deborah Anderson, Audit Secretary  
Jane Bailey, Audit Supervisor  
Rocky Cooper, Audit Supervisor  
Tammy Goetze, Deputy Legislative Auditor  
Stephany Gibbs, Deputy Legislative Auditor  
Shawn Heusser, Deputy Legislative Auditor  
Dennis Klenczar, Deputy Legislative Auditor  
Rick Neil, Audit Supervisor  
Doug Peterson, Information Systems Audit Supervisor  
Shannon Ryan, Audit Supervisor

The roll was taken. A quorum was present.

**Item 1— Public comment**

Chair Parks called for public comment. There was none.

***Item 2— Approval of minutes of the meeting held on April 17, 2012***

Chair Parks called for a motion.

SENATOR DENIS MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF APRIL 17, 2012. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

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

– Paul Townsend, Legislative Auditor

Mr. Townsend stated that there are four audit reports, five six-month reports, and an additional follow-up on a 60-day corrective plan of action.

**A. Department of Conservation and Natural Resources, Division of State Lands**

Mr. Townsend introduced Rick Neil, Audit Supervisor and Tammy Goetze, Deputy Legislative Auditor, to present the report.

Ms. Goetze stated the Division of State Lands was created within the Department of Conservation and Natural Resources in 1957 to provide land and land use planning services to the State, its agencies, and its people. The Division's four main program areas and responsibilities include the State Land Office, the Nevada Tahoe Resource Team, the State Land Use Planning Agency, and the Question 1 Program. As of December 2011, the Division had 18 employees located in Carson City.

Ms. Goetze stated agency expenditures for calendar year 2011 were about \$7.1 million. In addition to personnel and operating expenditures, many of the Division's expenditures are for grants to state and local government agencies and non-profit organizations. In calendar year 2011, the Division's total revenue amounted to \$2.69 million, including \$1.04 million in General Fund appropriations and fees of about \$954,000.

The audit focused on the Division's activities for calendar year 2011 and the objective was to evaluate the reliability of performance measures used in the state's budget process and determine whether fees were collected and deposited in accordance with state laws and regulations.

Ms. Goetze stated the reliability of performance measures can be improved. The Division included seven performance measures in its budget documents for fiscal years 2012 and 2013.

Ms. Goetze stated the results were not always supported by underlying records. Of the Division's seven performance measures, three measures were not adequately supported. Performance measure 2 tracks various planning activities such as review of major projects routed through the State Clearinghouse, development of land use plans and policy plans, and participation on resource advisory committees. However, a listing of these reviews is not prepared or retained to support the results reported. Performance measure 5 tracks the status of environmental improvement projects. The

Division often did not retain electronic spreadsheets used to calculate the measure. Performance measure 7 tracks the number of new authorizations to use state lands reviewed and granted by the Division. The Division did not have any documentation supporting the amount reported. State and Division policies require records used in computing performance measures be retained for 3 fiscal years.

Ms. Goetze stated that the description of one performance measure did not reflect reported information. Performance measure 6 is defined as the number of plans for casino building changes reviewed for compliance. However, this measure tracks more than just the number of plans reviewed. It includes all actions and meetings attended regarding proposed changes to gaming structures. Developing a more descriptive title would make it easier for management and other decision makers to understand what activity is being measured to assist in evaluating the program's performance.

Ms. Goetze stated controls over measures also need improvement. Written procedures did not exist for six of the seven measures describing the calculation methodology. Written procedures demonstrate a commitment to reliable performance measures and help ensure the process for collecting performance measurement data is reasonable and consistent over time. Measurement calculations were not adequately reviewed for four of the seven measures. The State Administrative Manual requires agencies to assign staff the responsibility of reviewing the performance measurement procedures and ensuring they are followed.

Three recommendations were made to improve the reliability of the Division's performance measures.

Ms. Goetze stated that the Division has an effective process for the collection of fees. During calendar year 2011, the Division collected about \$954,000 in fee revenue.

Ms. Goetze stated testing of receipts, totaling about \$380,000, found the Division's controls provide reasonable assurance that fees are collected and processed appropriately. A tested sample of fee agreements found the Division's controls provide reasonable assurance that those individuals required to pay a fee did pay the correct amount in accordance with applicable statutes. The Division's current process for collecting and depositing fees is much improved, as the prior audit noted several problems with the process in place at that time.

Ms. Goetze concluded her presentation stating Appendix A shows the Division's expenditures by budget account for calendar year 2011, Appendix B is the audit methodology, and Appendix C is the Division's response, which shows the agency accepted all recommendations. She offered to answer questions from the Committee.

Chair Parks called for questions from the Committee.

Senator Rhoads asked why the agricultural license plate, which he believed to be popular was not listed on page 11 of the of the audit report.

Ms. Goetze replied that the Division of State Lands administers only the Tahoe plates. Administration of the Mt. Charleston plates were transferred to the Board of

Commissioners of Clark County. The agricultural plate was not administered by State Lands.

Senator Rhoads asked for figures on how much the agricultural plate has generated.

Ms. Goetze stated that she did not have that information.

Chair Parks thanked Senator Rhoads for the question and opened the answer to Mr. Townsend for further clarification.

Mr. Townsend stated that they could look into the figures that he is requesting, but it is not a responsibility of State Lands.

Senator Rhoads thanked Mr. Townsend.

Chair Parks stated that the whole thing about license plates was that the state was trying to find some agency to handle the plates. With the level of activity that the Division of State Lands manages at Lake Tahoe, it was apparently natural to give them the Tahoe plates. When the Mt. Charleston tags came out the question was what does the State do with these. First, the plates went to the Division of State Lands and then transferred to Clark County.

Senator Parks opened to further questions.

Senator Denis stated in the case of three performance measures, he understood what State Lands reported could not be supported.

Ms. Goetze replied that was correct.

Senator Denis asked if that was because in one case they did not keep the records.

Ms. Goetze replied that is correct they just did not keep their underlying records of the calculation.

Chair Parks opened the questions to the Division of State Lands.

Jim Lawrence, Administrator, Division of State Lands expressed appreciation to the Audit Division and particularly Ms. Goetze and Mr. Neil for their thoroughness and completeness in the audit and stated the work they did has been helpful for the Division. Certainly, they were not shy about asking the tough questions and doing thorough research. But at the same time, they were very professional through the whole audit so the Division was able to carry on with business without distractions.

Mr. Lawrence stated all the audit findings were accepted. In the area of the performance measures, the recommendations were found to be very helpful and the Division has begun instituting many of the recommendations, particularly in the area of clarifying one of the measures. In the area of the supporting documentation, the Division found they were in many instances keeping a spreadsheet. Quarterly reporting was done from that spread sheet. However, as the program leads were taking care of their programs, they were continuously updating the spreadsheet. We've already instituted procedures to address this by retaining a snap shot of relevant documentation.

Mr. Lawrence shared his appreciation for the Audit Division's acknowledgement of the improvement in the Division's financial records. Although none of the current staff was present during the prior audit in 2003, the Division was aware of the recommendations and took it amongst themselves as a priority to make sure to do adequate business practices with financial records. The Division is proud of the work done and the finding of having effective measures in place.

Chair Parks thanked Mr. Lawrence and noted the Division accepted all three of the recommendations from the Audit Division.

Senator Denis expressed the use of ratios and percentages in a performance measure makes it more difficult to truly understand what the Division is doing and asked Mr. Lawrence if there will be an adjustment to any of these to reflect this so there is a truer picture.

Mr. Lawrence replied that the Division is looking at their performance measures. The use of ratios in the past, particularly in the area of the State Land Office and the activities of our land use authorizations gave us some sort of reflection of where we were with a pending caseload. The Division recognizes this does create some problems and is looking at making a more meaningful measure when moving forward in performance based budgeting.

Senator Denis thanked Mr. Lawrence for his response.

Chair Parks asked Mr. Lawrence if he had any further comments.

Mr. Lawrence thanked the Legislative Counsel Bureau Audit Division for their very professional work and assistance. The Division looks forward to carrying out the recommendations.

Chair Parks thanked Mr. Lawrence and the audit staff for their work on the audit and called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE REPORT ON  
THE DEPARTMENT OF CONSERVATION AND NATURAL  
RESOURCES, DIVISION OF STATE LANDS. THE MOTION WAS  
SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.

## **B. Department of Business and Industry, Division of Industrial Relations**

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

Mr. Heusser stated the Division's mission is to promote the health and safety of Nevada employees and ensure that injured employees receive all benefits to which they are entitled. The Division includes the Workers' Compensation Section, the Occupational Safety and Health Administration (OSHA), the Mine Safety and Training Section, and the Safety Consultation and Training Section. The Division's primary source of funding is an assessment levied on all self-insured employers, associations of self-insured

employers, and private carriers of Workers' Compensation. The Division had expenditures of \$18.2 million in fiscal year 2011.

The objective of the Audit was to determine whether internal controls at the Division ensure assessments are accurate and timely, and state laws governing collections are followed, and whether internal controls provide reasonable assurance that information systems facilitate timely inspections of mechanical objects, ensure the timely processing of Workers' Compensation claims, and protect personally identifiable information.

Mr. Heusser stated auditors found that while assessments are accurate and timely, the Division can strengthen its revenue collection process through improvements to internal controls and accounts receivable lists. Internal controls were not adequate to ensure collection efforts were timely and in compliance with state law. Furthermore, past due debts from fines and penalties were not transferred to the State Controller's Office during the required timeframe and accounts receivable reports are not accurate.

Mr. Heusser stated that auditors' testing identified \$180,000 in past due administrative fines and penalties had not been turned over to the Controller's Office. While timely transfer of debt does not guarantee collection, the likelihood of collection decreases as the debt gets older.

Mr. Heusser noted that of 35 Workers' Compensation Section fines and penalties included in the auditors' sample with past due debt, 24 of those had not been turned over to the Controller's Office for collection. At the time of testing, the investigation phase for these cases had been completed an average of 2 ½ years earlier. Further, auditors found the Division had not sent demand letters for 19 of these outstanding fines and penalties. At the time of testing, the demand letters were an average of nearly 16 months overdue.

Mr. Heusser noted that out of 25 OSHA investigations included in testing, auditors identified 12 with past due fines that had not been turned over to the Controller's Office for collection. Failure to timely transfer past due accounts inhibits the ability of the Controller's Office to use all collection efforts available.

Mr. Heusser stated Workers' Compensation and OSHA sections did not maintain complete or accurate aged accounts receivable reports. For example, through auditor testing we identified 189 cases with a receivable amount, which were not included in the Workers' Compensation Section's report. Many of the problems identified in this report stem from inadequate policies and procedures.

Three recommendations were made to help improve the Division's compliance with state law over the collection of fines and penalties.

Mr. Heusser explained the Division does not adequately protect claimants' personal identifiable information, such as social security numbers. While auditors did not identify indications of a security breach, the Division stored unencrypted personally identifiable information on several of its databases. The Division removed one of the databases from its server and is working with a software vendor to remove social security numbers

from another database. The Division sent and received unencrypted emails containing social security numbers. Emails were sent to and received from insurance providers.

Three recommendations were made to help ensure that personally identifiable information is adequately safeguarded.

Mr. Heusser discussed the need for the Division to improve oversight of its information system. Auditors noted several problems reported by management and staff with VERSA. These problems include insufficient reporting capabilities, time-consuming procedures for updating ownership of boilers, and staff needing to manipulate reports to get all elevators and boilers requiring inspection.

Mr. Heusser noted the lack of a prioritized approach in resolving current known issues. Further, auditors explained the Division plans to continue working with the vendor for the Workers' Compensation Section's application, but anticipated replacing the application for OSHA's Mechanical Unit as the vendor claims a complete rewriting of the program would be required to address all concerns.

Mr. Heusser explained the need for the Division to ensure stronger oversight on future system development. For example, the Division did not enforce end user acceptance testing and the holdback of monies clauses. These are important provisions that help to ensure vendors meet contract requirements during implementation.

Two recommendations were made to help improve the Division's monitoring of information systems.

Mr. Heusser concluded his presentation noting all eight of the auditors' recommendations were accepted and he opened for questions from the Committee regarding the report.

Chair Parks called for questions from the Committee.

Senator Denis recapped the two scopes and objectives talked about. One was to ensure the assessments are accurate and timely and that state laws are followed regarding collections. The second was to provide reasonable assurance that information systems are being used correctly.

Senator Denis asked for information regarding the Division's revenue collections and more information explaining the test results.

Mr. Heusser explained that when the auditors refer to the assessments being accurate and timely, the assessments are essentially the primary way in which the Division is funded. Those assessments are assessed to the self-insured employers, association of self-insured employers, and private carriers of Workers' Compensation. The Division essentially assesses different companies that provide insurance and funding.

Mr. Heusser further explained that the auditors reviewed the assessments and in those areas, no material issues were found. The Division was collecting the money in that way. What is referred to in the report regarding the exceptions deals with the fines and penalties associated with someone not paying for Workers' Compensation insurance or

someone who has an OSHA violation and they owe to the agency. The second part of the focus and exceptions was in that area.

Senator Denis asked if sending unsecure emails containing social security numbers was due to the Division not having a system in place or if there was a system and it was not implemented.

Mr. Heusser replied that was because they did not have a system in place to ensure the emails were being protected.

Senator Denis thanked Mr. Heusser.

Senator Parks opened for further questions from the committee.

Assemblywoman Carlton stated that in reading the report she gained a better understanding of what the Division actually does. The report looks at different legislative measures, prior reports, and budgets. She acknowledged that in the last couple of years, the legislature has had OSHA before the legislators through interim finance and through the legislative session dealing with staffing issues, having enough inspectors, and the problem competing with the private sector as far as salaries go. Legislators did an evaluation of this particular Division, and she wanted to know if those things were taken into consideration when the auditors were looking at the collection of the fines.

Assemblywoman Carlton stated a bill was heard last session to give them a hammer to collect these fines that would help the Division, but it was vetoed. She asked how the auditors plan to manage something now that could not be fixed in the past.

Mr. Heusser replied at the beginning of the audit a risk assessment was performed and auditors looked at those areas. Noted in the risk assessment was the addition of the staff to OSHA for the investigation purposes. After these investigations take place, the collections are then put into place, and staff is in place in order to work through this to get the letters out, and make those collections.

Mr. Heusser stated that a representative of the agency may be better suited to address Assemblywoman Carlton's question. However, it appears that the Division did have the staff to be able to get these letters out to a certain extent.

Assemblywoman Carlton asked if the Division is not getting a response and the response not being turned over to the controller timely was the problem.

Mr. Heusser replied the demand letters were not being sent out. An initial letter was sent out notifying the business of debt or problem. In most cases tested, a second reminder, demand letter, was not sent out. In cases when the demand letter was sent out, it was sent out late.

Assemblywoman Carlton thanked Mr. Heusser.

Chair Parks stated auditors reported that revenue and expenditures of about \$18.2 million come from the assessments that are levied through the statutory process. Much



of what we are looking at are fines and penalties. Chair Parks asked if the fines and penalties that do not stay with the agency revert to the general fund.

Mr. Heusser replied actually in this particular case the fines and penalties would stay with the agency, as this assessment is not completed though the general fund. This assessment is directly with the Division; therefore, the fines and penalties collected actually stay with the Division. Ultimately, that would go towards the operating budget and what they will need in the assessments.

Senator Parks stated the audit report indicated that much of the delay in turning debt over to collection resulted from supervisory reviews not being completed timely and demand letters not being sent. He asked if this is a situation where we have multiple sections of a Division who are not communicating well with each other.

Mr. Heusser explained what auditors found in this particular situation was the investigations were being completed by the staff doing the investigations for the Workers' Compensation. It was then going to the supervisor and then the supervisor was attempting to handle all the investigations and negotiations. What happened was they ended up with a giant backlog. As a result, the Division has since altered the way they do that to where the investigators can actually work more directly with the businesses in negotiating the fines and setting them into place; therefore, turning it over more quickly to the collection people. There are two different sections working together on the processes to complete the supervisory review quicker.

Senator Parks thanked Mr. Heusser for his response he also expressed his concern for safety with regards to the inspection report of all elevators and boiler not being accurate and asked for further explanation.

Mr. Heusser replied that the Division was able to identify that problem. By running the report a day ahead, they were then able to pick up all of the elevators and boilers that needed to have inspections for that given month allowing them to be able to give the report to their inspectors and be able to complete those inspections. This way they could find a way around the problem with the report in order to identify those items needing inspection.

Assemblywoman Carlton stated that at the end of the year when the Division reconciles their books, any extra monies go back to the one being assessed. When the subcommittee looked at Workers' Compensation three years ago, this was one of the things learned. She asked if it is known the amount collected and returned.

Mr. Heusser replied the amount for the year looked at was approximately \$25 million. He did not recall specifically how much was returned. He stated Assemblywoman Carlton was correct in the assessment and collection process. At the end of the year, remaining funds are returned and an assessment is done the following year. The actual amount of returns can be found and provided.

Assemblywoman Carlton stated how important and helpful that would be. It would be disappointing if money was returned to someone that was fined and that person never paid the fine to begin with. We do not want to give money for an assessment and then

later ask them to pay a fine either. If this is a tracking issue, it needs to be addressed and she asked what methodology is used to insure that does not happen.

Senator Parks thanked Assemblywoman Carlton and asked Mr. Heusser if there was any further comments. None being made he asked the Division of Industrial Relations (DIR) representative to come forward and comment.

Don Jayne, Administrator, DIR, stated that in Southern Nevada, Deputy Administrator, Jan Rosenberg was present and will be joining to add any additional comments as needed. He wanted to start by thanking the Legislative Counsel Bureau Auditors for their professionalism. DIR having some duties for enforcement understand that when you show up on some of these sites you are not always completely welcomed, but this audit was conducted with professionalism and the auditors worked with DIR staff to secure as many answers as possible. There were quite a few questions asked earlier by the Committee that he was tempted to jump in and offered to provide additional clarification if needed.

Mr. Jayne stated one of the things that was unique to this audit was there is a crossover happening in assignments and duties with the 2011 Legislative Session there also was some consolidation of services in the Department of Business and Industry (B&I). The Division provided some staff to B&I from the administration services unit that was centralized. The reason for the reference is a corrective action plan will be completed and the agency will be working closely with B&I. The Division accepted the 8 recommendations as well as the responsibility and the leadership-role required to put the correction action plan together and monitor it through its completion.

Mr. Jayne stated there were three major areas discussed in the audit, the first was collections. Three recommendations were made and accepted. Regarding the clarification of the supervisor in Workers' Compensation and the bottleneck, that did develop. The tightening of the procedures is a main category in here. The agency had interpreted when a debt was due in a fashion that technically is not as tight as it should be and that allowed the Agency's procedures to be not completely in line with statutory requirements. Those procedures have already been re-written for Workers' Compensation, they are being codified and will be the model used by OSHA to parallel those procedures and tighten those up in accordance with the statutory requirements. With that type of bottleneck, the workload backed up and that supervisor is no longer with us. There was not an issue between other departments. The issue was within the Agency and the Agency has moved to correct it. Since the date of the audit, a taskforce of people started moving records and has put them together and the process is moving rapidly.

Mr. Jayne continued with the second general issue discussed in the audit of confidentiality and protecting social security numbers within the system. A particular piece of software in the Agency presents a certain amount of challenge. The Agency does accept the recommendations and has moved towards implementing them. The Agency has statutory obligations and reasons to have social security numbers and particularly in the administration of looking for fraud in Workers' Compensation, a social

security number is an important relevant piece. The Agency will work very closely with B&I, where the Agency's Information Technology (IT) resources exist today and will find ways to mask social security numbers when we have to keep them or remove them from the databases. The Agency has already moved one of those databases from the server. The Agency will also work to find a way to encrypt the emails going back and forth. The Agency can accomplish this with relative minimal expense by using software that will zip the file and password protect it. The Agency can find some solutions that are not terribly burdensome, but the other corrections will involve working in the software, putting a plan together, and getting the resources to finalize that.

Mr. Jayne stated the last two recommendations refer to the software VERSA. The Agency had to develop alternative methods to make it work. The Agency is not as effective as it should be or could be. The Agency continues to address that software. As eluded to in the earlier comments, they intend to come forward at the proper time and request authority to remove that piece of software from our mechanical section.

Mr. Jayne elaborated on one of Assemblywoman Carlton's questions regarding the assessment. Summarizing, yes, the Agency is funded from our Workers' Compensation fund. That is an assessment of insurance companies who are in the Workers' Compensation business. When we reference a self-insured, that is a self-insured who is the insurer for their Workers' Compensation. Self-insured groups are the insurer for their Workers' Compensation obligations as well as the private insurance companies providing that coverage in the market place. Therefore, the assessment that DIR does goes to the insurance industry that is in the Workers' Compensation arena. It does not go directly to the employer who might have had an OSHA violation.

Mr. Jayne explained that the Agency had tried wrestling with that during prior Legislation Sessions and it was very difficult to tack it back to an individual employer and tie it to whether they still owe the Agency a debt and how we get to them. The Agency is not assessing them. That provides some difficulty in that application that he wished the Agency had that in the assessment arena. Because they are not a general fund agency and they collected assessments, they are administrative fines, penalties and premium penalties for not having Workers' Compensation. The Agency has work ahead of them to tighten up. Collections are done along the way. Work condition problems and procedural problems have existed in the past. On average, \$1.8 million in OSHA penalties and fines were collected over the last 3 years. That is a direct offset of the cost to the OSHA program. Those entities with findings and citations in the field are consuming the services. The Agency brings those in and off sets the assessments that are out there. Workers' Compensation collections in the last 3 years averaged \$269,000 and was used to offset those costs.

Mr. Jayne concluded his comments stating the Agency has a long way to go to tighten up and improve. What is collected offsets the assessment to the insurers being a direct effect to the employers who are paying for their Workers' Compensation and the Nevada consumers who ultimately pay for these things through the cost of their insurance premium that is moved on through to the Agency.

Chair Parks thanked Mr. Jayne for his testimony and opened for comments from the committee.

Assemblywoman Carlton asked if the \$1.8 million talked about were the fines that have been assessed.

Mr. Jayne responded that the \$1.8 million figure was an OSHA related figure and yes, it was for penalties.

Assemblywoman Carlton further asked if that money was collected or fined and what was collected.

Mr. Jayne responded that no, the \$1.8 million was collected and would be used to offset the assessment.

Assemblywoman Carlton asked of the \$1.8 collected how much was actually due to the Agency in fines.

Mr. Jayne responded that he did not have that information and said he would provide that to the committee.

Assemblywoman Carlton stated this was something the committee needs for both sides of the equation. Sounds great to say we have collected \$1.8 million but if there is \$10 million out there we have a long way to go. But if there is \$2 million out there then we are being successful. Comparing those numbers is important.

Mr. Jayne continued commenting on the question on what the Agency tends to call a true up for our assessment at the end of a year, the recollection was correct the Agency does this on an yearly basis with no carry forward on the money so it is trued up at the end of a year. The Agency bills for money and returns money depending on the circumstance of an individual year, it could go either way. A simple reason for that would be population being assessed changes year to year. The basis that the Agency uses to calculate depends on the individual premium or claims from an individual insurance company that wrote business in that year. It is tied very specifically to the year and the participants in the market workplace that year. They could have money returned or billed if the money needed was not collected through the year.

Assemblywoman Carlton asked if the modification factor changes for the employer who may have had an incident over the year, his Workers' Compensation insurance to the person you assess will change, how does that effect the assessment on the insurance company.

Mr. Jayne replied that the question is rather complicated. If the experience modification assigned individually to companies that have Workers' Compensation insurance is large enough and have enough claims activity, they can qualify for an experience modifier. A 1.0 MOD would be the average in the industry. If your modifier was 0.9, that would be less than the average in the industry when getting a Workers' Compensation rate. In theory this is because a safe employer with a lower MOD would pay a lower Workers' Compensation premium; hence a lower share of the assessment is being collected by the insurers as part of their premiums. If one had a bad evaluation, as a result of either

severity of claims or frequency in claims, your modifier could be as above 1.0. A modifier of 1.2 would result in paying 20% more than the standard rate used at Workers' Compensation. Employers who have claims that are severe or frequent would have the higher modifier. You can have an OSHA citation and violation that does not involve a claim. However, those practices that the Agency would find in there, if they were poor practices and the Agency found a number of violations at a work site, would normally lead to an expectation of a higher incident rate, accident rate, and ultimately a higher modification rate that would cause a higher Workers' Compensation premium. However, there is not a direct tie to the two. The experience modifier is based on claims that would either increase or decrease their Workers' Compensation premium.

Assemblywoman Carlton asked one final question a little off the audit component referring to staffing issue. She stated a few years ago, that the Agency had problems with competition in the private sector losing trained staff to head hunters from other companies. There was a discussion in subcommittee about how to address this and something about a salary survey to the matter; however, she never received the results. She asked of its progress and where the Agency stands on keeping quality staff, so the workers in this state are protected.

Mr. Jayne replied that those challenges still exist today. The Agency still experiences a high turnover in safety professionals not only in OSHA but also in mine safety and training and safety consultation and training. Those technical skills are valued in the market place and the Agency continues to have a difficult time competing with salaries. The Agency pay scales are below what they should be.

We have not received the recommended salary survey. We suspect that the Agency is going to find that they are under the marketplace. The Agency budget request contains a decision unit to discuss the adequacy of those salaries. The Agency expects to bring that forward in the 2013 Legislative Session.

Assemblywoman Carlton thanked Mr. Jayne and stated that she will go back and reinvestigate where that survey ended up.

Chair Parks called for further questions from the committee.

Senator Denis asked if the VERSA system does more than mechanical unit functions.

Mr. Jayne replied yes, the software supports both the Workers' Compensation section and the sub section of OSHA, the mechanical unit.

Mr. Denis said in 2008 we paid half a million dollars for VERSA and asked if its use for the mechanical unit was specified then.

Mr. Jayne replied unfortunately, he did not participate. As best as he could tell by the documentation he reviewed, there was some interaction with the Agency and the software vendor. By the time the software was put into production, the software was not performing in a fashion that was acceptable for the Agency. It was taking up to seven times as long to enter issues into our mechanical section for permitting of elevators, boilers, and escalators. The Agency has been working with the vendor ever since. In

an Interim Finance Committee meeting in late 2010, the Agency was asked by the chair to work with the vendors to see if it can be fixed and secure some pricing. Recently the Agency had meetings with the vendor. The vendor acknowledged that their software was not a good fit for the Agency's business needs and the vendor will have to rewrite the entire module creating a 5-year commitment at about \$90,000. The Agency is not comfortable and confident that the current vendor can solve those solutions and believes it appropriate for the agency to look for other solutions. There are some very industry specific pieces out there. The Agency should not have to rewrite this code with the vendor in its totality.

Senator Denis stated you would stop using the mechanical unit part of VERSA and come to recommendation of a separate individual system just for the mechanical portion.

Mr. Jayne replied that is essentially correct. The mechanical portion of the VERSA software is a separate module that is only used by the OSHA mechanical section. That is the module that is performing at such a low level that they don't believe it can be fixed short of spending financial and human capital resources, and working with them to create a piece of software that will work in the Agency environment. The Agency believes in the Workers' Compensation side of this would improve in report writing securing something from VERSA called DataMart, which is essentially a report writers' facility to store report-writing data and extract it in a more efficient manner. The Agency has had a chance to make it work in report writing, but the Agency does not believe the issues in the mechanical section are resolvable.

Senator Denis asked if this was something that was purchased to work, we accepted it, and it does not work.

Mr. Jayne stated that the observations are correct that VERSA should have worked and does not. The testing that was done at the time was not done with what he would consider to be under load. It was testing before the system came under full load with the depth and breadth of what the Agency does at full load with the number of objects. He apologized for this and explained the objects are what they refer to as a general term for elevators, escalators, and boilers. The testing that was done at that point and time, he did not think it was adequate to see how the system would perform under load with the number of objects. When the system came under load and the Agency realized what type of issues they had, they worked with the vendor for over a year trying to get those things resolved. The vendor ultimately told the Agency the VERSA module they have is not suited for their business model.

Senator Denis asked as the Agency moves forward, what is going to be done differently so we do not end up with software that does not work. Obviously, one cannot get a refund for something once ordered and accepted, and later decide it is not what was received.

Mr. Jayne agreed and stated as the Agency puts together a corrective action plan they expect to identify the type of process that is appropriate for securing software not using DIR but Modules within in B&I to move forward and try to do it right this time.

Senator Denis stated that he hoped that the Agency staff as they move forward with requests, monitor the contractor, and ensure that the process is proper. Apparently, the Agency did do some of that but these are expensive projects. When asked for something and they do not receive it, do we get a refund? In this case, it seems that the software was accepted as is and then we figured out afterword it did not work for what we really needed and then we had no remedy other than to just say we are no longer using that part of the software and will just get new software.

Senator Denis expressed his concern and hoped this kind of stuff was not going on in other projects.

Chair Parks thanked Senator Denis for his questions and asked Mr. Jayne what software or mechanical inspection information systems that the Agency is potentially looking at to acquire.

Mr. Jayne replied that as the Agency has moved through this they have become aware or some industry specific software that is used in numerous other locations where they have the same sort of obligations that DIR has for the mechanical section. Ultimately, the Agency is working with B&I and their IT professionals to identify, evaluate, and try to put that in a position to move forward. The Agency wants to be careful and look at other software vendors out there. The Agency is aware of at least one very industry specific piece of software that is used in numerous other jurisdictions similar to our needs. There are solutions out there that will perform in an anticipated fashion that would meet our business needs.

Chair Parks thanked Mr. Jayne for his comments and asked for further questions from the Committee. Chair Parks asked if Mr. Rosenberg had any further comments.

Jan Rosenberg, Deputy Administrator, DIR stated that Mr. Jayne spoke very well to the issues so there will be no further comments and opened for questions from the Committee.

Terry Johnson, Director, Department of Business and Industry, stated there is going to be an important role for the Department of Business and Industry to play in some of these issues regarding this audit and the one upcoming, on the agenda. In this case, there are two particular items. Collection activities in terms of the monies that were collected and due to the Agency were part of a consolidation in 2011 that was approved by the Legislative. Many of those functions were migrated into the office of the Director of B&I. The Department will be working closely with the Division to improve those collection processes going forward. This will require a cooperative effort and he offered commitment in that regard.

Mr. Johnson stated regarding the IT piece, it is unfortunate that this type of thing happens and has happened in government especially for the last 20 years that he has been a part of different agencies. One of the things he can commit to is going forward

there needs to be a greater emphasis on a needs assessment from the agency level up. Looking at this, after the fact, perhaps there was a little bit of imbalance between what the Department management thought the Division needed and what the Division actually needed. How much of that contributed to the breakdown, he did not know. It is all after the fact at this point because it was all before most arrived on the scene.

Mr. Johnson assured they would look at it as a needs assessment from the agencies perspective and identify what is needed to get the job done. Consistent with the statutory changes as well rather than there being a one size fits all type approach. That might have been employed and may have been misplaced in this instance. There will be some information forthcoming in the action plan about some more concrete steps that will be taken by the Agency to get its hands around this piece of IT design for all the B&I agencies. This has been a long-standing problem in the public sector. Potentially, all state government agencies will look at our example of how to compile a better system of checks and balances in terms of delivery of IT services.

Mr. Johnson also stated he will check into the classification study to see where it stands. That is something that he had been talking with the Division of Human Resources Management, because the administrator has communicated to him some of those challenges that they have had. He has been looking at some of those issues and working with staff on some recommendations to look at what they have submitted. He will follow up on the status of the salary study.

Chair Parks asked for further questions of Mr. Johnson, none being made he thanked the presenting staff and called for a motion.

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

### **C. Department of Business and Industry, Division of Insurance**

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

Mr. Klenczar state the Division of Insurance (DOI) has the responsibility to ensure that insurance companies doing business in Nevada are financially solvent and the Nevada policyholders are treated fairly. To carry out this mission, DOI is responsible for financial and market regulation of the state's \$12 billion insurance industry. Financial regulation seeks to protect the policyholders from insurers who are unable to meet their financial obligations. Market regulation attempts to ensure that insurers are able to provide products to the consumer in a fair and reasonable marketplace and prevent abusive practices that could harm the consumer.

Mr. Klenczar continued explaining DOI has eight operating budget accounts and administers four non-operating budget accounts. Seven of the operating accounts are funded by assessments and various user fees, and one account is funded by an



appropriation. Actual expenditures for fiscal year 2011 were about \$16 million. Ex. 1 shows fiscal year 2011 funding sources and expenditures for the eight operating budget accounts.

Mr. Klenczar explained the Division consists of the Commissioner's Office and seven operating sections. In fiscal year 2012, the Division had a total of 85 authorized positions. The audit objectives were to determine if the Division effectively monitors revenues and accounts receivable, required industry reports, and examinations. The Audit scope was July 2010 through March 2012.

Mr. Klenczar stated DOI needs to improve its oversight of accounts receivable. Auditors found DOI did not adequately monitor its accounts receivable for certain fees and taxes. For example, collection efforts were often not timely for annual fees and examination fees. Further, accounts were not turned over to the State Controller in a timely manner and some captive insurers did not pay past due premium tax. Auditors review of past due annual fees found untimely collection efforts; accounts for inactive companies were not sent to collections timely; invoices improperly issued were not voided timely; and payments were not entered in the accounting system timely.

Mr. Klenczar expressed Auditors found problems with all 36 invoices tested. Ex. 3 provides a breakdown of issues noted. For example, two active companies owe annual fees that were due March 2011. There was no evidence of collection efforts prior to auditors' inquiries in May 2012.

Mr. Klenczar continued stating that the examination fees from prior years are still unresolved. Auditors found untimely efforts for collecting past due fees, scheduling hearings, and turning accounts over to the State Controller's Office. The Division's accounts receivable report for examination fees listed 15 companies with a total due of about \$172,500. Auditors found collection efforts were not adequate for all 15 companies. Nine of these companies are still active, have disputed some of the examination fees, and have requested a hearing. However, the active companies with disputes have not had timely hearings. For example, auditors found one company owner requested a hearing in June 2010. As of April 2012, a hearing has not been scheduled and the matter is still unresolved. Auditors have four recommendations to improve the monitoring of accounts receivable.

Mr. Klenczar explained that better monitoring of required industry reports is needed to help ensure adequate financial and market regulation. Auditors found DOI did not always take appropriate action to ensure required industry reports were submitted and reviewed timely. For example, the Corporate & Financial Affairs Section did not always perform timely review of reports significant to monitoring financial solvency for domestic companies. For 12 of 20 companies, the audited financial statements and actuarial opinions were either not reviewed or not reviewed timely. As a result, there is an increased risk companies with financial concerns might not be identified prior to problems occurring.

Mr. Klenczar stated controls need to be improved for required industry reports monitored by the Producer Licensing and Workers' Compensation Sections. Auditors found follow-up was not timely when companies did not submit certain reports and reports were not always reviewed timely. For example, 15 of 20 Producer Licensing reports were not reviewed timely. This included 10 instances when the review was about 1 year after the report had been received. Auditors also found 17 of 20 Workers' Compensation reports were not reviewed timely.

Mr. Klenczar stated auditors found DOI did not take timely enforcement action when certain reporting requirements were not met. For example, as noted in Ex. 4 we tested 25 Workers' Compensation companies and found enforcement was not timely for all 25 companies. It took from 74 to 335 days after the report was due until Consent To Fine was issued. Auditors have five recommendations to improve the monitoring of required industry reports.

Mr. Klenczar stated examinations of title companies and self-insured Workers' Compensation companies were not performed as required. For example, NRS 692A.100 requires annual examinations of title companies, title agencies, and escrow companies. According to DOI records, 33 of 53 title companies did not have an examination in 2011. NRS 616B.336 requires an examination every 3 years of self-insured Workers' Compensation companies. The purpose of these examinations is to determine the adequacy of the company's security deposit, sufficiency of reserves and the reporting, handling and processing of claims. Auditors found exceptions for 14 of 30 Workers' Compensation companies tested. Auditors have one recommendation to improve compliance with these examination requirements.

Mr. Klenczar stated Appendix A lists some examples of required industry reports. The report contains the audit methodology and the Division's response, which indicates all 10 recommendations were accepted. That concluded his presentation and he opened for questions.

Chair Parks thanked Mr. Klenczar for his presentation and called for questions from the Committee.

Senator Denis asked as the audit was done, did the Auditors get a feeling of how these exceptions for accounts receivable were created or what the true issue was and why they came up.

Mr. Klenczar responded regarding the exceptions for accounts receivable collection efforts this is mostly a case of monitoring oversight, timely monitoring of accounts receivable reports, and similar cause with the required reports and timely issuance of a Consent To Fine.

Senator Denis thanked Mr. Klenczar.

Chair Parks called for agency staff to testify.

Scott Kipper, Insurance Commissioner, stated with him was Todd Rich, Deputy Commissioner, Administration and Personnel.

Mr. Kipper expressed his appreciation of the cooperation and professionalism of Mr. Townsend and his staff. The Division of Insurance regulates roughly an \$11 billion industry in the state with numerous lines of insurance and there are 55 chapters in NRS that deal with insurance. The Division touches every Nevadan every day. The industry generates over \$240 million annually in premium taxes, which go directly to the general fund. In addition, the Division also roughly generates \$40 million in fees that go primarily to the general fund. The Division has a staff of 85, 10 of which are in Las Vegas.

Mr. Kipper noted that the Division is very proud of staff and their intervention of an additional \$675 million recovered for Nevadans in 2011. The Division is obviously hip deep in several areas including the implementation of Healthcare Reform, which has taken up a great deal of energy.

Mr. Kipper stated the audit highlighted several areas of concern regarding accounts receivable, required industry reports and examinations. The Division has instituted or is actively developing additional policies and procedures to address all of these recommendations. The Division has pursued those additional policies and procedures with a great deal more rigor than they had in the past. The Division anticipates that when the six-month review comes up, they will have demonstrated that rigor and all will be pleased with the efforts undertaken.

Mr. Kipper expressed that the accounts receivable has been roughly halved. The outstanding issues of collection have been forwarded to the controller for collections or are currently in the hearing process. The examinations noted in the report have all been instituted where it comes to self-insured groups or for title companies.

Mr. Kipper also echoed Director Johnson's comments that the Division is looking forward to greater cooperation and interaction with B&I and these issues. That concluded his testimony and he opened for questions.

Chair Parks thanked Mr. Kipper for his testimony and asked for questions.

Senator Rhoads asked if the Division could explain how they were able to gather up \$6.33 million dollars more than anticipated.

Mr. Kipper replied the \$6.33 million has been generated for consumers through contacts with the Division of Insurance expressing their concern through the development of the complaint process. When the Division receives a complaint the company is contacted, the policy is reviewed and concerns expressed by the consumers, and essentially act as a consumer advocate generating a response. The response from 2011 generated the additional \$6.33 million that went to Nevadans.

Senator Denis stated there were obviously some issues in timely collections and asked if the issues were due to insufficient staff or procedural. He asked what has changed since then to collect more timely.

Mr. Kipper replied that yes you have touched on the issues but he believed the issue was mainly a procedural issue rather than a staffing issue. The Division has not added

additional staff in the accounts receivable area. However, the Division has managed by using SIRCON, which is a robust software program developed for insurance regulatory needs to identify, highlight, and actively work on collections that are outstanding. As mentioned earlier the numbers have significantly halved. The Division annual fees for example have gone from \$212,000 as mentioned in the report to currently \$9,000. There are, over one year, \$84,000 in fees mostly to do with companies that are either in liquidation insolvency or in hearing. But for those companies that are currently operating that number has been whittled down to \$9,000.

Senator Denis asked if the software SIRCON was new.

Mr. Kipper replied that the Division has had SIRCON for some time. Modules have been added to SIRCON to address and assist the accounts receivable. SIRCON was originally obtained to assist in the tracking of producer licensing and the license requirement of our agents and producers.

Senator Denis thanked Mr. Kipper for his response.

Assemblywoman Carlton stated it was nice to see under recommendation 3 on the past due premium tax that the Division has taken action. The Legislators have said many times in the past but we all know what happens when one pays their car insurance one day late there is a fine involved and there is no begging for mercy. A fine is a fine, and will continue to be a fine and there is no changing that. She is happy to see that the Division is taking the premium tax more seriously and sending it to the legal section. What is fair for me is fair for the company that takes my money for my car insurance, making it equal on both sides of the equation.

Assemblywoman Carlton stated under recommendation 10 the Division has addressed the timeliness of annual examinations for the title agencies and insurers that there is a contract that will allow a contracted vendor to perform the audit of the self-insured Workers' Compensation claims and submit it to the Division. She asked if this was a contract from the past or a new contract. She found it interesting that recently there was just a conversation about Workers' Compensation assessments and then she saw in the audit the examinations of the 25 companies tested were not timely so she was not sure how to tie these two things together, may be more complicated than she want to get into. However, she was curious about this contract that the Division has with this vendor.

Mr. Kipper stated the Division has a number of contracts that are left to professional examination entities that do most to all of the Division's examinations. The Division is not large enough to retain examiners on staff, so we rely on contract vendors. The letter provided to the Auditors stated as of the end of August all licensed titled agencies are now under independent examination by these contractors. The Division of Insurance has been working with title entities to develop a quicker, more streamlined, but just as efficient process for those examinations. The Division appreciates the input received from licensed entities.

Assemblywoman Carlton asked if these were the folks that were supposed to be doing these audits before and did not. Appears there was a lapse in the past, and asked if these are the same vendors that caused some of the problems, did the Division change their deliverables, and what was solved with these vendors.

Mr. Kipper replied that the Division simply dropped the ball. The Division looked at those financials but did not do the examination. Those examinations are now scheduled and are in process.

Assemblywoman Carlton thanked Mr. Kipper for his response.

Chair Parks thanked Mr. Kipper for his comments, cooperation, and for acceptance of the 10 recommendations of the Audit Division. He also expressed his appreciation to the Audit staff.

Chair Parks asked for further questions, none being made he called for a motion.

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

#### **D. Department of Health and Human Services, Division of Welfare and Supportive Services**

Mr. Townsend introduced Jane Bailey, Audit Supervisor; and Stephany Gibbs, Deputy Legislative Auditor, to present the report.

Ms. Gibbs stated that the report contains the Division's mission, and that it is responsible for providing quality, timely, and temporary services enabling Nevada families, the disabled, and elderly to achieve their highest levels of self-sufficiency. The report also includes brief descriptions of eight major programs.

Ex. 1 provides a high-level caseload analysis for six programs from fiscal year 2003 to fiscal year 2007 and then from fiscal year 2007 to fiscal year 2011.

Ms. Gibbs stated caseloads for three programs, Supplemental Nutrition Assistance Program (SNAP), Child Health Assurance Program (CHAP), and New Employees of Nevada (NEON) have increased more than 100% from fiscal year 2007 to fiscal year 2011.

Ex. 2 notes legislatively approved FTE's from fiscal year 2007 to fiscal year 2011 increased 8%.

Ms. Gibbs stated the Division had 248 intermittent staff, most added during fiscal year 2010 to address fluctuations in workload. The report identifies the office locations.

Ex. 3 lists the expenditures in the Division's budget accounts for fiscal year 2011.

Ms. Gibbs stated the report provides a high-level explanation of the process of issuing the Electronic Benefits Transfer (EBT) cards. Auditors note the two primary information

systems used to administer the EBT cards are the Division's system called Nevada Operations of Multi-Automated Data Systems (NOMADS), and the vendor's system. EBT cards are kept in a secure location and the report discusses authorized representatives. Auditors indicated that when there is no client action on the account, the account becomes inactive after 12 months for SNAP and inactive after 180 days for Temporary Assistance for Needy Families program (TANF). The report briefly discusses the vendor contract.

The audit objectives pertain to controls over the EBT cards and the vendor for EBT account services.

Ms. Gibbs stated the first finding is the Division needs to improve identification of deceased clients. Auditors note the outcome of comparing the dates of death recorded in NOMADS to the dates of death reported by the Office of Vital Statistics. The auditors matched about one third of the "head of household" client names in SNAP and all of the client names in TANF with the names in the database maintained by the Office of Vital Statistics. This data match was limited to those persons who died in Nevada between July 1, 2007, and December 31, 2011. Almost 2,400 names were listed in both databases. However, 749 of the 2,400 were not recorded as deceased in the agency's NOMADS system. Next auditors targeted the 749 names to those who died on or before December 31, 2009, and reviewed a list of 189 names. From this list, a sample of 50 client names was taken to analyze whether there was activity on their EBT card accounts after their dates of death.

Ms. Gibbs stated the next finding in the report was that benefits were paid to deceased clients. Auditors tested 50 client files that did not have dates of death in NOMADS. The results of the testing included that more than \$11,500 of benefits were issued to 27 of 50 clients after their dates of death. These benefits were deposited from a few days to 10 months after the dates of death. Because there was no client-initiated activity on some of these accounts, the vendor later removed \$7,225 of benefits from these accounts. One EBT card was issued to a client through a third party 8 days after the client's dates of death. This account received \$1,600 in benefits and \$1,000 was spent. Many of these purchases were made in another state.

Ms. Gibbs stated that EBT card accounts were used after clients' dates of death. Auditors noted that 13 of 50 accounts tested had purchases totaling \$6,500 after the date of death. Problems were also found when the date of death was recorded in NOMADS.

Ex. 4 shows the number of clients that had different dates of death in the two systems. It also shows the number of days the dates of death recorded in NOMADS differed from the dates reported by the Office of Vital Statistics.

Three recommendations were made relating to policies and procedures to better identify when clients have died, to more timely stop payments to deceased client accounts, and to prevent the use of benefits after the client's death.

Ms. Gibbs continued by addressing oversight of the EBT vendor's contract relating to reporting and billing. First, auditors discuss problems found in the EBT vendor's reports, primarily involving two routine reports, the Cardholder Information report and the Transaction Inquiry report.

Ms. Gibbs noted that all of the 65 accounts tested did not have client-initiated activity for more than a year but were still shown as active accounts by the vendor on the Cardholder Information report. Some Transaction Inquiry reports were not accurate and complete. Some reports did not include ATM fees and one did not include a benefit deposited into the account. The Division needs to get complete, accurate information so that appropriate decisions can be made.

Ms. Gibbs stated that the Division allowed the vendor to bill at an outdated rate resulting in an estimated \$77,000 overpayment. After bringing this to management's attention, steps were taken to correct the situation.

Ms. Gibbs concluded her presentation stating Recommendations 4 and 5 in the report address the vendor's reports and controls over the vendor's invoices. The report also contains Appendix A that describes the audit methodology and the Division's response to the audit. She expressed the Division accepted the five recommendations.

Chair Parks thanked Ms. Gibbs for her presentation and called for questions from the Committee.

Assemblyman Grady asked regarding benefits paid to deceased clients on page 8 of the report, what effort or method does the State have to go back and collect that money, and how much of the money listed can be verified if any was collected or returned.

Ms. Gibbs replied that agency would submit these accounts to their investigations unit and then try to collect on them. At the time the audit information was released to the agency, none of these monies were collected. This may have changed since that time. She did reiterate that of the benefits issued, \$7,225 were collected through the usual process used if there is no activity on the benefits in the accounts.

Senator Denis asked if criminal investigation was pursued, if tracking of EBT card usage after a client's death was done and for further explanation of the process in the instance of the card used out of state after death as discussed earlier.

Ms. Gibbs replied no, the agency was unaware of these situations until the Auditors brought it to their attention. However, that does not mean that after they became aware they proceeded to investigate these situations.

Assemblywoman Carlton stated she wanted to make sure she had the numbers correct. The \$11,500 was the 27 out of 50 EBT cards looked at; \$7,225 of that amount was returned (because those people did not access those cards). So the money sat there until it was figured out that the person was deceased and the money came back; therefore, \$3,275 was used by someone on those cards. That would be a portion of the amount out of a budget of over \$200 million; over \$3,000 was then used inappropriately, is this correct.

Ms. Gibbs replied yes, that is correct. She stated the size of sample is relevant narrowing this down quite a bit, referring to the sample of the 2,400 that did not have the dates of death but also to the entire population. There was additional monies in the accounts prior to our dates of testing and that auditors found that \$6,502 was spent after the dates of death was reported by the Office of Vital Statistics.

Assemblywoman Carlton expressed her confusion of the amount of money that went out and the amount of money that was returned. The finding of \$6,502 had been spent and not the \$3,275. She asked if we need to add that together or is the \$6,502 the money that we found misused.

Jane Bailey, Audit Supervisor on this audit replied there was money in the account at the time that some of these clients died so there was a starting balance then and additional \$11,500 was deposited. Of that, what was in the account at the time the person died plus the amount that was deposited after they died, \$6,502 was spent and \$7,225 was returned to the federal government, because it was federal money. SNAP benefits are returned to the federal government. Ms. Bailey asked Assemblywoman Carlton for clarification on the \$200 million dollar amount mentioned earlier.

Assemblywoman Carlton replied regarding Ex. 3 on page 4 and the total amounts of support numbers that go into it; if you eliminate the collection and distribution account, which are basic pass through accounts, and look at all the remaining numbers amounts listed that is the total amount. She asked if the number on this EBT card was just SNAP benefits or was it other benefits also, or was it singly SNAP.

Ms. Bailey stated it was largely SNAP dollars; however, there is also TANF dollars. She pointed out that since SNAP benefits come directly from the federal government those benefits are not listed in Ex. 4. You can find them in the report on page 1 where we the report lists Supplemental Nutrition Assistance Program (SNAP). Those benefits total approximately \$497 million directly from the federal government. That is not included in Table 4, because those benefit amounts do not pass through any state budget account.

Assemblywoman Carlton expressed that no one should take money that is not due to them, it is wrong, it is stealing. If we are talking \$497 million dollars in SNAP monies in 2011 and we are looking at the possibility of it might be \$6000 worth of problems it seems like such a small amount and problem compared to all the benefits that are being paid out. There is a margin of error in everything done. She was not saying these people should steal the money or use it inappropriately, they should return it, and they should not use it. She was just trying to get a handle on the depth of the problem and how much time and resources we might spend going after this small amount of money and what could be accomplished with that on the other side the equation. She thanked Ms. Bailey for her explanation.

Chair Parks asked Mr. Townsend to provide a comment relative to this.

Mr. Townsend stated this issue has occurred in other states and we wanted to see the extent of it here in Nevada. Auditors did a detailed analysis of matching data with the Office of Vital Statistics and information on NOMADS. When auditors looked at a third



of the total SNAP records, the population being about 100,000, 750 were identified as deceased in Vital Statistics and still shown as alive in the NOMADS system. Auditors narrowed that down with testing and actually ended up doing a detailed sample of 50 of the 750. Further, auditors went back and tested from December 2009 post-death activity to see if there were benefits being paid.

Mr. Townsend further stated that the auditors were not able to project the amount of the \$11,000 or the \$6,500 due to the nature of the sample being non-statistical. However, it does point out that there is a problem there, not a huge problem, but the problem does exist. Along the way, auditors found some instances where there is a possibility of some fraudulent activity taking place where someone is actually getting a card issued after their date of death. He thought it has been put in good perspective and auditors' recommendations are reasonable for the Division to pursue and allocate the appropriate amount of resources to address it.

Chair Parks thanked Mr. Townsend for his explanation and asked if there were further questions for the audit staff. None being made he called for the Division to come forward to comment and noted their acceptance of the five recommendations.

Steve Fisher, Acting Administrator, Division of Welfare and Supportive Services introduced Naomi Lewis, Chief, Eligibility and Payments Unit, and Brenda Burch, Chief, Investigation and Recovery Unit.

Mr. Fisher thanked Mr. Townsend and his team of Legislative Counsel Bureau Auditors. He also noted that auditors spent a tremendous amount of time in the organization and were professional and cooperative. Regarding the audit, he agrees with Assemblywoman Carlton that the dollar amount in the findings are small in comparison to the \$500 plus million in benefits that we distribute to our EBT accounts.

Mr. Fisher said the Division does agree that these findings are significant and do agree that changes to policies and procedures are necessary. Mr. Fisher agreed, thanked the team for the five recommendations, and stated the Division is actively working on them. Regarding Recommendations 1, 2 and 3, the Division is working with the Office of Vital Statistics and recently received a download of data from them and is assessing that data and comparing it to the NOMADS system to determine timely and accurately when one of the clients becomes deceased.

Mr. Fisher made another point that even though someone passes away, the benefits are for the entire household, so it is possible that there are other household members present in the household who continue to use the EBT benefits that are on the account. The Division is working with the EBT vendor to insure that the reports are accurate as found in the audit finding.

Mr. Fisher concluded stating that the Division has already resolved the issue of the vendor invoices (recommendation 5), as was stated earlier and does have controls in place. He opened up for questions from the committee.

Chair Parks thanked Mr. Fisher and asked for questions.

Mr. Denis stated that he appreciated the explanation and asked if there was a way to monitor an instance when an EBT card is issued after the death of a client and then is used out of state as described in one instance earlier and what the process is. For example if someone tries to spend money on a bankcard in a different location than normal (New York) a phone call is received from the bank asking if they spent money in New York.

Mr. Fisher stated yes, JP Morgan does know where the activity is taking place, whether it is taking place out or in state. However, the Division does not prevent clients from using their EBT cards outside of this state. If a client was in California and wanted to buy food with their EBT card and the particular store provides EBT card service for food purchases, he or she could use their EBT card.

Mr. Fisher explained that they do have an Investigation and Recovery Unit that does their best to monitor and look for anomalies with high spending dollars out of state.

Senator Denis stated that was good to know. He hoped that the Division would be monitoring clients' spending benefit funds out-of-state every month, a possible concern that the client is not residing in Nevada but is using benefits. However, it sounds like this is being addressed and asked if this has been an issue in the past.

Mr. Fisher while looking at the Chief of Investigation and Recovery mentioned that she shook her head yes. He asked if the committee wanted her to come to the table and testify.

Senator Denis replied yes that would be good.

Brenda Burch, Chief Investigator, Welfare Division and Director for the operations of the EBT system replied in regards to the question about out-of-state spending, the Division does review a report on a monthly basis of all transactions that take place outside of Nevada. The report is evaluated for specific anomalies. If someone is using their EBT card out of state month after month that is a red flag for the Division. The Division immediately checks to make sure they are a resident of Nevada or has moved to that state by contacting the state and the client's property owner to confirm residency. The Division has found numerous instances where people have forgotten to tell us that they have moved. Those cases are closed and often calculated for over payment and recovery of the funds to the SNAP or TANF program.

Senator Denis said so they forget they moved but they did not forget to spend the money.

Ms. Burch stated she was trying to be kind. The Division does find fraud and instances where there is forgetfulness, both.

Senator Denis asked if there are criminal actions taken if necessary.

Ms. Burch replied yes. Agreements with our local district attorneys in Northern and Southern Nevada pursue and prosecute these cases.

Senator Denis asked how does our system compare to others across the county in catching fraud in the Welfare System.

Ms. Burch replied that Nevada is fairly consistent with other states across the country. We do maintain contact with other state agencies and welfare investigators. We are consistent with the same type of methodology and practices in detecting and preventing fraud. We are proud of how we run things in Nevada. We do look for ways to prevent fraud and protect the integrity of the program and benefits: SNAP, TANF, Medicaid, childcare, and energy assistance. We are basically watching over it all.

Senator Denis said great, thank you very much.

Assemblywoman Carlton recapped that the Division had stated that it receives the monthly reports, regarding the vendor side of the discussion as far as the ATM fees and benefits. She asked if we look at how much of the benefit that goes on to the card ends up being absorbed by the vendor and do we know or have that number.

Ms. Burch responded no, she did not have that number with her, but can easily obtain that from the EBT system.

Assemblywoman Carlton stated that she knows the State pays the vendor a certain amount to manage these cards and the ATM fee is deducted from the benefit. The fee is not absorbed by the State or the vendor. She explained that if there is a \$300 benefit, and \$20 in ATM fees, the constituent would get \$280 not \$300. She was wondering about the amount of total ATM fees and where they are being used.

Ms. Burch replied yes, that is correct. If there is a \$300 cash deposit to an EBT card for a TANF client that amount could be subject to fees and surcharges at ATM machines if that ATM owner charges a fee with withdrawal. Each individual who inserts an EBT card is given the choice to decline to withdraw the money or accept the \$2 or \$3 fee for the transaction. She said she can pull those fees and provide that information for a certain period of time.

Assemblywoman Carlton stated it would be nice to know how much of the money is being spent. Another question was I know on these benefits we can look at where the benefits are being spent, is there a way to section out whether it is being spent at the traditional grocery store verses a small convenience store. She asked if there is a way to look at those numbers to see where the money is being spent.

Ms. Burch replied the Division can easily view where that money was spent and where the cash was withdrawn, whether it was an ATM, bank, or a regular grocery store. By the way, retailers do not charge fees for a cash back situation. As far as SNAP EBT, there are absolutely no fees and that it is against the law to charge any fees for a SNAP purchase. The Division can easily see where the SNAP or the cash is spent or used.

Assemblywoman Carlton replied thank you very much I appreciate that.

Chair Parks shared a hypothetical situation to learn how it would be handled. Presuming a person receiving benefits leaves Nevada, goes to California, and passes away. No notification was received for many months after they pass. He asked what

would be the process that the Division of Welfare and Supportive Services would follow to retrieve any money that was on the account or had been spent on a card.

Mr. Fisher replied under those circumstances, if it is a SNAP benefit on the card or account with 360 days without any use on the account those funds are expunged, swept from the account. If it is a TANF cash benefit, on the account the same process happens after 180 days.

Chair Parks asked what if there had been some usage on the account and later the Division finds the individual had been deceased for a year.

Mr. Fisher replied in that circumstance that case would be turned over to the Investigation and Recovery Unit for investigation to find if there is potentially fraud, a criminal act, or a family member within that household using the card.

Chair Parks stated he was curious what the investigation unit would do at that point or how determination is made that fraud had not taken place.

Ms. Burch replied that the Investigation and Recovery Unit has developed steps that are followed through in the investigation process. Almost all the big box stores have video, some minor markets have video, and that tells who used that card. All transactions are in real time and listed in the EBT system, the Division see them as they occur, and can follow additional steps. We try to contact the family to ensure that the benefits were used appropriately or identify if some kind of fraud was committed.

Chair Parks thanked the Division staff for the comments and stated he felt better about it and asked for further questions from the committee. None being made he thanked all involved with the audit, and called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE REPORT ON THE  
DEPARTMENT OF HEALTH AND HUMAN SERVICES, DIVISION OF  
WELFARE AND SUPPORTIVE SERVICES. THE MOTION WAS  
SECONDED BY SENATOR DENIS. THE MOTION CARRIED  
UNANIMOUSLY.

#### ***Item 4— Presentation of SIX-MONTH REPORTS (NRS 218G.270)***

##### **A. Office of Veterans' Services**

Mr. Townsend stated there are five six-month reports and these are the reports that are prepared by the Department of Administration. The Department reviews the agencies six months after the sixty-day plan of corrective action has been filed and verifies the implementation status and reports back to the Audit Division. Auditors then communicate these results to the Audit Subcommittee. He introduced Rocky Cooper, Audit Supervisor, to present the report.

Mr. Cooper noted that there are representatives in Las Vegas that can respond to questions and representatives in Carson City including Caleb Cage, from the Nevada Office of Veterans' Services.

Mr. Cooper continued with the report. In October 2011, the Audit Division issued an audit report on the Office of Veterans' Services that contained 8 recommendations. The six-month report prepared by the Department of Administration on the status of the recommendations shows that as of July 2012, five recommendations were fully implemented and three recommendations were partially implemented. The three partially implemented recommendations related to difficulties ensuring accurate account receivable records at the Veterans' Home. As indicated in the table the anticipated date for full implementation of the three recommendations is January 15, 2013. During the audit, auditors identified several issues related to unreliable account receivable records. Therefore, residents with large receivable balances were not always monitored to ensure payment of outstanding debt.

Mr. Cooper stated according to the six-month report, the Veterans' Home experienced some setbacks in implementing the recommendations including high turnover in key accounting positions and ongoing software issues resulting in inaccurate aging reports. To address these issues the Veterans' Home hired new accounting staff and hired a consultant to review the system and provide training. In addition, a RFP for a new software program is being pursued and the accounting staff is working on correcting the data inaccuracies before installation of the new program.

Mr. Cooper asked one question for the Agency,

Is the Veterans' Home still on target to meet its plan date of January 15, 2013, for full implementation of the remaining three recommendations?

Caleb Cage, Executive Director, Nevada Office of Veterans' Services expressed his appreciation to Mr. Townsend and his staff for the excellent work in assisting the Office for their recommendations to improve AR procedures within the agency. Regarding the question he answered yes, the office is still on track for planned implementation by January 15, 2013, of all three of the remaining recommendations, numbers 2, 3, and 4.

Mr. Parks thanked Mr. Cage for the comment and asked if there was further comment on the review.

Mr. Cooper concluded his presentation but wanted to bring attention that the Veterans' Home faces quite a few challenges in collecting their revenues. They are collecting \$15 million and that includes Medicaid, Medicare, Private Pay, Private Insurance, and Veterans' Home Per-diem. They have a challenging task ahead of them and need qualified staff and training to get the things done in the future. Auditors will continue to monitor the agency's progress and report back during the 2013 Legislative Session.

Chair Parks asked if anyone in Las Vegas wished to make any comments.

Frank Bellinger, Administrator of Veterans' Home stated he would like to confirm Director Cage's comment that they are well on track to fully implement all recommendations by the January date.

Chair Parks called for a motion.

SENATOR DENIS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE OFFICE OF VETERANS' SERVICES. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

**B. Department of Health and Human Services, Aging and Disability Services Division**

Jane Bailey, Audit Supervisor stated that in October 2011, the audit report on the Aging and Disability Services Division was released that contained three recommendations to improve administrative controls over performance measures. In July 2012, the Department of Administration provided its six-month report. The Department of Administration indicated that one recommendation was fully implemented and two were partially implemented. The two partially implemented recommendations were to clearly define the terms and identify the assumptions needed to perform the calculations described in the performance measures' titles and to use the Division's existing knowledge, skills, and abilities to strengthen controls over information used to calculate the performance measures.

Ms. Bailey stated that the Department of Administration reported that the Division is in the process of developing new performance measures and is working with the provider of one of its service databases to move to the next generation system that contains error and logic checks and other controls to help ensure that the data are accurate.

Ms. Bailey stated that the auditors have one question related to these two recommendations,

When will the Division complete the remaining work on their performance measures?

Janet Murphy, Deputy Administrator, Aging and Disability Services replied that recommendation 1 is complete. The Division has submitted their budget and with that budget, they have submitted new performance measures for the activity budget based on direction from the budget office. Regarding recommendation 3, the Division is still continuing to work with the vendor and have not yet migrated to the next generation as they are still working through some bugs. The Division plans to do that migration within the first quarter of 2013. In the meantime, they are reviewing all of the reports, data from the reports, and have changed procedures to ensure the accuracy of the data reported on the Division's performance measures. She opened for further questions.

Chair Parks asked for questions of the committee, none being made he thanked the Division staff for the comments and asked Ms. Bailey if she had anything to add.

Ms. Bailey stated that the Audit Division will continue to monitor the implementation of the one remaining recommendation.

Chair Parks called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, AGING AND DISABILITY SERVICES DIVISION. THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.

**C. Department of Conservation and Natural Resources, Division of Environmental Protection**

Shannon Ryan, Audit Supervisor stated that in October 2011, the Audit Division issued an audit report on the Division of Environmental Protection. That report had nine recommendations related to enhancing controls over accounts receivable, performance measures and the regulations of permittees. The Department of Administration in July 2012 reported that the Division had implemented eight of the recommendations in the report with one recommendation remaining partially implemented. The Department indicated the Division had developed new policies and procedures to ensure fees were charged in accordance with laws and regulations, but the controls could not be verified until permit invoices were issued in 2013. By developing controls regarding ensuring fees are accurate, auditors believe the Division has met the intent of the recommendation and consider it to be fully implemented. The auditors did not have any questions for the Division, but appreciate the Division's efforts regarding the timely implementation of the recommendations. That concluded her presentation.

Chair Parks thanked Ms. Ryan for her presentation and asked if anyone was present and would like to address the committee.

Ms. Ryan said yes, I do believe that Colleen Cripps is here from the Division.

Colleen Cripps, Ph.D., Administrator, Division of Environmental Protection stated that the Division does not have any further comments. Dr. Cripps thanked the Audit Division and the committee and was glad the Division was able to get all the recommendations addressed within the six month time period.

Chair Parks thanked Dr. Cripps for the comments and asked if the Subcommittee had any questions. None being made he called for a motion.

SENATOR RHOADS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES, DIVISION OF ENVIRONMENTAL PROTECTION. THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.

**D. Department of Health and Human Services, Oversight of Child Care Facilities**

Rick Neil, Audit Supervisor stated that in October 2011, the Audit Division issued an audit report on the Department of Health and Human Services, Oversight of Child Care Facilities. The plan of corrective action was filed in January 2012. NRS 218G.270 provides the Director of the Department Administration shall issue a report within six

months outlining the implementation status of the audit recommendations. As of July 18, 2012, the Department of Administration indicated that all six recommendations were fully implemented. Auditors agree and therefore do not have any questions for agency officials.

Chair Parks thanked Mr. Neil and asked if anyone from the agency wishes to make any comment.

Wendy Simmons, Chief of the Bureau of Healthcare Quality and Compliance, where the Child Care Licensing Program resides, stated that the Bureau wanted to reiterate what we have heard all morning and thanked the Audit Committee for their review and support as the Division brought forth the corrective actions for the audit.

Chair Parks thanked Ms. Simmons for her comments and called for a motion.

SENATOR DENIS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, OVERSIGHT OF CHILD CARE FACILITIES. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

#### **E. Department of Health and Human Services, Division of Child and Family Services**

Rick Neil, Audit Supervisor stated that in October 2011, the Audit Division issued an audit report on the Division of Child and Family Services. A plan of correction action was filed in January 2012. Per NRS 218G.270, the Director of the Department Administration issued a report within six months. As of July 18, 2012, the Department of Administration indicated all three recommendations were fully implemented. Auditors agree and therefore, do not have any questions for Division of Child and Family Services officials.

Chair Parks asked if there were any comments from the Division.

Danette Kluever, Deputy Administrator, Division of Child and Family Services thanked the audit team for their recommendations. The recommendations actually put the Division ahead of when the Governors' performance based budgeting instructions came out. The Division was able to reduce the amount of performance measures and increase the amount of outcome based measures and will be presenting them in the next budget process.

Chair Parks thanked her for the comments and asked for committee questions. None being made he called for a motion.

SENATOR DENIS MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, DIVISION OF CHILD AND FAMILY SERVICES. THE MOTION WAS SECONDED BY SENATOR RHOADS AND CARRIED UNANIMOUSLY.

#### **Item 5— Update on Plan for Corrective Action (NRS 218G.250)**



Chair Parks stated that the plan is regarding the Division of Mental Health and Developmental Services Substance Abuse Prevention and Treatment Agency (SAPTA).

Rick Neil, Audit Supervisor stated that at the last Audit Subcommittee meeting, in April, when the Audit Division presented the audit report on SAPTA, the audit subcommittee decided to review the sixty-day plan of correction action at the next meeting, which brings us to today. As a reminder, the audit report contained nine recommendations to help ensure grant recipients comply with audit requirements that provide assurance funds are spent for intended purposes. In addition, the report contained seven recommendations to improve fiscal monitoring performed by SAPTA personnel to provide additional assurance about subrecipients' use of grant funds. In accordance with NRS, SAPTA filed a sixty-day plan of corrective action on July 3, 2012. The plan included detailed steps on how the agency intends to implement the 16 recommendations. Auditors have reviewed the plan of corrective action and agree with the direction taken by the agency. The plan includes system changes such as workflow restructuring and reassignment of staff. In addition, the plan includes enhancing written policies and procedures in many areas such as identification of and focus on high-risk entities, tracking of audits due on subrecipients, follow-up on problems noted on audits and fiscal monitors, and imposing graduated sanctions on subrecipients failing to comply with grant requirements. Nevertheless, Mr. Neil suggested the audit subcommittee obtain additional information about the agency's 60-day plan. He invited the head of the agency, SAPTA, Deborah McBride to ask her one question. There is an attachment to the 60-day plan that shows two proposed positions on the agency organization chart. The question is,

Would implementation of any of the audit recommendations be affected if the proposed positions are not improved?

Deborah McBride, Director, SAPTA, replied yes, the Agency did look at that in designing our system changes to see what we may need to help meet the recommendations. The agency felt the two proposed positions that we put in for would help us meet and implement all of the audit recommendations that we received.

The agency put in for a Management Analyst III position located in the fiscal team that would be ultimately responsible for all of the oversight of the subrecipients' audits, to ensure all audit recommendations were met. This position would oversee all those monitoring activities of the prevention and treatment teams, including scheduling the audits, doing fiscal monitors, audit tracking, follow up on audit recommendations and findings and make sure corrective action plans were acceptable, turned in timely, and responses reviewed. Also, this position would oversee the certification and billing of subrecipients. The agency felt this was a very important position.

The other position was a quality assurance position in our treatment program that would additionally oversee from a program perspective to make sure that everything was in compliance and followed up on as a supplement to what the Management Analyst III position would do from a fiscal perspective.

Chair Parks thanked Ms. McBride for her comments and opened for questions.

Assemblyman Grady asked if the agency requested these two positions in the budget proposal and has the Governor accepted them.

Ms. McBride replied yes, the positions were put into the budget request and she does not know if the Governor will keep that in his budget.

Chair Parks stated that it is a little early to know whether or not the Governor has included them in his proposed budget and opened for further questions.

Mr. Neil suggested the agency consider a plan B if those positions are not approved, including how they may reorganize the Office in such a way to possibly still implement those recommendations.

Chair Parks asked for further comment or concern from Ms. McBride.

Ms. McBride stated said no further comments but thanked the auditors for their assistance and recommendations and will consider a plan B.

Chair Parks thanked her for the comments and opened for committee questions. None being made, he called for a motion.

SENATOR DENIS MOVED TO ACCEPT THE UPDATE ON PLAN FOR CORRECTIVE ACTION (NRS 218G.250) REGARDING THE DIVISION OF MENTAL HEALTH AND DEVELOPMENTAL SERVICES, SUBSTANCE ABUSE PREVENTION AND TREATMENT AGENCY. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

***Item 6—National State Auditors Association Report on Nevada Legislative Auditor's System of Quality Control***

Paul Townsend, Legislative Auditor, stated he was very proud to discuss the report from the National State Auditors Association on the Audit Division's recently completed quality control review, or peer review. This essentially answers the question of who audits the auditors. The Audit Division performs audits in accordance with very rigorous government standards and those standards require that every three years the Division be subject to an external peer review. This most recent peer review was conducted by experienced auditors from the states of New York, Illinois, and Alaska and resulted in a very positive report. He expressed his appreciation to the staff of the Audit Division for doing an incredible job of meeting the standards and to the Audit Subcommittee in their support provided to our office.

Mr. Townsend asked that the report be accepted by the subcommittee.

Chair Parks called for a motion to accept the report.

SENATOR RHOADS MOVED TO ACCEPT THE NATIONAL STATE AUDITORS ASSOCIATION REPORT ON NEVADA LEGISLATIVE AUDITOR'S SYSTEM OF QUALITY CONTROL. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

Chair Parks stated that he personally has dealt with many audits, reports, analysis, and management type audits. He is always impressed with the caliber of work performed by the Audit Division.

***Item 7—Public Comment***

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

Chair Parks stated that Senator Rhoads will be completing his service to the State of Nevada; he has spent a long time as a member of the Audit Subcommittee doing a great job. He has served the state of Nevada for 34 years, 17 regular sessions and 12 special sessions. He has been on the Audit Subcommittee for 10 years not only as a member but has also been chair of the subcommittee. Chair Parks thanked Senator Rhoads for his very fine service to this subcommittee and wished him well.

Senator Rhoads thanked Chair Parks and said he has sincerely enjoyed this committee. He believes this committee to be one of the best for monitoring what the government in the State of Nevada is doing. He gave a lot of credit to Mr. Townsend. He was pleased to have served the State of Nevada Legislature and the Audit Subcommittee. He expressed his appreciation to the staff of both the Audit Division and the State Agencies.

Chair Parks thanked Senator Rhoads for his years of service.

Chair Parks called for a motion to adjourn the meeting.

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

The meeting adjourned at 12:21 p.m.

Respectfully submitted,

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Deborah Anderson, Audit Secretary

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

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